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USAID-*TIJARA* PROVINCIAL ECONOMIC GROWTH PROGRAM

REPORT ON IRAQI MICROFINANCE INDUSTRY CONFERENCE- 2011



(December, 2011)

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DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ACRONYM

BFF	Bright Future Foundation
CBI	Central Bank of Iraq
COP	Chief of Party
COTR	Contracting Officer's Technical Representative
GOI	Government of Iraq
IDP	Internally Displaced People
IFSD	Iraqi Financial Sector Development
KRG	Kurdistan Regional Government
MENA	Middle East and North Africa Region
MFI	Microfinance Institution
MIM	Ministry of Industry and Minerals
MNO	Mobile Network Operators
MOLSA	Ministry of Labor and Social Affairs
MSME	Micro, Small and Medium Enterprises
MTR	Mid-Term Review
NBFI	Non-Banking Financial Institution
NGO	Non Governmental Organization
PAR	Portfolio at Risk
SGL	Solidarity Group Lending
USAID	United States Agency for International Development



Mr. Ali Al-Hussainy, USAID/Iraq and COTR, USAID-Tijara, welcoming to His Excellency Nawzad Hadi, Governor, Erbil Province



Mr. Donal Cotter, COP, USAID-Tijara, welcoming to His Excellency Nawzad Hadi, Governor, Erbil Province



His Excellency, Nawzad Hadi Governor of Erbil Province inaugurating SOUK-the Market Place for product exhibition



Mr. Charles Bell Senior Vice President, LBG, welcoming to the Conference Delegates



Conference Delegates participating in a technical session



Reception Ceremony for the Conference Delegates



Conference Delegates having informal interactions during a tea break session



Mr. Ali Al-Hussainy, USAID/Iraq and COTR ,USAID-*Tijara* Provincial Economic Growth Program, giving away one of the Iraqi Microfinance Awards to Al Bashaer MFI

INTRODUCTION:

Microfinance has been established globally as an important and effective intervention for poverty alleviation. In Iraq also, microfinance is being used for the same purpose. The initial focus in Iraq has been micro credit with the aim of providing loans to micro, small and medium enterprises (MSMEs) for poor clients. Microfinance in Iraq was launched with the set up of the first program in July 2003. In spite of the many challenges encountered in this post-conflict environment, the microfinance sector has made tremendous progress since its inception. What began in 2003 mainly as a way to channelize financial assistance for the victims of war and violence in order to help them stabilize their lives and living conditions, has over the years turned out to be a welcome medium of essential financial services required to help rebuild and strengthen the lives of the poor communities.

USAID through its Tijara Provincial Economic Growth Program has been providing much needed technical and funding supports for establishing an inclusive financial services sector in Iraq. Since 2008 USAID-*Tijara*, with its financial sector development approach working at the three hierarchical levels, i.e. at the macro, meso and micro, continues to ensure that the ever increasing large number of MSMEs and poor households have access to demand-driven and inclusive financial services. The program is being implemented in collaboration with its MFI partners and other key stakeholders.

As a key sector building initiative, USAID-*Tijara* has been organizing an annual Inclusive Financial Services Stakeholders' Conference each year. Evolved over a period of four years, this annual event has become the most significant forum bringing together all the microfinance stakeholders from within and outside Iraq to discuss issues faced by the sector and chart ways of moving forward for ongoing progress. As a national forum it has facilitated sharing of the national, regional and international experiences with larger audiences including policy makers. At the same time, the conference has also provided an opportunity for learning about emerging microfinance trends and best practices for adoption by the Iraqi MFIs. Thus so far, six such conferences have been held in Iraq since inception.

This year the conference was held in Erbil on 3-4 October'2011, and was organized by USAID-*Tijara* in collaboration with Bright Future Foundation (BFF) & other stakeholders. The event was attended by nearly 180 Delegates drawn from various institutions at local, regional and international levels and also by representatives from Central Bank of Iraq (CBI), NGO Directorate and other key departments from Governments of Iraq & KRG. The conference was graced by His Excellency Mr. Nawzad Hadi, Governor of Erbil and Mr. Alexandre Deprez, Deputy Mission Director, USAID/Iraq.

Theme of Microfinance Industry Conference 2011 was

"Transforming Inclusive Financial Services for Increasing Outreach"

DAY-1: MONDAY, OCTOBER 3, 2011:

At the outset the USAID-*Tijara* team together with BFF and COTR-USAID received the honorable guests and led them to the conference hall for the official opening of the event. Mr. Baljit Vohra, Senior Technical Advisor, USAID-*Tijara*, moderated the opening session. He invited all the dignitaries to the dais and requested them to take their seats, viz. His Excellency Mr. Nawzad Hadi, Governor of Erbil Province; Mr. Alexandre Deprez, Deputy Mission Director, USAID/Iraq; Mr. Jeff Cockrane, Director, EGA, USAID; Mr. Hoger Shalli, Advisor to the KRG Prime Minister & Board Chairperson of BFF; Mr. Donald Cotter, COP, USAID-*Tijara*; Mr. Abbas Saedy, Representative, Iraqi Microfinance Network.

Welcome Address

- Hoger Shalli-Advisor to the KRG Prime Minister & Board Chairperson of BFF
- Abbas Saedy-Representative, Iraqi Microfinance Industry
- Donal Cotter- COP, USAID-*Tijara*

Honorable Guests:

- His Excellency Mr. Nawzad Hadi, Governor-Erbil Province
- Alexandre Deprez, Deputy Mission Director, USAID/Iraq
- Jeff Cockrane, Director, EGA, USAID



(From l to r) Donal Cotter, COP, USAID-*Tijara*, Jeff Cockrane, Director, EGA, USAID, His Excellency Nawzad Hadi, Governor, Erbil Province, Alexandre Deprez, Deputy Mission Director, USAID-Iraq



Baljit Vohra, Senior Technical Advisor, USAID-Tijara

Mr. Baljit also welcomed all the Delegates and solicited their active participation in the conference. In his remarks, he updated the guests on the remarkable growth of the Iraqi Microfinance Sector noting that cumulative loans disbursed since inception amounted to \$749,476,123 to 321,415 clients including 19% women. This amount was disbursed through 12 MFIs having 965 staff and 105 branch & satellite offices across the country, including representative offices in all the 18 provinces in Iraq. He sincerely thanked and appreciated the

continuous support of USAID, patronage of Government of Iraq and also of the KRG and the contributions of key stakeholders like Central Bank of Iraq (CBI), NGO Directorate, and the MFIs and their Network for the growth of microfinance sector in the country. He also solicited similar support from all stakeholders in the days ahead to further strengthen and sustain the sector in Iraq.



Donald Cotter, Chief of Party, USAID-Tijara

Mr. Donald Cotter, Chief of Party, USAID-Tijara, formally welcomed all the Participants with a special welcome to the honorable guests to the 6th Microfinance Industry Conference 2011. Expressing his deep sense of gratitude for the positive support of Government, CBI, NGO Directorate, financial as well as technical assistance of USAID and the sincere efforts made by the MFIs, he thanked all of them and wished them very meaningful deliberations in the conference.



Hogar Shalli, Advisor to the KRG Prime Minister & Board Chairperson of BFF

Welcoming the honorable guests and delegates, Mr. Hogar Shalli, Advisor to the KRG Prime Minister and Board Chairperson of BFF, highlighted how the collective efforts of Government, NGOs, MFIs, international communities including USAID, have been instrumental in building the economy of Iraq that suffered seriously during the period of war and upheavals. He very much appreciated the commitments of GOI & KRG to bring economic development to its people through

various programs. He noted the creation of BFF as a step forward to serve the poor and alleviate their poverty through microfinance services. Acknowledging the contributions made by USAID-Tijara and its partner MFIs in reaching out to very poor and vulnerable groups of people in the country, he urged them to expand their outreach and support further in strengthening the livelihoods of the clients & their households. He also expressed the interest and willingness of BFF to have more collaborative efforts together with USAID-Tijara in future to reach out the microfinance services for the poor and vulnerable groups of clients in its operational areas.



