



USAID | IRAQ

FROM THE AMERICAN PEOPLE

PROVINCIAL ECONOMIC GROWTH PROGRAM



2009 PROGRESS REPORT



October 2009

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GENERAL INFORMATION

Project Name:	USAID- <i>Tijara</i> Provincial Economic Growth Program
Project Objective:	The objective of the Provincial Economic Growth Program in Iraq is to promote private sector expansion by increasing access to finance and business development services as well as to enlarge and improve the environment for increased trade, investment and micro, small and medium enterprise development.
Contract No:	267-C-00-08-00500-00
Contractor:	The Louis Berger Group, Inc.
Contract Start Date:	April 2008
Contract End Date:	March 2011 (possibility of two one-year extensions)
Website:	www.tijara-iraq.com

USAID-TIJARA TECHNICAL TEAMS

Sustainable Microfinance	Helps build a sustainable non-bank microfinance industry in Iraq. E-mail: microfinance@tijara-iraq.com
SME Lending	Develops bank lending programs for small and medium-sized enterprises. E-mail: banking@tijara-iraq.com
Business Development Services	Establishes, supports and strengthens Small Business Development Centers. E-mail: bds@tijara-iraq.com
Trade and WTO Accession	Helps develop trade policies in accordance with international standards. E-mail: wto@tijara-iraq.com
Investment Promotion	Supports the development of the National Investment Commission. E-mail: investment@tijara-iraq.com
Communication and Outreach	Builds media awareness of program activities and beneficiary accomplishments. E-mail: communications@tijara-iraq.com

COVER PHOTO: The faces of Iraq are reflected each day in the work USAID-*Tijara* does to develop an open, equitable and balanced private sector economy that will improve the quality of life of Iraqis.

USAID-TIJARA 2009 PROGRESS REPORT

All data and information in this report is current as of September 2009.

The USAID-*Tijara* Provincial Economic Growth Program is made possible by the support of the American people through the U.S. Agency for International Development (USAID). USAID-*Tijara* is implemented by a consortium led by The Louis Berger Group, Inc. that includes AECOM International Development, Inc., Millennium International Consulting, LLC and Sallyport Global Services, Inc.

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the U. S. Agency for International Development (USAID) or the United States Government.

TABLE OF CONTENTS

USAID IN IRAQ	1
USAID-TIJARA ACTIVITIES ACROSS IRAQ	1
MESSAGE FROM THE CHIEF OF PARTY	3
IRAQ'S ECONOMY AT A GLANCE	5
SUSTAINABLE MICROFINANCE	9
WORKING MOTHERS DEMAND EARLY CHILDHOOD EDUCATION, DAY CARE	12
KURDISTAN KWIK-E-MART	13
SME DEVELOPMENT AND BANK LENDING	15
PROFITS FROM PROCESSING POULTRY FOOD AMOUNT TO MORE THAN JUST CHICKEN FEED.....	18
EXPANDING SULAMANIYAH'S HEALTH CARE FACILITIES ONE FLOOR AT A TIME.....	19
BUSINESS DEVELOPMENT SERVICES	21
AL-MURSHED MAKES WOMEN FULL PARTICIPANTS IN KIRKUK'S DEVELOPMENT.....	24
INTERNATIONAL TRADE AND WTO ACCESSION	25
GOI TESTIMONIAL: MY VISION OF THE FUTURE	26
INVESTMENT PROMOTION	29
THE SUBURBANIZATION OF ERBIL	30
IMPORTED CARS CAPTURE BAGHDAD'S HEART	31
LESSONS LEARNED	33
BLUEPRINT FOR THE FUTURE	35
PAST SUCCESS PROVIDES MOMENTUM FOR FUTURE ACCOMPLISHMENTS	38

USAID IN IRAQ

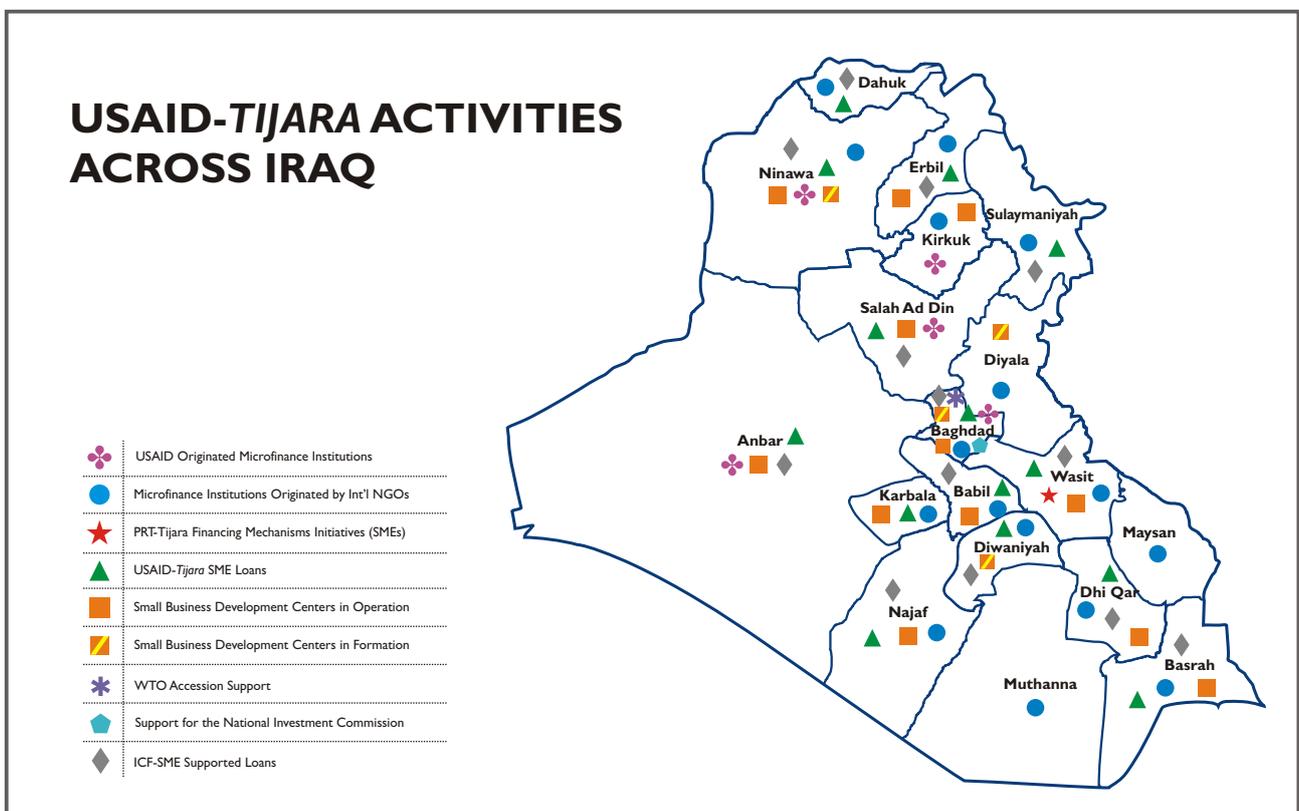
MAKING IRAQ A BETTER PLACE TO LIVE, WORK AND PROSPER

The U.S. Agency for International Development helps countries develop their natural, economic and human resources in a manner consistent with their individual national priorities. In Iraq, this means working with our international and Iraqi partners to create a private sector economy where entrepreneurial talent is able to flourish without regard to gender or ethnicity. Thanks to the funding from the American people and the improved security throughout most of the country, USAID this year will invest an additional \$472 million on civilian efforts to help Iraq move forward to a future where Iraqis themselves are solely responsible for stability, sovereignty and self-reliance.

Launched 18 months ago, the USAID-*Tijara* Provincial Economic Growth Program is an important element in the development of Iraq's private sector. Now at its midpoint, *Tijara*, which means trade in Arabic, works in the areas of sustainable microfinance, bank lending for small and medium enterprises, business development services, investment promotion, trade reform and Iraq's accession to the World Trade Organization.

USAID-*Tijara's* microfinance and small and medium enterprise (SME) bank financing programs have created a number of novel financing mechanisms such as dedicated SME lending units in select private banks, the Iraq Company for Bank Guarantees and the Iraqi Company for Financing SMEs. Together these institutions are making credit and bank financing available.

Active in all 18 Iraqi governorates, USAID-*Tijara's* staff works with business associations, NGOs, government agencies and community groups to advance economic growth that generates jobs, self-respect and civic responsibility.





MESSAGE FROM THE CHIEF OF PARTY



DONAL COTTER

We wish to update you on the activities and achievements of the USAID-*Tijara* Provincial Economic Growth Program.

The program is designed to promote provincial economic development in Iraq by supporting improved access to finance and business development services in the micro, small and medium enterprise sectors. By combining financial incentives with educational opportunities, USAID-*Tijara* adds momentum to Iraq's transition from a centralized economy dominated by inefficient state enterprises to a vibrant free market financial system where energetic, innovative entrepreneurs are allowed to flourish.

A second, yet equally important, goal of the program is to support Iraq's accession to the World Trade Organization (WTO) and assist the Iraqi government to develop the National Investment Commission (NIC).

Since USAID-*Tijara* program began 18 months ago, the level of microfinance and bank financing has more than doubled from the baselines set by *Tijara's* predecessor USAID-*Izdihar* project. Novel financing mechanisms - especially dedicated Small and Medium Enterprise (SME) lending units in select private banks - are making financial services more widely available than ever before. Over the same period of time, the number of Small Business Development Centers (SBDCs) increased from five to 15. This growth significantly expands the availability of business services in Iraq, including training courses to start or improve businesses.

This year, Iraq successfully conducted the Second Working Party Meeting on WTO accession in Geneva. This significant milestone paves the way for bilateral negotiations with member nations and sets the foundation for submitting formal negotiating positions for trade in both goods and services. The National Investment Commission has taken steps that will allow it to set up a One-Stop-Shop for investment in order to greatly facilitate increased Foreign Direct Investment in Iraq.

SUMMARY OF PROJECT ACHIEVEMENTS

- Eleven microfinance institutions mentored by USAID-*Tijara* have \$77 million worth of outstanding loans to 51,318 clients, 15 percent of whom are women. These microfinance loans have resulted in the creation of 61,389 new jobs.
- Cumulative small, medium and micro-enterprise loan disbursements to more than 149,334 borrowers reached \$344 million.
- SME Lending Units in nine private banks affiliated with the Iraqi Company for Bank Guarantees (ICBG)

OPPOSITE: Gold covered chandeliers in the lobby of the Al-Dur Palace Hotel bespeak Najaf's booming tourist industry. Iraq's services economy is expected to grow once it enters the WTO with assistance from USAID-*Tijara's* International Trade & WTO Accession component.

have been successfully launched. With 34 branches in 16 provinces, the nine banks are providing loan services to SMEs throughout Iraq.

