



USAID | **IRAQ**
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Microfinance in Iraq

February 2007



Microfinance in Iraq began in August 2003 with a grant from the CPA to CHF Intl. followed by another CPA grant to ACDI/VOCA in January 2004. In 2006, USAID, through the Izdihar Private Sector Development project, provided funds to Relief International and three Iraqi operated NGOs to begin new microfinance institutions (MFI) as well as additional grants to CHF and ACDI/VOCA.

INTERNATIONAL NGO MFIs

ACDI/VOCA operating as Al Thiqa (start-up 1/04)

- Operational Grant for \$3,382,000; Loan Capital of \$1 million from USAID;
- Grant of over \$8.7 million from prior CPA program;
- Area of Operations: Baghdad, Tameem, Diyala, Erbil, Sulaymani

CHF International (start-up 7/03)

- Operational Grant for \$2.9 million from USAID;
- Grant of over \$21 million from prior CPA program;
- Area of Operations: Baghdad, Basra, Karbala, Najaf, Babil, Thi-Qar, Muthanna, Quadissiyah, and Wassit.

Relief International (start-up 7/06)

- Operational Grant for \$2.3 million; Loan Capital Grant for \$1.3 million from USAID;
- Area of Operations: Missan, Sulaymaniyah and Wassit.

INDIGENOUS NGO MFIs

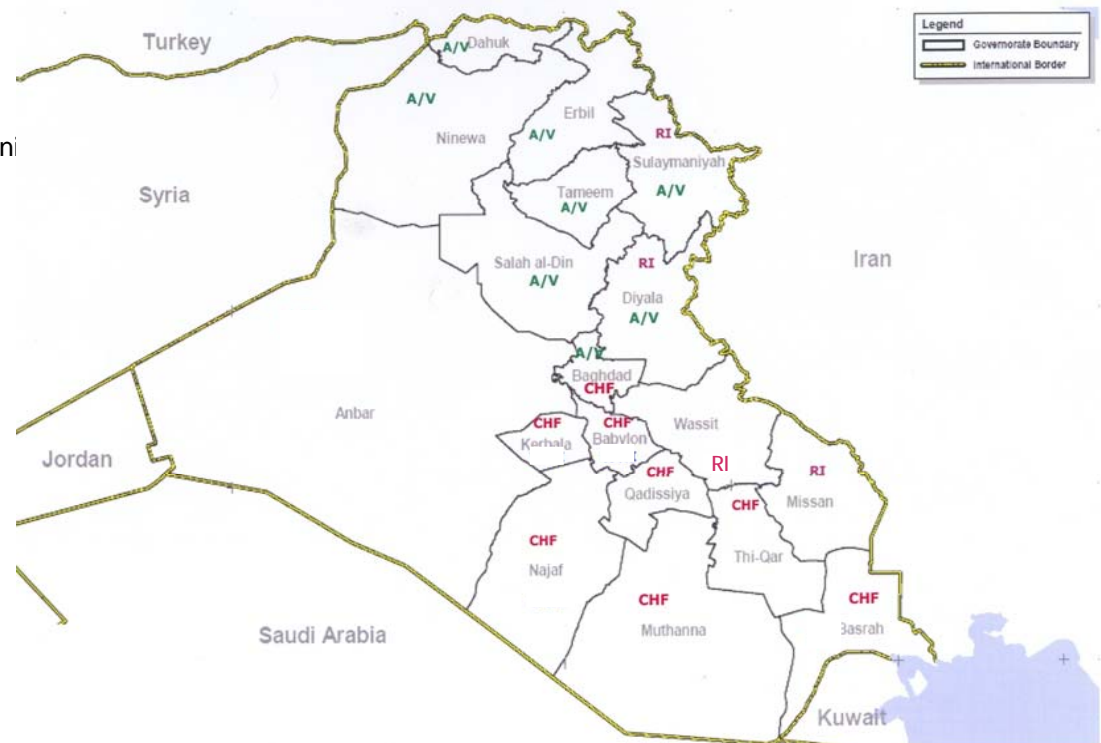
Al Aman – Kirkuk (start-up 7/06)

Al Bashair – Baghdad/Fallujah (start-up 8/06)

- USAID Loan Capital: \$250,000
- MNC-I C9 Operational Support: \$150,000

Ninewa Business Center -- Mosul

Microfinance Activity of the Beneficiaries of the USAID/IZDIHAR MF Grants



Note that Izdihar provides technical assistance and training to all of the MFIs in Iraq.

As of November, there are thirty-one offices of six MFIs in sixteen Provinces.

Province	City	MFI
Anbar	Fallujah	Al-Bashair
Babil	Hashmiya, Hilla	CHF
Baghdad	Baghdad (4)	ACDI/VOCA, CHF, Al-Bashair
Basra	Basra	CHF
Erbil	Erbil	ACDI/VOCA
Diyala	Baqubah	ACDI/VOCA
Karbala	Hussainiya, Karbala	CHF
Missan	Amarah, Gharbi, Majar	Relief Intl.
Muthanna	Semawa	CHF
Najaf	Abu Skheir, Herra, Najaf	CHF
Ninewa	Mosul	Ninewa Business Center
Quadissiyah	Dagharah, Diwaniya, Shafiya	CHF
Sulaymaniyah	Basiyan, Sulaymaniyah (2)	ACDI/VOCA, Relief Intl.
Tameem	Kirkuk (2)	ACDI/VOCA, Al-Aman
Thi-Qar	Nasiriyah	CHF
Wassit	Hay, Nu'mananiyah	Relief Intl.