Abbas Saedy, Representative, Iraqi MF Network

Mr. Abbas Saedy, Representative of the informal Iraqi Microfinance Network, also welcomed all delegates and thanked USAID-*Tijara* for successfully organizing the conference every year thereby facilitating productive review and deliberations between the microfinance fraternity and key stakeholders like the Central Bank of Iraq, NGO Directorate, Banks, etc. on the various issues and challenges faced by the microfinance sector. He also appreciated the contribution of each MFI for the success of the microfinance

industry and encouraged all of them to work with renewed spirit to reach out to ever increasing numbers of clients with quality, inclusive financial services. Mr. Abbas further highlighted the need for an effective apex coordinating body and emphasized necessary strengthening of the nascent Iraqi Microfinance Network (IMFN) in a collective manner.



His Excellency Nawzad Hadi, Governor, Erbil Province

Speaking on the occasion, His Excellency Mr. Nawzad Hadi, Governor, Erbil Province, welcomed all delegates and wished them successful discussions during the conference. He also congratulated USAID-*Tijara*, its MFI partners and all other stakeholders from Government, Banks and Donors for the outstanding achievements made so far in the microfinance sector. Highlighting the Government initiatives specifically in microfinance and SME through the Ministry of Labor and Social

Affairs (MOLSA) & Ministry of Industry and Minerals (MIM) & Banks, he assured positive support and commitment of the GOI & KRG for further strengthening to that in order to achieve all-round development for the poor people in the country. He noted that microfinance is an important tool for poverty alleviation and he advised the microfinance community and stakeholders to work effectively to bring quality changes in the lives and livelihoods of the clients including the very poor, needy and vulnerable groups of clients.



Alexandre Deprez, Deputy Mission Director, USAID/Iraq

Mr. Alexandre Deprez, Deputy Mission Director, USAID-Iraq expressed his happiness to be present in the conference and complimented the efforts made by USAID-*Tijara* for bringing together all the key stakeholders through this forum to debate and deliberate on various issues affecting to the microfinance sector. While appreciating the initiatives taken so far by various agencies including the Government (CBI & NGO

Directorate), NGOs-MFIs together with USAID-*Tijara*, for reaching out to clients in all provinces, he emphasized for further expansion and depth in outreach to accomplish the desired financial inclusion of the poor and vulnerable groups of clients in the country. Collaborative models with meaningful partnerships among various stakeholders need to be strengthened further for creating an inclusive financial sector in the country. Assuring the cooperation from USAID-Iraq Mission, he put forth the following five key areas and advised all stakeholders to make concerted efforts in a coordinated manner for their accomplishment

- **Corporate Governance**
- **Regulatory Reform**
- **Product Innovations**
- **Strengthening Iraqi Microfinance Network**
- **Regular Consultations & Dialogue among Stakeholders**

At the end of the opening session, all the honorable guests were led to visit the Market Place "SOUK" where various items produced by microfinance clients were displayed for sale. Clients from each MFI had their respective stalls. All the guests and delegates went around the stalls, talked to the entrepreneurs on the process and encouraged them to do better in future. The Clients felt greatly elevated with the encouragement by the Honorable Guests.



Honorable Guests Visiting the Market Place "Souk"

TECHNICAL SESSIONS OF THE CONFERENCE

TECHNICAL SESSION-1: PRESENTATION OF THE STATE OF THE IRAQ'S MICROFINANCE INDUSTRY REPORT2011

Moderator: Baljit Vohra, Senior Technical Advisor, USAID-Tijara

Speaker: Muhammad Junaid, Team Leader-SMFC, USAID-Tijara



Muhammed Junaid, Team Leader, SMFC, USAID-Tijara

The first technical session of the conference was devoted to understand the status of the microfinance sector in Iraq. Mr. Muhammad Junaid, Team Leader, Microfinance Component, USAID-Tijara, made a presentation of Iraqi Microfinance Industry Report 2011, which has been prepared every year to capture the growth, trends, issues and challenges etc. faced by the sector. While sharing the report, Mr. Junaid mentioned that despite many constraints, the microfinance industry in

Iraq has been growing at an impressive pace over the last few years. Quality of the growth in terms of portfolio, systems and procedures, products and services, information sharing and reporting, transparency and accountability, networking, collaboration, etc. have all been very significant. The industry enjoys nearly 99% repayment rate and the Portfolio at Risk (PAR) > 30 days is less than 2%. Through its excellent performance the sector has created a specific identity not only in the region but also in the global microfinance map. As of August 2011 there were more than 85,000 active clients with about \$124.3million in portfolio outstanding. The client number can be viewed in comparison to approximately three million clients in the MENA region.

All 12 MFIs have expanded their operations to cover increased numbers of clients including women, youth, IDPs, minorities etc through locally developed products and services. Many of them also have achieved operational & financial self sufficiency (OSS & FSS). New products including Islamic loan *Murabaha*, group loan, agriculture loan, etc. have been developed and offered to meet the local clients' needs and demand and thus lending to poor households and vulnerable groups has increased and MFIs have become more clients responsive. The MFIs are also developing their respective Strategic Business Plans as roadmaps for future development.

The Iraq microfinance sector continues to adopt international standards and best practices. A comprehensive declaration of Microfinance Code of Conduct and Ethics for the sector has

been signed and put into practice. Mr. Junaid also noted that all MFIs have been reporting to Mix Market and recently 2 were awarded the 4 Diamond Rating, while 8 were awarded the 3 Diamond Rating and the remaining 2 were awarded the 2 Diamond Rating. Further he noted that the legal framework in the country has improved positively since the passage of the new NGO Law which enabled MFIs to act as recognized microfinance services providers. He also noted that in recognition of microfinance as an effective medium of financial services for micro, small and medium-scale enterprises (MSMEs), the CBI has issued the MSME Finance Companies Ordinance. Additionally he noted that formation of an apex coordinating body, *the Iraqi Microfinance Industry Network (IMFN)*, has been another significant development in the sector. The Network will start functioning formally soon after its registration and it is expected to have a pivotal role in strengthening the microfinance sector by addressing the capacity building needs of the industry as well as taking up advocacy matters for the industry at the policy level.

In spite of the phenomenal growth noted however, challenges still remain as the sector has yet to fully address the issues of scale and depth in the country and has reached to only 6% of the total eligible population (MTR Report). The urban-rural imbalance has been another challenge in this regard. Effective diversification of products and services is also needed as microfinance in Iraq has been largely 'Credit-Centric' so far. Other financial services such as *savings, leasing, remittances, etc.* have not yet been introduced in the microfinance services package, mainly because of regulatory constraints and lack of appropriate infrastructure. Limited access to and availability of diversified sources of funding is also one of the constraints for many MFIs in pursuing expansion and scaling-up of their programs. For balanced and organized growth of the sector, greater focus is required in supporting them along with the Network in Iraq.

At the end of the presentation Mr. Junaid also responded to a few questions asked on the registration of the Network, scaling-up of insurance services and interest rates charged by Iraqi MFIs to cover their operational expenses while delivering the microfinance services.