- SME Lending Units at private banks working with USAID-*Tijara* made 864 loans worth \$16,564,778.
- SME lending through ICBG guarantees accelerated from 16 loans outstanding at the inception of project to 633 loans with a value of over \$ 10.5 million.
- Worked with Iraqi private banks to create the Iraqi Company for Financing SMEs (small and medium enterprises) using a \$6 million USAID grant as starter capital. During its first two months of operation - July and August 2009 – 200 SME loans worth \$3.5 million were made at favorable rates to deserving entrepreneurs.
- More than of 5,800 people received training at USAID-*Tijara* Small Business Development Centers. Thirty-two percent of those receiving training started small businesses. Over 27 percent have returned to their local SBDC for additional training.
- USAID-*Tijara* has assisted the Ministry of Trade's World Trade Organization (WTO) unit in establishing an inter-ministerial Sanitary and Phytosanitary (SPS) drafting committee, composed of plant, animal health and food safety specialists from the ministries of Agriculture and Health. The committee reviewed the WTO Agreement, assessed the conformity of current legislation with the SPS Agreement and began drafting legislation to comply with WTO guidelines.
- The project's International Trade and WTO accession component has supported the Ministry of Planning's Central Organization for Standards and Quality Control (COSQC) to draft an Intellectual Property Rights (IPR) law.
- USAID-*Tijara* has assisted the Ministry of Trade in identifying five services sectors - tourism, finance/insurance, telecommunications, computers/R&D services and transportation - as being key areas for economic liberalization that should be open to foreign business activity once Iraq joins the WTO.
- The *Investor Guide to Iraq* for Iraq's National Investment Commission (NIC) is drafted. The Guide is a four-color, 48-page booklet that explains Iraq's legal and banking systems, details trademark and copyright protections and tells where free trade zones are located.

The accomplishments listed above underscore the demand-driven nature of the critically important USAID-*Tijara* program. We work closely with Iraqi counterparts so that the economic structures and financial services we support meet the needs of aspiring businessmen and women seeking a better life for their families.

In closing, I would like to thank our project's brave and courageous Iraqi staff members who serve as our eyes and ears in the field. Without them, we would not be able to work effectively with our local counterparts. Through them, we come to appreciate the fortitude and great potential that the Iraqi people have and will use to create a more stable and economically improved Iraq.

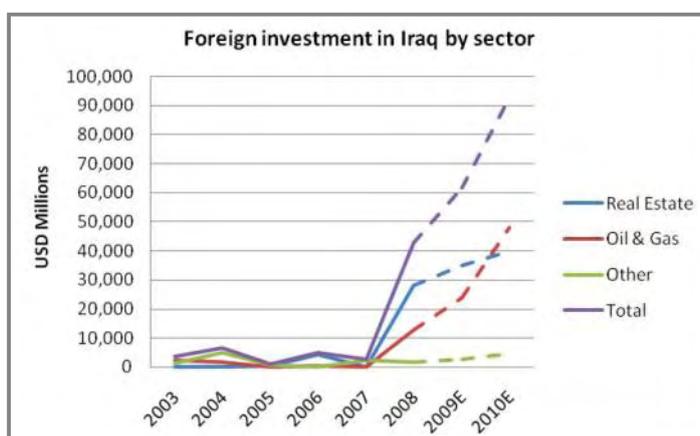
On behalf of the Louis Berger Group, Inc. I wish to thank our colleagues at the U.S. Embassy and USAID, our Government of Iraq counterparts, our expatriate staff and our Iraqi grantees. We also would like to recognize our implementing partners, AECOM International Development Inc, Millennium International Consulting, LLC and Sallyport Global Services Inc. for their collective support in helping to realize our program objectives.

DONAL COTTER, CHIEF OF PARTY

IRAQ'S ECONOMY AT A GLANCE

An improved security environment in many parts of Iraq is helping to spur economic activity. Reacting to this, the value of foreign investment projects announced in 2008 surged to \$42.9 billion from \$2.7 billion the previous year. Most of the projects come from United Arab Emirates. UAE-based companies and investment funds are the largest investors in Iraq by value, having committed over \$31 billion since 2003, representing 50 percent of all investments in value terms. Iraq's relative isolation from global capital markets, ironically, will allow Iraq's growth to continue.

In the 2004-2007 period, the number of persons employed increased by 1,165,000 (19.34 percent). Most of the newly employed were added to the government payroll - public administration and military service, education, health and social work. Private sector employment fell from 63 percent of the employed labor force in 2004 (57 percent of them on full time basis) to 56.1 percent in 2007 (47 percent full time).¹ The security of tenure and high salaries paid by the government pose an obstacle to the development of the private sector, which now faces shortages in the recruitment of skilled workers, due to migration out of Iraq, as well as to the strong preference for government employment.



Iraq by the Numbers (2008)

GDP: \$93.8 billion
 GDP Growth Rate: 9.8%
 Per capita GDP: \$3,085
 Labor Force: 7.8 million
 Inflation: 6.75%
 Exports: \$66.1 billion Free-on-Board.
 Imports: \$43.5 billion Free-on-Board.
 Foreign exchange reserves: \$46.8 bn
 Proven Oil Reserves: 115 billion bbl
 Oil Production: 2.4 million bbl/ day
 Oil exports: 1.83 million bbl/day

NEED FOR DIVERSITY

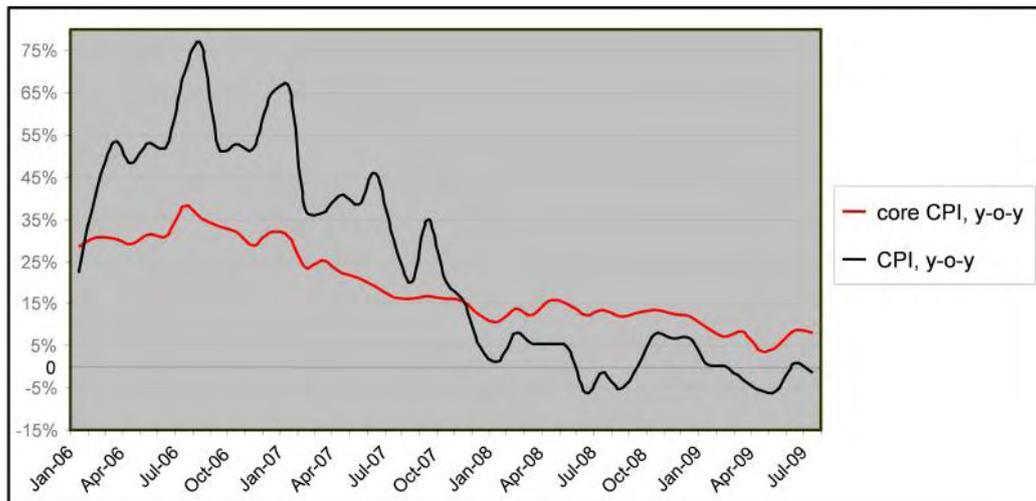
Developing the private sector is a formidable challenge in a country where government revenues amount to 77.5 percent of Gross Domestic Product (GDP) and 92 percent of those revenues come from state-controlled oil. In the 2003-08 period, the private sector's share in the GDP barely changed, despite growing by 418 percent in current value terms and 72 percent in real terms. The largest contribution to this increase came from the transport and communication sectors, followed by construction and wholesale / retail. Measured by volume of output, transport and communications came third. Commercial activity in these sectors, as well as agriculture, is predominantly private.

Private Sector in Iraq as a Percentage of GDP

2003	2004	2005	2006	2007	2008	
24.3%	24.4%	27.7%	27.5%	27.1%	25.8%	% of GDP in current prices
76.2%	66.6%	71.6%	67.7%	65.3%	64.4%	% of non-oil nominal GDP

1. Iraq Labor Force Analysis 2003-2008.

INFLATION AND EXCHANGE RATE

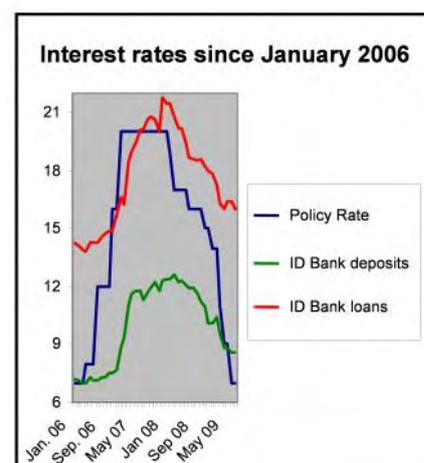


Diversification of the economy through increasing the output of other products has been challenged by a steep increase in the value of the dinar. Since November 2006, the Government of Iraq's response to high inflation has been to reduce the cost of imports through appreciation. As Iraq's major trading partners all had lower inflation rates throughout this period, the dinar's appreciation in real terms was substantial, as was the reduction in the competitiveness of locally made products.

	Inflation 05-08 (Iraq's inflation: 142.4%)	Exchange rate, 12/31/04 www.oanda.com	Exchange rate, 12/31/08 www.oanda.com	Nominal exchange rate change	Real exchange rate change
Syria	25.04%	28.8	25.7	10.8%	172.9%
Jordan	20.83%	2076.4	1706.5	17.8%	164.9%
Turkey	40.89%	1090.8	783.2	28.2%	123.5%
Iran	67.23%	0.185	0.123	33.4%	96.5%
USA	13.98%	1461.8	1196.6	18.1%	174.1%

INTEREST RATES

In another macroeconomic policy measure, the Central Bank of Iraq (CBI) raised to 13 percent both its benchmark rate and the rate payable on deposits placed in CBI by the banks to signal its anti-inflationary stance. The banks were able to place their funds in safe, high-yielding deposits in the Central Bank. A large portion of these funds was supplied by depositors attracted by higher deposit rates paid by the banks. With lending rates exceeding 20 percent, the demand for loans also decreased. The low proportion of private banking sector assets used for commercial credit was thus further reduced. In financing their activities, Iraq's entrepreneurs rely largely on retained profits and funds from private sources. Credit to the economy as a proportion of GDP is one of the lowest in the world: 4.4 percent in 2007 and 3.7 percent in 2008.² from early 2008, CBI rates and bank lending rates have been decreasing. The slower rate of decrease in lending rates means that the risk premium over the CBI rate is being restored to its pre-2006 level.



2. See IMF Country Report 08/383, p. 24.

OPPOSITE: Baghdad's Al-Sarai lane near Al-Qushla clock tower attracts hundreds of weekend shoppers.





SUSTAINABLE MICROFINANCE

The purpose of USAID-Tijara's microfinance program is to give poor and low-income Iraqis access to sustainable financial services provided by microfinance institutions and banks. An important complementary objective is to promote the development of an accessible and demand-driven market for high-quality business development services.

Eleven microfinance institutions (MFIs), established by United States Government initiatives and supported by the U.S. Agency for International Development under the *Izdihar* and *Tijara* economic growth programs, lend to small business enterprises in Iraq. Loan amounts range from \$500 to \$3,000 and are payable in full within 12 months. Each MFI charges its own interest rates, which vary from 12 to 18 percent per year, with an effective annual percentage rate (APR) from 22 percent to 35 percent.

