USAID-*TIJARA* PROVINCIAL ECONOMIC GROWTH PROGRAM

CHF–ACSI/AMLKOM ASSESSMENT REPORT

(February 2012)

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ACRONYMS

ACSI	Access to Credit Services Initiative
CGAP	Consultative Group to Assist the Poor
CHF	Cooperative Housing Foundation
COP	Chief of Party
CPA	Coalition Provincial Authority
FSS	Financial Self-Sufficiency
HR	Human Resources
ICAP	Iraqi Community Action Program
ICT	Information and Communications Technologies
IYI	Iraqi Youth Initiative
LLC	Limited Liability Company
MENA	Middle East and North Africa
MFI	Microfinance Institution
MIX Market	Microfinance Information eXchange Market
MOLSA	Iraqi Ministry of Labor and Social Affairs
NBFI	Non Bank Financial Institution
NGO	Non Governmental Organization
OSS	Operational Self- Sufficiency
PAR	Portfolio at Risk
PC	Personal Computer
PEG	Provincial Economic Growth program
SBDC	Small Business Development Center
SGL	Solidarity Group Lending
SME	Small and Medium scale Enterprises

SMFC	Sustainable Microfinance Component
USAID	United States Agency for International Development
YEAF	Young Entrepreneurs' Access to Finance

EXECUTIVE SUMMARY

Cooperative Housing Foundation (CHF) International in Iraq was the first MFI operating under the auspices of international standards of best practices. It started the first microfinance program based on best practice standards called the Access to Credit Services Initiative (ACSI) in July 2003. Its affiliate spinoff NGO, Amalkom Microfinance Institution for Economic Development ("Amalkom" in English means *our hope*), was created primarily for the purpose of receiving USAID-*Tijara's* grant of $3.5 million in 2009. Hereinafter, the two organizations are called "the consortium". Both members have pending re-registrations as non-governmental organizations (NGOs) with the NGO Directorate of the General Secretary of Cabinet Ministers.

CHF International was originally established in the U.S. as the Foundation for Cooperative Housing (FCH) in 1952. Its original purpose was and still is to help low- and moderate-income families to achieve improved economic standing and quality of life through the construction of affordable housing. In the 1960s, its first overseas programs were focused on housing microfinance in Central America, at which time the name was changed to the Cooperative Housing Foundation (CHF).

CHF International operates in 25 countries worldwide in a variety of socio-economic development areas including promoting democratic principles to build, strengthen and promote change within local institutions, and communities and shape policy decisions that recognize and support the most vulnerable world populations. It has also expanded to housing microfinance, consistent with its name and U.S. programmatic origins. Other additional areas of focus include disaster relief, environmental management, infrastructure rehabilitation, economic development, civil society development, and post-conflict response.

The goal of all CHF programs in Iraq initially, from the CPA's perspective as the original funder, was to 'get money in the streets'. The CPA made an original allocation of $20 million to CHF for this purpose. Microfinance principles such as sustainability and repayment rate were not stressed at that time. CHF then launched operations in Najaf and Karbala as these were strategic areas for the CPA. CHF signed its grant agreement on July 29, 2003. On the following August 27th, CHF-ACSI disbursed its first loans in Najaf, and on September 10th disbursed its first loan in Karbala. In November 2003, CHF received a grant award from the CPA to operate in Baghdad; and so opened an office there in December 2003. In January 2004, CHF submitted an application to the CPA's Baghdad office to implement housing microfinance. Later that year, it was awarded a contract to pilot that product and disbursed its first housing loan in fall 2004.

Since that time, the consortium serves financial needs of low income and impoverished populations in perpetually security-challenged, dangerous environments. It is the largest MFI consortium in the country, with a network of 13 branch offices in 11 governorates across Iraq in Baghdad, Basra, Diwaniyah, Sulaimaniya, Hillah, Karbala, Kut, Najaf, Nassriya, Samawa, and now Erbil. The consortium also has a competitive but declining advantage over other microfinance institutions in Iraq. It has a market share of outstanding portfolio value and active clients of 39 percent and 31 percent respectively as of end April 2011. This market share, though, is a significant decline from 2008 when it was 57 and 56 percent respectively.

The *purpose* of all operational assessments conducted is to provide MFI partners a USAID-*Tijara* rating perspective by which they can then apply to others to seek additional capital for greater sustainability and expansion. The assessment can help the subject MFI attract and acquire funding to support the expansion of its operations to meet the large unmet demand that remains to be satisfied in poor households for quality and inclusive financial services. The assessments also serve to provide guidance to the subject MFIs to improve their institutional performance and sustainability as well as to achieve higher levels of growth in outreach.

The senior management of CHF International welcomed this assessment in the context of its purpose. The management also accepted without question our terms of reference, where it clearly states in Section 3.2 that the MFI on which the assessment is made shall make available to the USAID-*Tijara* assessment team all relevant documents requested and access to any staff without precondition.

According to the “CHF Strategic Business Plan” of June 2009 and the “Amalkom Credit Policies and Procedures Manual” of March 2011 the following are the consortium’s *vision* and mission:

- **Vision**: to become a world-class, bank-like, microfinance institution that leverages its capital and is the leading provider of financial services to its target clientele in Iraq.
- **Mission**: to contribute to the overall economic revitalization of Iraq by helping male and female business owners, and salaried home owners, to strengthen and expand their businesses, stabilize their incomes, and improve their habitat and quality of life. Additional to this for Amalkom is to contribute to the overall socioeconomic development in Iraq, by training, guiding and financing male and female business owners of small and micro enterprises to expand and develop their businesses, in addition to creating new job opportunities.

Cumulatively since starting its operations eight years ago in July 2003, the consortium has disbursed almost 120,000 loans valued at more than $307.1 million. It has 24,505 clients, with $44.7 million outstanding in loans. Over a three-year period, the CHF-ACSI/Amalkom portfolio value has grown by 190 percent while the number of active clients has grown by only 38 percent. It has 12 branches operating in ten governorates. CHF-ACSI/Amalkom is operationally self-sufficient at 183 percent and financially self-sufficient at 150 percent compared to performance of the whole of the Iraq microfinance industry which stands at 191 and 139 percent respectively.

1. OVERVIEW

1.1. ASSESSMENT GOAL

The goal of the operational assessment is to determine CHF-ACSI/Amalkom's (the consortium's) institutional performance and determine its prospects for the future while also recommending how it can perform even better. The Iraq microfinance industry and its constituent MFIs will need to collectively perform much better at all levels of management, operations, governance and especially outreach to the poor in order to mobilize the resources necessary to massively scale up its capacity to meet the large demand and expectations of over one million impoverished Iraqi households for quality, inclusive financial services. All elements, therefore, of the MFI are assessed to determine its current and future institutional fitness to meet the goal of ever greater financial sector inclusiveness.

The results and recommendations of the assessment will support the consortium in its efforts to grow and scale up its operations. The report also informs USAID-*Tijara* on the steps it should take to improve its assistance to the Iraqi microfinance industry at the macro, meso and micro levels. These collective efforts have the objective of transforming the entire industry to one of ever greater inclusiveness, particularly for such vulnerable groups as youth, the poor and women, and integrating it into the formal financial sector.

The assessment team reviews and makes recommendations upon such institutional features as infrastructure, governance, management, client satisfaction, credit operations (Loan Officer and branch performance, and delinquency management), human resources, financial management, systems and trends. The institution is then given a quantitative grade. A set of recommendations is listed at the end of this report and these have been presented to and discussed with the Amalkom Board of Directors and consortium management while finalizing this report.

The consortium is appraised at a grade of **<u>84 percent</u>**, i.e. a score of **168** out of a possible total of 200 (see **Annex 1**, **"Operational Assessment Scorecard"**).

1.2. ASSESSMENT PLAN AND TEAM COMPOSITION

A USAID-Tijara Sustainable Microfinance Component (SMFC) team deployed to obtain data and information across Southern Iraq (Basrah, Najaf and the in-country Headquarters in Hilla) as well as the Sulaymaniyah Province, Baghdad and the Home Office in Beirut. A desk review was done by the USAID-Tijara operational assessment team during all phases (see Annex 3; "Background Documents Reviewed"). Interviews at all of these locations were held with management, staff, including Loan Officers and clients. At least 23 staff and 47 clients in total were interviewed. Follow-up, clarifying questions were then posed by email to the senior management in the Home office.

Members of the team included:

- C. Ross Croulet, Senior MF Advisor: Assessment leader, advisor, report writer, researcher and interviewer of senior management and branch staff in Baghdad and in the Home Office.
- Aseel Anton, Senior Microfinance Program Manager: Interviewer of staff and clients in the Sulaymaniyah Province; specifically Halabja and Said Sadiq.

- Salam Salman, Senior MF Accountant Specialist: Assessor and analyst of accounting and financial management systems, with backstopping from Eddy Wamushya.
- Shoghair Yerchanig
- Ali Tariq, Program Manager: Field office researcher and interviewer, particularly for the Baghdad and Basrah field office operations.
- Muhammed Haleem, MFI Program Coordinator. Field interviewer and researcher with clients and staff, particularly for the Headquarters and Najaf field office operations. He also interviewed by telephone select members of the Amalkom Board of Directors.
- Mahmoud Aburadaha, Microfinance Finance Advisor: Assisted in the financial analysis as well as comparing figures provided by the consortium through the performance monitoring tracking (PMT) system.
- Narendra Nayak, Capacity Building Specialist. Assisted with drafting narratives for the extensive amount of financial data available for this assessment.

1.3. ASSESSMENT CALENDAR 2011 AND VENUES

The assessment process included interviews with various members of Management and staff and and also clients and review of critical documents at various venues which included Baghdad at the USAID-*Tijara* Business Center as well as at the CHF offices. Additionally the interviews included staff and clients in the Headquarters and in Basrah, Najaf and Sulaymaniyah Provinces, and with senior management in the Home Office. At least 23 staff and 47 clients were interviewed. The calendar of the assessment process was as follows:

23 February:	Presentation of the terms of reference to CHF management, requesting any questions or comments, particularly on providing any and all documents and access to any staff members, but kept in confidence.
07 March:	Interview of CHF-ACSI/Amalkom Management at the Headquarters and in Baghdad.
03 to 04 April:	Field visit to Najaf to interview staff and clients.
05 to 06 April:	Field visit to the CHF-ACSI/Amalkom Headquarters to interview staff and clients.
13 April:	CHF senior managers full day interviews.
17 April:	Field visit to review the CHF operations in Sulaymaniyah, Halabja and Said Sadiq.
21 April:	Interview of the Business Coordinator and three clients during the “Doing Business” seminar at the Babil Conference Center.
03 May:	Field visit to the Basrah branch office to interview staff and clients.
17 to 18 May:	Home Office visit to interview two senior managers plus seven component managers
Through June:	Further research, questions and report write-up.

2. GOVERNANCE

2.1. BOARD STRUCTURE

Effective governance of any MFI, especially in the region or country where its operations are located, is an important element for its institutional existence through sustainable operations to ensure a sound future. Governance through an effective board of directors helps assure ownership and continuity of an MFI's vision and mission as well as provide checks-and-balances in overseeing the Chief Executive and Management thereby assuring that fiduciary responsibilities are fulfilled. Furthermore, an effective board also ensures that it promotes the MFI among the national authorities and government institutions.

There is a charter for CHF International, both in Arabic and in English, likely used when the MFI registered as an NGO through the NGO Directorate in 2005. Therein, all members are labeled as "trustees" and associate members. All are U.S. located. According to this charter, the governance is composed of three classes of members:

- Board of Trustees,
- Trustees Emeriti,
- Associate members.

The Board of Trustees oversees the latter two bodies. Key characteristics listed in the charter relevant to the governance of the consortium include:

- Governance is "the sole responsibility of the Board of Trustees" (Section 1.5).
- The governing Board of Trustees only meets once a year in September (Section 5.5)
- There are six standing committees of the Board (Section 6): Executive, Audit, Compensation, Development, Finance and Nominating
- No member of the latter two bodies, according to the charter, can vote on any matter.

The following lists the Board of Trustees and Board of Trustees Emeriti members, all assumed to be U.S.-based with four of the nine members female, as found on the CHF International website (no list of Associate Members was available):

1. Board of Trustees

Name	Position on the Board	Position and Employer
Gorden E. Lindquist	Chair	President & CEO (retired), Mutual Service Insurance Companies
Robert A. Mosbacher, Jr.	Vice Chair	Chairman, Mosbacher Energy Company; Former President & CEO, Overseas Private Investment Corporation
David A. Weiss	Member	President & CEO, CHF International
Lauri Fitz-Pegado (F)	Secretary	Partner, The Livingston Group

Amy L. Margerum (F)	Treasurer	Executive V.P. of Operations, the Aspen Institute
Caroline Blakely (F)	Member	HCD Risk Management Group, Fannie Mae
Jane P. Madden (F)	Member	Senior Vice President, CSR and Sustainability, Edelman
Harry C. McPherson	Member	Senior Counsel, DLA Piper US LLP
Wayne R.C. Thompson	Member	V.P. of Business Development, Middle East, GoodWorks International, LLC

2. Board of Trustees Emeriti

Name	Position on the Board	Position and Employer
Samuel E. Bunker	Member	Philippine American Foundation
Don H. McCreary	Member	President & CEO (retired), California Community Housing Management Services
Gordon Cavanaugh, Esq.	Member	Attorney

3. Amalkom Board of Directors

The Amalkom Board of Directors in Iraq consists of eight members including one female, all of whom are CHF employees. It appears that the Board was established in order to register Amalkom and set it up to acquire $3.5 million in USAID-*Tijara* grant funding. It was noted that the Board does not follow the normal protocol for a governing board, i.e. having an agenda, minutes from the prior meeting read and approved, and decision on when and where the next meeting would be held. It is important for the Board to follow accepted protocol of a governing board and ensure effectiveness and transparency on its oversight role. The Board comprises of the following members.

Name	Location	Position (All Employed by CHF/ACSI)	Education Level	Months on Board (to May 2011)
Muhammed Abdulellah	Najaf	Senior Field Coordinator & Chief Branch Manager	BS, Veterinary Medicine	27
Muhammed Bachachi	Najaf	Portfolio department	MBA, Civil Engineering	27
Sinan Adnan	Hilla HQ	Finance Department	BS, Computer Science	27
Shakir Mahmood	Hilla HQ	Deputy IT Manager	BS, Computer Science	27
Enas Qahtan	Hilla HQ	Senior Treasurer	BA, English	27

Hamead (Female)			Literature	
Muhammed Baqir	Najaf	Legal	BA, Law	27
Adil Hatif	Najaf	Field Coordinator	BA, History	12
Hayder Nabeal	Hilla HQ	Chief Branch Manager	BS, Biology	12

2.2. GOVERNANCE AND FUTURE PLANS

CHF International has been intending to register a non-bank financial institution (NBFI) in Iraq to ensure its growth and capability for long term provision of inclusive financial services. However, at the Stakeholders Conference held in Erbil in October 2011, the Central Bank of Iraq (CBI) and the NGO Directorate made a categorical clarification that, under the current legal framework, assets and capital of NGO MFIs can not be transferred to a for-profit company registered for that purpose either as a limited liability company (LLC) or as a joint stock company (JSC). Therefore, the idea of registering NBFI to take over the NGO MFI operations is now not an option and CHF will need to develop an alternative growth plan.

It is important for the consortium to have good governance function that follows the basic standards of best practice in terms of independence and effective oversight of management and of all operations while also maintaining a long-term, strategic view of the entity as well as assuring fiduciary integrity of its assets ($45 million). The steps recommended in this process include:

- Defining a terms of reference for the existing Amalkom Board of Directors. This is important because the independence of the governing Board of Directors from management control is fundamental to the effective operation of existing and future organizational configurations. An independent governing Board of Directors would have the valuable capability to exercise the checks and balances required for effective oversight of the management and operations in governing an emerging financial institution.
- Defining the Board's responsibilities in discharging its management oversight and fiduciary role, including having and working with a robust internal audit function recruited by and reporting to the Board Audit committee.
- Creating a board selection committee to choose members other than CHF employees. Selection committee members should include CHF and Amalkom senior management, as well as USAID/Iraq, and USAID-*Tijara* to ensure selection of a board that will exercise good governance and best practice standards of oversight.
- Key criteria the selection committee would use in nominating Board members include, among others: professional status and qualifications, morality, and commitment to the mission, ideals and voluntary nature of membership. For non-Iraqis to be recruited, they would have to be legally resident in the country in accordance with relevant laws. Reimbursement of reasonable travel, lodging and subsistence costs should be covered.
- Thorough review and revisions of the Charter by the newly constituted Board, and also of policy, especially to assure that each is harmonious in its provisions with the other.
- Assuring that Board protocols are met such as the regularity of meetings, issuing agendas and minutes from previous meetings well ahead of future ones, actual meeting and review, discussion and decision on order of business, and assuring the existence of a full-time Board secretariat to manage the board's work including keeping of agendas and minutes of meetings.

2.3 FUNDING RECEIVED

The consortium has enjoyed funding both to support operations and invest into loan capital. A total of $42,809,893 has been awarded to the consortium to date, 77 percent of which was for loan capital, and the rest to subsidize operational costs.