TECHNICAL SESSION-2: TRANSFORMATION PROCESS- FROM NGO TO NBFi STATUS: PROGRESS TO DATE & LESSONS LEARNED

Moderator: *Muhammad Junaid, Team Leader, SMFC, USAID-Tijara*

Speakers:

- *Jesse Fripp, Vice-President, ShoreBank International*
- *Moustafa Khalifeh: Director of Finance & Administration, CHF International/ACCI*

Panelists:

- *Najim Abdullah, Legal Advisor, NGO Directorate*
- *Samira Hussein Khazrazi,, DGM, Central Bank of Iraq*

Issues of financing MFI growth through mobilizing investment is becoming a priority among Iraqi MFIs. In the past few years, several assessments were made to weigh the advantages and disadvantages of transformation. It is now crucial to take lessons from and examine



(From l to r), Moustafa Khalifeh, Director of Finance & Administration of CHF/ACSI, Samira Hussein Khazrazi, Deputy General Manager, Central Bank of Iraq (CBI) Muhammed Junaid, Team Leader, SMFC USAID-*Tijara*

practical experiences of MFI commercialization and transformation around the region and in the rest of the world in order to understand where the microfinance industry is and what possible options MFIs have to transform. This session was devoted to discussing the process of transformation of MFIs. Moderating the session Mr. Muhammed Junaid briefly up-dated the forum on the transformation process of MFIs in Iraq especially of CHF and then invited the speakers and panelists to put forth their views on the topic.

Highlighting the importance of MFI transformation Mr. Jesse Fripp, Vice-President, ShoreBank International, stated that as experienced, the transformation process helps an institution to diversify funding opportunities, strategize in its operations, maximize profit, achieve sustainability and also become client focused. However, it must also be driven by market, regulators, funding possibility and institutional capacity. Environmental factors, consumer protection, credit bureau, public-private sector linkages are factors, among others, which should also be taken into account while envisioning transformation. There are ranges of options for transformation including Share Holding Company, Apex institution, NBFIs, MF Banks etc. However no one option fits for all MFIs. The process to be adopted should be in line with the type and the specific needs of the MFI. Usually most of them start as NGOs focusing on development then develop to quasi commercial and ultimately take on a form of commercial entity. Client focused transformation has, however, been the most recommended strategy to pursue.

Transformation has never been easy and in actual fact it is quite challenging. There have also been some bad experiences of transformations which failed to attain their intended goal. In view of that he offered a cautionary note that not all MFIs need to transform as some may be constrained by institutional capacity. Investors in early stages are more of social entrepreneurs seeking lower returns on investments while at a later stage they expect higher returns. Many MFIs have gone through the painful experience of dealing with commercial Investors. MFIs need to be well informed to know which Investor to deal with and assess their readiness for taking in more investments in terms of strengthening management, internal control, risk management etc.

Building Partnerships is one of the key factors for transformation. Iraqi Microfinance Network has to be strengthened so that it takes up the role of engaging partners to see available options and outline parameters and sort areas of focus like strengthening governance, middle management and foresee issues beyond transformation like taxation. He further held the view that the existing potentialities of Iraqi microfinance in terms of its vast eligible clientele, quality portfolio, presence of donors' community and support from Government may be well utilized to facilitate the transformation process for selected MFIs in the country.

Mr. Moustafa Khalifeh, Director of Finance & Administration of CHF-ACSI shared the experience of his MFI which is currently looking forward to transformation into NBFi in Iraq. Serving increased numbers of clients and meeting their credit needs and also mobilizing adequate resources have been the key objectives, among others, for transformation. Supplementing the views of the previous speaker, Mr. Khalifeh also noted that the process is challenging as it brings a few operational issues for the MFIs especially like shifting from its existing organizational culture, managing the new changes, meeting the reporting and compliance requirements, developing and delivering new products, managing taxation etc. Therefore, the MFIs should be well prepared with appropriate measures to deal with these challenges. As an institution CHF has got adequate experience on transformation in other countries. For transformation in Iraq it has already completed the preparatory works, submitted all the required documents and currently waiting for the response from NGO Directorate and Central Bank of Iraq.

Presenting her views on the process Mrs. Samira Hussein Khazrazi, Deputy General Manager, Central Bank of Iraq (CBI), viewed transformation as a good objective as it would open up new opportunities for MFIs to access funding to facilitate outreach to more clients eventually. However, MFIs should not increase the interest rates so much in pursuit of commercialization, but rather they should ensure to keep the rates at a reasonable level. Also they should be able pay tax and adopt all internationally accepted practices in accounting, audit, reporting and compliance standards.

Mr. Najim Abdullah, Legal Advisor, NGO Directorate, agreed that transformation is a challenging process and suggested MFIs in Iraq to continue with delivery of the microfinance services with the current NGO registration which provides them additional facility of tax exemption at the moment. Expressing his concern on the financial structuring, he advised the MFIs not to divert the grants provided by donors and actually meant for poor people, towards meeting the capital requirement for transformation process. Mrs. Samira too raised



a similar query for USAID-*Tijara* to advise MFIs not to divert the grants or portfolio amount for the transformation process. Responding to the query of the participants on any fixed time-line for the process, Mr. Najim noted that in view of the current regulatory complexity, it might take longer time and MFIs should wait for the time being, especially for transforming from NGO to NBFi.

Responding to the query made to USAID-*Tijara* by Mrs. Samira on funds utilization for transformation, Mr. Baljit Vohra clarified that no funds are being diverted for this purpose as the Program provides only restricted grants meant for portfolio and partly for operations and it also monitors the utilization of the funds very closely. Mr. Vohra suggested and it was agreed to have a separate meeting with the Representatives from CBI and NGO Directorate to discuss the issue in details regarding transformation process for MFIs in Iraq. Based on that, final decision would be taken. Accordingly it was decided to have the meeting in Erbil soon after the conference.

Najim Abdullah, Legal Advisor, NGO Directorate

TECHNICAL SESSION-3: TOWARDS EVER IMPROVING TRANSPARENCY, RISK MANAGEMENT & ACCOUNTABILITY: THE ROLE OF RATINGS

Moderator: Hussien Ibraeem, Executive Manager, Al-Aman

Speaker: Nadine Chehade, Business Development Manager, Planet Rating

Panelists:

- Abbas Saedy: General Manager, Al Thiqa MFI
- Tamather Hammad, Executive Manager, Al Basher
- Habte Asfaw, Advisor, Iraqi Youth Initiative, USAID-Tijara

Over the years Rating of MFIs has been accepted well among the microfinance community as an important tool not only to critically assess the performance but also to make suggestions for further improvements in the institutions. Rating infact, benefits an MFI both internally and externally. While internally it enables the Board & Management to review and build up self-evaluation and make informed decisions, externally it often facilitates linkages with investors.



Having realized the need and relevance of a thorough review of MFIs, USAID-*Tijara* has been undertaking operational assessments regularly. It also encourages the MFIs to go for Ratings by established agency. With this note Mr. Baljit Vohra introduced the chief speaker, Ms. Nadin Chehade and requested Mr. Hussien Ibraeem to preside and moderate the session.

(From l to r), Habte Asfaw, Advisor, Iraqi Youth Initiative, USAID-*Tijara*, Tamather Hammad, Executive Manager, Al-Bashaer, Abbas Saedy, General Manager, Al Thiqa MFI, Nadine Chehade, Business Dev Manager, Planet Rating, Hussain Ibrahim, Executive Manager, Al-Aman Centre, Baljit Vohra, Senior Technical Advisor, USAID-*Tijara*

The main speaker for this session was Ms. Nadin Chehade, Business Development Manager, MENA & Caucasus, Planet Rating who made a presentation on GIRAFE (Governance, Information Technology, Risk Management, Activities, Funding and Liquidity, Efficiency and Profitability) Methodology of Rating for MFIs. Considering it as an important process to evaluate MFIs' performance, she explained the rating process in details. Led by the senior and professional Analysts, Rating is being undertaken at the request of the MFIs looking for mobilizing resources from potential investors. The rating timeline is usually one month which involves reviewing various documents including the financial statements, description of product, strategic plans, auditor reports, credit and other policies and procedures manuals, analyzing, and interview with employees, clients, senior management and Board members. The Rating process also helps identify various risks and through the recommendations, facilitates taking of remedial measures by the MFI.