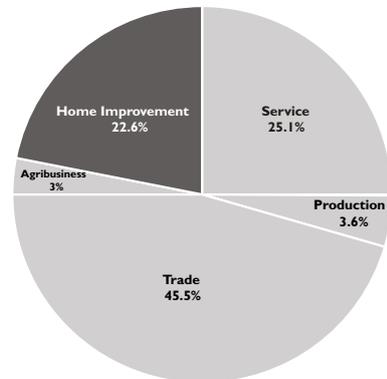
Cumulative small, medium and micro-enterprise loan disbursements to 149,344 borrowers reached \$343 million.

Working capital loans and an interest-free Islamic loan product are the main services offered. Some MFIs provide loans for home improvement, but the bulk of the industry's capital goes to business development. The overall MFI loan portfolio is spread across all 18 governorates and consists of 74.2 percent small business loans, 22.6 percent consumer/home improvement loans, 3 percent agribusiness loans and 0.2 percent staff loans. Most loans are secured with guarantees of repayment from public sector employees whose salaries serve as collateral.

The USAID-Tijara Provincial Economic Growth Program reached its midpoint on a positive note with outstanding loans at over \$77 million with 51,318 Iraqi clients, 15 percent of whom are women. Individual loans averaged \$1,577 in size and group loans \$678. The rate of repayment was exceptionally strong.

Iraq has a long history of informal finance founded on family or village associations, rotating savings schemes and credit societies. Best-practice microfinance began

OPPOSITE: Erbil's bustling Castle Market increased the variety and quality of merchandise in its shops thanks, in part, to microfinance loans. Iraqi Kurdistan has received 24,808 microfinance loans worth more than \$67.35 million since the inception of the USAID-Tijara program.



THE IRAQI MICROFINANCE INDUSTRY





Mohamed Taha Hasan from Kirkuk's Al-Aman MFI receives "Best Loan Officer of the Year" award from USAID's Anar Khalilov (left) and Lewis Tatem at the July 2009 Microfinance Partners' Conference in Shaqlawa, Erbil.



Mini market owner Omran Naji Lilo stocks new merchandise bought with a microfinance loan.

emerging as an industry in 2003 and Iraqi business people immediately took advantage of this more formal financing structure. Growth in outreach to clients over the past six years was as high as 50 percent per annum.

Iraq is estimated to have over one million potential business entrepreneurs as a target client base for microfinance. Unfortunately, the MFIs served by USAID-*Tijara* are still limited in their outreach to such clients. At most, the market served is only four percent of its potential. One key factor in this limitation is that growth concentrates on serving middle class clients privileged enough to have access to government salary based guarantors.

While dynamic, the microfinance industry in Iraq faces problems typical of any sector at this stage of development. These include a shortage of MFI capital and institutional capacity.

There is also a lack of industry support structures such as enabling policies and licensing systems, credit bureau services and performance monitoring systems. The occasionally volatile security situation in Iraq also continues to affect the industry's potential for growth in some locations.

Despite these constraints, the microfinance industry continues to expand thanks to continuing support from the USAID-*Tijara* Provincial Economic Growth Program and the business success achieved by entrepreneurs who have taken microfinance loans. Indeed, over the past two years, the number of clients has increased 144 percent from 21,017 to 51,318. Given this strong evolution, it is clear that the institutionalization of inclusive financial services is taking hold. The industry and its constituent MFIs need to increase outreach of their services, especially to the poor and to women, so that broad-based economic growth continues and new and higher-paying jobs are created.

In order to expand access, USAID-*Tijara* has focused on assessing the capacity development needs of all microfinance institutions with regard to their ability to manage sustainable growth, increase access to capital and work towards overall industry development. To date five detailed operational assessments have been completed for two international and three Iraqi MFIs.

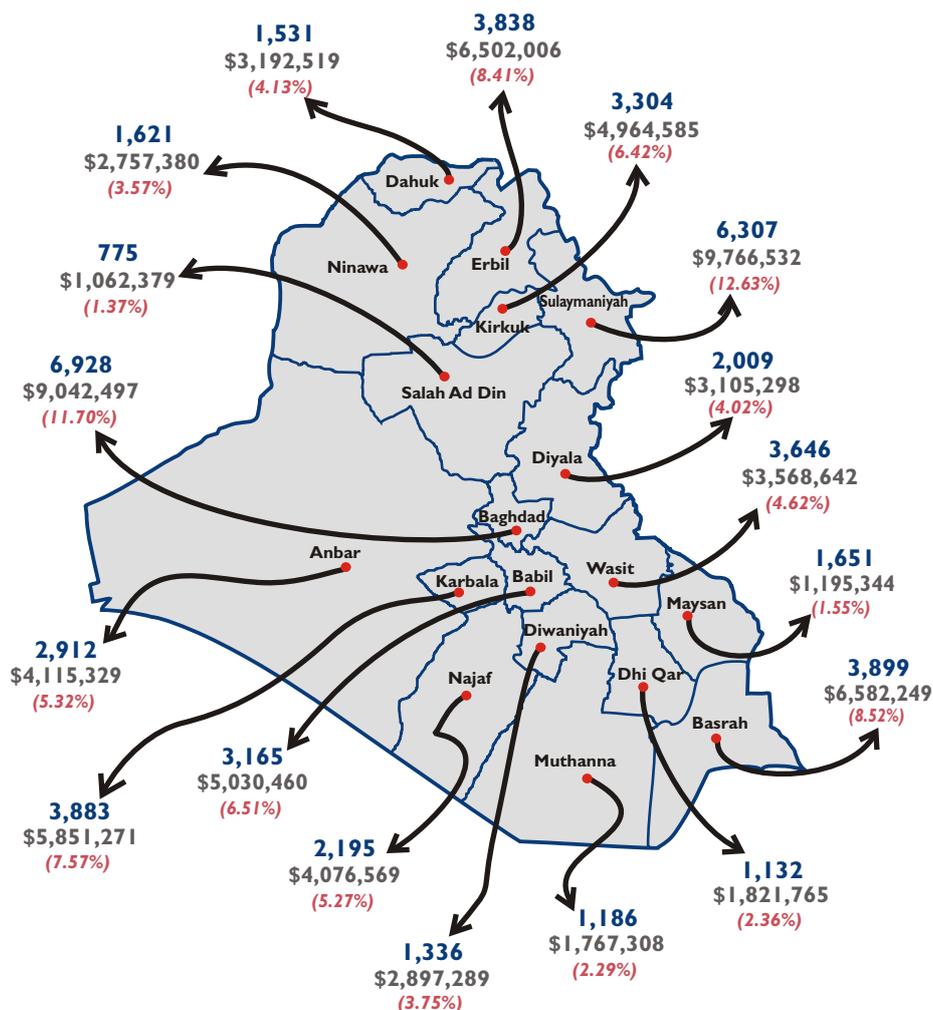
As USAID-*Tijara's* first year drew to a close the program began shifting focus to strengthening the microfinance industry in Iraq through a more conducive policy environment, better business services and risk

measurement tools, and closer donor coordination to ensure increased industry coherence based on best practices, transparency, and commercial viability. In order to achieve these goals the program is implementing a Performance Monitoring Tool (PMT) and a Microfinance Performance Classification and Monitoring System (PCMS). The PMT database is designed to collect data from microfinance organizations throughout Iraq and produce customizable quarterly reports for the use of USAID-Tijara and the MFIs with which we work. The PCMS is designed to assist the microfinance component in better serving MFIs by classifying them in accordance with benchmarks used in the Middle East and North Africa. Since the development of MFIs reflects different local conditions, organizations will be grouped in different levels of capability so that training and technical advice can be adapted to their specific needs.

Strong emphasis continues to be placed on local level cooperation with microfinance institutions, commercial banks, SME service providers, SBDCs and private sector associations. This local focus will be augmented by approaches favoring the poor that include group lending, savings-led technologies, mobile banking and alternative loan collateralization.

USAID-Tijara is now and will continue to encourage MFIs to explore alternative collateral methods such as using bank savings and real property assets. In 2009, MFIs began the group lending process, which provides for much smaller loan sizes and reaches poor men and women who do not otherwise have access to existing financial services.

MICROFINANCE INDUSTRY OUTREACH



■ Loans disbursed since inception	Total: \$343,533,252
■ Number of outstanding loans by Governorate	Total: 51,318
■ Value of outstanding loans (USD)	Total: \$77,299,422
■ Percentage of total amount of outstanding loans	Total: 100%

COLLEGE BEGINS AT FOUR

WORKING MOMS SPARK DEMAND FOR EARLY EDUCATION, DAY CARE



College begins at four at the Sima Kindergarten in Erbil where 50 children taught by Sayran Ismail Hamad get a head start on success thanks to microfinance loans from USAID-Tijara.

“Working mothers like our approach to learning.”

**SAYRAN ISMAIL HAMAD,
KINDERGARTEN TEACHER**

Iraq’s economy may be dominated by state enterprises, but its educational system boasts exceptional private schools. In Baghdad, sons of fortunate families head off to the Al-Mansour or Al-Andalus academies. Baghdad’s brightest girls sign up to attend Al-Bayan, which will open in January. Baghdad College, the hallowed prep school started by the Jesuits in 1931 continues to produce leaders.

But no where in Iraq is demand for quality private education stronger than in Erbil, seat of the semi-autonomous Kurdistan Regional Government. Eighteen years of peace have given Kurds the vision of a better life and the increasing flow of foreign investment has created the jobs to make that life possible.

Competition is intense to get into Erbil private high schools like the Lebanese Shweifat International School, which charges an annual tuition of \$6,000. The Turkish College of Ishq and the English-language Classical School of Media, which employs a number of American instructors, are also highly prized. Private kindergartens and nursery schools teaching basic arithmetic and English prepare Kurdish children for their educational journey.

The Bright Future Foundation, one of 11 microfinance institutions supported by USAID-Tijara is a major player in the building of Erbil’s educational infrastructure. Last year, it gave a \$3,000 loan to Sayran Ismail Hamad to start a day care center that promised to teach toddlers colors and numbers. Sayran immediately was inundated with the children of working mothers with office jobs. This year Sayran was back for a second loan – this one for \$4,000 – to start a kindergarten offering an hour a day of English instruction. Demand is so strong that Sayran has twice had to move to larger locations.

The evolving role of women in Kurdish society is a fact well known to BFF. Of the 3,759 loans totaling \$9,568,830 Bright Future has made since USAID-Tijara began in April 2008, over 22% have gone to women.

Kurdistan’s booming economy has reduced the number of stay-at-home moms. “Working mothers like our approach to learning,” says Sayran, pointing to a colorful banner in Kurdish adorning the kindergarten’s foyer that reads, “College Begins at Four.”