Funding for Loan Capital, Operational Expenses & Technical Assistance to 2011

#	Source	Amount (U.S. $)	Grant Usage/Distribution
1	CPA	27,317,281	$20,835,161 loan capital, $6,482,120 operations
2	USAID- *Izdihar* Grant	6,707,865	$3,500,000 loan capital, $3,207,865 operations
3	USAID- *Tijara*	3,500,000	Loan capital; created Amalkom to finance solidarity group loans primarily
4	QRF	100,000	Loan capital
5	DfID	2,184,747	Loan capital
6	UNIDO	1,000,000	$950,000 loan capital, $50,000 operations
7	UNOPS	2,000,000	Loan capital; provide 350 SME loans in Babil, Missan, Dhi Qar, Basra and Sulaymaniyah Provinces
	Total	**42,809,893**	$33,069,908 loan capital; $9,739,985 operations

The total assets of the CHF/Amalkom consortium are $45.1 million as of end 2010. This is only $2.3 million more than the combined amount of resources the consortium has actually received.

2.4 MANAGEMENT STRUCTURE – HEADQUARTERS AND BRANCHES

The management structure of the largest MFI consortium operating in Iraq is necessarily comprehensive and includes both CHF International and its ACSI project, and the Iraqi NGO spinoff, Amalkom, and oversees operations throughout Southern Iraq as well as Baghdad, Erbil and Sulaymaniyah Provinces.

CHF-ACSI has a network of thirteen branch offices across twelve governorates plus a head office. Amalkom operates from eight locations all in the south of Iraq. The organization charts for CHF-ACSI and Amalkom (**see Annex 2)** denote a complex structure of reporting and advisory relationships, as well as geographical dispersions among key consortium member institutions.

2.5 BOARD OF DIRECTORS AND TECHNICAL ASSISTANCE

The consortium has two levels of governance. According to the CHF website, one is exclusively U.S.-based, the Office of Development Finance (ODF) for CHF International based in Silver Spring, Maryland (near Washington, DC) in the U.S. (see below). This one was constituted in 2005 for the purposes of registering CHF International as an Iraqi NGO. The other is an eight-person Board of Directors, made up entirely of CHF staff, based in Hilla, Babil Province for Amalkom. The latter Board was established for the purposes of fulfilling the USAID-*Tijara* requirement to register with the Iraqi Government a national NGO partner which would then qualify to receive a grant of $3.5 million. The NGO was registered and received the grant from *Tijara* and commenced operations in 2010. As noted under item 1 (iii) above it is necessary for the Amalkom Board to follow accepted governance protocol and ensure effectiveness and transparency on its oversight role.

2.5.1 AGREEMENT FOR TECHNICAL ASSISTANCE BETWEEN CHF INTERNATIONAL AND AMALKOM

A management agreement exists between CHF International and the Amalkom institution through the Board of Directors. The agreement outlines the terms by which CHF is to establish all Amalkom policies, procedures and products. Initial Amalkom employees were recruited and trained by CHF. CHF manages all Amalkom loan capital, disbursements and repayments. Amalkom has the advantage of working through CHF-ACSI's existing branch structure and systems, which lower establishment and operating costs for the new institution. In exchange for the services provided by CHF, Amalkom pays a monthly fee of $25,000.

3. MANAGEMENT OF OPERATIONS

3.1 MANAGEMENT COVERAGE

The management of the CHF-ACSI/Amalkom consortium has grown in rendering financial services covering most of Iraq. Focused initially in Southern Iraq, the consortium is progressively expanding its operations into the KRG areas, specifically in Erbil and Sulaymaniyah Provinces and also in Baghdad. The organizational charts for the two consortium entities are distinct (**see Annex 2**).

3.2 CLIENTS AND MARKETS

The population in the areas served by the consortium is estimated to be 20 million[1]. There are estimated to be over two million SMEs registered with a variety of ministries, of which 400,000 are in the consortium's sphere of service. It is further estimated that up to one million are impoverished single and widowed women heads of households, internally displaced and members of vulnerable groups. An additional 400,000 SMEs operate in the areas of coverage. Therefore, there is ample opportunity for all MFI partners in the Iraqi microfinance industry to have more than enough demand to sustain operations and growth for years to come without suffering intense competition from one another.

3.3 CLIENT OUTREACH AND GROWTH

The growth in active clients and portfolio comparing end 2009 to end 2010, and end 2010 through the first four months of 2011 is as follows:

CHF & Amalkom Consortium Portfolio Growth		December 2009	December 2010	Growth % December 2009 - December 2010	April 2011	Growth % Dec 2010 - April 2011
Outstanding	$	33,127,343	43,381,208	31%	44,707,949	3% (9% annualized)
	#	19,223	23,590	23%	24,505	4% (12% annualized)
Average Outstanding Loan per Client	$	1,723	1,999*	16%	1,987*	- < 1% - < 3% annualized

* Weighted average of CHF-ACSI and Amalkom average loan sizes

[1] A May 2009 article from IRIN News (a project of the U.N. Office for the Coordination of Humanitarian Affairs; www.irinnews.org/Report.aspx?ReportId=84526) cites Iraqi Government statistics which report that 20% to 25% of the 27 million of the national population live below the poverty line of $2.20 per day.

The cumulative increase in outstanding portfolio from December 2009 through April 2011 was $11,580,606 versus an increment of funds allocated in the form of grants for the same period of $$5,550,456, or a recapitalization-asset mobilization rate into loans of **2.08 times**. The consortium, even as the largest in Iraq, is only serving a small percentage of the massive potential, particularly in the south where levels of poverty and population are higher than central and northern parts of the country.

The following are factors identified by the consortium management team as factors impacting client outreach and the reasons for a decreasing share of the microfinance loan market:

- The critical mass of the consortium already having 39 percent of market share among all twelve MFI partners of USAID-*Tijara*.
- The competition from governmental and private commercial banks which lend at eight and eleven percent per annum respectively compared to 12 percent charged by the consortium.
- Government lending programs that do not charge interest such as the agricultural bank and the Ministry of Labor and Social Affairs (MOLSA).
- Consequent inactivity due to security situation negatively impacting disbursement and or repayment their loans.
- There is increasing competition from other MFI partners in the areas in which the consortium operates. In the Southern Iraq areas, these include Relief International and Izdiharouna; in Erbil and Sulaymaniyah are Al-Thiqa, Relief International and Bright Future Foundation; and in Baghdad are Al-Thiqa and Al-Bashaer.

Amalkom has the highest percentage of female clients of any of the 12 MFI partners at 36 percent. CHF-ACSI itself, without Amalkom, has only 15 percent women clients. The high percentage of women for Amalkom is due to the fact that 80 percent of its portfolio is in solidarity group lending, the methodology that facilitates loans that are much more inclusive for and accessible to the women.

Loans by sector for the consortium are fairly balanced: 25 percent services; 57 percent trade; nine percent home improvement; five percent production; and one percent agribusiness. It is recommended, however, that given the high proportion of agricultural activities that exist in Southern Iraq that the consortium considers increasing the proportion of its own lending to this sector.

3.4 GEOGRAPHIC COVERAGE

CHF-ACSI and Amalkom MFI-NGO Loan Portfolios by Province (In U.S. Dollars; As of End April 2011)

Province	CHF-ACSI				Amalkom			
	Since Inception		Outstanding and Active		Since Inception		Outstanding and Active	
	Value ($)	Clients	Value ($)	Clients	Value ($)	Clients	Value ($)	Clients
Baghdad	45,148,542	18,661	6,713,302	3,225	153,700	20	148,600	20
Basrah	61,249,691	21,375	8,424,310	4,216	-	-	-	-
Diwaniyah	23,024,080	6,900	3,613,756	1,412	1,259,300	1,383	475,829	927
Sulaymani -yah	1,906,400	833	382,132	271	-	-	-	-
Hilla	39,466,990	13,851	5,381,593	2,320	1,720,400	1,791	617,442	1,220
Wasit	16,123,280	6,353	2,671,830	1,670	-	-	-	-
Karbala	43,353,849	17,161	4,482,743	2,291	1,358,300	1,425	492,988	896
Najaf	40,277,072	13,743	5,138,793	2,059	1,866,800	1,927	580,047	1,107
Dhi Qar	17,569,300	6,647	2,675,924	1,362	337,200	49	303,867	49
Muthanna	19,031,749	7,683	2,547,744	1,444	49,000	14	48,974	14
Erbil	-	-	-	-	10,200	2	8,075	2
TOTALS	**$307,150,953**	**113,207**	**$42,032,127**	**20,270**	**$6,754,900**	**6,611**	**$2,675,822**	**4,235**

Province	Combined: CHF-ACSI & Amalkom in U.S. Dollars as of End April 2011			
	Since Inception		Outstanding and Active	
	Value ($)	Clients	Value ($)	Clients
Baghdad	$45,302,242	18,681	$6,861,902	3,245
Basrah	61,249,691	21,375	8,424,310	4,216
Diwaniyah	24,253,486	8,283	4,089,585	2,339
Sulaymaniyah	1,906,400	833	382,132	271
Hilla	41,187,390	15,642	5,999,035	3,540
Wasit	16,123,280	6,353	2,671,830	1,670

Karbala	44,712,149	18,586	4,975,731	3,187
Najaf	42,143,872	15,670	5,718,840	3,166
Dhi Qar	17,906,500	6,696	2,979,791	1,411
Muthanna	19,080,749	7,697	2,596,718	1,458
Erbil	10,200	2	8,075	2
TOTALS	**$313,905,853**	**119,818**	**$44,707,949**	**24,505**

3.5 COMPETITION AND PRODUCT DEVELOPMENT

Competition for the consortium has increased since May 2008. One result of this is a declining market share for the consortium both in outstanding portfolio value and active clients from 57 and 56 percent in May 2008 to 39 and 31 percent respectively in April 2011.

	May 2008	Dec 2009	Dec 2010	April 2011
Outstanding Portfolio Value	57%	40%	41%	39%
Active Clients	56%	33%	32%	31%

The main type of loan product is for individuals. Amounts range from $500 to $25,000. The tenor on most loans is one year. Interest accrues daily, but is charged and taken off the principal amount as a “fee” before disbursement. Loans are largely guaranteed by those who have steady salary income such as government employees or those who have an established business. The collateral levels go by grades, from a co-signer as a government civil servant or owner of established business assets (grade 1); liquid assets such as in blocked bank deposits (grade 2); or an “acceptable grade but at zero value” (grade 3). The latter has yet to be used.

3.6 PRODUCT DESIGN

The loan product design of the consortium is in line with the description under loan products. There are basically six different loan products offered depending on the market niche and existing donor lending priorities. For poverty lending, as required under the grant which motivated set up of Amalkom, the SGL methodology predominates for helping to bring the institution more in line with microfinance best practice standards of serving the poor and women.

3.6.1 LOAN COLLATERAL AND GUARANTEES

The CHF-ACSI and Amalkom Credit Policies and Procedures Manuals explain how Loan Officers should recognize and process items offered as guarantees or collateral. The consortium is also more advanced than other MFI partners in considering the use of movable property and real estate.

Like all other MFIs in Iraq, the consortium, particularly CHF-ACSI, relies primarily on government civil servants to guarantee client loans. Amalkom relies much more on the SGL methodology, which is extensively detailed in its Credit Policies and Procedures Manual.

The following are more detailed characteristics of the loan collaterals the consortium uses to secure loans.

3.6.1.1 Guarantees

- Government employees
- Ex MFI clients with good repayment histories
- City administration/council employees
- High net-worth individuals (land/properties), under the condition of established relationship between the youth and guarantor.
- Family member with income.
- Guarantor income should be double or more of the client monthly payment.

3.6.1.2 Collateral

Loans may also be secured with collateral (i.e. asset) in addition to guarantors. The main types of collateral are:

- Business equipment
- Real estate
- Pre-dated checks for the amount of the loan (currently not available)
- Gold of equal value to the loan to be held in a bank safety deposit box until loan is paid in full (currently the consortium does not have the capacity to accept gold).

3.7 MARKETING

The consortium uses a variety of methods to promote its products and services. These include distribution of brochures, one-page program descriptions, posters, meetings with community leaders, and door-to-door marketing. However, the consortium relies mainly on word of mouth to promote its program. All arrangements are subject to genuine personal safety concerns for staff and clients:

- Loan Officers are responsible for making the initial contact with potential clients. This involves working through existing networks and door-to-door marketing. Consortium brochures and one-pagers should be given to the potential applicant to provide a general background on the program.
- When entering a new area, consortium staff are to undertake an intensive community outreach effort meeting with community leaders, including representatives from business, government, NGOs and religious organizations to introduce the loan program including its mission, basic eligibility requirements, and the loan products offered, application, selection process and what ACSI means for the community. This step is undertaken to build community acceptance and support, which is critical to help promote the program and provide a general level of security for program staff.

Marketing, however, is about to significantly change and become more proactive. In proportion to the reduced personal security concerns, there will be a marketing department to be based in Headquarters which will report to the Marketing Manager (to be established by June 2011). The functions of this department will be:

- Market studies
- Product design
- Client satisfaction, assessment, survey and response
- Retention rate of clients and how to improve it
- Exit interview of clients
- Business cards and brochures for senior staff from office manager and above. Otherwise, Loan Officers have stamps on the brochures in lieu of business cards
- Increase visibility of CHF-ACSI and Amalkom
- Website: Will not do this until the risk is assessed such as putting pictures
- Public relations: part of the public relations committee at the senior level
- Commercials ads through media such as radio, television and newspapers/other periodicals (assuming the security situation can accommodate)
- Conduct demand analysis and plan geographical expansion

There is no mention of a campaign to cultivate the interest and support of Iraqi Government officials and agencies at national, regional, provincial and local levels. This would be particularly important as the consortium seeks re-registration as NGOs and then plan for transformation into NBFIs when the environment is conducive. Such elements as participating in trade fairs, exhibitions, meeting with chambers of commerce, among others, would be highly beneficial in terms of branding and enhancing dialogue to improve the enabling environment for both the financial and entrepreneurial, private sectors.

3.8 PLANS FOR THE FUTURE

The consortium has been expanding its loan and client base mostly in Southern Iraq, but also progressively expanding operations to the north, now in Sulaymaniyah and Erbil. The northern areas in KRG are more secure than the rest of Iraq and also tend to be more prosperous, with poverty rates lower than much of the rest of Iraq, particularly southern areas. The consortium targets the middle class as well as the poor and women.

Even though transformation into an NBFI is now not an option under the current legal framework, it remains the long term intention of the consortium. Therefore, when the legal framework is conducive and transformation is undertaken, the requirements of managing an NBFI will necessarily entail increasingly higher demands on human, technical, and financial resources of the organization. In view of that eventuality, the appraisal team recommends a significant strengthening of relevant institution management and growth skills.

3.8.1 FOCUS ON THE POOR AND MISSION DRIFT

The consortium needs to keep its roots as a microfinance institution. There is indication that CHF-ACSI is increasingly focusing on SME loans thereby drifting from its core mission as a microfinance institution. Serving the poor and women appears to be less of a priority, thereby diluting its reputation as a poverty alleviation institution focusing on achieving self-sufficiency while also serving the poor with quality financial services appropriate for their needs. This is clearly evident when comparing the SME-type clientele CHF-ACSI generally serves versus the smaller, more remote micro entrepreneurs Amalkom and other poverty focused MFI partners serve. Further indication of this is the relatively high average outstanding loan size per client in CHF-ACSI (as of end March 2011) at $2,055 with the average disbursement at $3,690 compared to average outstanding of just above $500 for Amalkom. Only five percent of the total outstanding portfolio value of the consortium is in group loans which are all in Amalkom since CHF-ACSI does not have group loans.

3.8.2 MICROFINANCE AND SME LENDING

As noted under governance above, the plan of transformation is now not an option and therefore the consortium will continue its operations as is for the foreseeable future. This means that on the one hand, as CHF-ACSI does now, it will continue processing individual SME-type loans of up to $25,000 while on the other hand Amalkom will continue the more poverty focused microfinance loans.

3.9 CREDIT OPERATIONS

3.9.1 BRANCH OPENINGS

Branch openings are made mostly according to the supply demands of and funding opportunities made available by donors. In the earliest days of establishing best practice microfinance, CHF-ACSI pioneered opening of operations in hostile, security-challenged areas since 2003. Staff members took and continue to take great personal risks to function, especially in the context of constant war and insurgency. CHF-ACSI, at the request of the CPA in 2003 and 2004, wanted credit “on the streets as quickly as possible”.

CHF launched branch operations in Najaf and Karbala as these were strategic areas for the CPA. CHF signed its grant agreement on July 29, 2003. On August 27, 2003, CHF-ACSI disbursed its first loans in Najaf, and in Karbala on September 10th. In November 2003, CHF-ACSI received a grant award from the CPA to operate in Baghdad and so opened an office in the capital in December 2003. In January 2004, CHF applied for and was awarded a contract to pilot housing microfinance. CHF disbursed its first housing loan in the fall of 2004.

In 2011, the consortium is the largest MFI entity in the country. It includes a network of 13 branch offices in 11 governorates across Iraq, i.e. in Baghdad, Basrah, Diwaniyah, Sulaymaniyah, Hillah, Karbala, Kut, Najaf, Nassriya, Samawa, and now Erbil. There are four Amalkom offices counted in the consortium total share which are an integral part of the branch and satellite office configuration described. The spread of consortium operations has mostly been donor driven. However, the Erbil operations appear to be part of a major push by the consortium to spread itself across the entire country.