Emphasizing on the need of social performance Ms. Nadine also elaborated on the Social Performance Rating Methodology. Launched in 2005 it mainly gives opinion on systems and procedures implemented by MFIs to reach their social objectives. The rating report is valid for one year and it can be repeated each year based on the MFI's request and need.

Nadine Chehade, Business Development Manager, Planet Rating

Mr. Habte Asfaw, Advisor to Iraq Youth Initiatives, USAID-*Tijara*, also stressed on the importance of Rating especially if MFIs want to raise funding to meet the increasing loan demand of the clients. He advised MFIs to improve their governance, operations, systems and procedures, MIS, financial performance and reporting etc before going for rating by a Rating Agency.

Mr. Abbas Saedy, General Manager, Al Thiqa MFI, emphasized for undergoing periodical assessments, rating, audit exercise-internal & external to better identify gaps and manage risks and the institutional growth. He also strongly felt that the process of sharing institutional and financial information with relevant stakeholders brings greater transparency in the MFIs. Al Thiqa has been doing that consistently which helped it to get the transparency award (4 Diamond Rating) from *Mix Market* in the last Sanabel Conference.

Considering PAR and other risk factors involved in microfinance as detrimental for the growth and sustainability of an MFI, Mrs. Tamather Hammand, Executive Director, of Al-Bashaer MFI, highlighted the importance of disclosure and readiness of MFIs to acknowledge risks that are identified by institutional assessments or ratings and work on developing appropriate solutions. She noted that the process helped Al-Bashaer internally to minimize its risks over the years. Transparent reporting also helped it to get 4 Dimond Rating award from *Mix Market* in the last Sanabel Conference along with Al Thiqa from Iraq microfinance sector.

Additional deliberations took place as part of responding to the queries raised by the participants relating to rating in post-conflict regions, role of rating on transformation, cost of rating and support available. After the discussions, it was concluded that MFIs that opt for transformation and need to seek for additional investments should go for a rating. Responding to a query on whether any financial assistance is available for MFIs, Ms. Nadine clarified that no such support is possible from Donors at the moment except subsidizing the cost of a social rating. Dedicated for the region, Planet Rating can explore the possibilities and help MFIs in this regard with reasonable cost sharing mechanism.

TECHNICAL SESSION-4: GOVERNANCE- KEY TO AN INSTITUTIONAL FINANCIAL SECTOR

Moderator: Waria Salihi, Chairman Al-Aman

Speaker: Aseel Anton, Senior Program Manager, USAID-Tijara

Panelists:

- *Hogar Shalli: Chairman, BFF*
- *Hameed Hashim, Vice-Chairman, Al -Takaddum*
- *Hussain Al-Jaffr, Chairman, Al Mosaned*

Corporate Governance plays a pivotal role in the overall success of an organization and it is equally important in the case of an MFI. Governance refers to the overall organizational and management structure that ensures there is a clear direction and control of operations for effectiveness in achieving the goals and objectives of the organization. This involves supervision and accountability at all levels from stakeholders and the board as well as management. Good Governance is about achieving results and achieving them in the right ways.



(From l to r), Hogar Shalli Chairman, BFF, Hussain Al-Jaffr, Chairman, Al-Mosaned, Waria Salihi, Chairman Al-Aman, Hameed Hashim, Vice-Chairman, Al -Takadum

Emphasizing on good governance Mr. Waria Salihi, moderator of the session, introduced the speaker and other panelists of the session. Ms. Aseel Anton, Senior Program Manager, USAID-Tijara was the chief speaker of the session. She reiterated the significance of governance and noted that the process is very effective when the Board of Directors provides timely inputs and decisions for managing the policy and strategic direction with appropriate support and guidance for senior management. Clarity and separation of the roles of the senior management and

Board were stressed as main success factors in governance. Ms. Anton noted some of the key challenges in the process as inadequate expertise on resource mobilization, monitoring



Ms. Aseel Anton, Senior Program Manager, USAID-Tijara

of business plan, review of financial statements, portfolio indicators, performance assessment of senior management. She informed that USAID-Tijara has taken initiatives to strengthen governance of the MFI partners through trainings and mentoring services and advised that MFIs should have the right people with diversified experience to serve on the Board. She emphasized further that Boards should be very strong on having a sound Code of Ethics culture and good succession plans to effectively enhance the governance in Iraqi MFIs.

Mr. Hogar Shalli, Chairman BFF, pointed out that getting experienced persons in the Board has been quite challenging especially in Iraqi context. He further stated that Board members should not be looking for any salary or financial compensation but rather should function with self commitment and motivation. Mr. Hussien Al Jaf, Chairman of Al-Mosaned MFI, stressed on the need for collective and consultative actions among the Board members and suggested for strengthening of relationships with all the stakeholders including Government and Donors. Mr. Hameed Hashim, Vice-Chairman of Al-Takadum MFI, emphasized the important role of the Board to mobilize needed resources from different donors. Ms. Anton responded to some of the questions raised by participants including Mr. Ali Al Hussainy, COTR-USAID on previous training program, feedback mechanism and inclusion of women members on the Boards.

While summarizing the deliberations Mr. Waria encouraged the MFIs to strengthen their respective Boards by ensuring active participation of each member in the process. He noted that many of the members are not well versed with good governance procedures and requested USAID-*Tijara* to organize further trainings and orientations for them. In response to his request, Mr. Muhammed Junaid assured MFIs that *Tijara* would review arrangements for the next round of governance trainings. He also noted that governance is one of the five priority areas of focus for development of the microfinance industry in Iraq as identified by the Deputy Mission Director, USAID-Iraq, and hinted on the fact that all future grant support for MFIs would be predicated on the basis of their stable and corporate governance processes.

DAY-2: TUESDAY, OCTOBER 4, 2011

The second day of the conference was started on a positive note with Mr. Baljit Vohra thanking to all the participants for their meaningful participation on the previous day. He then welcomed them all again and solicited similar level of participation during the day. Altogether six technical sessions on global microfinance experience, financial inclusion, credit bureau, financial reporting, strategic business planning and demand-driven products were planned for the day before the final Concluding & Way Forward session.

TECHNICAL SESSION-5: GLOBAL DEVELOPMENT IN MICROFINANCE INDUSTRY

Moderator: Baljit Vohra, Senior Technical Advisor, USAID-*Tijara*

Speaker:

Jesse Fripp, Vice-President, ShoreBank International

The first session was held on global development in microfinance industry. Moderating the session, Mr. Baljit Vorha noted that microfinance has undergone variety of experiences across the globe in the last decade. No doubt that the Iraqi microfinance has been doing very well since last few years but there is always a scope to learn from the best practices & experiences of other countries /regions and replicate that appropriately in the country. He noted that among others, lessons may be drawn from the new trends, technology on product innovation, service delivery mechanism (pro-poor products, mobile banking, ATM,

branchless banking etc.) to reach out to very poor and vulnerable people. Mr. Vohra highlighted the need for such cross learning process among microfinance fraternity in Iraq and then invited the chief speaker of the session, Mr. Jesse Fripp, Vice-President of ShoreBank International, and requested him to make his presentation.