KURDISH KWIK-E-MART

THE BEST BUSINESS OPPORTUNITIES OFTEN ARE CLOSE TO HOME

In the autumn of 1991, 23-year old Nader Ahmed Ismail left home to seek employment in the Kurdish province of Dahuk. "I worked for a U.S. Army captain who told me I would have a good future in the Kurdish region of Iraq," Nader remembers. "I brought my wife over and he was right. So far, every day has been better than the one before."

For well over a decade Nader worked in the customs department of the Ministry of Finance in Erbil. The work was steady but the salary was so low that in 2008 when he heard a local microfinance organization named Al-Thiqa (Confidence) had financing available for small businesses he decided to quit his job. "All I had was the \$3,000 loan and a dream of a better life for my wife and five children," he recalls.

Nader used most of the funds to build a cinder block grocery store in front of his house. With the money left over he bought shelving, a refrigerator and enough canned goods, produce and chilled items to open for business.

Al-Thiqa is one of 11 microfinance institutions supported by USAID-Tijara to help low-income Iraqis create private sector businesses. During its first year of operation, USAID-Tijara disbursed more than \$45 million in loans in Northern Iraq. Most of the 15,440 recipients were Kurds like Nader, who comprise about 20% of the country's population.

Nader's loan was based on a business opportunity and a social observation. The opportunity was the fact that his neighborhood lacked a grocery store. But Al-Thiqa's approval stemmed from his observation that women working 40 hours a week in an office no longer had time to shop in central markets, preferring instead to buy just a few things for dinner on their way home from work.

After seven months of paying his debts on time, Nader, now 41, got a second loan for \$2,500. He used the money to buy a freezer and now nets \$1,300 a month.

"We're a real part of the community," he says. "My customers want me to get a third loan so I can expand since the store is always busy."



Erbil grocer Nader Ahmed Ismail and wife Nahida feed their neighborhood.

“ My customers are our neighbors so we were crowded from day one. I stocked the store while Nahida sold the goods, which was great since most of our customers were women. ”

**NADER AHMED ISMAIL,
NEIGHBORHOOD GROCER**



SME BANK LENDING

Iraq experienced a state-run economy from the collapse of the monarchy in 1958 until the fall of the Saddam Hussein regime in 2003. During this period of centralized control, few outside the Baath Party had access to affordable credit, which was controlled by a limited number of state banks. Iraq's private economy was a tangential contributor to Iraq's overall Gross Domestic Product (GDP), which was dominated by massive, yet inefficient, state enterprises.

Because of these historical factors, the small and medium enterprise (SME) segment today needs to be developed via long-term business assistance and the introduction of new financial services. Technical assistance to develop appropriate financial services and improve access to credit is one of the best means to move the segment forward.

Small and medium-sized businesses are critical to the health of the Iraqi economy. The SME segment six years after the fall of Saddam Hussein accounts for a substantial share of employment. In an entrepreneurial and market led economy, medium to large companies often begin as smaller enterprises that prosper and eventually grow larger over time. Hence, if the SME segment is the engine of the economy, SME financing is the fuel. If small businesses are to provide benefits to the Iraqi economy, their access to credit clearly is a high priority.

Currently, the Iraqi economy is largely cash-based and private banks are seldom viewed as a place to store consumer wealth. Banking development, therefore, must focus on addressing the industry's underlying structural problems and creating a culture of credit in order to stimulate loan growth.

One of USAID-*Tijara*'s major goals is to develop Iraq's small and medium enterprise segment by improving SME access to loan capital provided by private banks. To this end, USAID-*Tijara* is assisting a select group of private banks to adopt effective practices in SME lending and financial services. The program provides training and technical assistance to these banks for the development of dedicated SME lending units to ensure the delivery of appropriate credit and other products. In order to stimulate high volumes of SME lending, major assistance is provided to the Iraq Company for Bank Guarantees (ICBG), which encourages local banks to extend SME credit by sharing the risks they bear as lenders. The SME lending units at private banks and the ICBG represent sustainable capacities in SME credit.

USAID-*Tijara* has also supported the development of a new non-bank financial institution, The Iraqi Company for Financing SMEs (ICF-SME), to provide attractively priced funding to SME lending units for on-lending to SME borrowers at reasonable rates of interest. This funding should provide greater impetus and incentives for banks to build SME loan portfolios expeditiously.

Developing and delivering credit services for the SME segment will help create sustainable employment opportunities for Iraqis and help the country transition from a state-led, command economy to an active private sector, demand-driven economy.

In an effort to support networking within the financial community so that it might become a platform to lobby for change, the component initiated an SME Bank Networking Forum. In order to promote substantive progress in SME policy and regulatory reform, the component also maintained an ongoing dialogue with the Central Bank of Iraq, the Ministry of Planning and the community of commercial banks. By

OPPOSITE: Abu Baida obtained a \$10,000 ICBG-guaranteed SME loan to expand his bakery in Babil Province. Today he is the leading provider of fresh flat bread in his community.

continuing to encourage an SME bank networking forum, USAID-*Tijara* will continue to ensure open dialogue between various stakeholders geared to facilitating a coherent policy for SME development. Building on the foundation created since the project's inception, the approach that the SME component will take going forward will be four-fold: (1) continued development of SME lending units at banks to provide financing services to small and medium businesses, (2) continued support for the ICBG, (3) development of support for the ICF-SME to provide funding at attractive rates to banks with SME units for on-lending to SME borrowers and (4) an advocacy program for the SME segment to lobby for policy reforms and a more SME friendly enabling environment.



The cumulative value of approved ICBG loans has soared from near zero at the start of USAID-*Tijara* to slightly more than \$10.5 million today. Current new loan volumes now average more than \$1.1 million a month.

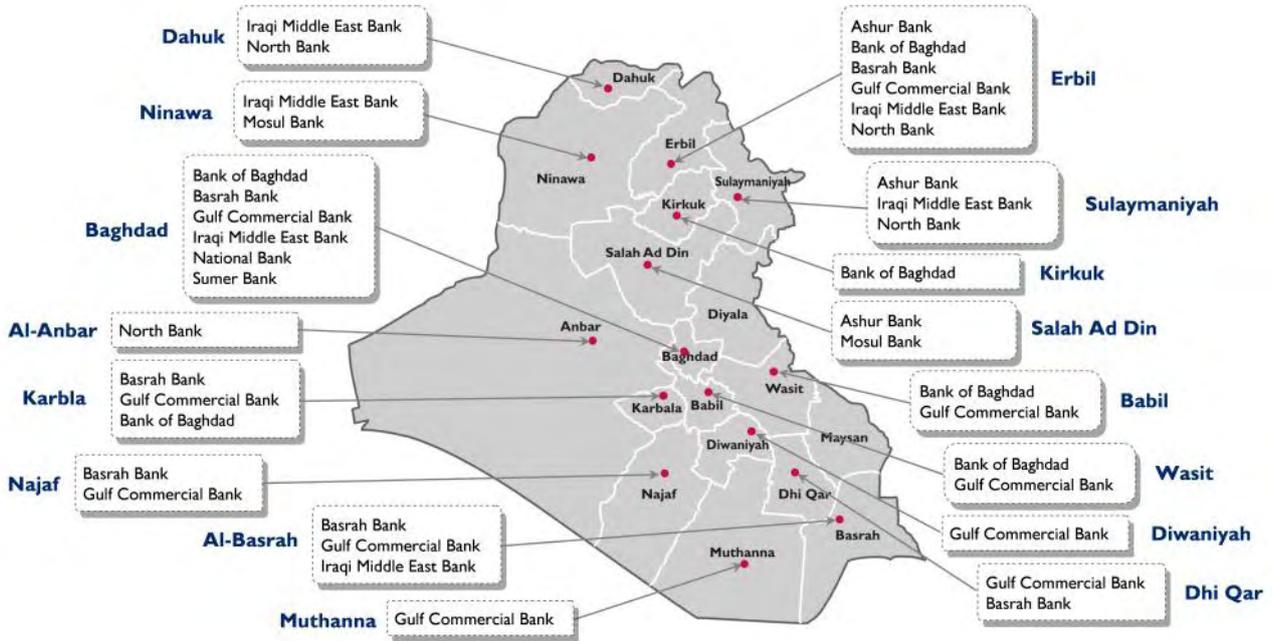
These four initiatives, three of them already implemented by USAID-*Tijara*, constitute the pillars of a holistic SME finance strategy in Iraq.

USAID-*Tijara* underwent a reassessment of its strategy in late 2008 and adopted a more proactive approach that involved focusing on a core group of six to eight private commercial banks that showed the greatest commitment to establishing dedicated SME lending units. It is now working to improve the efficiency of these units via the provision of training, technical assistance as well as ICT procurement and support. This strategy is already starting to pay dividends as SME loan volume through the ICBG has increased exponentially since the new strategy was adopted. Guaranteed loans outstanding rose from 50 at end September 2008 to over 600 in September 2009, with 160 additional loans being in the pipeline as of the latter date.

Iraq continues to experience a deficit of skilled bankers, especially credit officers, managers, and accountants. USAID-*Tijara*'s approach has been geared to creating sustainable capacity in SME bank lending, especially at the lending officer level. This initiative remains central to USAID-*Tijara*'s relationship with SME lending units in ICBG's nine founding banks. These units contain dedicated leaders who are key to the successful spread of SME banking in Iraq in the near future.

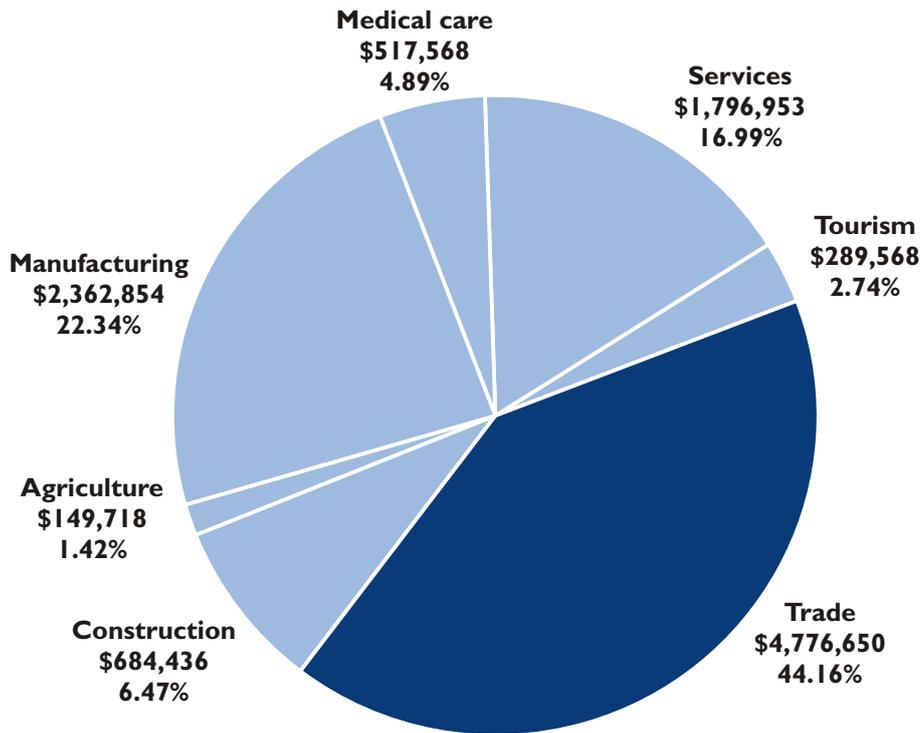
NETWORK OF SME LENDING UNITS

OPERATING IN 34 BRANCHES OF 9 ICBG MEMBER BANKS IN 16 GOVERNORATES



ICBG GUARANTEED LOANS AS OF SEPTEMBER, 2009

TOTAL: \$10,577,746



BIRD MAN OF HILLA

PROFITS FROM PROCESSING POULTRY FOOD AMOUNT TO MORE THAN JUST CHICKEN FEED



Happy hens yield handsome profits for Babil businessman Abbas Fadhel.

