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## **FINAL REPORT**

# **Performance Evaluation of USAID/Iraq Tijara Provincial Economic Growth Program**

January 2013

This document was produced for review by the United States Agency for International Development. It was prepared on behalf of The QED Group, LLC, under Iraq Personnel Support Services (Manpower II) contract number 267-O-00-08-00507-00.

# Iraq Personnel Support Services (Manpower II)

Contract Number: 267-O-00-08-00507

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### Final Performance Evaluation of USAID/Iraq Tijara Provincial Economic Growth Program

January 2013

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## ACRONYMS

BEE	Business enabling environment
BFF	Bright Future Foundation
CBI	Central Bank of Iraq
CGAP	Consultative Group to Assist the Poor
CHF	CHF International
CPA	Coalition Provisional Authority
EoI	Expression of interest
ERSC	Economic Reform Supreme Council
FSS	Financial self-sufficiency
GoI	Government of Iraq
ICT	Information and communication technology
ID	Iraqi dinar
IDP	Internally displaced person
IFC	International Finance Corporation
IMN	Iraqi Microfinance Network
ISAC	Information security and access control
IT	Information technology
IVGSI	Iraq Vulnerable Groups Support Initiative
IYI	Iraqi Youth Initiative
JSC	Joint stock company
LADP	Local Area Development Programme
MENA	Middle East and North Africa
MFI	Microfinance institution
MIS	Management information system
MOLSA	Ministry of Labor and Social Affairs
MSME	Micro, small, and medium enterprise
NBFI	Non-banking financial institution
NGO	Non-governmental organization
NIC	National Investment Council

OSS	Operational self-sufficiency
PaR	Portfolio at risk
PMAC	Prime Minister’s Advisory Council
PSDP-I	Private Sector Development Programme for Iraq-I
RI	Relief International
SBDC	Small Business Development Center
SME	Small and medium enterprise
SOW	Scope of work
TEDC	Talafar Economic Development Center
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
USAID-Tijara	USAID/Iraq-Tijara Provincial Economic Growth Program
VAT	Value-added tax
WTO	World Trade Organization

## **EXECUTIVE SUMMARY**

USAID/Iraq-Tijara Provincial Economic Growth Program (USAID Contract No. 267-C-00-08-00500-00) was launched in January 2008 to continue through February 2013. This five-year initiative, funded by USAID, was implemented by the Louis Berger Group. The Tijara program's goal was to promote economic diversification, private sector development, and job creation at the local level and promote a market-based economy at the national level.

The program encompassed seven areas: (1) business development services, (2) a youth initiative, (3) international trade and World Trade Organization accession, (4) business enabling environment, (5) investment promotion, (6) small and medium enterprise development and bank lending, and (7) sustainable microfinance.

With regard to the microfinance component, Tijara addressed multiple levels:

- a. Strengthening the economic, legal, regulatory, and infrastructure factors necessary to create an enabling environment that favors microfinance industry growth and sustainability
- b. Providing financial and technical support to microfinance institutions (MFIs) for expanding their activities
- c. Deploying human capacity-building initiatives with a focus on Government of Iraq (GoI) and microfinance institutions (MFIs)

## **EVALUATION METHODOLOGY**

This performance evaluation is a cumulative assessment of the microfinance component of the USAID/Iraq-Tijara Provincial Economic Growth Project (USAID-Tijara). The evaluation's purpose is to assess whether a sustainable microfinance industry has been established in Iraq, and if so, whether Tijara contributed substantially to that establishment. The evaluation also aims to determine the extent to which the project's microfinance component objectives under sub-IR 8.3.1 and IR 8.3 have been achieved. The evaluation addresses the performance of the microfinance component from its inception (January 2008) through the initiation of the evaluation team's field work (October 2012).

The evaluation was conducted by a three-person team of evaluation experts and a four-person team of local data collectors. The evaluation was implemented over a three-month period from September 26, 2012, to December 28, 2012, including four weeks of field work (data collection and analysis) in Iraq. The performance evaluation applied a mixed-methods design that incorporated quantitative and qualitative data gathering and analysis. Data collection included in-person and phone interviews of top and mid-level managers and loan officers from the 12 Tijara partnering MFIs. The team conducted meetings with Iraqi state officials and international donors<sup>1</sup> and ran focus group discussions with a diverse group of project beneficiaries who were MFI borrowers.

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<sup>1</sup> The World Bank and the United Nations Development Programme.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

This report provides results and recommendations for two key evaluation questions related to the sustainability of Tijara partnering microfinance institutions. The report concludes with a lessons learned section.

**Question #1 ( Q1):** Has a sustainable microfinance industry been established in Iraq?

- a. Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by operational sustainability of MFIs?
- b. Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by financial sustainability of MFIs?

With regard to Research Question #1, the team assessed the external (cultural context and macroeconomic and policy environment) and internal (organizational, managerial, and financial) factors that affect the sustainability of microfinance institutions. The assessment resulted in the following findings:

- **There is limited appreciation and understanding of microfinance issues among state officials.** Iraqi state officials do not believe that microfinance has an impact on poverty reduction and the economic development agenda and consider MFI interest rates as too high. Moreover, the GoI intervenes in the microfinance sector and provides an alternative micro loan scheme. State officials are suspicious about MFI funding sources and have stated that the nature of Iraqi microfinance institutions is unclear.
- **The MFI legal and policy framework is limited to three legal acts enacted in 2010 and 2011.** These laws are the following: the Iraqi non-governmental organization (NGO) Law (2010), the NGO Law of the Iraqi Kurdistan region (2011), and MSME Finance Companies Ordinance (Ordinance 3 of 2010). Specific requirements in these acts limit MFIs' operational capacity. The NGO law prohibits MFIs from borrowing money to fund their operational activities. MFIs registered under the Iraqi NGO law of 2010 are allowed to operate throughout the country and are expected to pay all taxes, including value-added tax (VAT) and custom duties. These legal acts make the MFIs' transition from NGOs into non-banking financial institutions (NBFIs)<sup>2</sup> challenging.
- **The GoI lacks a vision for the microfinance sector and there is little coordination among Iraqi state agencies with regard to microfinance issues.** The evaluation team failed to find evidence that the GoI has a unified vision and strategy with regard to microfinance industry development in the country. Elaborating a unified strategic vision is key for setting a sound and supportive policy environment.