Mr. Jesse Fripp began his presentation by sharing the available statistics that there are approximately 2.5 billion people who need microfinance services in the globe, out of which the program has reached only to 250 million clients so far. Therefore there is a long way, indeed, to go to reach this huge number of potential clients. Microfinance by using its conventional method alone may not be able to reach out to them and as such it must utilize



Jesse Fripp, Vice-President, ShoreBank International

the innovative products and alternative channels in service delivery. It is estimated that 1.7 billion people out of the eligible 2.5 billion potential clients will have cell phones by 2012 which can be easily utilized to reach them through mobile banking services. Inclusiveness in financial services has been one of the key trends in microfinance. Sincere attempts are being made to reach out to millions of un-banked or under-banked (poor, rural, women, small businesses, youth, etc) across the regions. He further said

that many of the countries have already demonstrated their successes in reaching out to such vast vulnerable groups through innovative products and service delivery mechanisms. Mention may be made of M-PESA in Kenya, ESAF & BSC, Palestine, UBL Omni, Pakistan, bKash, Bangladesh, KBSLAB, India, etc.

Iraqi microfinance sector can benefit by picking up the replicable elements and implement similar products in the country. It can further strengthen its pilot initiatives on mobile banking & innovative products to reach out to increased numbers of poor and vulnerable clients. The sector can plan to offer a *"basket of services"-Beyond Credit, Beyond Payments*. However, that will require working closely in partnership with all stakeholders to convince the regulatory authorities to create conducive legal environment and infrastructure. Banking system in Iraq has been trying to reach more clients and CBI too taking a lead on that. As such, the microfinance sector in Iraq should take advantage of that, accelerate the process and mainstream itself to reach increased number of clients through mobile banking services.

Responding to a query on the difficulty faced by Al-Bashaer MFI in piloting the mobile banking initiative, Mr. Fripp stressed that MFIs should develop mutually beneficial partnerships with Mobile Network Operators (MNOs), Retailers, Banks, Government, etc. for an integrated Channel Model. The MNO-Asia Cell should see the potential and work with a business proposition for microfinance clients. So also for the Mobile Money Ecosystem, a well coordinated effort by Donors, Regulators, FIs, MNOs and other Industry Actors along with Clients' education are desirable.

While summing up the discussions, Mr Baljit Vohra thanked the speaker and also suggested to have a *Working Group* on Product Innovations within the sector which should look into further details, study the feasibility and recommend measures to move forward.

TECHNICAL SESSION-6: FINANCIAL INCLUSION OF WOMEN, YOUTH & VULNERABLE GROUPS

Moderator: Zina Abdullah, Deputy Director, SMFC, USAID-Tijara

Speaker: Mohammed Ali Yazdani, Institutional Capacity Building Expert, USAID-Tijara

Panelists:

- *Habte Asfaw, Advisor, Iraqi Youth Initiative, USAID-Tijara*
- *Ahmed Abdul Kareem, Executive Manager, Izdiharuna*
- *Loay Muhey Din Tawfeeq, Exe. Manager, Al Tadamun*

Microfinance program is primarily intended to reach poor segments of society as they lack access to financial services. However, reaching out to the most vulnerable groups has not been always easy rather it still poses a challenge for the MFIs and the stakeholders across the globe. This technical session of the day was dedicated to discuss on various issues and aspects of Financial Inclusion process through microfinance program.



Ms. Zina Abdullah, Deputy Director, SMFC, USAID-Tijara moderated the session on financial inclusion. Having briefly introduced the topic she invited to all the panelists and also the chief speaker of the session Mr. Mohammed Ali Yazdani, Institutional Capacity Building Expert, USAID-Tijara, to make his presentation.

(From l to r), Loay Muhey Din Tawfeeq, Executive. Manager, Al Tadamun, Habte Asfaw, Advisor, Iraqi Youth Initiative, USAID-Tijara, Ahmed Abdul Kareem, Executive Manager, Izdiharuna, Zina Abdullah, Deputy Director, SMFC, USAID-Tijara, Mohammed Ali Yazdani, Institutional Capacity Building Expert, USAID-Tijara,

Mr. Yazdani initiated the discussions by emphasizing on the need to reach out to the most vulnerable group of clients including women and youth through an inclusive financial service drive. When properly planned, access to finance results in creating lasting impact in the lives of clients by enhancing their wellbeing in terms of food, health, education etc. as well as household incomes. Similarly the financial inclusion process facilitates 'empowerment' in their socio-economic and political environment which is being visibly noticed among women clients. Financial inclusion also generates employment opportunities for youth thereby keeping them constantly engaged in meaningful and productive activities.

Commending the sincere efforts made by MFIs and stakeholders in Iraq on financial inclusion, he advised them to continue to scale-up their services in a planned manner by using the innovative products & service delivery methods in the inclusion process. He noted that Islamic lending and the Solidarity Group Lending (SGL) products have been already introduced in Iraqi microfinance sector to accommodate clients belonging to most vulnerable groups that have been previously excluded from the finance sector. As of August 2011 altogether 5,111 Solidarity Groups having 14,617 members have been formed by five out of



twelve MFIs in the country. Since the group loans have been proved to be very effective in reaching out to the very poor, Mr. Yazdani suggested that the on-going initiatives should be expanded further. Additionally, he recommended creation of an inclusive enabling environment supported with resources and commitment from the government and stakeholders. Banks can play a pivotal role and can also pursue inclusion with their broader range of financial services through existing branch

Muhammed Ali Yazdani, Institutional Capacity Building Expert, USAID-*Tijara*

networks and by enabling and promoting branchless banking and the use of Agents Network. The Government agencies can facilitate this by strengthening further the technology for faster service delivery of services and institutionalize some of the key financial infrastructures such as Credit Bureau, collateral registries, MF Network, etc.

Mr. Habte Asfaw, Advisor to Iraq Youth Initiatives, explained how the Youth Initiative of USAID-*Tijara* program has been supporting the Iraqi youth by availing the technical as well as financial resources they need for their businesses. Mr. Ahmed Abdul Kareem, Executive Manager, Izdiharouna, informed on the success of poverty lending through solidarity groups. Disbursed in small size (\$ 500-800) and focusing specifically on the very poor and vulnerable groups of clients, these small loans have been proved instrumental in enhancing their household incomes through various business activities. While expressing similar views and sharing the poverty-focus experience of his organization, Mr. Loay Muhey Din Tawfeeq, Executive Manager, Al-Tadhamun, stressed on designing and offering pro-poor products through alternative lending methodologies that are more suitable to the local situations and cultural practices. At the conclusion of the discussions, queries from participants were well responded and clarified by the speaker and the panelists.

TECHNICAL SESSION-7: CREDIT BUREAU AND BLACKLIST IMPLEMENTATIONS

Moderator: Shoghair Yerchanig, Senior MF Financial Analyst, SMFC, USAID-*Tijara*

Speakers:

- Mohammed Shohaieb, Senior Advisor, USAID-IFSD Program
- Abbas Saedy: General Manager, Al Thiqa

Panelists:

- Ibrahim Auraiby, Executive Manager, Amalkom MFI
- Nawzad Mawlood, Executive Manager, BFF
- Larry SanBoeuf, Director, ICT Services, USAID-*Tijara*

The need for an established credit bureau system has been increasingly felt in the microfinance sector mainly to share clients' information among MFIs and to curtail over-indebtedness of the borrowers. Countries like Pakistan, Philippines, Peru and a few others have already launched credit information bureau in order to establish responsible financial systems. A Credit Bureau collects data from different sources in its jurisdiction and then provides credit information on potential borrowers in that jurisdiction. Such credit information

is useful for purposes of assessing a borrower's credit worthiness or capability to repay a loan. The Iraqi microfinance sector is also working on to develop a similar facility by integrating itself with the mainstream credit bureau. In view of that this technical session was utilized in deliberating on the prospectus of credit bureau system in Iraq. Ms. Shoghair Yerchanig, Senior MF Financial Analyst, SMFC, USAID-*Tijara*, invited the speakers and panelists of the session and requested them to put forth their views on the subject.