“Why import expensive chicken feed from abroad when I can make my own for less money? ”

ABBAS FADHEL, HILLA CHICKEN FARMER AND FEED PRODUCER

Abbas Fadhel got into business the old fashioned way: he inherited one in the form of a chicken farm following his father's death in the early 1990s. Located in Al-Neil near Hilla in Babil province, the farm was substantial, consisting of six acres of land and two large hatcheries housing about 10,000 chickens. Abbas was dissatisfied, however, with his return on investment and traced the problem back to the chicken feed he was forced to buy from the local market.

"The quality of available feed was very uneven, and frequently lacked the required level of nutrients," he remembers. "The alternative was to import quality chicken feed from abroad, but I soon gave that up because of unofficial taxes and excessive customs procedures."

Help finally appeared in the form of advice from a friend who encouraged him to seek an enterprise loan from Baghdad Bank. The bank is one of 15 financial institutions whose loans today can be guaranteed by the Iraqi Company for Bank Guarantees in cooperation with the USAID-Tijara Provincial Economic Growth Program.

From the bank's SME unit Abbas learned that ICBG member banks had more than \$3.4 million on loan with about a third going to the manufacturing sector. "At that point I decided to apply for \$ 50,000 loan to purchase a large grinder I could use to make my own chicken feed."

Today, Abbas, 45, grinds his own feed from soya beans, cereal grains, fishbone meal and other organic proteins purchased locally. He feeds his own chickens and sells the surplus production to neighboring poultry farmers in Hilla, Karbala and Najaf. "It's a lucrative second business," he smiles. "I earn \$60,000 a year selling chicken feed alone and the farm is 25 percent more profitable. I no longer worry about cash flow and my return on investment could not be better."

CARE GIVING

EXPANDING SULAYMANIYAH'S HEALTH CARE FACILITIES ONE FLOOR AT A TIME

Nestled along the Iranian border, the Kurdish province of Sulaymaniyah once was Iraq's quietest. But all that changed in March 1988 when Saddam Hussein launched a brutal campaign to exterminate the Kurds. Led by Ali Hasan al-Majid, the infamous "Chemical Ali," the attack focused on the village of Halabja southeast of the provincial capital. More than 5,000 Kurds were killed. Those surviving the poison gas and nerve agents dropped from above limped north to a small clinic then opened by Taha Hama.

Because Sulaymaniyah City lay south of the No Fly Zone, Hama's clinic stayed busy after the First Gulf War. So busy, in fact, that he eventually bought the Toay Melik (King's Road) Hospital at a busy junction on the city's outer circle highway, close to the University of Sulamaniyah's Medical College.

"My hospital prospered because the care it provided was superior to that offered by public hospitals," says Taha. "By the time America arrived in 2003, my staff had increased to seven doctors and nurses."

Augmented by the arrival of refugees fleeing sectarian violence in the south, Sulamaniyah's population grew so rapidly that by 2007 Taha needed to expand. Adding a third floor to his two-story hospital seemed the best option. Unfortunately, he only had \$130,000 in savings, a sum insufficient to cover the cost of construction plus new X-ray machines and surgical equipment.

So, last year, Taha approached Ashur Bank, one of nine financial institutions with a Small and Medium Enterprise Lending Unit established with assistance from the USAID-Tijara Provincial Economic Growth Program. Taha's \$115,000 loan quickly was approved and by summer construction was underway. Attracted by modern surgical and diagnostic equipment, so many patients came to the hospital that Taha was able to repay his loan in full well before the final payment was due.

"Access to bank credit allowed me to take advantage of a business opportunity," says Taha. "Today the hospital has twice its old capacity, nine new employees and semi-private rooms with two beds instead of crowded wards."



Doctors fleeing unrest elsewhere in Iraq provide King's Road Hospital with a ready supply of qualified labor.

“ Access to bank credit allowed me to take advantage of a business opportunity. ”

TAHA HAMA, HEALTH CARE ADMINISTRATOR

القاعة



BUSINESS DEVELOPMENT SERVICES

During the first 18 months of the USAID-*Tijara* Provincial Economic Growth Program the Business Development Services component focused on establishing and expanding the existing network of Small Business Development Centers (SBDCs) throughout Iraq. The purpose of the SBDCs is to help local business communities develop more rapidly and to foster economic growth. The centers provide a variety of business services, but their real value is to function as change agents helping the communities they serve produce dynamic and progressive business leaders.

This network of centers rapidly expanded over the past year to 15 SBDCs operating in 18 cities thanks to funding provided by USAID-*Tijara* and the Provincial Reconstruction Teams (PRTs), and will reach a total of 17 SBDCs in 22 locations by the end of 2009.

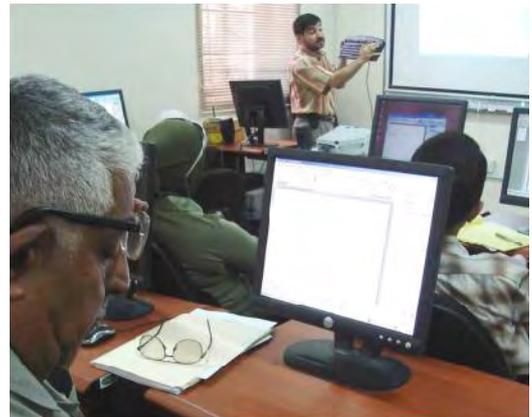
Since USAID-*Tijara's* inception, the services offered by SBDCs included conferences, trade fairs and consulting as well as business training and facilitation services. The most important benefit SBDCs provide, however, is to link the small business sector with microfinance institutions and banks.

New SBDCs that have joined USAID-*Tijara's* network since program inception include the Nassriya Chamber of Commerce, the Ramadi Business Center, the Najaf Chamber of Commerce, the Kut Iraq Businessmen's Union, the Assembly of Al-Inbithaq for Development and Economic Development, Basrah Information Center, the Sahara Economic Development Organization and Karbala SBDC.

Several SBDCs expanded their activities to include fee-based training and consulting. As an industry, business development services are new in Iraq, but USAID-*Tijara* SBDCs proved to be ideal venues for revenue generating activities. Other SBDCs organized investment conferences and trade expos to support the local business community.

In an effort to increase sustainability, USAID-*Tijara's* Business Development Services component put together a comprehensive engagement plan to improve the performance of the SBDCs by focusing on four strategic activity areas:

OPPOSITE: The opening of the Najaf SBDC in June 2009 attracted close to 100 local dignitaries and more than a dozen journalists. The opening marked a significant step in the development of Najaf's private business sector.



Computer classes are in demand at the Iraqi Association of Securities Dealers, USAID-*Tijara's* SBDC in Baghdad.



In addition to training, Small Business Development Centers like this one in Najaf offer venues for conferences, trade expositions and local business networking opportunities.



Once a year senior officials working for SBDCs around Iraq gather in Erbil for a training conference.



Business development services advisor Stephen Fordham, BDS director Husam Habibeh and Mohammad Shohaieb of 4 Points discuss the methodology of USAID-Tijara's market assessment of governorates served by SBDCs.

- Fostering revenue generating activities through a program of improved product offering and services delivery
- Institutional capacity building
- Financial budgeting and reporting
- Outreach, communications and community awareness

To improve the institutional capacity of the SBDCs, USAID-Tijara spent much of its first year focusing on best management practices at each center. Two rounds of self assessments were completed by each SBDC, an exercise that allowed them to think about their strengths and weaknesses. Financial management has been enhanced by providing training courses that will introduce a unified system of accounting for SBDCs to be able to produce efficient financial reports.

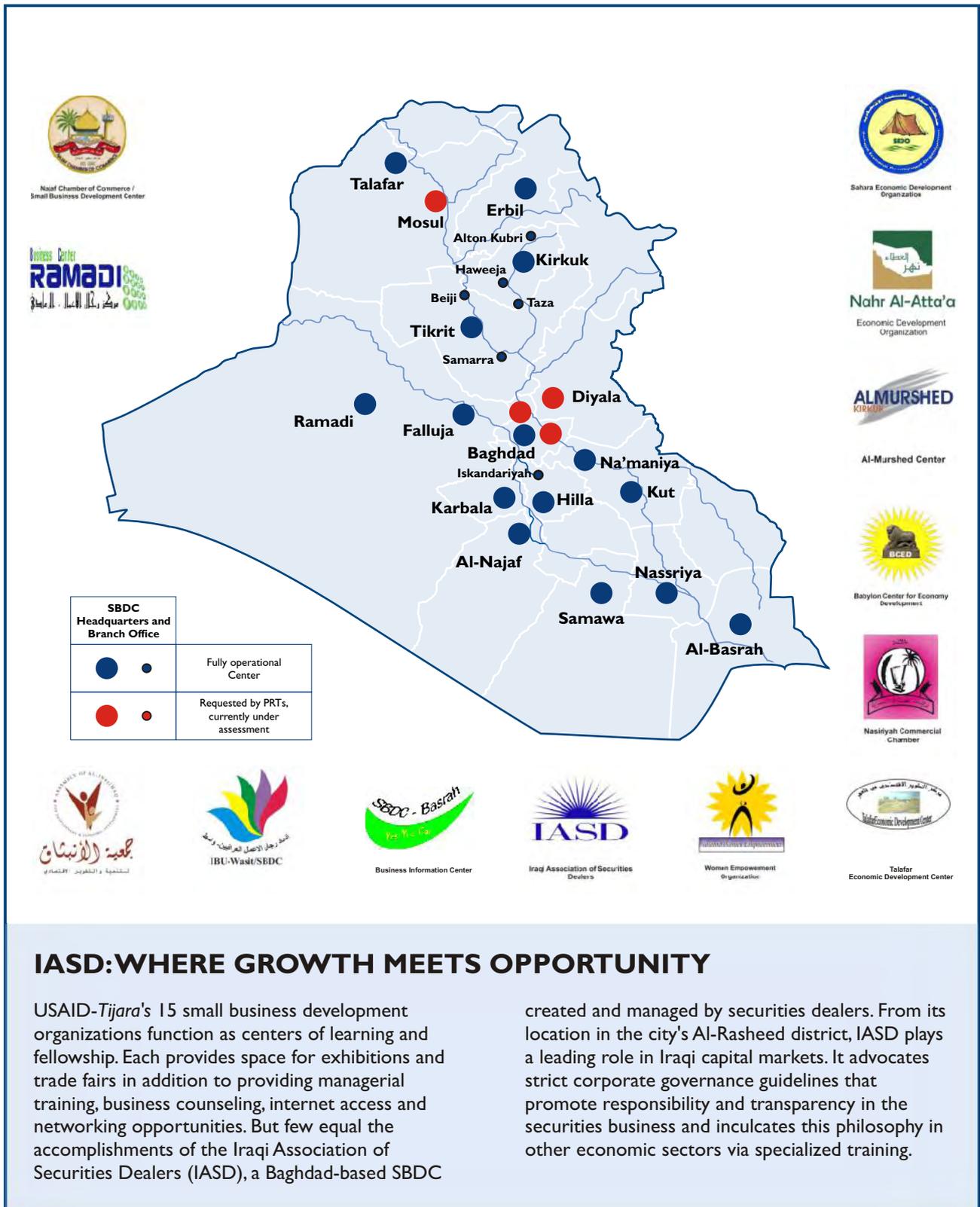
The success of the SBDCs is underscored by the fact that most of the people who used the centers for training tell surveyors that the course they took improved their lives. Even if a business was not created or enlarged, respondents said they still considered the experience a success, if only because they were exposed to business facilitators with new ideas and intriguing material. Attending SBDC courses gives potential business people the confidence to use computers and analyze their prospective enterprise in a more organized fashion.