3.9.2 BRANCH EFFICIENCY

The consortium has some unique characteristics to its operations and staffing that necessarily skew the efficiency ratios of branch operations negatively. The following is a profile of the consortium staffing situation as of April 2011:

	Total Staff	Loan Officers	L.O.s to Total Staff
CHF-ACSI, Iraq	312	96	31%
Amalkom	24	15	63%
CHF-ACSI support by Home Office	18	- 0 -	0%
TOTALS	**354**	**111**	**31%**

*CHF-ACSI support by Home Office is through a team of 18 staff who are therefore counted as part of the efficiency calculation.

The following are the ratios of total consortium clients (24,505) both to Loan Officers, and total staff, including those considered "back office" in the Home Office:

- Total staff: 69 clients per staff person
- Loan Officers: 221 clients per Loan Officer

Comparisons with closer peer MFIs of the ratios of clients to total staff and of clients to only Loan Officers as of end April 2011 are as follows:

Ratio Category to Clients	Relief Int'l (Active Clients)	CHF/Amalkom (Active Clients)	Izdiharouna (Active Clients)	Al-Thiqa (Active Clients)
Total Staff	100 (9,388)	69 (24,505)	99 (6,337)	93 (12,972)
Loan Officers	261	221	253	360

As the figures above demonstrate, the consortium has the lowest productivity figures compared to its next largest peers in Iraq. This indicates that the consortium needs to focus on improvement of its efficiency ratios.

The table below shows the improving trends of efficiency since 2007 through 2010. Costs per client have been reducing. At the same time, the portfolio load per Loan Officer has increased by almost 2.3 times. Much of this can be attributed to the introduction of solidarity group lending in 2010 by Amalkom.

	2007	2008	2009	2010
Cost Per Borrower, Annualized ($)	$477	$389	$315	$278
Cost per unit of money lent, Annualized ($)	$0.16	$0.14	$0.19	$0.15
Total Outstanding Portfolio / Loan Officer ($)	$176,292	$246,972	$372,217	$397,992
Staff allocation ratio (Loan Officers to Total Staff)	36%	33%	25%	33%

3.10 INTERNAL CONTROL AND AUDIT CAPABILITIES

A number of manuals and checklists from CHF refer to procedures and policies relative to control and finance. References are noted as to how to prepare for external audits and also, control of Loan Officers, reporting deadlines, processes for internal auditor field visits, and adjusting controls in line with findings from the field. The manuals that refer extensively to audits and controls are the (i) CHF-ACSI Fraud Review Checklist of September 2010, (ii) Field Finance and Accounting Manual of March 2010, (iii) the Credit and Operations Procedures Manuals for the two consortium members and a CHF global one outlining how Loan Officer Supervisors are responsible for monitoring Loan Officers, (iv) an Operations Audit Report of 2008 done by Talal Abu-Ghazaleh & Company International (TAGI), and (v) a Facilities Manual, among others.

3.11 COLLABORATION WITH OTHER INSTITUTIONS

Over the period that the consortium has been in business, it has developed a long list of external collaborators in Iraq and beyond. These include donors, the regional Sanabel Microfinance Network of Arab Countries, MIX Market, SBDCs as well as a wide variety of banks in which it holds bank accounts.

3.11.1 GOVERNMENT AND COMMERCIAL BANKS

The consortium possesses 60 different bank accounts for each of CHF-ACSI and Amalkom, according to the chart of accounts. The reason there are so many is because (a) location of operations in two countries, and (b) the requirements of the consortium's many donors. These are categorized, as far as they could be ascertained from the chart of accounts, and are broken down as follows:

- At least five Iraqi banks
- The numerous bank accounts are kept for such purposes as interest-bearing for idle cash balances, reflows for loans, and for operations.

For all of the bank accounts, there is a full-time treasury function. Basic tasks include managing overall cash movements and balances, dealing directly with banks, setting cash disbursement targets, and managing safes.

The consortium has a policy of clients having to repay loans via banks; i.e., there is no cashier function within Iraqi consortium offices. Clients interviewed for the assessment noted the long hours, up to one day, needed just to get to and deposit their repayments into a bank account. This was especially noted in respect of clients in Halabja, Sulaymaniyah Province.

3.11.2 SMALL BUSINESS DEVELOPMENT CENTERS (SBDCS)

Primarily for the purposes of the Iraqi Youth Initiative (IYI) and the Young Entrepreneurs' Access to Finance (YEAF) component, the consortium necessarily has to work with and deal with SBDCs in Southern Iraq. To date, the consortium, primarily Amalkom, has been dealing with the SBDCs in Karbala, Muthanna and Dhi Qar Provinces. These SBDCs and their business plan review panels (BRPs) recommend and refer young potential entrepreneurial trainees coming out of the IYI-specific SBDC training to be considered for loans. As of April 2011, 44 youth (with eleven female) who matriculated through SBDCs and BRPs hold over $145,000 in outstanding loans.

3.11.3 CHAMBERS OF COMMERCE

The relationships the consortium has with chambers of commerce are good. The chambers are used mostly in endorsing member businesses as guarantors of clients for loans. Further effort could be made to use the chambers as institutional leverage points in promoting the consortium and its entities as brands, as well as for facilitating the use of alternative collaterals of chamber-member businesspersons guaranteeing loans.

3.11.4 GOVERNMENTS IN IRAQ

The consortium enjoys cordial working relations with the provincial, regional and local governments with which it deals and where its operations are located. At the national level, relations are well cultivated by the consortium with the Registrar of Companies, the CBI and the NGO Directorate.

3.11.5 INTERNATIONAL ORGANIZATIONS

- Sanabel, the Arab Microfinance Network: The consortium is a fee-paying member of this regional MENA association for MFIs. The consortium actively participates in the annual regional conferences no matter where they are held across MENA. CHF-ACSI was the first microfinance institution that represented IRAQ in Sanabel and is an active member of the general assembly, and is also a board member in Sanabel
- The Microfinance Information eXchange (MIX) Market: The consortium's information is up to date on the MIX Market web-based platform. It has the four-diamond rating (out of a maximum of five), attesting to high degrees of accountability and transparency.
- Kiva: The consortium has received subsidized loans from the San Francisco-based, web-based, socially-oriented investor into loans repayable within one year. It processes loans and sends them to Kiva in the U.S. where they then get funded and repaid. The function is labor intensive and the consortium has devoted a full-time staff person in the Home Office and a field coordinator in Najaf to manage it. There is a targeted funding rate of $150,000 for every month primarily in Hilla, Diwaniyah, Najaf and Karbala. However, the facility is limited to $1million.
- Iraq Middle Market Development Fund (IMMDF): IMMDF is a U.S. "501 (c) (3)" corporation which is a non-profit entity completely funded and supported by OPIC (the Overseas Private Investment Corporation) of the U.S. Government. The consortium's relationship, according to the IMMDF Director, is that of a technical advisory service provider. IMMDF has $45 million outstanding with 35 to 36 clients, or an average of $1.25 million per loan. The company has offices in Erbil, Baghdad and Amman.
- Other donors: The consortium enjoys the support of other donor agencies in addition to U.S. Government sources such as the CPA and USAID:
  - United Nations Development Program (UNDP)/United Nations Office of Project Services (UNOPS); and the U.N. Industrial Development Organization (UNIDO): These two U.N. agencies respectively funded $2 million for expanding the portfolio in Southern Iraq through the Private Sector Development Program (PSDP) and the Local Area Development Program (LADA) in Sulaymaniyah, while the latter funds $1 million for SME lending in Northern Iraq, namely Sulaymaniyah Province, through the Enterprise Development and Investment Promotion (EDIP) program.
  - Department for International Development (DfID), United Kingdom: The consortium enjoys since 2009 funding from DfID for purposes of capitalizing its loan expansion, receiving U.S. dollars $2,184,747. According to the DfID website, the program is to support primarily SME development in Basrah.

3.12 LOAN OFFICERS

Even with the growth of the loan portfolio and the organization, between January 2009 and April 2011, the number of Loan Officers has actually decreased from 117 to 111. On the other hand, the proportion of female Loan Officers increased from 14 to 20 percent of all Loan Officers as their number increased from16 to 22 over the same period.

The consortium has trained a cadre of qualified managerial, administrative, and loan officers in Iraq. Over 80 percent of consortium managers have more than four years experience. Senior management has over ten years of microfinance expertise, proficient staff development, training and evaluation. Staff turnover is slightly more than two percent per year.

The following are key characteristics and profiles of the 111 Loan Officers the consortium employs:

- Years of experience with the consortium: Loan Officers have at least two years employment with the consortium, with several having been there since CHF-ACSI started operations in 2003. For all staff, over 50 percent have three or more years of experience in microfinance and over 58 percent of Iraqi senior management have been with the program since it started in 2003.
- Incentive scheme: The Loan Officers' incentive scheme was replaced in July 2008. The current scheme, with minor modifications for agricultural and group loans introduced in 2011, works well. The impact of the modifications has been improved loan productivity.
- Awareness of lending policies: Loan Officers are aware of the consortium's lending policies. These policies and lending criteria for each product are clearly communicated in writing. Loan terms and conditions are also listed in the consortium's various marketing materials.
- Loan Officer qualification requirements: Loan Officers, when recruited, need to have at least a diploma, but may also be recruited at the discretion of the management depending on other offsetting skills and experience.
- Loan Officer hierarchy and opportunities for promotion: The consortium has a policy of promotion from within. As already noted, over 58 percent of the management in Iraq has been with CHF-ACSI since start of operations in 2003. The Loan Officer Incentive scheme clearly identifies the criteria by which a Loan Officer can be promoted to a Loan Officer Supervisor.

3.13 POLICIES, TERMS AND CONDITIONS, AND PROCEDURES

The consortium has comprehensive credit policies and procedures that were provided to the assessment team. These are at three levels: a) CHF globally, b) CHF-ACSI in Iraq, and c) Amalkom. Given that the staff persons are one and the same for the three levels of operations, there are only few differences in their respective policies and procedures except in the case of Amalkom where there is more specific details for the solidarity group lending methodology for which the consortium was financed by USAID-*Tijara* with $3.5 million grant.

3.14 LOAN PRODUCTS

Over the years, the consortium has evolved six different loan products. These products are not only supply-driven (depending on the request of grantors), but also demand-driven (depending on clientele demand). Where details were available, the following profiles the characteristics of each product:

Name	Range Amounts	Interest Rate (Per Annum) & Fees	Other Conditions; Repayment Periods
Business loans a. Micro b. SME	Micro: $100 to $5,000 SME: $5,001 to $25,000	12% + 3% 1st loan application fee; 2% thereafter	Loan term up to 18 months; most 12 months for micro, and up to 24 months for SME
Home improvement loans	$100 to $15,000	Not available	Loan term up to 18 months; to pay for structural items and not for furnishings
Employee loans	Up to $25,000 depending on No. of years & standing	Not available	Interest rate said to be lower than for other loans.
Start-up business loans	$500 to $4,000	Not available	New business, working capital, fixed assets; up to 18 months; SBDC training usually required
Youth loans	$1,000 to $3,000	12%	Ages 18 to 35 years; up to 15 months to repay, including three-months grace period
Group loans	$500 - $800; by 4th cycle, up to $3,000	15% + 3% application fee	Three-month grace periods offered

The consortium generates its revenues mostly from loan interest and application fees. Interest is between 12 and 15 percent per annum depending on the type of activity financed; business loans are charged the former while solidarity group loans are charged the latter. Application fees of three percent of the requested loan amount are assessed on applicants in addition to the interest. Repeat borrowers pay two percent application fees. These rates and fees are charged on a U.S. dollar basis.

Total revenues from interest fees and late-payment penalties ($1 per day for every day a payment is late of the installment owed) for 2010 was $11,429,609. This was an increase of 31 percent from the previous year. At least 22 percent of this income, or more than $2.5 million was from application fees and penalties. Gross revenues increased by 31 percent while net operating income increased by 33 percent. The fact that the latter figure is greater than the former indicates that the organization has benefited from improved efficiencies as reflected in the much lower increase of only 9% in Operating Expenses.

The following table illustrates the volume and mass of income, expenses, and profitability of the CHF-ACSI/Amalkom consortium over the past two years:

Item	2009	2010	% Increase
Gross Income from Operations	$8,716,517*	$11,429,609	31.1%
Operating Expenses	($7,532,229)	($7,251,836)	-3.7%
Net Operating Income	**$1,184,288**	**$4,177,773**	**252.8%**

* Before Amalkom since it commenced operations in January 2010

The net operating income rate (net operating income over gross income from operations) is 13.6 percent in 2009 and 36.6 percent in 2010. The high net income increase in 2010 is due to the much lower provision for loan loss charged in CHF-ACSI compared to 2009 resulting in a lowering of expenses overall by 3.7 percent. And with the high increase of 31.1 percent in gross income, we have the resultant extra high increase of 252.8 percent in net income.

3.15 CREDIT PROCEDURES

The various procedural steps through which loan applications are received, dealt with, analyzed and considered for approval or rejection follows the guidelines in the two Credit Policies and Procedures Manuals. They extensively elaborate on such items as follows:

- Product descriptions
- Guarantees and collaterals
- Interest rates and fees
- Borrower eligibility requirements
- Lending flow chart
- Loan application and assessment processes
- Required documents for both loan applicants and guarantors
- Orientation processes of new clients
- Loan review committee; policies and procedures; membership composition
- Loan disbursement and repayment policies and procedures, including the charges and penalties for late payments
- Loan delinquencies and the process of dealing with them in hierarchical steps: a) three days late, Loan Officer; b) one week late, Loan Officer Supervisor; c) one month late, Field Coordinator; and d) one month late, through a lawyer.
- Loan write offs and blacklist of “bad” clients

3.16 DELINQUENCY MANAGEMENT

The Credit Policies and Procedures Manuals and other consortium documents refer to a number of management steps, processes and measures to mitigate risk,and to manage and reduce potential and real delinquencies. Some of these are as follows:

- Employing and retaining a highly qualified team of managers, supervisors and experts with the necessary backgrounds and experience to more effectively judge, manage and mitigate risk and delinquency.
- Loan product diversification by adapting products for client needs, capabilities and capacities.
- Engagement of a comprehensive field auditing team.
- Increased use of solidarity group lending (SGL) loan guarantee methodology.
- Rigorous loan committee review process for all loan applications.
- Monthly meeting of the auditing staff to discuss observations of previous period and plan for the next month.
- Audit staff is to have weekly chat/phone meetings at the end of each business week to prepare the schedule for the following week.

- Chief Field Auditor is to have monthly chat/phone meeting with senior management.
- Audit reporting.
- The head of auditing department should send monthly auditing reports at the end of each month containing the observations and recommendations of the auditors.
- Any critical issues or high risk priority items must be sent directly to senior management.
- Prepare written reports for management at the conclusion of audits.
- An incentive and career advancement system that penalizes delinquencies and defaults for Loan Officers and their supervisors.
- A written code of conduct to which all staff are expected to adhere.
- Application of the Fraud Review Checklist for clients and staff.

3.17 LOAN RESCHEDULING AND WRITE OFFS

The consortium includes references to loan rescheduling in the credit manual for CHF-ACSI as a policy and a set of procedures for Loan Officers and field offices to follow. In the case of a verified and justified inability to repay the loan (e.g., borrower illness, natural disaster, business failure, program error, etc.), the loan may be rescheduled with the written approval of the management. However, we are informed that no loan has been rescheduled thus far. There is a three percent fee based on the remaining outstanding amount to be repaid. The rescheduling should not be for more than 18 months.

There is no provision for credit life insurance in the event an active loan client passes away. The consortium will go after the surviving immediate family members to collect the debt.

For loan write offs, the policy is that a balance will be declared as a loss 180 days after the last installment payment was made. However, as the consortium situation clearly indicates, PAR is less than one percent, and therefore write offs are exceptional. Even after a write-off, clients and their guarantors are still pursued until the written off principal, at a minimum, is repaid.