Mr. Mohammed Shohaieb, Senior Advisor, USAID-IFSD was the chief speaker for the session. He informed briefly on the functions of the Iraqi Financial Sector Development program and stated that Iraq experiences a huge gap between the credit needs and credit offered. One of the main reasons of this gap is the difficulty Banks experience in getting actual credit information for decisions necessary & appropriate in their operations. He emphasized on the

(From l to r), Larry SanBoeuf, Director, ICT Services, USAID-*Tijara*, Nawzad Mawlood, Executive Manager, BFF, Ibrahim Auraiby, Executive Manager, Amalkom MFI, Abbas Sayeedy, General Manager, Al-Thiqa, Muhammad Shuhaib, Senior Advisor, USAID-IFSD Program

implementation of an integrated credit bureau system and enumerated the key benefits anticipated in terms of identifying good/bad borrowers, decreasing cost and time for loans and taking safer and sound decisions by banks or service providers. Credit Bureau helps, indeed, exclude the bad borrowers. He also noted that the process requires great deal of efforts, resources and cooperation from all stakeholders in order to establish such a system. IFSD is working with CBI to develop a credit bureau for the banks. MFIs could be part of this credit bureau and should be able to register and submit/receive credit information.

Mr. Abbas Saedy, General Manager, Al-Thiqa and Representative of the informal Iraqi Microfinance Network, presented the plan to establish a credit bureau in the sector. Expressing his confidence on the proposed credit bureau that would help MFIs to maintain good portfolio quality, he urged them to join and cooperate in sharing their information in a timely and transparent manner that would make the system effective. Total disclosure on clients is required to allow complete assessment on risks and opportunities associated with specific borrowers and as such MFIs should have ID cards for all their borrowers. In view of the cost involved in the process, Mr. Abbas requested each MFI to share the cost. He further suggested that an on-line information system for the bureau should be operationalized at the earliest possible opportunity for reference purposes. In case of poor internet service where some MFIs are unable to access the online database, the bureau should have an option to prepare documents on credit information and send that to the specific MFIs for reference.

While sharing their views and responding to various queries, the panelists highlighted some of the underlying challenges including lack of awareness and appropriately trained staff to handle the credit bureau operation. Another challenge noted is use of different MIS systems and possibility of reluctance to share the required information by some MFIs for reasons of

competition. Other challenges noted included, lack of trust on protecting individual privacy and client's rights, lack of clarity on the legal status and regulatory procedures, while lack of dedicated resources to manage the system might hamper the efficacy of the credit bureau. Similarly the possibility of linking the MFIs to the Banks database also requires an intensive research since the indicators, goals, product features and standards of both industries are different in many respects. The Panel also discussed the development and implementation of Blacklist model which should be shared with all MFIs. Mr. Larry SanBoeuf, Director, ICT Services, USAID-*Tijara*, announced that a new feature has been enabled for users of LPF program to directly upload their blacklist on the www.imfi.org website.

Deliberating on implementation of the Blacklist, it was noted that while the system has advantages, it is not free from shortcomings. This system only shares information on borrowers with bad credit history and does not record the details of the collaterals used by the clients. It is considered less inclusive in nature in compared to a credit bureau. As such, a full fledged credit bureau is preferred instead of merely having the Blacklist. However, to be really successful, credit bureau needs to be either government led or industry controlled and regulated by CBI from the government side. Specific advise was given to the microfinance sector that a) it should be made obligatory for all MFIs to participate, b) there should be existence of regulations to inspect and monitor the bureau and all MFIs should assure disclosure and transparency, c) MFIs to require client consent to share his/her information, d) MFIs should be willing to disclose the required information in a transparent and timely manner. In conclusion it was agreed that the strategy to establish a credit bureau for microfinance sector should be finalized and that there should be further discussions between USAID-*Tijara* and CBI before the final roll out of the desired credit bureau in Iraq.

TECHNICAL SESSION-8: MICROFINANCE FINANCIAL STANDARD REPORTING-MEASURING THE PERFORMANCE OF MFIS

Moderator: Eddy Wamushya, Microfinance Expert, USAID- *Tijara*

Speakers:

- Mahmoud Aburadaha, Financial Advisor, USAID-*Tijara*
- Shoghair Yerchanig, Senior MF Financial Analyst, USAID-*Tijara*



(From l to r), Shoghair Yerchanig, Senior Microfinance Financial Analyst, Mahmoud Aburadaha, Financial Advisor, Eddy Wamushya, Microfinance Expert, USAID- *Tijara*)

Since launch of microfinance in Iraq, the sector has adopted internationally accepted standards and best practices in its work and efforts towards poverty alleviation and in financial reporting standards implemented by all MFIs irrespective of their size, maturity and provincial locations. This particular session was devoted to updating the MFIs and other stakeholders on the recent developments in financial reporting and how that is being linked to the performance assessment of the institutions.

Mr. Eddy Wamushya, Microfinance Advisor, USAID-*Tijara*, moderated the session and after noting the objective and methodology of the session, he invited to both the speakers, Mr. Mahmoud Aburadaha, Financial Advisor and Ms. Shoghair Hagopian, Senior Microfinance Financial Analyst, USAID-*Tijara*, to make their presentations.

Mr. Mahmoud Abouradaha emphasized the importance of timely and accurate financial reporting by MFIs to ensure consistency and taking of appropriate decisions as well as providing reliable information to stakeholders including the regulators, donors & investors.



Mahmoud Aburadaha, Financial Advisor, USAID-*Tijara*

He apprised them of a few changes that have been instituted by the SEEP Network to the reporting Framework which prescribes 18 ratios as standard indicators for measurement of an MFI's performance. The revised framework focuses more on microfinance institutions rather than on micro credit organizations. Changes have been made mainly in the profitability, asset and portfolio quality ratios. The new financial ratios eliminated two, renamed one and redefined another one. He noted further that including the ratios on profitability, asset quality,

efficiency & productivity as well as liquidity, the revised Framework also has both capital adequacy and asset-liability management ratios and he encouraged the MFIs to strengthen their systems internally for an efficient and transparent reporting pattern.

Ms. Shoghair Yerchanig, Senior Microfinance Financial Analyst, USAID-*Tijara*, shared the process and analysis of the industry reporting and advised the MFIs to send their respective reports on time. Referring to the just concluded training on reporting in respect of job creation and its importance for reporting to donors, she requested their positive and timely cooperation.

In responding to queries from participants on reporting, Mr. Eddy Wamushya noted that it is important and necessary for individual MFIs and also for the sector to report monthly and quarterly to better measure and monitor the progress and performance of MFIs. He noted that the industry sectoral report has been compiled and will be shared with the larger audience on the website which is being updated accordingly. In conclusion, the forum agreed to adopt the revised reporting Framework in the sector while reporting and USAID-*Tijara* would review the possibility of organizing training on the revisions in the coming year.

TECHNICAL SESSION-9: STRATEGIC BUSINESS PLANNING: THE ROADMAP TO THE FUTURE OF OUTREACH, INSTITUTIONAL & INDUSTRY GROWTH

Moderator: Aseel Anton, Senior Program Manager, USAID-*Tijara*

Speaker: Narendra Nayak, Capacity Development Advisor, USAID-*Tijara*

Panelists:

- Rachel Hartgen, Project Coordinator, Economic Growth Portfolio, Integrated Development, LBG
- Mahmoud Aburadaha, Financial Advisor, USAID-*Tijara*
- Bashers Ali, Executive Manager, TEDC

Developing Strategic Business Plan (SBP) is considered as one of the key management functions for any MFI which is destined to pursue and promote microfinance in a sustainable manner. The process enables an institution to understand factors that are key determinants to its success in a given environment. SBP is prepared in a consultative manner by the senior management and implemented by an MFI with the approval of the Board. SBP provides a roadmap of an MFI's operations and activities designed to be implemented in the future in order to achieve its stated strategic goals and objectives which in turn facilitate achievement of the long-term vision. This technical session was utilized to deliberate on various aspects of the strategic planning process for MFIs.