Outstanding Microloans by Province

As of January 1, 2007:

- **16,617** outstanding loans in Iraq
- **\$18,834,737** in total value of loans in Iraq
- **Average loan size equals \$1,133**

Since August 2003:

- **40,454** in loans have been provided in Iraq
- **\$82,328,089** has been dispersed in Iraq

Province	Number of Loans	Amount of Loans
Babil	1,461	\$1,540,021
Baghdad	2,640	\$2,160,546
Basra	2,399	\$3,075,005
Erbil	644	\$1,092,442
Diyala	570	\$492,822
Kerbala	2,228	\$2,390,888
Missan	195	\$142,965
Muthanna	859	\$843,601
Najaf	1,744	\$1,996,829
Ninewa (<i>does not include NBC</i>)	61	\$36,762
Quadissiyah	778	\$1,076,810
Sulaymaniyah	947	\$1,421,747
Tameem (Kirkuk)	1,476	\$2,056,601
Thi-Qar	615	\$507,698

From November 14-17, 2006, the first Iraq Microfinance Summit took place in Erbil where over 100 delegates met to review the current state of microfinance in Iraq, discuss challenges and opportunities, and plan the way forward for this important business development activity in Iraq. Some findings and recommendations from the Summit follow:

- Microfinance is not a conflict resolution tool and has achieved limited results during a conflict.
- In Iraq, loan sizes are generally higher than global norms; but repayment rates are also relatively high – 99% for CHF.
- Best practices must be applied. Microfinance is a long-term development tool.
- To be successful, microfinance practitioners, donors, and other stakeholders should focus on sustainability: permanent institutions that cover their costs.
- MFI customers value access to financial services more than their costs.
- Microfinance works best for poverty reduction, not employment generation or immediate resuscitation of an economy.
- Government intervention should be at the enabling environment level and not rate setting or direct lending programs.
- Human resources and staff capacity is essential. Finding qualified Iraqi staff and expatriate staff willing to work in Iraq is challenging.
- Building the institutional capacity of MFIs is very important for a microfinance system to develop in Iraq.
- Training needs are paramount: ongoing training on microfinance issues should continue in order to build sustainable institutions in Iraq.
- Standardization and transparency in reporting is very important, both for developing a sustainable MFI, and for showing transparency to both donors and government officials.
- Security issues affect microfinance greatly in Iraq. Safe areas can turn unsafe quickly. MFIs are facing real security concerns in many areas of the country which affect their ability to do business.
- Interest rates and the inflation rate impact Iraqi microfinance
- MFIs should link their clients to business development services such as strategic planning, accounting, and marketing.
- Lack of viable banking industry and government involvement with policy issues impedes development.
- Sound information management systems and use of IT is important to develop sound institutions.
- Bank linkages are currently weak. A supportive banking industry does not exist in Iraq. In order to ultimately succeed, microfinance linkages with private banks need to be developed.

As a result of the Summit, a Recommendations Paper is being drafted and an informal network of the MFIs has been formed.



US Government Goals and Objectives for Microfinance in Iraq

Produced by the US Embassy/Baghdad Capital Markets Working Group (November 2006)

Short Term Goals and Objectives:

- Grow the number of new offices quickly in areas void of micro-finance opportunity providing an overall increase in the access to credit. There are key geographic areas without micro-finance available and others where additional coverage is desirable
- De-conflict programs that provide grants to assist economic development and the micro-loan program
- Develop a detailed operating plan as a prerequisite to achieving sustainable progress during the next 9 to 12 months
- Establish short and long term support for small stand alone micro-finance offices
- Garner Iraqi champions that actively support the present efforts and future growth and evolution of micro-finance in Iraq: This will be an important positive for efforts going forward; Iraqis must ultimately lead the micro-finance industry to success
- Determine if the Iraqi Government will be entering the market and how the US Government and supporting agencies should seek to coordinate on micro-finance efforts
- Increase the variety of delivery mechanisms to reach more perspective borrowers
- Initiate marketing and outreach campaigns to educate the public on micro-finance, including how to apply for credit, what it means, and how it supports economic development
- Begin education of the various levels of the Iraqi Government on micro-finance; its potential and impact on generating growth quickly

Long Term Goals and Objectives:

- Create a longer-term and more comprehensive strategic plan for the general way forward over the next 3 to 5 years to provide the foundation from which new projects and ideas can be generated in support of the broader industry goals and opportunities
- Increase the number of products and services that are offered and evaluate new targeted sectors
- Adopt standards for the industry and applying best practices including transparency of transactions on both the lender and consumer sides, establishing the baseline for continued growth and unification of the industry
- Build a strong legal regime and elimination of conflicting laws and policies that may impede micro-finance; including legal regulatory bodies
- Develop a mechanism that provides training for the new loan officers and management that is permanent and in Iraq
- Implement a plan that leads to sustainability that includes operations, finance, and general management for the micro-finance providers
- Achieve a market in which interest rate costs are reasonable, competitive and fair (full disclosure of loan terms) to broaden the market potential for all. Insure that unfair competition between programs that may offer government or other subsidies and programs offered by private institutions do not develop; insuring an openly competitive market and reducing informal activities
- Establish a permanent forum through which stakeholders and micro-finance providers can collaborate, leverage relationships, and share business ideas