3.17.1 PORTFOLIO AT RISK: BALANCE OF LOANS WHOSE PAYMENTS ARE 30 DAYS-PLUS OVERDUE

Province	CHF/ACSI				Amalkom			
	Outstanding and Active		PAR		Outstanding and Active		PAR	
	Value ($)	Clients	Amount ($)	Rate	Value ($)	Clients	Amount ($)	Rate
Baghdad	6,713,302	3,225	10,020	0.1%	148,600	20	0	0.0%
Basrah	8,424,310	4,216	39,845	0.5%	-	-	0	0.0%
Diwaniyah	3,613,756	1,412	1,400	0.04%	475,829	927	0	0.0%
Sulaymaniyah	382,132	271	12,968	3.4%	-	-	0	0.0%
Hilla	5,381,593	2,320	3,753	0.1%	617,442	1,220	1,500	0.2%
Kut, Wasit	2,671,830	1,670	0	0.0%	-	-	0	0.0%
Karbala	4,482,743	2,291	3,000	0.1%	492,988	896	0	0.0%

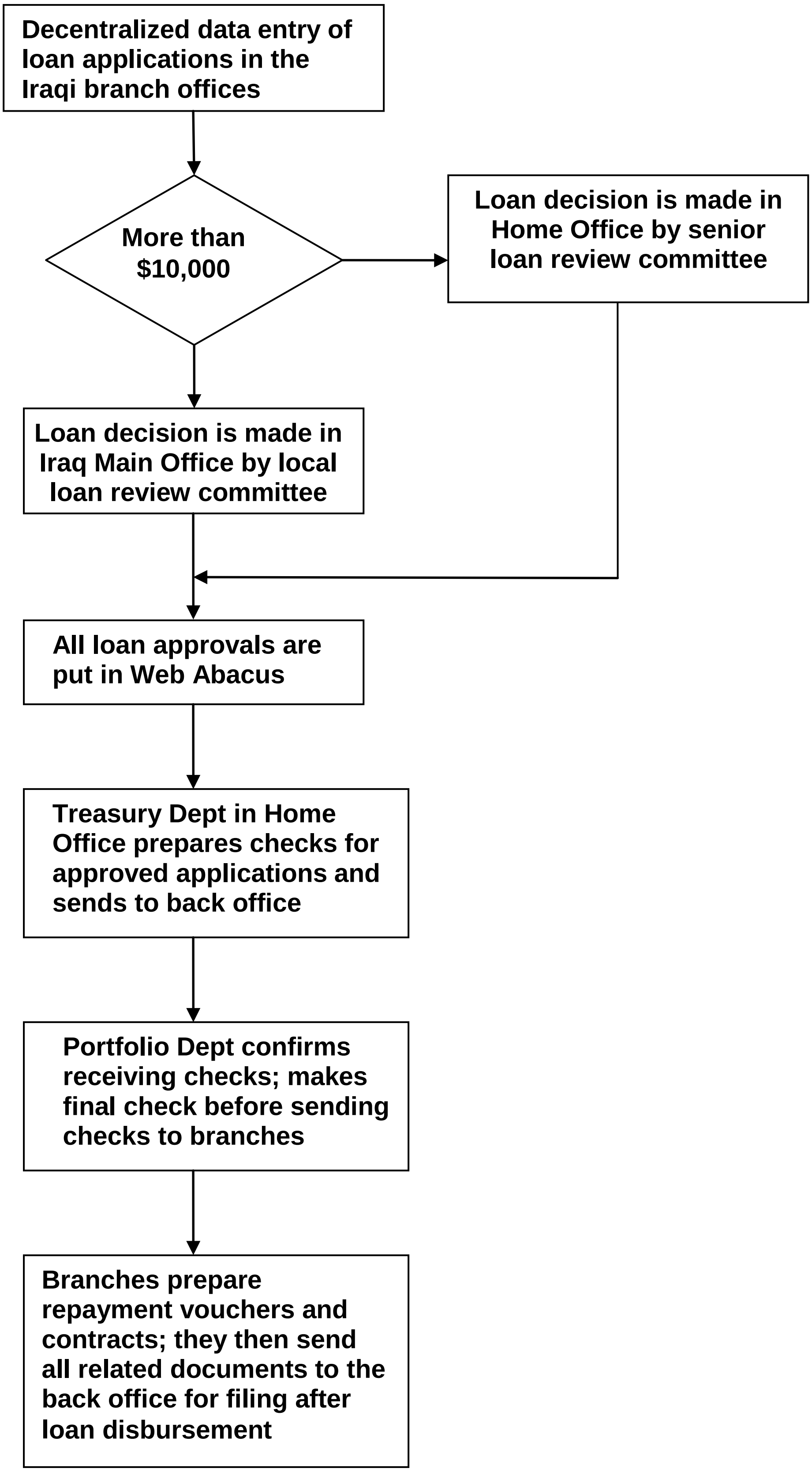
Najaf	5,138,793	2,059	6,168	0.1%	580,047	1,107	1,200	0.2%
Nassriya, Dhi Qar	2,675,924	1,362	3,668	0.1%	303,867	49	0	0.0%
Samawa, Muthanna	2,547,744	1,444	0	0.0%	48,974	14	0	0.0%
Erbil	-	-			8,075	2	0	0.0%
	$42,032,127	20,270	$80,822	0.2%	$2,675,822	4,235	$2,700	0.1%

3.17.2 BLACKLIST

In the course of conducting the assessment visit in the Home Office, it was discovered that the consortium has a blacklist system integrated into its Web Abacus Internet-based MIS. Given that the consortium has 40 percent of the Iraqi microfinance industry's clientele, and would likely have an equally high absolute number of clients in default, it is incumbent on it to coordinate its blacklist with that of the USAID-*Tijara* IMFI.org blacklist. This would be in the fullest spirit of participating in Iraq microfinance industry efforts to maintain the highest level of loan recovery by alerting other MFIs to potentially risky clients on the consortium's blacklist, and vice versa.

3.18 CREDIT DECISION MAKING

The aforementioned Credit Policies and Procedures Manuals give in detail the processes by which loans are applied for, considered, appraised, decided upon, disbursed and then managed pending their full repayment. Given that the PAR levels within the consortium are so small (one fifth of one percent for CHF-ACSI, and one twentieth of one percent for Amalkom), it is assumed that these processes are well adhered to by the managements and staff concerned. The following is a schematic of the credit decision making process extracted from the CHF-ACSI Credit Policies and Procedures Manual:


Decentralized data entry of loan applications in the Iraqi branch offices
More than $10,000
Loan decision is made in Home Office by senior loan review committee
Loan decision is made in Iraq Main Office by local loan review committee
All loan approvals are put in Web Abacus
Treasury Dept in Home Office prepares checks for approved applications and sends to back office
Portfolio Dept confirms receiving checks; makes final check before sending checks to branches
Branches prepare repayment vouchers and contracts; they then send all related documents to the back office for filing after loan disbursement

For Amalkom, the credit decision making process is focused on the solidarity group lending (SGL) model. The following is extracted from the Amalkom Credit Policies and Procedures Manual:

Loan Procedures		
Solidarity Group Lending	**First Loans**	**Repeat Loans**
Group promotion and marketing	• Walk-ins	
	• On-site promotion : market place; community meetings through local leaders	
Group formation	• Group members are self selected	Groups that do not meet minimum group size requirements must replace drop outs to the required size.
	• 1-4 meetings carried out by Loan Officer	
	• Groups are formed and explained policies and procedures	
	• Detailed explanation on membership criteria and solidarity guarantees.	
Loan application	A single loan application for the whole group containing information on every member	
Loan analysis	• Repayment capacity-basic cash flow	Group Repayment history
	• Repayment willingness-reference checks	Individual member repayment history
Loan approval	To be defined by the MFI	
Loan disbursement	• A single disbursement	
	• Single check	
	• Group comes to the office, one check provided. All clients sign the receipt/contract/repayment schedule. • Copy to be signed by SGL Leader	
Loan repayment	• One payment voucher	
	• Group leader responsible for group collection	
	• Loan Officer starts collection when exhausted all group efforts	
	• Legal action when needed for demonstration effect purposes mainly	

3.19 HUMAN RESOURCE MANAGEMENT

The consortium's manuals and plans state affirmatively that it is committed to the highest professional standards of human resource management at all levels. The almost 60 year history of CHF has resulted in sound experience and professionalism required to assure that it runs effectively and efficiently in all areas of human resources. As stated in the June 2009 "Strategic Business Plan", "its effectiveness is measured; job descriptions and the recruitment process are transparent and clearly defined; staff members benefit from regular supervision, incentives, performance-based appraisals and recourse procedures; and CHF-ACSI prioritizes professional development of its staff."

According to the organization charts of the consortium, human resource management functions are coordinated between the Home Office and the Iraq Head Office in Hilla. As for Amalkom, it is managed under the auspices of the management agreement between the consortium members. The level of interaction and coordination between the Home Office and the Iraq Head Office in Hilla is documented in the relevant manuals and also as clarified through an interview with the HR coordinator in the Home Office. The coordination includes such operations as payroll, recruitment, staff time management (leaves, vacations, sick leaves, insurances, and contracts), and maintaining job descriptions and salary scales.

3.20 HUMAN RESOURCE POLICY MANUAL

There are two separate manuals for the consortium members. The manuals cover all of the basic functions an HR manager should be looking after with respect to promoting and managing what should be considered an organization's most valuable asset, i.e. its human resources. Given that staff turnover is reported to be low, both the provisions in the manuals and the comprehensive approach management states in its plan indicate that the HR function, including its development aspects, operates effectively.

It is recommended for the consortium management to consider the following when revising and updating the manuals:

- Orientation of all staff to the HR policies and procedures through workshops.
- Harmonization, to the extent possible, of the two manuals such that eventually they become one.
- Organization chart examination, including the possible recruitment of an organizational management consultant to review consortium management coordination between disparate locations and functions.
- Revision of the policies and procedures in a more organized, human resource profession-oriented way, such as what may be obtained from the Microfinance Gateway, CGAP and the MicroSave "Human Resource Toolkit".
- Job descriptions should go as annexes, and not be the first part of the HR policy manual. The job descriptions also need to follow more human resource protocol in terms of content, i.e. to whom does the position report, who reports to it, location, required qualifications, etc.

3.21 TRAINING AND CAPACITY DEVELOPMENT

There were at least 24 USAID-*Tijara* training/meeting events in which at least 90 consortium staff members participated. This does not count all consortium-sponsored events it did not disclose to the operational assessment team. These events have been a combination of training courses, conferences that USAID-*Tijara* organizes and presents, and activities conducted by three consortium staff members who are also Microfinance Trainers of the First Generation certified by CGAP.

Beyond what USAID-*Tijara* has provided, the team perceives that staff member training from within the CHF Network and outside is extensive. These included study tours to such countries as Italy, Morocco, Egypt, Lebanon, Romania, and Jordan. It is indicated that new staff, particularly for operations such as Loan Officers, get extensive on-the-job and workshop training. The consortium strategic planning, as stated in its strategic business plan as well as in funding proposals to USAID-*Tijara*, state that staff member training is a priority. It was also noted that Iraqi staff regularly go to Home Office to participate in meetings and trainings as additionally noted in the weekly reports alluding to regular meetings.

3.22 MANAGEMENT INFORMATION SYSTEMS

The computerized management information systems (MIS) that the consortium uses for all loan tracking and management, as well as accounting and financial management is the proprietary Web Abacus. It is available throughout the CHF office systems. Branches are each standalone for accounting and have servers with Internet access. The back offices also use the QuickBooks (QB).

For detecting loan delinquencies, the speed of detection is timely since by 2.00pm daily the delinquency report is updated and available for loan officer follow up action as necessary.

3.22.1 KEY INFORMATION USED BY DECISION MAKERS:

According to the weekly reports submitted to USAID-*Tijara* by the consortium, frequent meetings of Loan Officers at Headquarters and branches take place. These meetings review statistics relative to production and repayment performance. It must be effective because portfolio performance is exemplary.

3.22.2 EQUIPPING STAFF:

For equipping staff, only the branch managers and senior staff have computers, not Loan Officers. Other staff members in a branch access a computer and Internet via one desktop. Only Outlook is available on the office computers, not Internet Explorer. Loan Officers are not connected to the Internet. Other elements are as follows:

- Two (2) manuals exist for IT; one is for IT usage policies for staff; and the other is for guidelines on how to use the CHF proprietary Web Abacus system.
- Each branch has a satellite Internet connection; some branches use cable while others use wireless connections to the servers.

<u>Management Information Systems (MIS)</u> department in Head Office consists of an IT Manager with four assistants who support portfolio operations. There is support in respect of

Web Abacus software system from an IT supervisor in the Home Office. Each branch has its own Internet server with an MIS assistant responsible for data entry.

Accounting: Similar to other functions, the CHF system for accounting is hierarchical. Supervision is given by the Chief Accountant in the Home Office and is supported by:

- Two senior accountants, one accountant, and one Junior staff
- Head Office team comprising one senior accountant, two accountants, and one Junior staff

Branch Management and Operations: Unlike other MFIs with branch operations, the consortium is different. Each branch office is a microcosm of the overall organizational chart in the following respects:

- The branch operations are supervised by an Office Manager who is responsible for disbursing loans, signing contracts for loans to clients, managing the branch MIS and other administrative matters. The Office Manager reports to the Credit Manager.
- For lending operations, the Loan Officer Supervisors and Loan Officers are supervised by roving Field Coordinators and their Deputies, ten altogether.

Equipping Staff with Appropriate Skills. According to consortium documents on human resources and planning, much emphasis is placed on developing staff skills. The following are highlights which, collectively, indicate a cadre of professional staff well equipped to do the jobs for which they are assigned:

- Constant on-the-job training from supervisors to subordinates, particularly on the field operations side; from Field Coordinators to Loan Officer Supervisors to Senior Loan Officers and Loan Officers.
- Periodic study tours to other CHF locations in the world.
- The Human Resource Coordinator helps to identify for management the training needs and where they are required.
- For new staff, there is an induction process that includes on-the-job training, introductions and orientations to manuals and other guidelines, and participation in workshops and seminars.
- Participation in USAID-*Tijara*-sponsored and/or organized events between 2008 and 2011 involved at least 90 staff in at least 24 training/meeting events.

3.23 EMPLOYEE SATISFACTION

Almost all staff interviewed indicated high degrees of satisfaction with their jobs and working within the consortium. Indeed, opportunities for promotion exist for those who work hard at being the most productive in terms of outreach of lending. The current hierarchy in Hilla mostly evolved from field Loan Officer’s activities since the beginning in 2003. Only one complaint was noted from a staff member who felt that there was too much centralization and control from Home Office for management decision-making that should be made much closer to the job locations.

4. FINANCIAL MANAGEMENT

4.1 SYSTEMS AND INFRASTRUCTURE

The USAID-*Tijara* operational assessment team examined the documents availed such as policies and procedures including CHF Global Field Finance & Accounting Manual, Financial and Operational Policies (266 pages), ACSI Credit Policies & Procedures Manual (51 pages) updated March 2011, and Amalkom Credit Policies & Procedures Manual (17 pages) dated March 2011. Charts of accounts were also availed in addition to the PMT reports the consortium supplies to USAID-*Tijara* as per requirements of USAID/Iraq grant agreements. Additionally, external audit reports by Grant Thornton for 2008 and 2009, and recommended improvements by TAGI relating to the financial management and accountability systems of the consortium were also reviewed.

The following features and characteristics of the consortium's financial management systems, human resources and infrastructure were noted:

- Distinct organizational separation between operations for financial services and financial management, right from the Home Office and the Headquarters down to each branch. For example, a branch manager only oversees the financial management personnel in a branch while personnel for operations such as Loan Officers are supervised by the roving Field Coordinators.
- The number and qualifications of the financial management staff appear to be significant, indicating that effective financial management is a priority of the consortium. Between the Home Office and the Headquarters in Iraq, there are nine accountants (senior, regular and junior levels. The Home Office-based Chief Accountant is extensively qualified and trained. He has to deal with 20 different reports each year.
- There are three different software packages used, i.e. Web Abacus, QuickBooks and HR Information system (HRIS).
- In addition to accounting, there are internal audit and treasurer functions both at the Home Office and at the country Headquarters. The treasurers have the duties of dealing with the banks, managing cash flow and disbursements, safes, and liquidity levels.
- There are standard notes to financial statements which explain methods, practices and characteristics as to why certain entries and amounts exist and are listed in a certain line item.

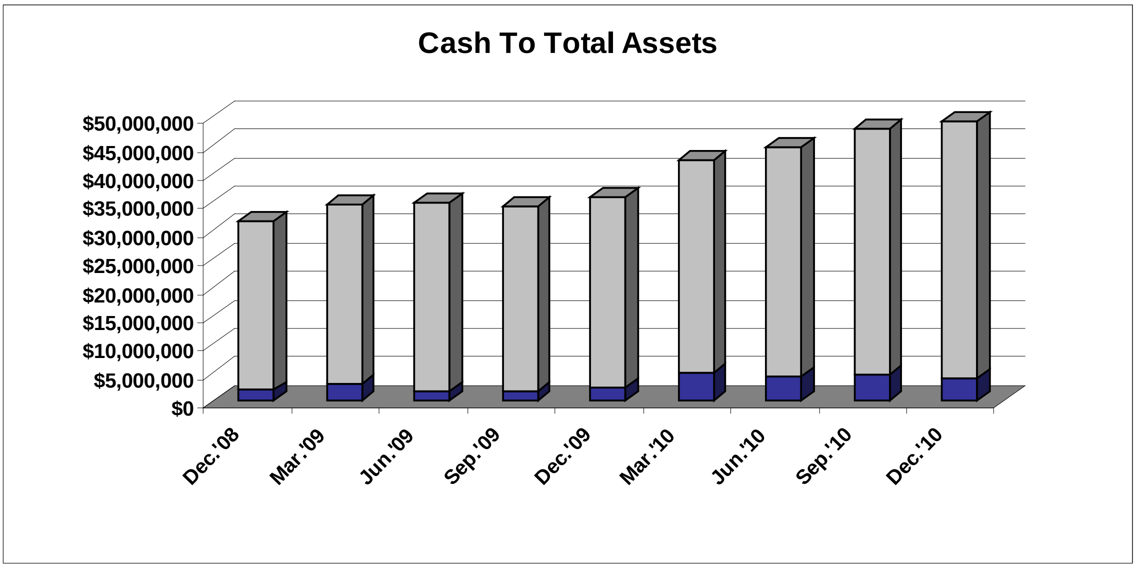
4.2 ASSETS/LIABILITIES MANAGEMENT

4.2.1 ASSETS

The consortium has the largest asset base of all the MFI partners in Iraq. The total asset base as of end December 2010 was $45.2 million, with a growth rate of 16 percent in 2009 and 31 percent in 2010 respectively. Cash in hand, deposits in the financial institutions and the loan portfolio make up the three key components of its asset base. Put together the cash in hand and bank constitutes approximately seven percent and nine percent of its total assets in 2009 and 2010 respectively. Although it is not a major concern at the moment as it has been below 10 percent, the consortium is advised to reduce the cash balance (as per its required liquidity) and reinvest the balance in the loan portfolio as that would bring enhanced income. It is good that the consortium has been using more than 90 percent of its assets for building the loan portfolio as this means that the bulk of the assets are income earning.