In view of its importance USAID-*Tijara* organized a training program on SBP for MFIs. Also it has been facilitating them to develop their respective SBPs. With the above brief note, Ms. Aseel Anton, Senior Program Manager, USAID-*Tijara*, the moderator of the session welcomed all the participants and panelists for the session. She also requested the chief speaker to make his presentation on the topic.

(From l to r), Bashar Ali, Executive Manager, TEDC, Rachel Hartgen, Project Coordinator, LBG, Aseel Anton, Senior Program Manager, Mahmoud Aburadaha, Financial Advisor, Narendra Nayak, Capacity Development Advisor, USAID-*Tijara*

Mr. Narendra Nayak, Capacity Development Advisor, USAID-*Tijara*, gave a brief overview of the current status in the sector and encouraged MFIs to achieve greater outreach collectively in a planned and organized manner. While sharing a popular management quote "*Planning without Action is Futile*" & "*Action without Planning is Fatal*", he strongly urged all MFIs to develop their respective long-term strategic business plans with well-defined strategies and realistic financial projections to better serve the increased number of poor and vulnerable groups of clients.



Considering it as an important process in defining and implementing decisions about the MFI's future direction, growth and sustainability, he explained various steps, pre-assessments and analysis including the market, clients, products, competition etc involved in developing a SBP and advised them carry out that process critically before setting the strategies. As the primary objective of MFIs is to serve clients' needs, they should devise and adopt a customer centric and demand based approach. Also MFIs can very well utilize their existing strengths and opportunities and

Narendra Nayak, Capacity Development Advisor, USAID-*Tijara*

develop measures to deal with weaknesses and threats. Emphasizing on the need of funds for expansion and growth of microfinance, Mr. Narendra encouraged MFIs to mobilize the needed resources from various sources. Continuous negotiations with potential donors, investors, banks, etc. can be very useful in indicating possibilities of getting funding from those sources. Financial projections prepared by using *microfin* tool (MFI financial modeling/ planning tool) can help determine the funds requirements for an MFI for next five years.

Ms. Rachel Hartgen, Project Coordinator, Economic Growth Portfolio, Integrated Development, LBG, reiterated the importance of strategic businesses plans for MFIs and emphasized the setting of appropriate strategies. She explained the process on how to set strategies taking into account all the outputs generated from the environmental and institutional assessments, market analysis and expansion plan of an MFI. She assured that when done appropriately, the process would help determine the future direction, customers/ clients' base, market potential, product range and resources and it can also serve to convince donors and investors to invest their funds in the MFIs.

Mr. Mr. Mahmoud Aburadha, Financial Advisor, USAID-*Tijara*, specifically drew their attention on the role of appropriate financial planning and realistic budgeting to achieve the desired outreach, impacts and sustainability in the program. While explaining various steps for budgeting he also advised them to further strengthen their capability to prepare, review and up-date the budget and SBP within the organization.

Mr. Bashar Ali, Executive Manager, TEDC-MFI, shared the experience gained by his organization while developing its SBP with the guidance and support from USAID-*Tijara*.. He noted that it is a consultative team work, and suggested that MFIs should have adequate deliberations & analysis on both internal and external factors before strategizing and making their decisions on meeting the clients' demand in the market.

Queries raised by the participants on the process of SBP and its advantages to raise resources for institutions were jointly responded by the panelists on the dais. In view of its importance and the request made by MFIs, it was tentatively agreed to have a training program on business plan along with providing them technical supports for developing their respective SBPs. Having completed the document, MFIs may explore resource supports from different donors and investors for microfinance during the remaining project life and beyond *Tijara*. As experienced, microfinance investors and donors do look for MFIs business plan that clearly articulate its strategy and goals.

TECHNICAL SESSION-10: DEMAND-DRIVEN PRODUCTS & COLLATERALS: INNOVATIONS IN IRAQI MICROFINANCE SECTOR

Moderator: Arafat Dajani, Chief of Party, Relief International

Speakers:

- *Ali Tariq, Microfinance Program Manager, USAID-Tijara*
- *Max R. Zaccar, Chairman Commercial Micro-Insurance*
- *Bashar Ali, Executive Manager, TEDC*

Of late microfinance has undergone several innovations and product innovation has been one area in which it witnessed significant improvements. It is proved that MFIs can better cover and serve economically and socially excluded clients including women through

bringing innovations in their products and in services delivery mechanisms. The microfinance sector in Iraq is relatively new in the region. Having passed through the initial difficult period of establishing their programs in the country, the MFIs have started experimenting with diverse range of financial products. The process, however, needs to be strengthened further in order to reach out to the huge numbers of potential clients still excluded from the finance sector. In view of that, this session was devoted mainly to deliberate on various demand driven products and collateral systems.



Mr. Arafat Dajani, Chief of Party, Relief International, moderated the session. He introduced the topic and invited the speakers, panelists and also the participants to discuss the subject. The deliberations focused mainly on the alternative collaterals, micro-insurance and development of a demand driven and client- specific products such as agricultural loans.

(From l to r), Bashar Ali, Executive Manager, TEDC, Ali Tariq, Microfinance Program Manager, USAID-*Tijara* Mr. Arafat Dajani, Chief of Party, Relief International

Mr. Ali Tariq, Microfinance Program Manager, USAID-*Tijara*, shared the findings of the study on alternative collateral systems. Referring to the report he said that nearly 80% of MFIs operating in Iraq still use the traditional collateral systems, primarily government employees as guarantors for clients' loans. Generally there is a limited access as many of the poor clients do not have relationship with government officials and that is a major constraint for them in their plans to access loans for their small businesses. This problem, he said, can be solved by introducing a few alternative collaterals including the solidarity group lending (SGL) methodology, community leaders, promissory notes, asset leasing, mortgage promise, signature witness, *Murabaha*-principled lending, etc. Such introduction of alternative collateral systems would help a) diversify collateral source and decrease risk to the MFI, b) increase outreach by expanding to new groups, c) reduce loan applications rejection rate d) achieve borrower satisfaction. He then informed of the positive results on the pilot initiatives in two MFIs and encouraged them to be more creative in facilitating borrowers' access to finance by offering such alternative and innovative collaterals.



Max R. Zaccar, Chairman Commercial Micro-Insurance

Mr. Max R. Zaccar, Chairman Commercial Micro-Insurance, made his presentation on the need and relevance of micro insurance for poor clients. He explained that it would be an important part of microfinance package of services and encouraged MFIs to plan on offering the product in close collaboration with mainstream insurance companies/ agencies. Some of its key advantages are demonstrated in the fact that it reduces the risk of self-insurance and helps MFIs develop client loyalty and

good portfolio quality. Moreover, the guarantors are encouraged to guarantee borrowers when they are insured. He also highlighted the key characteristics of a good micro-insurance product/ service such as, a) it should be simple and easy for the loan officer, borrower and the guarantor since they will need to understand and sign on it b) the compensation should be quick and require simple documentation c) there should be consistent declaration from the MFI about its outstanding portfolio on monthly or quarterly basis and d) the MFI should send a claim letter with the client's death certificate to the company stating the cause of death in order to be compensated.