The high level of satisfaction stems from the fact that training is demand driven. Courses were offered in *How To Start and Improve a Business* and *Business Association Management and Business Planning* along with agriculture related trainings because these are topics people wanted.

Many Iraqi entrepreneurs took full advantage of the opportunities offered. In Baghdad, one man active in his nearby SBDC established a transport company for busing people to religious festivals. After a course in budgeting, a construction company owner in Nassriya increased his profits by pre-determining his labor and materials costs. Newly learned financial and organizational tools implemented by the Al Rasheed Organization helped the farmers in Babil province implement best practices in agricultural production and animal husbandry.

USAID-Tijara will be conducting market assessments during the course of 2009 to launch new training courses and business related services for MSMEs to address managerial topics such as marketing, financial management, and human resource management and other demand-driven courses tailored to the needs of the business community.

SMALL BUSINESS DEVELOPMENT CENTERS



IASD: WHERE GROWTH MEETS OPPORTUNITY

USAID-Tijara's 15 small business development organizations function as centers of learning and fellowship. Each provides space for exhibitions and trade fairs in addition to providing managerial training, business counseling, internet access and networking opportunities. But few equal the accomplishments of the Iraqi Association of Securities Dealers (IASD), a Baghdad-based SBDC

created and managed by securities dealers. From its location in the city's Al-Rasheed district, IASD plays a leading role in Iraqi capital markets. It advocates strict corporate governance guidelines that promote responsibility and transparency in the securities business and inculcates this philosophy in other economic sectors via specialized training.

HELPING HANDS

AL-MURSHED SMALL BUSINESS CENTER MAKES WOMEN FULL PARTICIPANTS IN KIRKUK'S DEVELOPING ECONOMY



Al-Murshed director Dalia Jasim discusses cash flow mechanics during five-day “How to Start a Business” course.

“ I was a mother mending clothes. Now I am a fashion designer thanks to a microfinance loan and some business training. ”

LAILA ALI ISBET, KIRKUK CLOTHES DESIGNER

There are no short cuts to success in Iraq. The way forward is especially challenging for female entrepreneurs. But today women in Kirkuk province finally are confronting new opportunities thanks to the Al-Murshed (Guiding Light) Small Business Development Center.

Al-Murshed is one of 15 SBDCs supported by the USAID-*Tijara* Provincial Economic Growth Program. The centers provide training, advice and networking opportunities. They also serve as a springboard to 13 microfinance institutions dispensing small business, home improvement and agribusiness loans to deserving entrepreneurs like 56-year old Laila Ali Isbet.

Isbet realized her sewing skills had commercial applications while attending an Al-Murshed course on basic business skills for micro-projects. After writing a business plan, she was referred to Al-Aman, a Kirkuk microfinance institution also partially underwritten by USAID-*Tijara*. Awarded a \$2,000 startup loan, Isbet bought a knitting machine and a generous supply of textiles, converted her home's living room into a workshop and began producing sweaters, jackets and children's clothes. "I was a stay-at-home mother mending my sons' clothes," she explains with a smile. "Now I'm a fashion designer thanks to a microfinance loan and some basic business training."

Al-Murshed is the brain child of Dalia Jasim, a 25-year old certified accountant, who started the center in 2006 with support from USAID-*Izdihar*, a development initiative preceding USAID-*Tijara*. "There's plenty of entrepreneurial spirit in Kirkuk but people needed help getting started," says Jasim.

Because they are not supported by local governments, SBDCs like Al-Murshed are for-profit entities that prosper by providing services for which people are willing to pay. Al-Murshed offers a variety of computer courses. Its most recent offering, a \$140 course in computer-aided drafting, is a favorite of municipal employees, whose class fees are paid by the city. Al-Murshed also does fee-based work for the Joint Contracting Command, a military clearing house in Kirkuk, Mosul and Tikrit that matches U.S. contracting opportunities with qualified Iraqi vendors.

INTERNATIONAL TRADE AND WTO ACCESSION

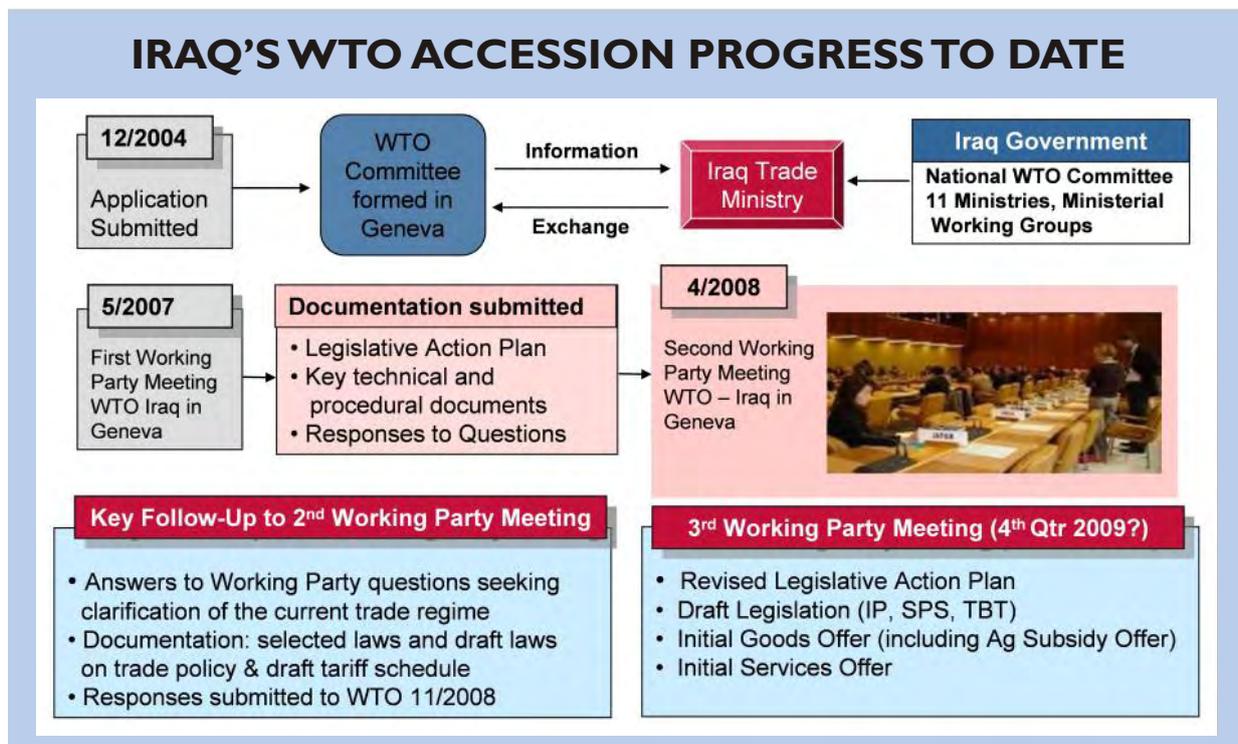
The primary objective of USAID-Tijara's International Trade and WTO Accession component since program inception has been to move Iraq closer to full membership in the World Trade Organization (WTO). It does this by assisting the Government of Iraq to reform the country's trade regime so that it complies with WTO requirements. The component works closely with the Government of Iraq on procedural matters, making progress on intellectual property rights (IPR), developing a WTO-compliant customs regime and eliminating non-tariff barriers to trade.

A number of significant accomplishments have been recorded. Specific answers and documentation were sent to the WTO in response to questions and requests from the second working party meeting. A draft tariff schedule was submitted and Iraq moved forward in the preparation of a Goods Offer to the WTO.

Since program inception, USAID-Tijara has assisted the Ministry of Trade in forming a services committee to prepare the Services Offer. The committee identified five services sectors - tourism, finance/insurance, telecommunications, computers/R&D services and transportation - with a view toward identifying specific services sectors in which foreign business activity might be allowed.

Reforming Iraq's intellectual property rights regime, including legal, regulatory, and enforcement environments, was a top priority. Toward this end, USAID-Tijara worked with Iraqi IPR judges on the WTO adjudication of IPR related disputes. The WTO component also assisted the Ministry of Planning's Central Organization for Standards and Quality Control (COSQC) in reviewing the draft intellectual property rights law in response to concerns from the Shura Council.

A major step occurred when the Ministry of Finance formed a customs committee that is now working to review existing customs legislation and customs administrative procedures for conformity with the WTO



standards for trade in goods. In anticipation of the customs committee's creation, a draft Customs Tariff Law was completed in agreement with Ministry of Finance as well as a draft Single Administrative Document for the General Commission for Customs.

In regards to making progress on WTO related agricultural issues, the program assisted the Trade and Agriculture ministries in finalizing the Aggregate Measures of Support. It also began work on the agricultural subsidy part of the Goods Offer. The component supported the Ministry of Trade's WTO Unit in establishing an inter-ministerial Sanitary and Phytosanitary (SPS) legislative drafting committee composed of plant and animal health specialists from the Ministry of Agriculture and food safety experts from the Ministry of Health. The committee reviewed the WTO Agreement on SPS measures, prepared check lists to assess the conformity of current legislation with the SPS Agreement and began drafting legislation to comply with the agreement.

Despite these tangible accomplishments, the current legal and regulatory regime governing foreign trade and market access in Iraq too often remains restrictive, non-transparent, and out of line with international best practices and the principles of the rule of law. These obstacles can only be overcome by Iraq's progressive reintegration into the global trading community in both legal and practical terms.