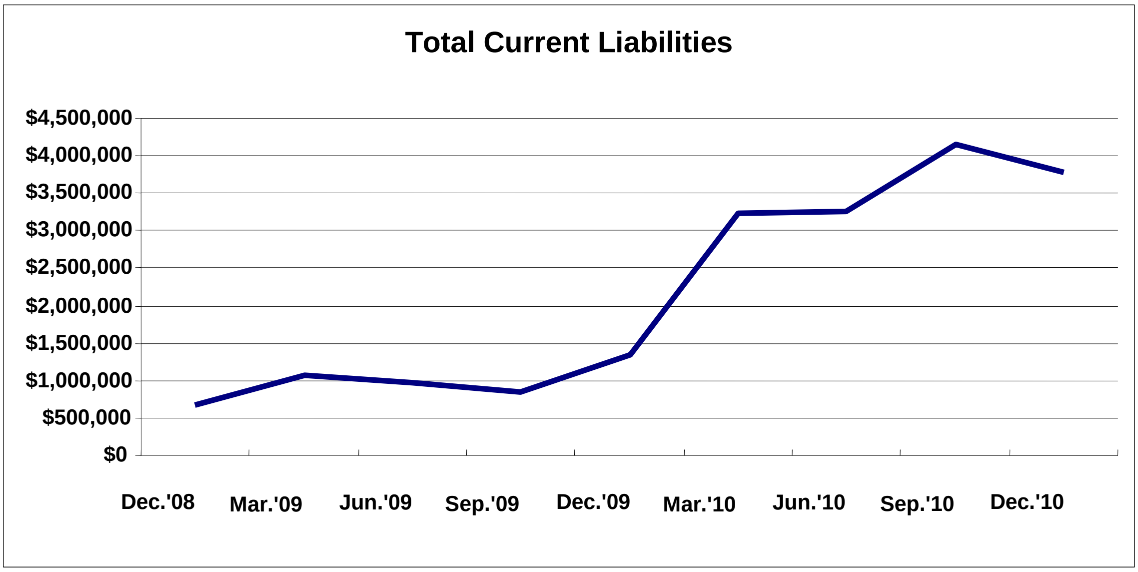
CHF adopted a policy to expense all capital expenditures in the income statement instead of capitalizing them in the balance sheet. Had CHF elected to record these expenditures as fixed assets, total assets would have been even higher than the current levels. The MF industry average fixed assets to total assets ratio is around 1%.

The bar chart below represents the cash position of the consortium to its total assets for last three years.



4.2.2 OTHER CURRENT ASSETS AND LIABILITIES

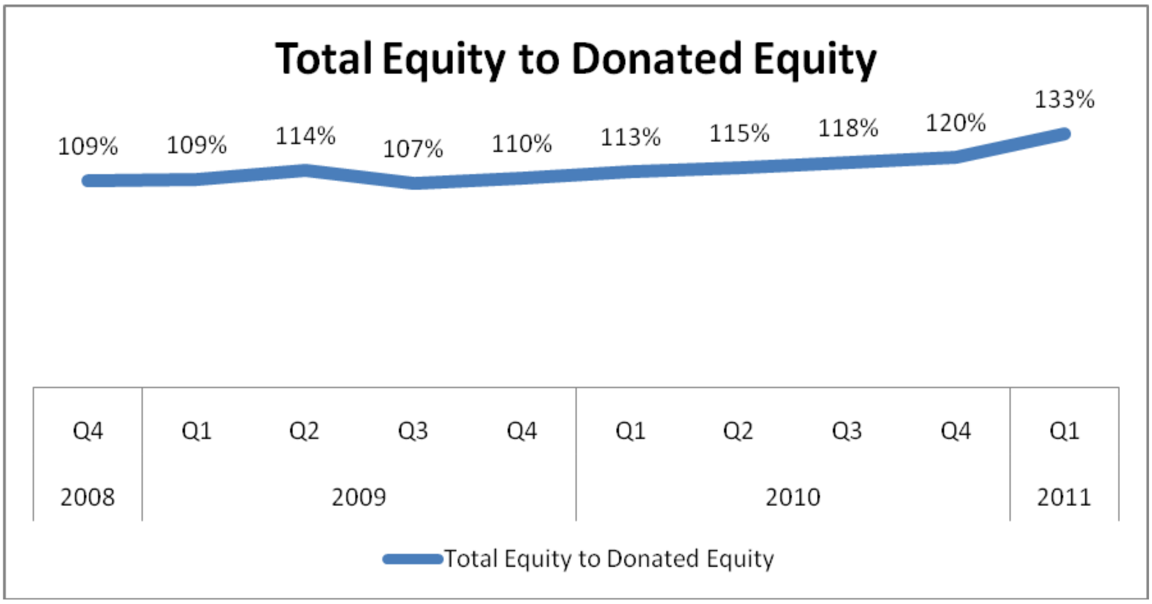
Other current assets items and liabilities can be categorized into two main groups; a) assets/liabilities arising from operations and b) inter-company receivables/payables. The first group represents all the prepaid assets which mainly consist of prepaid rent for different branches and various locations and social security benefits on the current liabilities side. Most of the fluctuation in other current assets and liabilities comes from the second group i.e. inter-company receivables/payables. These accounts are used to manage CHF liquidity. When CHF Iraq runs short of cash it borrows from the parent company, CHF International.



4.2.3 EQUITY

Equity level in the MFI has grown steadily over the last three years. It increased by 12 percent in 2009 and 28 percent in the year ended December 2010. The two-year growth in value was $12.4 million versus donor contributions of $8.3 million indicating that equity growth is <u>1.5 times</u> the amount of donations received by the consortium.

One healthy indicator about CHF equity is the retained earnings growth rate over time. Retained earnings were the driving force behind most of the growth in equity as explained in the diagram below. One third of CHF's total current equity came from retained earnings. The ratio received a boost in 2011 first quarter as Amalkom started to breakeven and generate profit. Healthy retained earnings give stakeholders confidence in the MFI's ability to protect the interests of investors and can be cited as a key positive factor to facilitate mobilization of additional loan capital.



Donor grants dominate the equity base of the MFI because of its continuous receipt of grant support. However, based on its current equity level, the consortium should be able to leverage and mobilize higher, longer term debt/liability levels from other investors and financial institutions. Its increasing return on equity can reasonably convince investors in this regard. With equity growing by 50 percent more than donated equity contributions, the leverage factor can be even greater. The growth in equity is shown as follows:

2008	2009; % Increase from Previous Year	2010; % Increase from Previous Year
$ 28,951,435	$ 32,407,650; 12%	$ 41,384,439; 28%

4.3 FINANCIAL FORECASTING

The only financial forecasting available to the assessment team was that of the June 2009 "Strategic Business Plan" of CHF-ACSI wherein projections through fiscal year 2013 (the consortium's fiscal year is October through September) were developed. In order to establish whether the projections were realistic, we note the following comparisons for the consortium (CHF-ACSI and Amalkom combined):

Item Measured September 2010	Projection from June 2009	Actual as of September 2010	Percentage Variation
Outstanding portfolio value	$38.3 million	$40.4 million	5.4%
Annual portfolio growth rate	23%	25%	2%
Active clients	30,456	22,867	- 25%
Net financial income for the year to end Sept. '10	$11.0 million	$10.14 million	- 8%
Net income before donations thru Sept. '10	$2.9 million	$3.9 million	34%
Total assets	$42.0 million	$43.2 million	3%
Total equity	$39.7 million	$39.05 million	- 2%

The main deviation between actual and projected figures is the number of active clients. The increasing average loan size trend enables the consortium to reach its targeted portfolio growth rate and profitability levels, while it has lagged behind target by 25 percent on the number of active clients.

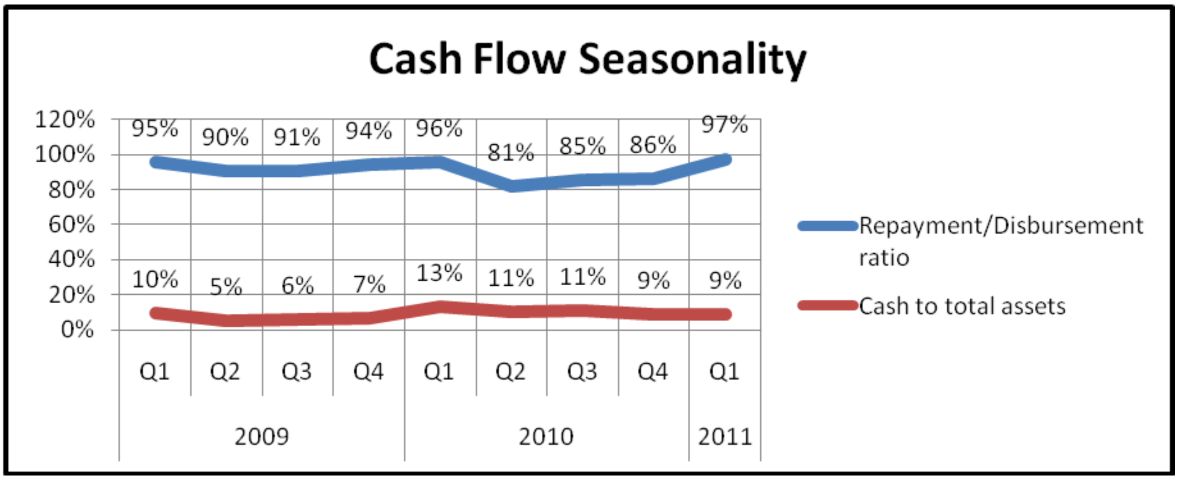
4.4 CASH MANAGEMENT

The consortium has been utilizing its cash base for growing the loan portfolio. The percentage of cash accumulation in comparison to its total assets has been less than ten percent. With nearly $4 million in cash balances in 2010, the MFI has the opportunity to utilize the surplus amount to grow its loan portfolio and thereby generate additional income. The ratio of cash to total assets is as follows:

	2008	2009	2010
Total Cash	$ 1,918,100	$ 2,269,776	$ 3,963,220
Loan Portfolio	$ 27,138,037	$ 31,414,975	$ 41,204,373
Total Assets	$ 29,612,041	$ 33,751,247	$ 45,167,593
Ratio of Portfolio to Total Assets	92%	93%	91%
Ratio of Cash to Total Assets	8%	7%	9%

4.4.1 SEASONALITY AND CASH FLOW FLUCTUATION

The optimal level of cash and liquidity for any MFI depends on several factors, including their risk appetite, uncertainty, and cash management policy. While on average CHF maintained a nine percent ratio of cash to total assets, this fluctuated between five percent in 2009 second quarter and 13 percent in the first quarter of 2010. The ratio stabilized during 2010 as shown in the diagram below. Most of this fluctuation can be directly linked to the portfolio lending activities. Cash hits its highest levels during Q1 from each year when the lending activities are slow. The opposite is observed in the second quarter when loan disbursements reach their peak.



4.5 BANKING OPERATIONS

The consortium operates 60 different bank accounts, according to the chart of accounts for both CHF-ACSI and Amalkom. The reason there are so many is because (a) location of operations in two countries; and (b) the requirements of the consortium's many donors. These are categorized, as far as they could be ascertained from the charts of accounts, as follows:

- At least five Iraqi banks
- The numerous bank accounts are kept for such purposes as interest-bearing for idle cash balances; reflows for loan transactions, and operations.

For all of the bank accounts, there is a full-time treasury function located in the Home Office supported by a coordinator in Headquarters. Basic tasks of the treasury include managing overall cash movements and balances, dealing directly with banks, setting cash disbursement targets, and managing safes. Other tasks include the responsibilities in this financial management section.

The consortium has a policy of clients having to repay loans via banks as there is no cashier function within Iraqi consortium offices. Clients interviewed for the assessment informed of the long hours, up to one day, and high costs (direct for transportation and opportunity of lost time away from their businesses) needed just to get to and deposit their repayments into a bank account. This was especially highlighted as a great inconvenience by clients from Halabja, Sulaymaniyah Province.

The consortium is highly recommended to revisit its steadfast stance on not having any cashier functions, which should be considered for those areas where clients have to travel long distances to banks in order to make their repayments.

4.6 GRANT EQUITY AND CAPACITY FOR GROWTH

The consortium relies primarily on donor capital to finance loans. Since 2003, the consortium has enjoyed receiving $42,809,893 from at least eight different donor sources. Of this total, $33,069,908 (77 percent) was to finance loan capital, and $9,739,985 (23 percent) for operations. The average cost of capital has been zero as the funding received up to now has been grants. With the high amounts of capital the MFI has, and with over $45 million in total assets, the consortium should be able to leverage such wealth into debt instruments that could finance significantly greater outreach.

4.7 ORDER IN THE BACK OFFICE

It is assumed that order in the back office for accounting, financial management, treasury, MIS and others is highly organized and well run. The consortium would otherwise not be able to maintain the high level of reporting that it regularly does to USAID-*Tijara* for the program's reporting in respect of MFI partners' outreach and financial performance. The back office is done remotely two countries away from Iraq at the Home Office where the staff was found to be highly qualified and competent in their respective job responsibilities.

5. PORTFOLIO MANAGEMENT

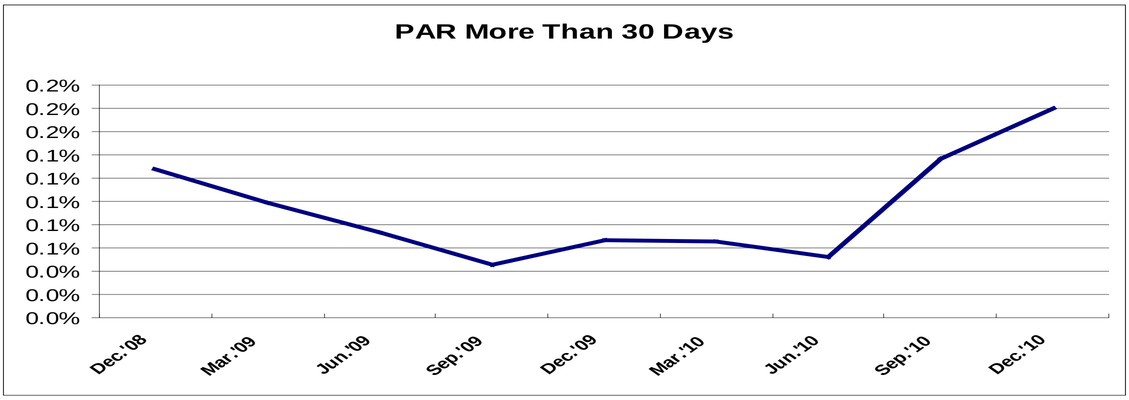
5.1 LOAN LOSS PROVISION

The provision for loan loss reserves (LLR) in the MFI has been about five percent of its gross loan portfolio. As of end 2010, the amount provided as LLR in the balance sheets was $2,176,835. This is higher than the international best practice standard that prescribes for no more than the amount of outstanding loans whose payments are 30 days or more overdue, or three percent of the total outstanding loans. Interestingly, the trend in this regard has been fairly constant for last three years with the ratio of loan loss reserve set at 5% of the total outstanding loans.

This shows that the program performance of the consortium in terms of portfolio quality and provisioning for loans in arrears has been steady as performance has been maintained despite the growth of the portfolio through new disbursements. Also in a country like Iraq faced with the challenges of security and restricted mobility of staff to collect repayments, the extra two percent buffer of LLR appears reasonable. However, the consortium should consider reducing the provision as actual write offs have been negligible, and such course of action would certainly increase net income.

5.2 AGING OF LOAN BALANCES IN ARREARS

With regard to the aging of loan balance in arrears, the consortium demonstrates its ability to control and keep it at a consistently low level. Both the PAR for loans whose payments are one day and 30 days late are less than one percent. There have been no arrears beyond 181 days. This is, indeed, a great accomplishment for the MFI working in a post-conflict environment.