Mr. Zaccar also narrated cases of successful collaborations with some MFIs and urged all Iraqi MFIs to give a serious consideration to micro insurance services and work with his company in offering service to clients in a mutually beneficial manner.

Mr. Bashar Ali, Executive Manager, TEDC, shared the experience of his organization on the process of developing a demand-driven agriculture product. He explained that based on a market study focusing mainly on small and marginal farmers, TEDC developed a client-specific *Agri* Product and launched it in the target market. With its improved features and collaterals, the new product helped clients to get loans on time and complete their agricultural activities by availing the loans as per their needs. The increased demand for the product also resulted in positive growth of the clientele and portfolio for the MFI.

However, liquidity to meet the increased loan demand was a challenge. The provision of the new product as an alternative collateral system of guarantee from the locally known individuals and farmer's association could very well be substituted for government employees guarantees as required before. Mr. Bashar encouraged other MFIs to develop such innovative products while planning for scaling-up in order to better serve clients and thereby to create greater impact on the lives and livelihoods of poor clients through microfinance.

The representative from Al-Aman shared their experience in signing an agreement with the National Insurance Company in Iraq which agreed to provide credit insurance and life insurance for the microfinance clients.

In concluding the session, it was agreed that MFIs would continue to adopt innovative products and services including micro insurance and offer such services to clients. On implementing alternative collaterals, it was suggested that MFIs should select at least one or two most practical collaterals and incorporated them in their loan services to their respective clients.

THE WAY FORWARD: USAID-TIJARA 2012 PLAN FOR AN INCLUSIVE FINANCIAL SECTOR IN IRAQ

Discussion:

- *Donal Cotter, COP, USAID-Tijara*
- *Muhammad Junaid, Team Leader, SMFC ,USAID-Tijara*

Closing Remarks:

- *Ali Al-Hussainy, COTR, USAID-Tijara, Provincial Economic Growth Program, USAID/Iraq*

The last session of day-2 was utilized to sum up the deliberations and sharing of USAID-Tijara's broad plan for 2012. Mr. Donald Cotter, COP, USAID-Tijara, invited the chief guest of the concluding session, Mr. Ali Al-Hussainy, USAID/Iraq and COTR, USAID-Tijara, Provincial Economic Growth Program for the valedictory session. He also invited Mr. Muhammad Junaid, Team Leader, SMFC and requested him to present the conference summary.

Mr. Junaid thanked all the distinguished guests, Stakeholders, Speakers, MFIs and other institutions and individuals who contributed positively to make the microfinance conference a great success. He also expressed his appreciation in the way all the technical sessions were conducted and issues deliberated and tentative solutions proposed for improvement in each area. He assured the forum that concerted efforts would be made to carry out follow up actions on the various recommendations. He then presented the five priority areas which USAID-Tijara will work on in a coordinated manner with its partner MFIs and other key stakeholders in the country during the year 2012. He noted that the five priority areas were drawn up based on recommendations made by USAID-Iraq Mission Director and informed that they would be embedded with the Sector Development Strategy of USAID-Tijara for implementation to achieve the desired results. He noted the five priority areas as follows:

PRIORITY-1: CORPORATE GOVERNANCE

- Continued training and on-site inputs for BOD on corporate governance, risk management, and strategic planning
- Active participation and strategic leadership by Board of Directors (BOD)
- Evaluation of Board performance
- Re-iterating Board member roles and responsibilities
- Active BOD nominated committees
- Active BOD involvement in MFI strategic planning
- Vigorously enforce Code of Ethics and Conduct and Client Protection principles
- USAID-Tijara grants program continues to be linked to effective corporate governance of institutions seeking its support.

PRIORITY-2: STRENGTHENING IRAQI MICROFINANCE NETWORK (IMFN)

Achievements so far:

- By-laws have been drafted
- Board has been elected

Next steps:

- Register the Network with NGO Directorate
- Conduct regular Board meetings
- Recruit the management team
- Develop capacity building and sustainability plan for the Network
- Transition plan for transfer of web-portal and other assets

PRIORITY-3: INNOVATION IN PRODUCTS & PROCESSES

- Grants and institutional capacity building to deliver demand-driven loan and non-credit products for the poor, youth and vulnerable groups
- Transparency and innovation initiatives
- Enhancing the industry profile on MIX Market and further upgrading reporting requirements
- Focus on audits and ratings
- Upgraded blacklisting program
- Coordinated industry participation in CBI credit bureau initiatives
- Continued implementation of the Sharia-compliant loan products as well as documenting experiences

PRIORITY-4: REGULATORY REFORMS

- Continued interaction with GOI (NGO Directorate), CBI and other stakeholders to develop a joint regulatory oversight framework
- Support for attending the international events on legal and regulatory reform
- Work with CBI on the implementation and further improvement of the relevant MSME companies ordinance
- Periodic meetings to facilitate joint supervision of the sector

PRIORITY-5: CONTINUED DIALOGUES AMONG STAKEHOLDERS

- Further regularize consultations among NGO Directorate, CBI, USAID/Iraq USAID-*Tijara* and others
- Coordinated dialogue with other Donors, Investors and Stakeholders
- Conferences, workshops, and exposure trips on relevant topics
- New and updated publications including the State of Iraq's Microfinance Industry Report



Mr. Ali Al-Hussainy, USAID/Iraq and COTR, USAID-*Tijara* Provincial Economic Growth Program, in his closing remarks thanked all the dignitaries and delegates for their presence and contributions provided during the conference. He also commended the collective efforts made by all the MFIs and the stakeholders for the impressive growth of the microfinance sector in Iraq. Furthermore, he appreciated very much the support provided by

Mr. Ali Al-Hussainy, USAID/Iraq and COTR ,USAID-*Tijara*, Provincial Economic Growth Program

KRG & Government of Iraq including the Central Bank and NGO Directorate in this regard. He also acknowledged the great contributions made by USAID-*Tijara* team in developing a sustainable microfinance sector in the country. Referring to the five key priority areas as suggested by the Deputy Mission Director of USAID/Iraq, he solicited active cooperation from all stakeholders and advised them to work collaboratively to materialize that for the greater benefits of the poor and vulnerable groups of clients in Iraqi microfinance sector.

At the end Mr. Donal Cotter, COP, USAID-*Tijara*, thanked one and all and declared the Microfinance Industry Conference 2011 closed. This was the formal end of the conference

OTHER SMALL EVENTS

Events before and during the conference also included (a) Reception to the Conference Delegates in the evening of October 2, 2011 at Erbil International Hotel and (b) Iraqi Microfinance Award Ceremony'2011 for the MFIs on October 3, 2011 in the same venue.

IRAQI MICROFINANCE AWARD CEREMONY-2011:

Although originally planned to have the award ceremony during the conference, this was later moved to and held over a dinner at Erbil International Hotel. Altogether six MFIs were awarded in recognition of their excellent performance in five thematic areas such as Transparency in Financial Management and Operations, Effective Corporate Governance, Innovative Products, Financial Services to the Vulnerable Groups and Collaborative Efforts. These awards were given away by Mr. Ali Al-Hussainy, USAID/Iraq and COTR ,USAID-*Tijara*, to the following MFIs

1. **Al Bashaer & Al-Thiqa:** For achieving higher transparency standards and adoption of CGAP disclosure guidelines in their respective microfinance operations
2. **Al-Takadum** Organization in Anbar : For ensuring effective corporate governance and collective leadership in the management of the MFI
3. **Izdiharona-**For its leadership in innovating demand-driven products: insurance services
4. **Amalkom:** For its impressive achievements in offering Quality Financial Services to the Poor and Vulnerable Groups in Iraq
5. **Bright Future Foundation:** For its effective collaboration to organize MFC, 2011

MICROFINANCE INSTITUTIONS IN IRAQ