WTO membership will open Iraq to the international trading system from which it has been largely closed off for nearly two decades. WTO standards form the international best practices for trade regimes. Bringing Iraqi law and regulation into compliance will have the self-reinforcing effect of opening up markets and expanding opportunities in international trade. Rejoining the global community will enlarge the tax base, create jobs, and lead to sustainable economic growth. In addition, WTO-related reforms will strengthen the rule of law, streamline business procedures and remove legal and regulatory roadblocks and constraints. Accession will further help to ensure global competitiveness of Iraqi goods and services through reducing the cost of doing business and improving compliance with international quality/safety requirements.

Customs reform is a vital component of Iraq's WTO accession bid since a WTO compliant customs regime is a fundamental prerequisite for admission. In this regard, USAID-Tijara continued to provide assistance to the Government of Iraq, focusing on regulatory and capacity building with respect to WTO required norms.

Recently, the Trade and WTO Accession component has begun focusing its attention on helping the Government of Iraq comply with WTO requirements relating to limits on state subsidization of the agriculture sector and non-discriminatory market access commitments.

GOI TESTIMONIAL: A VISION OF THE FUTURE

Iraq wants to join the international community. This will occur when we become a member of the World Trade Organization. WTO membership means progress in technology, education and an increased standard of living. The WTO won't magically transform Iraq, but it can give us the means and the tools to make this place great again. A decade from now I see a Baghdad with high rise office buildings and garden apartments full of Iraqis who have returned home to invest their money and talent in their homeland.

USAID-Tijara is helping Iraq move toward free markets and fair laws. We're on the correct path today thanks to USAID-Tijara.



Sami Khairallah, 60, is the Assistant Director General for Foreign Trade and economic relations at the Iraqi Ministry of Trade.

OPPOSITE: Trucks make daily deliveries to Baghdad's busy consumer electronics stores. Already growing at 9.8 percent per annum according to the IMF, Iraq's economy will expand even faster once it joins the WTO.

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lifestyle



Quality Products

معرض ديانا

لتجارة الاجهزة الكهربائية والمنزل AUDIO - VIDEO

اسيا سيك

21" LCD

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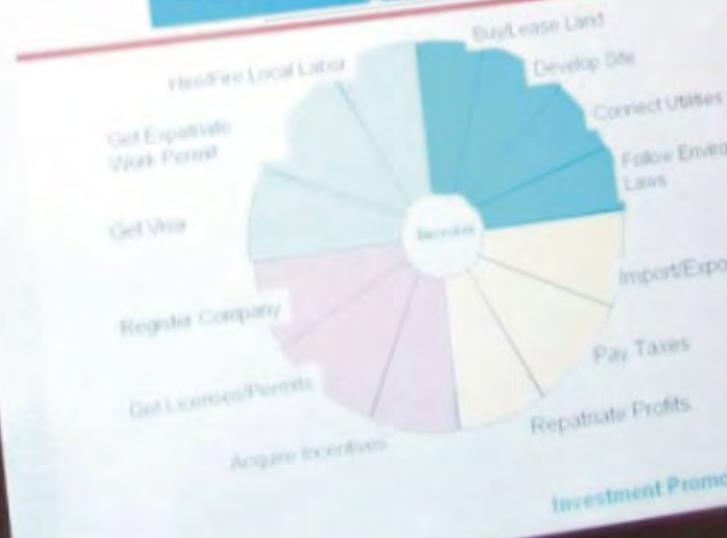
TIGER
Gasoline Generator

GENERATOR





The 4 process areas subdivide into at least 13 procedures
وتقسم مناطق العمليات الأربعة إلى 13C على الأقل إجراءات



INVESTMENT PROMOTION

The goals outlined in Iraq's National Development Strategy include ensuring private sector growth through creation of a favorable legal environment, fostering a transition to a modern free market economy and integrating Iraq into the global economy. The International Compact with Iraq was established in May 2007 to integrate Iraq into the regional and global economy and the Iraqi government is seeking to pass laws to strengthen its economy. Substantial progress already has been made to remove some of the obstacles to an investor-friendly business environment.

Global interest in Iraq's oil reserves spiked in June, when British Petroleum and China National Petroleum Corp. won contracts to develop Iraq's massive Ramallah oil field. The agreement coincided with the opening of two oil fields in the governorate of Erbil that together will send 100,000 barrels a day north to the Turkish port of Ceyhan. BP secured its concession by promising to boost Ramallah's production from 1 million bbd to 2.85 million bbd. If it succeeds, companies such as ExxonMobil and ConocoPhillips are sure to follow.

Since program inception, USAID-*Tijara* has assisted the National Investment Commission (NIC) of Iraq to build upon previous work and establish an informative website, work toward a One-Stop-Shop structure for potential investors, publish a detailed Investor Guide and build upon regional and international best practices when it comes to staff training.

Iraq does have a formal Investment Law and published regulations that serve as a detailed roadmap for international investors. But due to its evolving structure the NIC does not yet provide investors with full assistance when it comes to getting necessary permits approved.

Iraq's economy is slowly improving. Several multinational companies, from General Electric to Daimler Benz, opened offices in Iraq during USAID-*Tijara*'s first year. Attracting these companies to Iraq are its huge reserves of oil, abundant water supplies, fertile land and strategic location. Then there are Iraq's 30.7 million people - all potential customers in a new consumer economy. Largely because of the improved security situation, people are spending again. Baghdad is full of shiny new cars that often are parked in front of elegant restaurants.

OPPOSITE: USAID-*Tijara*'s Investment Promotion team briefs officials from the Iraqi National Investment Commission on public relations techniques that will increase the NIC's global visibility.



Destroyed by a 2007 terrorist bomb that killed 30 people, Baghdad's Shahbander tea house reopened late last year and remains more popular than ever.



Eating out at a new restaurant in Baghdad is a treat families often enjoy thanks to improved security, a growing economy and higher private sector salaries.



An atmosphere of tranquility at Baghdad University's Jadryah campus allows students to chat quietly between classes.

Business at consumer electronics stores is so brisk that merchandise is often stacked high on the sidewalks outside. As the day progresses, the large stands of cardboard rapidly diminish as families and startup businesses haul away new air conditioners, televisions and office furniture.

Going forward, USAID-*Tijara*'s Investment Promotion component will build upon the work done to date to finalize and launch the One-Stop-Shop as a clearinghouse for all investment related information, documentation, and regulation that potential investors should work with in order to successfully inaugurate operations in Iraq. This will be bolstered by an updated website and intensive hands-on training to ensure that the NIC staff is fully knowledgeable about investment procedures.

USAID-*Tijara* will also develop significant information resources for potential investors. The Investor Roadmap will be updated to reflect the new investment environment. The component will also finalize the Investor Guide. These documents will provide a backbone of resources for potential investors to study the Iraqi market and will be a template for the NIC to conduct future studies.

THE SUBURBANIZATION OF ERBIL

In 2008, three-fourths of the \$42.9 billion foreign investment coming into Iraq went into property development. Private foreign investment in real estate could reach \$35 billion in 2009 and \$40 billion in 2010 based on the anticipated construction of 350,000 new housing units in 2009 and 400,000 units in 2010.¹

The UAE and Turkey have massive developments in Karbala and Sulaymaniyah. U.S. investors are building a \$100 million 5-star hotel in central Baghdad. But the boom in residential construction is especially noticeable in Erbil, where several modern suburbs are under construction.



New single family homes at American Village outside Erbil start at \$160,000.

Lebanese contractors are building Dream City, a 1,200 unit development in which some of the larger homes cost more than \$700,000. Turkish developers are selling modern apartments in Naz City, a high-rise condominium complex. Three new satellite suburbs are virtual new towns that contain schools, supermarkets and police stations. English Village has 400 homes ranging from \$130,000 to \$160,000 that were all sold more than a year before buyers could move in. Tree-lined boulevards meander through Italian Village near Erbil's airport. American Village is an \$80 million development where a 3,500-sq. foot home sells for \$160,000 and \$585,000 will buy a 8,600-sq. foot palace. U.S. contractor Sigma International Construction of Chantilly, Virginia says there is no shortage of buyers, many of whom make their \$100,000 down payment in cash.

1. Private Foreign Investment in Iraq, Dunia Frontier Consultants, March 2009

CONSUMER WATCH

IMPORTED CARS CAPTURE BAGHDAD'S HEART

Baghdad car dealerships are booming as affluent Iraqis, confident that their economy is improving, are replacing war time clunkers with late model sedans imported from Jordan and the United Arab Emirates. The trend makes Baghdad one of the few cities where auto sales are doing relatively well.

And unlike the rest of the world, gas prices here - about \$1.54 a gallon - aren't much of a deterrent to those Iraqis eager to resume a normal life.

Not so long ago, cruising the capital in a new car was inviting attack from carjackers and envious militiamen. The terrorist threat still looms large, but random crime is down and the possibility of occasional violence is not enough to discourage Iraqis from shelling out \$27,000 for a 2006 Mustang or \$55,000 for an Infiniti.

Hassan Saleh, who sells Japanese and South Korean four-wheel-drive vehicles and American-made Hummers at an east Baghdad dealership, attributes the boom to better security, the passage of a national budget and an improved banking system that allows entrepreneurs to start and expand private businesses.

"Most people today no longer are afraid of driving fancy new cars in the streets," he recently told one Iraqi newspaper. "Two years ago, that meant imminent danger of being kidnapped for ransom, but times are more peaceful today and people are starting to spend money" said Saleh, who sells about 10 cars a month from his dealership - up 50 percent over 2007 numbers.

Many of his customers are Iraqi businessmen with government contracts.

"Despite the world economic crisis, Iraq is still the land of business and opportunity," said Saleh. "I don't know if people are getting rich, but at least they are confident enough to spend money."



New and pre-owned cars from Amman and the UAE are ready for purchase outside a Baghdad car dealership.



At Al-Fateh traffic circle in central Baghdad motorists have time to read a government billboard that proclaims "We will continue to go forward and improve."



LESSONS LEARNED

Engage the private sector. While the Government of Iraq is committed to joining the WTO, it has done little to explain the implications of WTO membership. Relevant trade ministries and private sector businesses have difficulty describing how WTO membership will affect the Iraqi people. To fill this gap in understanding, USAID-*Tijara* has focused attention on conducting assessments of the impacts of expanding trade in services through the WTO General Agreement on Trade in Services and estimating the impacts of improved sanitary and phytosanitary measures on the food supply. USAID-*Tijara* also studied the impacts of the Goods Offer on Iraq's competitiveness. The results of these initiatives continue to be disseminated through awareness programs coordinated by the Ministry of Trade's WTO Unit.

Find a powerful ally. Governmental entities often require extensive interventions to ensure that the institution functions in a way that fulfills its stated goals. Unfortunately, some institutions have managers that are not motivated or capable of operating in a way that justifies USAID confidence. In such cases it may be necessary to solicit assistance from powerful third parties - persons with political will to accentuate the positive - who are willing to intercede. Importing a powerful luminary will not destroy relationships with the institution in question. On the contrary, a powerful ally underscores USAID commitment to observable progress.