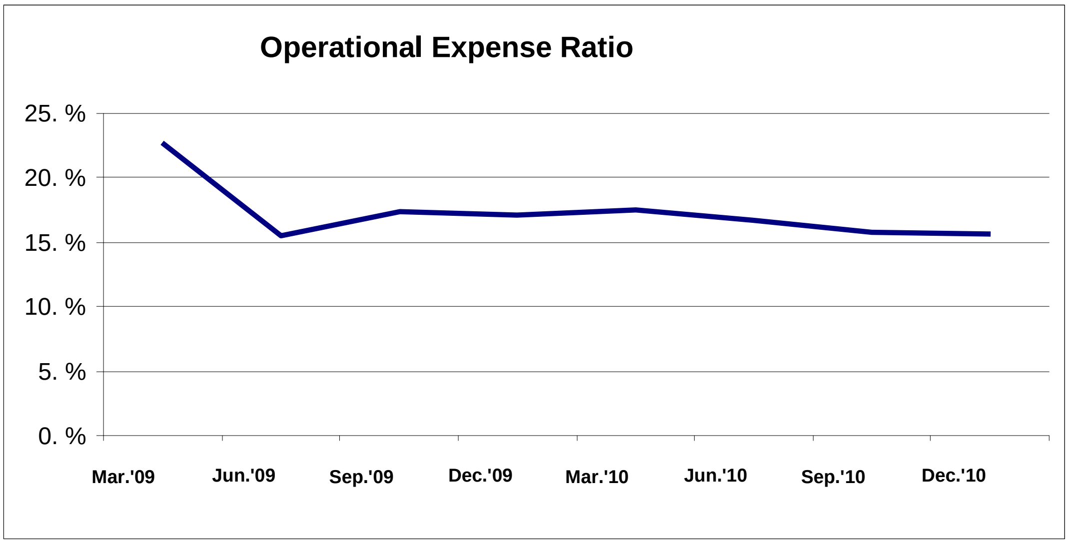


However, as reflected in the graph above, specifically for the PAR greater than 30 days, the rate increased the last two quarters of 2010. As such, the consortium should take necessary measures to determine the reasons for the increasing trend and manage it appropriately.

Loan write offs. In line with provisioning for bad and doubtful debts, write-off amounts have been minimal. Totals for the last three years were $73,822 ($9,513 in 2008, $23,421 in 2009 and $40,888 in 2010). This is negligible in comparison to loans outstanding; less than one percent of the portfolio had to be written off in 2010. This substantiates the fact that the consortium is vigilant and vigorous in following up overdue loans. It is a further testament to the sound lending policies and procedures used in determining credible loans and clients in the first place, plus the diligence in mitigating risks such as using effective collateral and loan guarantee mechanisms. Although loans are written off, the consortium continues to pursue the delinquents and their guarantors for an indefinite period of time until the loans are paid off.

5.3 PERFORMANCE AND EFFICIENCY

The consortium has been consistently doing better in managing and improving its efficiency over the years. The most notable measure for this is the operating expense ratio (OER) which has reduced substantially from 28 percent at the beginning of 2009 to 16 percent by end 2010, and to 13 percent by April 2011. The chart below indicates this progress.



One key measure of efficiency is how the ratio of clients per Loan Officers has improved over the years to 221 as of April 2011. This compares favorably to two years earlier in April 2009 when the ratio was 148. The consortium streamlined and strengthened its operations over the years by enhancing the productivity as measured by the number of clients per Loan Officer. In particular, the adoption of the SGL methodology helps to greatly increase efficiency. While keeping the trend, the consortium should reduce its OER from 13 percent to ten percent as per the best practice for most efficient MFIs around the world.

The table below indicates how well the consortium does against peers in the Iraq microfinance industry as well as in MENA. The consortium is better than MENA, but measures slightly less efficient than two of its three peers in Iraq.

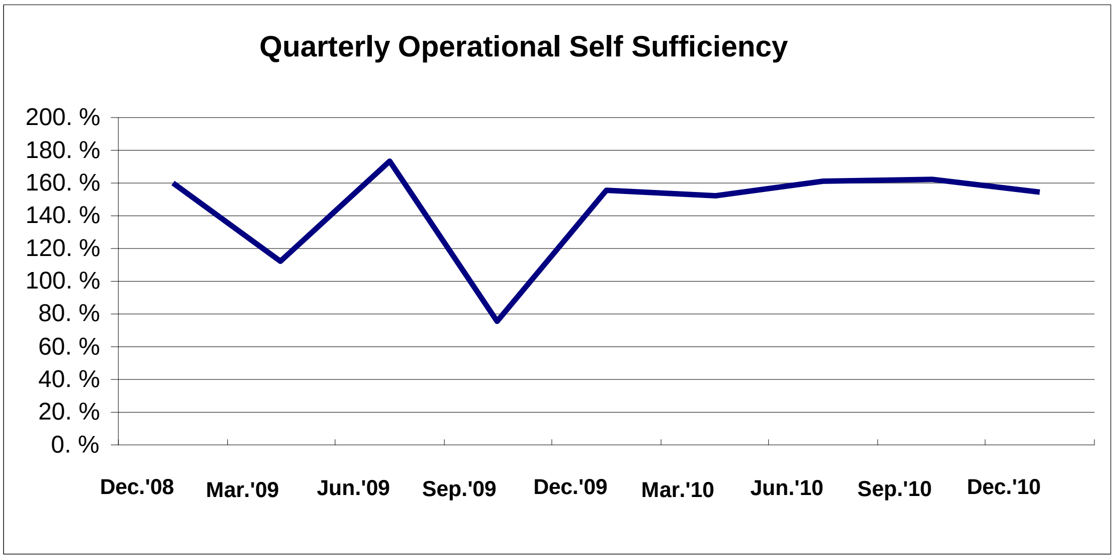
Operational Expense Ratio Comparison to Industry Peers and MENA as of April 2011

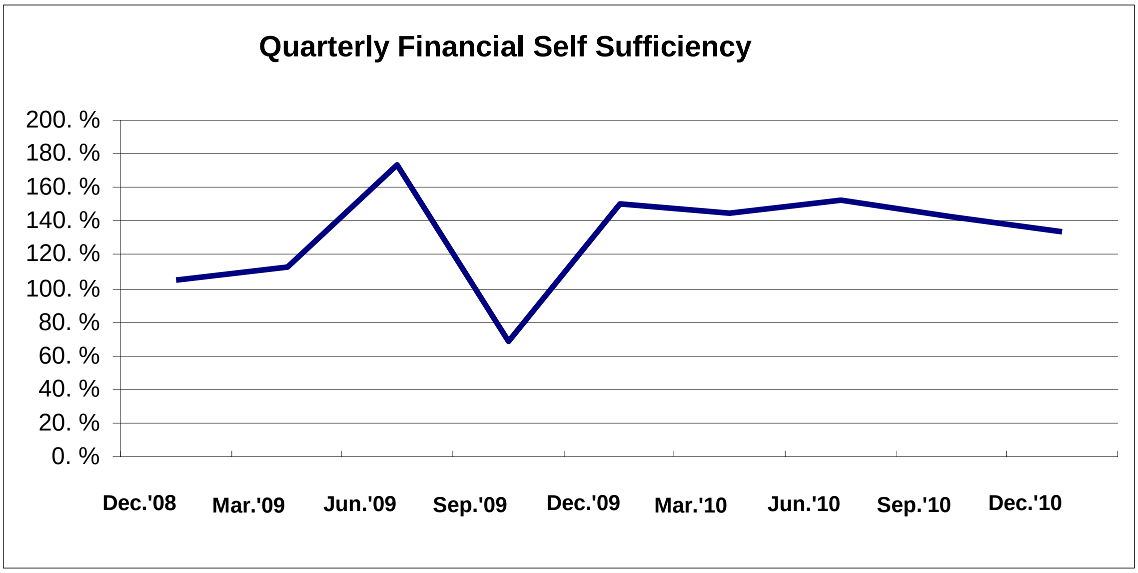
CHF/Amalkom	Al-Thiqa	Relief Int'l.	Izdiharouna	MENA
13%	8%	11%	14%	17%

5.4 OPERATIONAL AND FINANCIAL SELF-SUFFICIENCY

Attaining sustainability in its operations has been one of the key objectives of an MFI. Irrespective of the operating environment and period, each MFI strives to accomplish improvement in its operations in order to attain operational and financial self-sufficiency. These two indicators measure the degrees to which an MFI is able to transform its operations into profitability, sustainability and growth. The consortium is on a par with, if not exceeding, its peer MFIs of similar size in the MENA region. Indicators for 2010 are below:

Measure	Consortium	MENA
Operational Self-Sufficiency	154%	102%
Financial Self-Sufficiency	134%	102%
Operational Expense Ratio	16%	16.7%
Yield on the Portfolio	29%	30.2%





There were substantial quarterly variations in the OSS and FSS in 2009. However, the consortium stabilized them in 2010. Having reached to this level, plus enjoying greater efficiency as measured by the OER, the consortium should grow faster and expand its program for the forthcoming years while maintaining the similar trend in its self-sufficiency. Also it may consider passing on the benefits of these efficiencies to its clients by reducing interest rates, application fees and any others in coming years.

Key Indicators Update through April 2011

	CHF/ACSI	Amalkom
Operational Self Sufficiency (OSS)	183%	174%
Financial Self Sufficiency (FSS)	150%	144%
Yield	26%	50%

6. FINANCIAL ANALYSIS

The consortium enjoys exceptional performance and growth from its resources, operational proficiency, cost efficiency and management. As already recommended, the consortium should consider passing on the benefit of these efficiencies to its clientele in the form of lower interest rates and fees charged on loans.

6.1 PORTFOLIO TO ASSETS

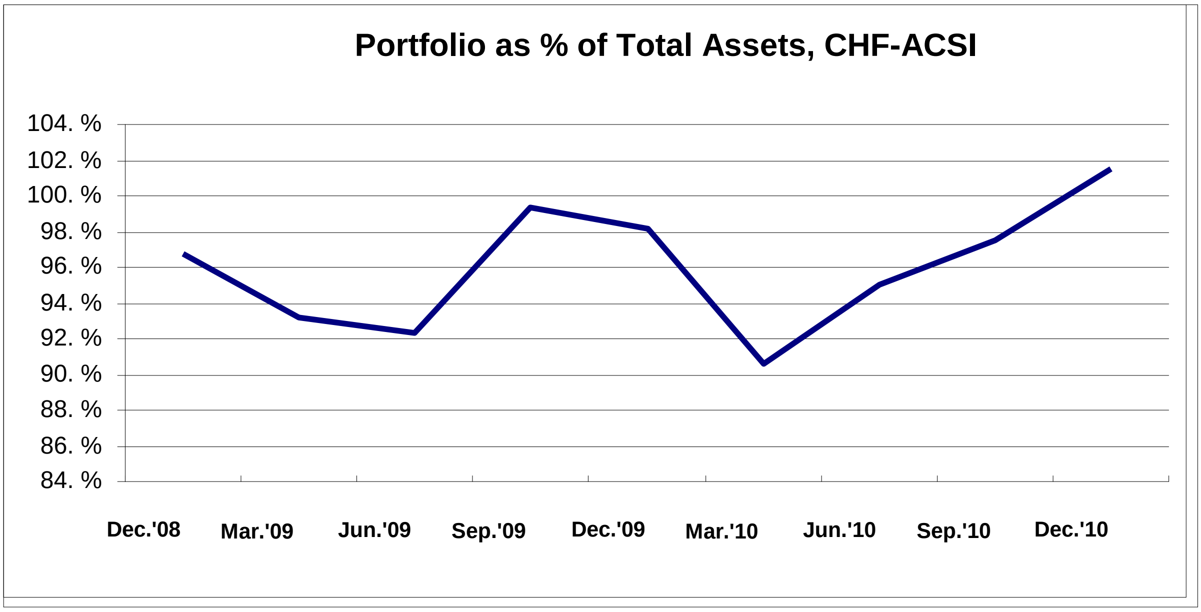
The following two graphs illustrate the ratio of the outstanding loan portfolio relative to total assets of each consortium member. CHF-ACSI assets are about ten times those of Amalkom which only commenced operations in 2010 as opposed to CHF-ACSI which commenced operations seven years earlier.

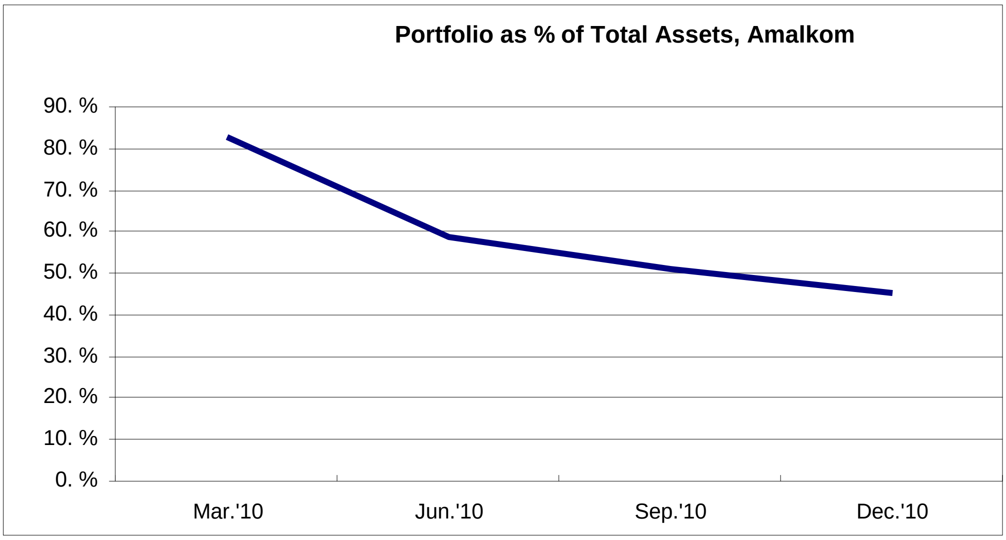
As of end March 2011, the following is noted:

- For CHF-ACSI, the value of the outstanding net loan portfolio to total assets is 93 percent. This is indicative of good asset management by maximizing investment into the income-generating loan portfolio and minimizing idle cash which is only five percent of the total assets.

- For Amalkom, its total assets are about one tenth of those of CHF-ACSI. The proportion of its outstanding loan portfolio to total assets is 54 percent while idle cash is 35 percent of total assets. Amalkom should learn from CHF-ACSI and be more proactive by investing a greater proportion of its assets, especially the idle cash, into the income-generating loan portfolio.

- The decline of the ratio of the loan portfolio to total assets in 2010 for Amalkom is mainly attributable to the large amount of $3.5 million grant disbursements made by USAID-*Tijara* during the same period which could not be invested into portfolio immediately. This was part of over $5 million in grants disbursed to the whole consortium in the same year (other grants from DfID, UNIDO and UNOPS). Such high injections of cash could not all be effectively invested into loans with the same speed.





6.2 INCOME AND OPERATIONAL EXPENSES

The following table illustrates the volume and mass of income, expenses, and profitability of the consortium over three years, with 2011 projected based on first quarter figures:

Item	2009	2010	2011*	% CAGR
Gross Income from Operations***	$8,716,517**	$11,118,395	$11,812,000	16.4%
Operating Expenses	($6,055,575)	($6,570,881)	($6,016,000)	-0.3%
Net Operating Income	$2,660,942	$4,858,728	$6,096,000	51.4%
% NOI to Gross	31%	44%	52%	

* Projected based on 1st Quarter 2011 performance of both CHF/ACSI and Amalkom
** Before Amalkom, which commenced operations in January 2010
*** In the consolidated income statement, the inter-company income/expense was eliminated to avoid any overstatement/understatement of net income. Amalkom paid CHF a total of $311,214 and $75,000 as service fees in 2010 and 2011 respectively.

The net operating income rate (net operating income over gross income from operations) is 31 percent in 2009, 44 percent in 2010, and projected to be 52 percent in 2011. Such profitability would be the envy of any company in the world. Net operating income is increasing much faster as compared to gross income. These figures again show scope for the reduction of interest rates, particularly if the consortium wants to maintain or even increase market share.

6.3 PERFORMANCE COMPARED TO MENA REGION MFIS

Comparison of Consortium performance figures to the MENA (Middle East and North Africa) Region figures from the Microbanking Bulletin) are shown as follows:

RATIO	December 2008	December 2009	December 2010 (for Consortium)	MENA
Female Client Percentage	13.8%	15%	18%	81%
Average Loan Size	$1,516	$1,723	$1,839	$299
Number of Active Borrowers	18,903	19,223	23,590	9,998
Return on Assets (Net Income/total assets)	0.52%	9.8%	5.9%	2.2%
Return on Equity (Net Income Operations/ Equity)	0.53%	10.1%	6.5%	9.2%
Sustainability and Yield				

Operational Self-Sufficiency	102%	155%	132%	108.2%
Financial Self-Sufficiency	86%	150%	113%	104.8%
Portfolio Yield (Loan Income/Gross Portfolio)	30%	28%	31%	35%
Portfolio Health				
Portfolio at Risk less than 31	1%	0.3%	0.6%	NA
Portfolio at Risk more than 31	0.1%	0.1%	0.2%	4.5%
Loan Loss Ratio	0.35%	0%	0.1%	0.1%
Loan Loss Reserve Ratio	6.12%	5.2%	3.15%	NA
Risk Coverage Ratio	6,129%	7,709%	2,752%	74%
Efficiency Ratios				
Cost Per Client	$389	$297	$242	$86
Loan Officer Productivity (Clients/Loan Officer)	163	216	221	160

On the positive side, as reflected in the above table, the consortium as a large MFI is doing well relative to its regional peers of about the same size especially in the following:

- Sustainability and profitability; operational and financial self-sufficiency much higher.
- Portfolio in terms of PAR and risk coverage.
- Client caseload per Loan Officer 38 percent higher.
- Return on assets (ROA) is almost three times.
- <u>Risk coverage ratio</u> is 37 times that of regional peers.