Keep analyzing the market. Continuing market assessments are vital to understanding Iraqi clients and satisfying their changing needs. Written behavioral observations and trainee surveys are valuable tools that should be employed often in order to keep programs meaningful.

Take initiative on public awareness. The Government of Iraq's custom of limited information sharing among ministries prevents full cooperation between the trade-related ministries dealing with Iraq's accession to the World Trade Organization (WTO). The Ministry of Trade has a mechanism for WTO information sharing and policy coordination, the National WTO Committee, but it meets infrequently. The Ministry of Trade needs to be proactive in providing briefings to the relevant ministries and the private sector on the importance of WTO membership. The USAID-*Tijara* project is addressing this issue by organizing a number of public awareness events in collaboration with the Ministry of Trade's WTO Unit to improve trade-related ministries' understanding of the WTO, the accession process, and the implications of WTO membership for Iraq's future economic development.

Share information. Sharing information is difficult in a security environment like Baghdad's when simply moving a mile down the road requires 48 hours notice, personal security detail intervention and a three-car convoy. Despite these impediments, face to face communication between the United States Government, its implementing partners and Iraqi beneficiaries is vital to maximizing the odds of success and desired impact.

Training should be broad-based and comprehensive. During its first year it became clear that USAID-*Tijara* needed to develop a well rounded training program to effectively foster lending to small and medium enterprises (SMEs) by private banks. Accounting and credit training was an immediate priority, but other subjects such as marketing, cross selling, customer service, and information and communications technology - based operations also were needed. This more comprehensive approach to bank training contributed significantly to an increase in SME lending since inception of the USAID-*Tijara* program.

Mentoring matters. Comprehensive training must be followed up by a "hands on" approach to developing SME Lending Units at partner institutions. This hands on approach involves mentoring SME lending officers in the field and combining classroom training with SME site visits and actual credit generation. It also requires coaching individual SME loan officers using actual loan applications as the means for creating lending capacity.

OPPOSITE: Instruction in basic business creation by USAID-*Tijara*'s microfinance team usually ends with trainees writing a strategic business plan.



BLUEPRINT FOR THE FUTURE

GOING FORWARD, USAID-TIJARA WILL FOCUS ON FOUR OVERARCHING THEMES: IMPACT, SUSTAINABILITY, CONSOLIDATION AND INNOVATION.

IMPACT

USAID-*Tijara* - through all of its components - will pursue areas of intervention that promise to bring the greatest positive impact on the Iraqi economy. Financial products will be tailored to specific segments of the Iraqi economy that will bring the greatest benefit to the small and medium-size enterprise (SME) market. An additional catalyst to this process is the creation of the Iraqi Company for Financing SMEs to allocate loan capital for private banks to on lend at favorable rates to SMEs. Microfinance group lending and dedicated SME Lending Units have been conceived with the idea of jump-starting financing to the SME sector as efficiently as possible. Training programs will be demand-driven in order to focus USAID-*Tijara*'s activities directly to those areas that are most desired by the SME market. Small Business Development Centers (SBDCs), in particular, will develop an array of curricula designed to meet specific business development needs in their communities.

The project will also focus on studying the overall impact of USAID-*Tijara*'s activities on the Iraqi economy. The microfinance and banking components will regularly survey their counterparts to determine the impact of increased access to finance on SME development and employment generation. In addition, the Business Development Services component will conduct a series of surveys and market studies to ascertain the existing state of the economy and assess the direct benefit of the SBDCs' services on both the individuals that receive them and their communities at large.

SUSTAINABILITY

Unless the enterprises that USAID-*Tijara* supports are commercially viable, it will be impossible for Iraq to solidify long-term economic growth. With that in mind, USAID-*Tijara* is taking steps to ensure that any entity established with United States Government funding will survive past this project's lifecycle. In order to ensure that USAID-*Tijara*-sponsored financial institutions are sustainable in the long term, USAID-*Tijara* is focusing on establishing institutional practices at banks and MFIs that will allow for sustainable growth and modernization of practices in line with international standards. Through improved financial reporting, modernized credit policies and updated management practices, banks and MFIs will develop the necessary skills to promote rapid - and eventually self-reinforcing - growth in the financial sector. As formal finance becomes the norm for business growth in Iraq, sustainable financial institutions will be the principal engine of economic development.

The Business Development Services component has developed individualized development plans for each of the SBDCs that will lead them from being the recipients of direct funding from USAID-*Tijara* and Provincial Reconstruction Teams (PRTs) to marketing their own products to their communities and other potential buyers. The component will also pursue initiatives to ensure that each SBDC has the management capacity to maintain its operations when USAID-*Tijara*'s technical assistance ends. The component will ensure the

OPPOSITE: Rebuilt by the government after a deadly car bombing in March 2007, Baghdad's Al-Mutanabi Street and book market lives once again as the center of Old Baghdad's commercial and intellectual life.

SBDCs are able to implement appropriate financial planning mechanisms, human resources policies, and expanded outreach strategies that will serve SBDC sustainability beyond the lifecycle of USAID-*Tijara*.

CONSOLIDATION

USAID-*Tijara*'s progress to date has been remarkable for the rapid growth and expansion of its counterpart organizations. The portfolios of USAID-*Tijara*-sponsored microfinance institutions (MFIs) have more than doubled, the number of ICBG participating banks has increased from 11 to 15 with portfolio growth over 500 percent. Nine banks have agreed to work with USAID-*Tijara* to establish dedicated SME Lending Units, and the SBDC community grew from five centers to 15.

Going forward, USAID-*Tijara* will focus on consolidating the growth its counterparts have experienced. Additional product development and dedicated support for institutional capacity development will directly support USAID-*Tijara*'s goal of sustainable institutions with clearly established goals. The consolidation of the activities of these institutions will allow them to focus closely on their core missions and develop deep expertise in their subject matters. Focusing on project consolidation, rather than rapid expansion, will allow USAID-*Tijara* to direct resources toward those endeavors with the most potential for positive impact.

In order to continue progress on Iraq's accession to the WTO, Iraq must establish baseline negotiating positions and bring its legislation in line with WTO standards. The WTO Accession component will assist the Government of Iraq in preparing its initial Goods Offer, Services Offer, and detailed accounts of subsidies and other trade distorting policies in order to provide baseline positions as bilateral negotiations commence. In addition, the component will assist the Government of Iraq in reviewing trade-related legislation and recommending amendments to bring the laws into compliance with WTO guidelines.

The National Investment Commission (NIC) will continue its efforts to launch a functioning One-Stop-Shop for investors and examine the existing investment climate so as to provide information for the NIC website, www.investpromo.gov.iq, and for firms interested in investing in Iraq.

INNOVATION

Going forward, USAID-*Tijara* will concentrate its focus on innovations that will substantially expand the array of products and services offered by counterparts. In the financial sector, USAID-*Tijara* is pursuing a novel vehicle for financing SMEs. Utilizing a \$6 million grant, USAID-*Tijara* is establishing an incentivized financing mechanism called the Iraqi Company for Financing SMEs that will liaise with the SME Lending Units. By focusing closely on dedicated SME Lending Units, and supporting them with easier access to capital, Iraq's private banks will be much more capable of providing finance to the SME sector.

In addition, microfinance institutions (MFIs) operating in Iraq will explore new loan products - including the expansion of agricultural lending, housing lending and group lending. Group lending aims at disbursing loans small enough to be guaranteed by other members of the group. Instead of loan amounts averaging around \$1,569, solidarity group loans per individual should not exceed \$800. It is a strategy that deepens access to credit for the poor and women. In addition to better business performance, group loans will have a socio-economic impact in poor neighborhoods. Group loans will require no hard collateral, such as the government civil servant salary guarantee now widely employed by MFIs. Group members are self-selected and offer a collective guarantee.

OPPOSITE: Building cranes hovering over Baghdad symbolize the promise of a better future that USAID-*Tijara* is attempting to achieve. Representing Iraq's gateway to the future is a fabled symbol of its past, the ancient city of Babil's 2,500-year old Ishtar Gate.

Sustainable Prosperity



LOOKING FORWARD

USAID-TIJARA RECORD OF SUCCESS PROVIDES MOMENTUM FOR FUTURE ACCOMPLISHMENTS

Following on the successes of the *Izdihar* project, *Tijara* is establishing a strong foothold with its private sector development activities in Iraq. Sustainability, impact, consolidation and innovation are elements driving the project's goal to transform Iraq into a dynamic market-driven economy. The project is enjoying high visibility with its host-country counterparts, multilateral donors and U.S. government agencies-including the U.S. Embassy, Department of Commerce, the U.S. Trade Representative and the Department of the Treasury.

USAID-*Tijara*'s microfinance and SME bank financing programs have increased significantly in scale of outreach over the past few months and novel financing mechanisms - especially dedicated Small and Medium Enterprise lending units in select private banks, the Iraqi Company for Financing SMEs and the Iraqi Company for Bank Guarantees - are beginning to make finance available in more locations than ever before in Iraq.

In the field of microfinance, USAID-*Tijara* has started an ambitious group lending program. Designed to serve the aspiring poor who lack collateral or government sponsors, these micro- loans will help fund neighborhood businesses and rely on peer pressure to insure repayment. Group lending will not produce large enterprises, but it will serve to change an economic culture that for too long has linked upward mobility to government employment. Working with its 11 microfinance institutional (MFI) partners, USAID-*Tijara* also is placing emphasis on not only the increased inclusion of women as MFI clients but also as leaders in the operations and governance of such institutions.

At the other end of the economic spectrum, the newly formed Iraqi Company for Financing SMEs is funneling much needed development capital to private banks. ICF-SME is providing attractively priced capital to private banks that, in turn, are lending it to credit worthy SMEs at affordable terms.

With the completion of the local market assessments in 14 geographical locations this year, Small Business Development Centers are scheduled to expand the availability of business services in Iraq. These market assessments will provide an insight into the existing state of the local economy and identify new potential services that can be offered by SBDCs to strengthen the private sector business environment.

In the coming months, perhaps before the end of 2009, Iraq should deliver its goods offer to the WTO. The submission will herald the 3rd Working Party meeting and move the country closer to full membership in the WTO. The National Investment Commission has taken steps that will set up a One-Stop-Shop and update the investor roadmap to facilitate increased foreign direct investment in Iraq.

USAID-*Tijara* is present at the creation of a new private sector society, one that hopefully will sustain Iraq's government during price fluctuations in the oil dominated economy. USAID-*Tijara* looks forward with renewed enthusiasm, confident that our contributions will continue to support Iraq's efforts to diversify its economy. Ongoing activities will continue to expand as the World Bank, International Finance Corporation, UN Development Program, UN Industrial Development Organization, International Labor Organization and other development organizations begin evaluating the possibility of partnering with institutions and programs already initiated under the auspices of the USAID-*Tijara* Provincial Economic Growth Program in Iraq.