In areas to improve, the consortium does not compare favorably to its similar-sized peers in the MENA region in terms of:

- <u>Cost per client</u> is almost three times higher than its peers of the same size in the MENA region.
- <u>Women clients</u>, the consortium lags considerably behind its MENA peers, with only 18 percent in women clients compared to MENA's 81 percent.

7. IMPACT, SOCIO-ECONOMIC

The socio-economic impact on the living standards of the clients, their family members, the performance and wealth of their businesses, and on those they employ, and also on those with whom they do business is considerable and is directly attributable to the lending activities of the consortium. The fact that Amalkom is focusing its lending program almost exclusively on the SGL (Solidarity Group Lending) product means that the consortium is making its financial services ever more inclusive by reaching more of the poor and women. The fact that as of April 2011 36 percent of the Amalkom clientele were women and average outstanding SGL size is just over $500 means that the program is truly reaching the poor.

The most tangible figure of impact available as of end April 2011 is that at least 55,600 jobs have been consolidated and/or created because of consortium lending activities. For an average of five persons in a family per client and person employed, the lives of almost 280,000 have been positively impacted socio-economically.

The following are four examples of clients the assessment team interviewed during the period from March to May 2011:

- A 45-year-old woman client from Karbala who is the leader of a solidarity group of a total of three women. Their business is retailing clothes and used machinery. Each member received an $800 loan to develop their respective trading businesses of buying more inventory. Each member claims that the proceeds, put together to buy inventory at better discounts, more than doubled their sales and profits. In interviews, they raved how the additional profits help in fulfilling such traditional obligations of getting their respective daughters married.

- A 39-year-old married woman who supports three children is the leader of a solidarity group. The three-women member group based in Diwaniyah each borrowed $800, guaranteeing one another in the event of default to invest in their sewing and embroidery businesses. The proceeds were used to buy new sewing machines plus garment inventory. The loan was compliant with Islamic religious laws. Knowledge of Amalkom came from the door-to-door work of Amalkom staff. Loan repayments have been easy as sales and profits have more than doubled. The impact is the women's abilities to better supplement household income in support of the families' socio-economic wellbeing.

- A 32 year old male client who is on the second loan for his restaurant business in Said Sadiq, Sulaymaniyah Province accessed his first individual loan of $2,000 and the second of $3,000 and used the loans to acquire more inventory, equipment and space to accommodate increasing clientele. Over the two-year period the client has taken out the loans, he estimates that his sales have increased by at least 45 percent.

- A 25 year old female client in Halabja, Sulaymaniyah Province who has borrowed from CHF/ACSI twice accessed the first loan of $1,500 and the second of $2,500 for her hairdressing salon business. The client states that her revenues have increased by 80 percent since the start of taking out loans, likely over 18 months, using the proceeds to buy raw materials inventory as well as decorate the shop to attract more customers.

8. INTERNAL AUDIT

Five to six internal audit professionals based in Iraq are reported to be working in the field. They are part of the internal audit unit managed by a senior managing auditor who reports to senior management in the Home Office. The unit is in the process of hiring more staff. The target ratio is one field auditor for every 5,000 clients. They audit branches on a regular basis as well as support annual external audits to help assure the accuracy of information collected and integrity of reporting systems. CHF-ACSI provides its internal audit resources to Amalkom as part of the management agreement, and it is expected that when the legal framework in Iraq is conducive and an LLC is registered, the internal audit unit will report to the Board of Directors.

The internal audit function includes evaluation of the consortium's operations such as information management and processes as well as other risk areas in accordance with policies and procedures and adherence to applicable laws and regulations. The unit works with management to ensure that CHF-ACSI's operating risks are addressed and minimized effectively. The auditors do not limit their work to the office, but also visit clients to confirm data in files. The auditors are currently focusing on areas highlighted in referenced independent operational audit, including procurement procedures and client feedback.

9. RECOMMENDATIONS

Recommended Actions
1. Governance: The consortium should begin creating and developing an Iraq national-level Board of Directors to effectively govern as an independent governing board for Amalkom capable of exercising strategic and fiduciary oversight responsibility. The consortium should designate a selection committee including members from USAID/Iraq, USAID-*Tijara* as well as consortium senior management to review and recommend potential board members. When the new board is formed, there should be extensive training of members on governance principles, procedures for dealing with executive managements, protocols on conducting meetings, developing and implementing effective board by-laws, etc. USAID-*Tijara* can assist in these processes.
2. Mission and vision statements: The Consortium should consider revising the mission and vision statements to include words relating to best practice microfinance such as making financial services as inclusive as possible with such groups as the poor, women and youth to make it more concise and consistent with its operations and long term goals.
3. Management decentralization: Consider decentralizing and delegating more of the authority and expertise in managing the consortium in all of its aspects to in-country Headquarters.
5. Clients, service, and markets: Given that most of the consortium's operations are in the south, and that agriculture is a major economic feature of the region, services to the agribusiness sector should be increased. This would make financial services more inclusive by reaching a greater population in the rural areas. • Client service: Consider getting cashiers in branches such as Halabja where clients would otherwise have to travel long distances just to cash loan checks and make repayments. • Credit life insurance: Set up credit life policies with an insurance company such that, in the tragic event of a client passing away, his/her loan is settled out of insurance proceeds, and a bereaved family has one less thing to worry about after the passing of a loved one.
6. Marketing: Extend the consortium's Iraqi microfinance industry-unique efforts of creating a department for marketing to Iraq. USAID-*Tijara* notes that this recommendation is in process with recruitment of one person with plans to recruit two additional staff to have a functional department. • Public relations events with Iraqi Government officials and agencies, and the general public: It is recommended that the consortium should develop and implement strategies whereby greater contact, discussion and communication with government officials at all levels is done. This would include participating more in meetings with such entities as chambers of commerce as well as participation in exhibitions and fairs.
7. Loan Officer productivity: Encourage steady improvement in Loan Officer and total staff productivity such that it matches, if not exceed, the rates of Iraqi peers and those of similar size in the MENA region. • Increase the proportion of the solidarity group loans (SGL) to the total loan portfolio.
8. Internal audit: Parallel to efforts to create a more robust and competent national board of directors, the consortium should ensure that there is an internal audit function supervised by the national-level board of directors.

9. Blacklist of delinquent borrowers: Share the proprietary blacklist the consortium has and uses by uploading it to the Iraq microfinance industry's IMFI.org blacklist for the mutual benefit of all MFI members of the Iraqi microfinance community.
10. Human resource management: Decentralize the authority of HR oversight to the HR coordination function in Headquarters It is further recommended that (a) job descriptions, and (b) salary scales be updated. The job descriptions should include (i) backgrounds/contexts; (ii) the lines of relationship between supervisors and their direct reports as well as between the Headquarters and the Home Office and (iii) the minimum qualifications required. • <u>Job descriptions</u>: Assure that job descriptions follow the proper protocol of listing such items as who supervises, and the responsibilities covered; and required qualifications.
11. Assets/liability management: The consortium to leverage the considerable wealth of assets (around $45 million) into longer term debt to finance loan portfolio expansion. • <u>Risk coverage ratio</u>: Consider bringing down considerably the risk coverage ratio from 2,752 percent down closer to the MENA standard for similar size peers at 74 percent.
13. Loan loss provision: Consider reducing the loan loss ratio (LLR) given the very low rate of loan loss experienced by the consortium; the current rate is around five percent; consider reducing this to two to three percent.
14. Interest rates: The consortium to consider reducing interest rates and fees. Its profit margin is already around 50 percent. The reduction of interest rates and fees would (a) reverse declining market share, and (b) improve overall public relations by showing that the consortium is more sensitive to the needs of the poor as well as demonstrating more political correctness in the face of criticism of the industry particularly by governments that interest rates and fees are too high.
15. Banking: (a) Where possible (subject to location and donor requirements), look to consolidate the 60 existing bank accounts; (b) negotiate with the banks to help speed up the processes whereby clients can get in and out of a bank faster so as not to take up so much time away from their businesses just to make a loan repayment.
16. Women clientele: The consortium is commended for having the highest percentage of women served at 37 percent of clientele for Amalkom; it is encouraged to increase the percentage even higher for all consortium members, particularly CHF-ACSI.
17. Diversification of funding sources and products: It is recommended the consortium be more innovative in terms of diversification on the principles of spreading risk as well as expanding market opportunities by increasing the number and nature of the financial services products offered. Credit life insurance, which other MFI partners are offering, would be a good additional product.

ANNEXES:

ANNEX 1: USAID-*TIJARA* OPERATIONAL ASSESSMENT SCORECARD: CHF/ACSI AND AMALKOM

Summary Score

Section	Maximum Possible Points	Score
Status and Experience	10 points	9
Outreach	30 points	22
Ownership, Governance and Vision	30 points	16
Administration/Operational Management	40 points	35
Financial Management	20 points	19
Financial Analysis	45 points	43
Ability to respond to crises	25 points	24
TOTAL	**200**	**168**

Total Score of 168 out of a possible 200: 84%

Status and Experience (Max 10); Score: 9

Years of Experience since first loan disbursed				5
1	2	3	4	**5**
Less than 2 years	2-4 years	4-6 years	6-8 years	>8

Independence Status				4
1	2	3	**4**	5
Dept of Multi-sectoral Agency	Autonomous unit of Multi-sectoral Agency	Unit with plans for independence within 2-3 years	Independent legal structure, strong dependence on Home Office	Independent legally, operationally, financially

Outreach (Maximum 30); Score: 22

Number of Clients				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
<500	501-999	999-1,999	1,999-4,999	>5,000

Annual Growth in Clients (from 2008 to 2011)				4
Inadequate (1)	Very Weak (2)	Weak (3)	**Good (4)**	Very Good (5)
<15%	15%-24%	25%-29%	30%-44%	>45%

Product mix and new product development				4
Inadequate (1)	Very Weak (2)	Weak (3)	**Good (4)**	Very Good (5)
Only one product, not tailored to needs	Limited product diversity. Limited client satisfaction.	Some product diversity, limited client satisfaction.	Broad product mix, internal capacity to conduct market research and product development	Broad product mix, internal processes to measure client satisfaction and impact. Capacity to research and develop new products.

Market Responsiveness				4
Inadequate (1)	Very Weak (2)	Weak (3)	**Good (4)**	Very Good (5)
None - MFI has not demonstrated interest or capacity to be demand driven.	Some language in business plan or verbally about market responsiveness, but no effort taken to enable it.	Ad hoc system to gauge market demand, client satisfaction, etc. but insufficient. Articulated interest in being demand driven.	Clear goal to be demand driven, systemic processes to gauge market demand and client satisfaction. Some translation into changes in systems and products.	Clear goal to be demand-driven and has internal capacity to gauge market demand, client satisfaction, etc. Learning reflected in product modifications and improvements in systems.

Percentage Female Clients				3
Inadequate (1)	Very Weak (2)	**Weak (3)**	Good (4)	Very Good (5)
<10%	10%-25%	25%-50%	50%-74%	>75%

Average Outstanding Loan Value				2
Inadequate (1)	**Very Weak (2)**	Weak (3)	Good (4)	Very Good (5)
>$3,000	$2,999-2,000	$1,999-1,000	$1,000-499	<$500-$200

Ownership, Governance and vision (Max 30) Score: 16

Quality and Composition of Board Members				2
1	**2**	3	4	5
No Board	Exists but weak, does not influence ED	Exists, made up of staff & ED dependent on 1 leader	Exists with power, bad composition	Exists, with power and good composition

Regularity of Board Meetings				1
1	2	3	4	5
Irregular	Semi-Annually	Quarterly	Bi-Monthly	Monthly

Board policies and procedures				4
1	2	3	**4**	5
No by-laws	Ad hoc system for decision making	Some rules and regulations followed.	Written by-laws with clear guidelines on term limits, election procedures, etc.	Written by-laws with clear guidelines on terms, election procedures, etc. Followed and understood by BoD.

Alliances and Networks				2
1	**2**	3	4	5
No Linkages	Member of International, Regional or local Network / Apex	Operational Linkages of International MFI network/Apex. Member of other networks.	Financial, operational linkages of International MFI Network/Apex. Active member in other networks.	Active membership and leadership in international Network/Apex. Active member or leader in other networks.

Leadership				3
1	2	**3**	4	5
Weak and individual	Weak and shared	Strong and Individual	Strong and Shared	Strong, Shared and Diffuse

Strategic Plan				4
1	2	3	**4**	5
Does not exist	Exist but not realistic, not followed	Exist, lays out most elements, some unrealistic, needs further development	Exists, articulates mission and goals, plans for future. Some elements missing.	Exists, realistic. All elements covered. Focus on sustainability and outreach

Administrative/Operational Management (Maximum: 40) Score: 35

Skills and Experience of Managers and Senior Staff				5
Poor (1)	Inadequate (2)	Weak (3)	Good (4)	**Very Good (5)**
Educational and professional experience not relevant to positions	Some experience, but lack training to perform in current positions	Relevant educational experience, limited professional experience	Relevant educational and professional experience	Strong management and staff with relevant educational and professional experience

Skills and Experience of Field Staff				4
Poor (1)	Inadequate (2)	Weak (3)	**Good (4)**	Very Good (5)
Limited educational experience	Some relevant training, insufficient for position	Some educational or relevant work experience, insufficient for current position	Relevant educational and work experience, limited ability to grow with needs of MFI	Relevant educational and work experience, continual training and learning and growth with needs of MFI

Operating Policies and Procedures - Credit				5
No (1)	Inadequate (2)	Weak (3)	Good (4)	**Very Good (5)**
Do not exist	Written but disregarded	Written policies in place, changes frequently on ad hoc basis. Lack of clarity of field staff on policies and procedures.	Manuals in place. Some elements may be missing or not followed regularly.	Manuals in place. Policies and procedures are followed and understood throughout the organization.

Operating Policies and Procedures - HR				5
No (1)	Inadequate (2)	Weak (3)	Good (4)	**Very Good (5)**
Do not exist	Written but disregarded	Written policies in place, changes frequently on ad hoc basis. Lack of clarity of field staff on policies and procedures.	.Manuals in place. Some elements may be missing or not followed regularly.	Manuals in place. Policies and procedures are followed and understood throughout the organization.

MIS - Quality and Use of Information				4
Poor (1)	Inadequate (2)	Weak (3)	**Good (4)**	Very Good (5)
Information systems produce inaccurate reports. Limited or no usage for decision making.	Information systems produce poor quality reports. Substantial room for errors. Limited use of reports in decision making.	Information systems produce good quality report. Some room for errors. Ad hoc use of information in decision making.	Good quality reporting. Minor room for errors. Periodic use of information in decision making.	Excellent and accurate reporting. Limited room for error. Systematic use of information in decision making.

MIS - Adaptability				4
No (1)	Inadequate (2)	Weak (3)	**Good (4)**	Very Good (5)
Weak system, poor quality information	Weak system, limited capacity to adapt new products, reports, etc.	Weak system, some capacity to adapt parameters, reports, etc.	Adequate system. Accurate reports. Ability to adapt parameters and reports.	Strong system. Accurate reports. Ability to adapt parameters and reports.

MIS - Security and Maintenance				4
No (1)	Inadequate (2)	Weak (3)	**Good (4)**	Very Good (5)
No/limited security. No maintenance.	Weak system, limited security measures. Limited maintenance.	Weak system, ability to set security measures but not used by MFI. Some maintenance available.	Use of security measures not optimal. Maintenance available and used periodically.	Internal capacity to support system. Strong security measures at all levels of the MIS.

Business & Operational Plan				4
No (1)	Inadequate (2)	Weak (3)	**Good (4)**	Very Good (5)
Does not exist	A document exists, not realistic, not followed. Some partial planning for individual projects/activities.	A document exists, some elements not realistic, not followed. In response to external use, not internally driven.	A document exists, generally realistic and followed. Annual planning process in place. Supports strategic plan.	A document exists and maps out all elements in a good business plan. Contents are understood and followed by staff and managers.

Financial Management (Maximum 20) Score: 19

Accounting Procedures and Policies				5
No (1)	Inadequate (2)	Weak (3)	Good (4)	**Very Good (5)**
Do not exist	Written but disregarded	Written policies in place, changes frequently on ad hoc basis. Lack of clarity of financial staff on policies and procedures.	A/C and Finance manuals in place. Some elements may be missing or not followed regularly.	Manuals in place. Policies and procedures are followed.

Financial Statements				5
No (1)	Inadequate (2)	Weak (3)	Good (4)	**Very Good (5)**
Not produced regularly	Produced, but late or inaccurate	Produced, but often late.	Monthly statements produced. Year-end statements produced generally within 1 month of close of fiscal year.	Consistently produced and on-time. Annual statements consistently produced within 1 month of close of fiscal year.

Audit of Financial Statements				5
No (1)	Inadequate (2)	Weak (3)	Good (4)	**Very Good (5)**
Not audited	Financial statements and supporting documentation are reviewed by donor representatives. However, no official external audit is carried out.	External audits are carried out for donor-sponsored microfinance projects. However, the consolidated financial statements are not audited.	Financial statements are audited annually by an external audit firm. However, the firm is not on a USG-approved list. Recommendations in the management letter are fairly standard.	Financial statements are audited annually by an external audit firm. The firm is on a USG-approved list. The audit produces a management letter with meaningful recommendations.

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Internal Audit				4
No (1)	Inadequate (2)	Weak (3)	**Good (4)**	Very Good (5)
None	Procedures not documented. Checks and balances exist implicitly but lack formalization.	Written procedures. Significant compliance problems.	Procedures documented. Some of the standards and procedures missing or weak. Employee awareness of procedures. Management generates a climate favorable to control.	Procedures documented. Employees demonstrate high awareness of and compliance with these procedures. Management generates a climate favorable to control.

Financial Analysis (Maximum 45) Score: 43

Financial Viability

Portfolio Yield				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
<10%	11-15%	16-20%	21-30%	>30%

Operational Self Sufficiency (as of 30 April 2011)				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
<85%	85% - 99%	100%-104%	105%-119%	>120%

Financial Self-sufficiency (as of 30 April 2011)				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
<80%	80% - 94%	95% - 99%	100% - 114%	>115%

Operational Efficiency

Clients per Loan Officer				3
Inadequate (1)	Very Weak (2)	**Weak (3)**	Good (4)	Very Good (5)
<150	150-199	200-249	250-299	>300

Operating Costs/Avg. Total Assets				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
>50%	45%-50%	40%-45%	31%-39%	<30%

Portfolio Quality

Portfolio in Arrears > 30 days				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
>15%	13-15%	11-12%	8-10%	<7%

Portfolio at Risk > 30 days				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
>9%	8%	7%	6%	<5%

Loan-loss Ratio				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
>8%	>7%	6%	5%	<4%

Risk Coverage

Risk Coverage Ratio (LLR/PAR>30)				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
<50%	51-65%	66-80%	81-100%	>100%

Ability/Plans to Respond to Crises (Maximum 25) Score: 24

Past Recovery Experience (2001-2004 crises)				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
Losses continue to plague organization	Some, not full, recovery in market share, profitability, PAR.	Some recovery in at least one of the following: market share, profitability, PAR	Full recovery in at least two of the following: market share, profitability and PAR.	Full recovery from past crises in market share, profitability and PAR.

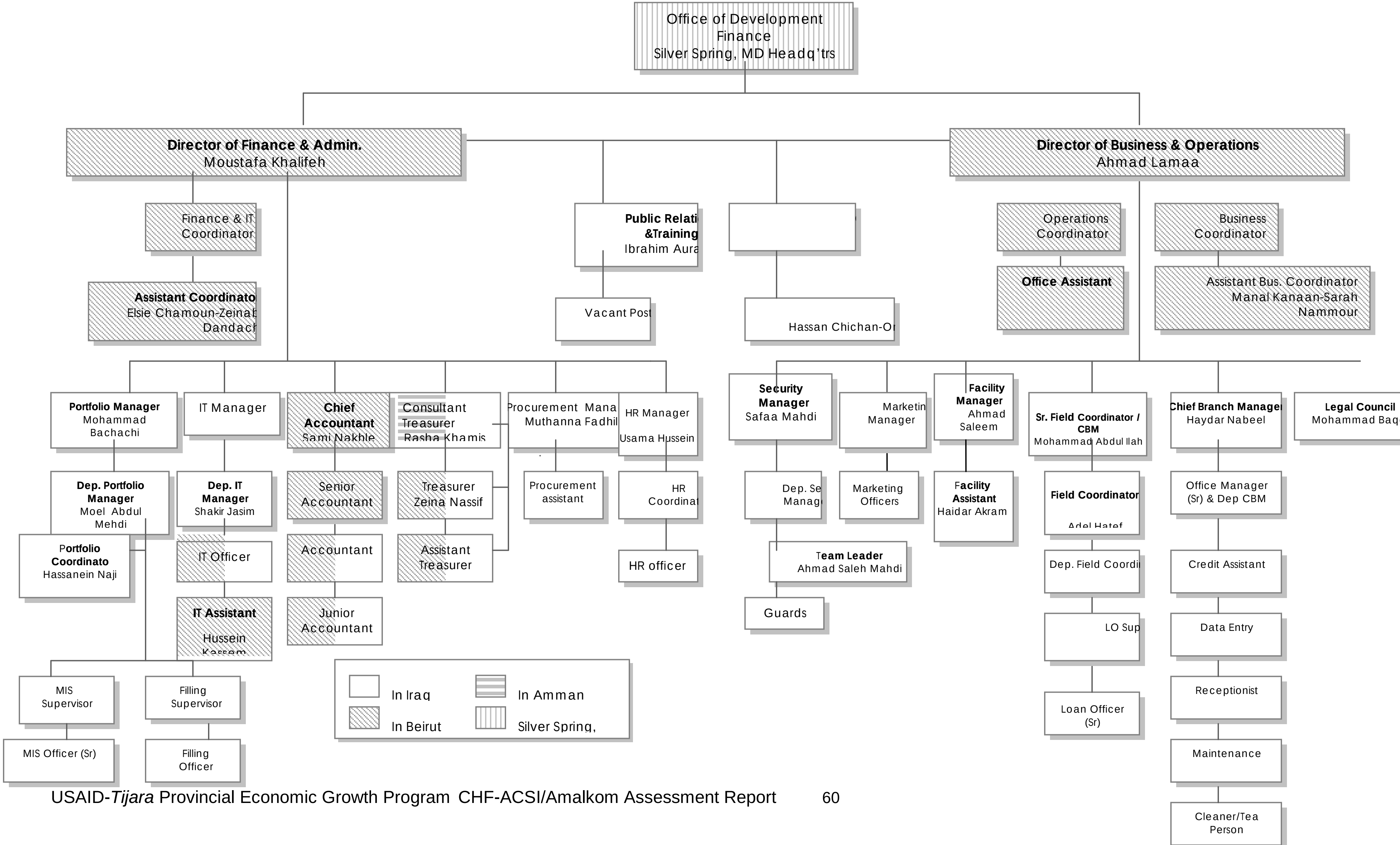
Decline in active clients since January 1, 2008				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
100%	75%	50%	25%	<10%

Increase in Portfolio at Risk Since January 1, 2008				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
>75	50%-75%	25%-49%	15%-24%	<15%

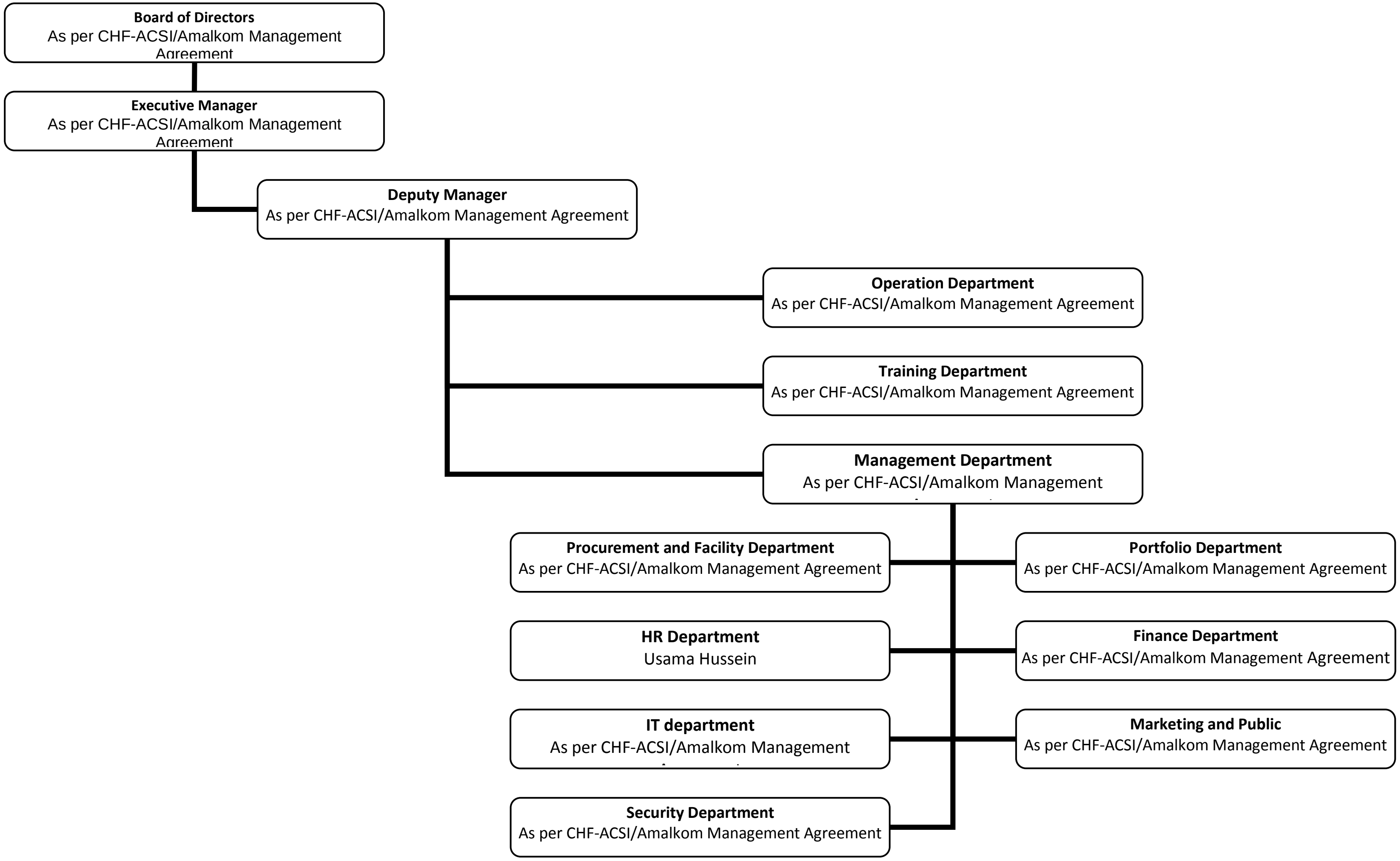
Reduction in operating costs Since January 1, 2008				5
Inadequate (1)	Very Weak (2)	Weak (3)	Good (4)	**Very Good (5)**
Increase in operating costs	No change in operating costs	Slight reduction in operating costs (deficit >25%)	Reduction in operating costs (deficit <25%)	Reduction in line with reduction in income

Financing Strategy				4
Inadequate (1)	Very Weak (2)	Weak (3)	**Good (4)**	Very Good (5)
No financing strategy to deal with market changes.	Continued future plans to rely on donor funding. Limited ability to modify pricing, reduce cost structure or diversify funding sources.	Some internal awareness of need to adapt financing strategy. Limited buy-in throughout organization.	Articulated (written) financing strategy. Limited buy-in throughout organization.	Articulated (written) financing strategy with clear move toward proper pricing and commercial sources of capital. Broad support.

ANNEX 2 A: CHF/ACSI ORGANIZATIONAL CHART



ANNEX 2 B: AMALKOM ORGANIZATION CHART



ANNEX 3: BACKGROUND DOCUMENTS REVIEWED

<u>External reports about CHF/Amalkom from the previous two years.</u> • Operations Audit Report: ACSI Program in Iraq by Talal Abu-Ghazaleh & Company International (TAGI) (40 pages); October 2008
<u>Audited financial statements for previous two years.</u> • 2007, 2008 and 2009. Also from the audit done for the USAID-*Tijara* grant to Amalkom
<u>Non-audited financial statements for 2010.</u> • PMT statements, graphs, tables, charts with financial and outreach information from 2008 through March 201`1
• Complete charts of accounts for 2010.
• Complete set of summary reports from the loan tracking system.
• Organization charts, CHF/ACSI and Amalkom (see Annex 2).
<u>Governance charter and bylaws</u>. • Only for CHF/ACSI; still pending from Amalkom
• List of Amalkom Board of Directors; according to CHF position and physical location

• Minutes from past three meetings of the governing Board of Directors.
• Description of financial services.
• Human resource (HR)/personnel manual (75 pages, undated)
Credit manual of policies, guidelines and procedures, including provisions for loan loss provisioning, write-off, and recovery policies (if not in credit manual) • CHF Global Field Finance & Accounting Manual; Financial and Operational Policies (266 pages); March 2010 • ACSI Credit Policies & Procedures Manual (51 pages); updated March 2011 • Amalkom Credit Policies & Procedures Manual (17 pages) March 2011
• Registration certificate, Amalkom
• Line of credit agreement between CHF and Amalkom; 23 March 2010; $500,000; 10% interest per annum
• Two authorization memoranda from CHF/Beirut: ➢ Authorizing CHF/Hilla to approve loans up to $10,000; 23 Feb 2011 ➢ Authorizing CHF/Hilla to approve raising procurement levels, 08 February 2011
• Strategic plan, 2009
Information technology • IT Use Policy, August 2009: Defines the limitations and parameters for using company IT equipment and Internet • Web Abacus manual • IT Manual, September 2009 • IT Supervisor TOR (no date)

• Amended and Restated Agreed Loan Terms between CHF HQ & CHF/ACSI; 28 Feb 2011: for $440,000; 6% per annum; maturity to June 2012; Ref no. LA-ACSI-20090804AA
• Amended and Restated Agreed Loan Terms between CHF HQ & CHF/ACSI; 28 Feb 2011: for $435,000; 6% per annum; maturity to June 2012; Ref. no. LA-ACSI-20091014AA
• Amended and Restated Agreed Loan Terms between CHF HQ & CHF/ACSI; 28 Feb 2011: for $2,500,000; 5% per annum; maturity to Dec. 30, 2011; Ref. no. LA-ACSI-20100204AA
• Amended and Restated Agreed Loan Terms between CHF HQ & CHF/ACSI; 28 Feb 2011: for $500,000; 6% per annum; maturity to June 2012; Ref. no. LA-ACSI-20100610AA
• Amended and Restated Agreed Loan Terms between CHF HQ & CHF/ACSI; 28 Feb 2011: for $500,000; 6% per annum; maturity to June 2012; Ref. no. LA-ACSI-20100816AA
• <u>Staff lists (both as of February 2011):</u> ➢ CHF/ACSI ➢ Amalkom
• Field Security Manual; next review in September 2011 (46 pages): Appears to talk about threat levels and how to deal with them for CHF globally, and is not specific to Iraq
• Facilities manual (a control manual)
• Management agreements: with (a) Amalkom; and (b) ATAS
• CHF/ACSI Fraud Review Checklist

ANNEX 4: ORGANIZATIONAL STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT ANALYSIS)

The following is the SWOT Analysis (strengths, weaknesses, opportunities and threats) mostly provided by consortium (CHF-ACSI, Amalkom) managers and staff members. These are necessarily their views. Assessment team member commentary and views are in parentheses (…).

Strengths:

- Market dominance in Iraq; at least 40% of the market (but it is declining)
- Management team with more than 14 years experience
- Iraqi staff; 60% have more than eight years MF experience
- Three staff who are qualified CGAP Microfinance Trainers of Trainers (TOTs)
- 80% of the geographical territory of Iraq covered
- Iraqi staff have been to many international trainings and exchange visits to such venues as Italy, Morocco, Egypt, Lebanon, Romania, and Jordan
- Staff loyalty that believes in the CHF mission (considered the largest strength)
- Very good database software (Abacus) for ICT
- Support from CHF International headquarters in Silver Spring, Maryland (400 staff in HQ)
- Internal policies and procedures are well established and being actively implemented; they are fully followed
- Strong internal audit: Five to six internal audit professionals for the field; for every 5,000 clients, have a field auditor. In the process of hiring more internal audit staff.
- Loan product diversification: home improvement, small business, group, micro, youth, start-up for micro and small, employee loans (zero interest rate)
- Career path for employees according to seniority, written in the policies according to objective criteria such as PAR
- Transparency is integral to the organizational structure
- Suggestion boxes for both staff and clients; frequently used with active management follow up to implement suggestions
- 1,200 visitors per day to all Iraqi offices
- 2,500 to 3,000 loans disbursed per month
- Professional staff; each can provide any information
- Strong organizational structures
- Field coordinators (six) including deputies who supervise lending operations
- Regional managers (to have three; yet to be appointed). It will take one year to develop.
- Authority decentralized to Iraq; up to $8,000 per loan can be approved without reference to the Home Office

- HR: Motivated and loyal employees;
- Low staff turnover.
- Excellent team work.

Weaknesses:

- Commercial banks; disbursements and repayments. Unable to do mobile banking. Working with four different banks. $50,000 per month in official fees to the banks
- Transparency and disclosure; lack thereof
- Absence of cashier operations: Cannot have it due to fraud, corruption, human mistakes; (the volume of operations is $6million per month; $500,000 per branch per month; $25,000/day which is very high.)
- Security: Overall environment continues to be precarious
- Electricity; extra costs for generators (fuel, maintenance)
- High rents for buildings in a booming real estate market (such as Erbil). It is not possible to buy because of high security risks and high costs.
- Infrastructure: Taxis, transportation, roads, checkpoints,
- HR: Forms and procedures need updating.
- Advertising: needs to be improved

Opportunities:

- Mobile banking: For use for clients to make repayments so that they don't have to get mistreated by the banks
- Potential funding from international funding agencies
- International investors
- To be a non-bank financial institution (NBFI) when the legal framework allows
- The huge potential of the demand from the impoverished mostly located in rural areas peri-urban areas; huge, unmet demand
- Exportation of the Iraqi experience to other conflict-challenged regions and countries
- Staff proud of the organization being the largest MFI in Iraq

Threats:

- Government corruption
- Security
- Good staff being poached by government
- Emigration of good staff to the U.S.; CHF has lost ten staff to the U.S. + 50 with pending applications