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<sup>2</sup> An NBFi is a financial institution that lacks a full banking license or is not supervised by a national or international banking regulatory agency.

- **Cultural context has a strong impact on attitudes toward microfinance; this context includes religious beliefs, channels of communication, use of cash, and person culture.** Local communities and religious and tribal leaders have a strong influence on the Iraqi population and their attitudes toward microfinance. In addition, communication channels available to local populations are limited to information received from religious and community leaders and word-of-mouth communications with relatives and friends. At an early stage of the project, local residents were reluctant to apply for loans due to religious beliefs. MFIs began involving Iraqi religious and community leaders to change local perceptions regarding microfinance. The cash culture that exists in Iraq—caused to some extent by the insecure environment—has also put limits on MFI operations. Some people are unfamiliar with the banking sector and the procedures to follow to open a bank account. In addition, Iraq’s insecure environment has fostered a general mistrust of banking institutions.
- **Financial indicators, management, and governance of Iraqi MFIs pose issues.** The evaluation team analyzed the management and governance practices of Tijara partnering microfinance institutions. The team found that Tijara had assisted MFIs in improving and streamlining their internal business processes and procedures. The boards of directors of MFIs had been established and were functioning. However, it is noteworthy that, in some cases, MFIs set up boards of directors that included members with high social status in local communities. The evaluation team also found that information security and access control measures were not implemented in three of the eight responding MFIs. Even so, as the result of managerial and governance improvements, Iraqi MFI institutions achieved significant progress in terms of outreach and portfolio structure. Over the last five years, starting in 2008, the gross loan portfolio of partnering MFIs has more than doubled. In 2008, the total gross loan portfolio was \$59,262,289; by September 2012, it had reached \$148,263,928 (serving 96,898 clients, including 23% female borrowers).

Based on the above findings, the evaluation team reached the following conclusions:

- **GoI Policy Is Not Supportive.** Current GoI policy and law have fallen short of the goal of creating a favorable environment for microfinance industry development.
- **MFIs’ Ability to Grow by Attracting Funding Is Not Ensured.** Existing legislation places strict constraints on local MFIs and limits their access to the wholesale lending market.
- **The Cultural Context Is a Challenge Affecting MFI Operations.** In particular, religious beliefs greatly affect the performance of Iraq’s microfinance industry.
- **MFI Transparency Is a Challenge, with the Population Lacking Information on Loan Terms and Conditions.** The microfinance knowledge portal needs further improvement, as there are discrepancies between information presented on the portal and information on the web sites of each MFI, which could cause confusion among consumers.
- **MFIs Lack a Coherent Long-Term Approach to Institutional Development.** Despite significant achievements in streamlining business processes and operational practices, some local MFIs still need assistance to further advance their operational and managerial systems and internal procedures.
- **Governance Is Weak and Disputed in Some MFIs.** Some MFIs have involved tribal leaders in participation in board of director activities. While this has helped local MFIs adapt to the local context, in the long run it could affect the decision-making capacity of boards due

to these members' limited knowledge and experience in evaluating critical managerial decisions.

- **MIS/IT Is Weak in Some MFIs and Loan Performance Systems Need Upgrading.** Information and computer systems are poorly protected from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording, and destruction. IT managers need to properly manage security controls and information access levels among system users.<sup>3</sup>
- **Lack of a Qualified Workforce is a Challenge for MFIs.** Human resource capacity remains one of the key constraints for MFIs. Iraqi MFIs have an ongoing need to professionalize their activities through training and standardization of practices.
- **MFIs Successfully Applied Equal Opportunity Practices for Issuing Loans to Both Genders.** Tijara reported an increased number of female borrowers for the period 2008–2012. In 2008, female borrows made up 15% of the total number of active borrowers; by September 2012, this indicator had reached 23%.
- **The Financial Self-Sufficiency and Operational Self-Sufficiency of Iraqi MFIs Demonstrate Their Institutional Success.** Both indicators, operational self-sufficiency and financial self-sufficiency, demonstrate the sustainability of MFI lending operations. Iraqi MFIs have sufficient revenue to pay all administrative costs, loan losses, potential losses, and funds.

#### **Question #2 (Q2):**

In the absence of the USAID-Tijara or comparable U.S. Government projects, what would be the likely state of the Iraqi microfinance industry, as perceived by main stakeholders in Iraq (MFIs, NGO directorate, beneficiaries, etc.)?

In response to Research Question #2, the evaluation team conducted a comparative analysis of two types of microfinance ecosystems: the classic model and Iraqi real life ecosystem. The real life ecosystem was designed in response to the evaluation findings and the feedback provided by key stakeholders (Iraqi state representatives, Tijara team leaders, representatives of Tijara partnering MFIs, and international donors).

The evaluation team found considerable gaps in the Iraqi microfinance ecosystem. One of the gaps is related to the absence of a pool of “social investors” in the country. Such an investment pool includes banking institutions or other organizations that lend out funds to MFI. The absence of this segment is caused by the unsupportive legal environment that exists in the country. MFIs are not eligible to borrow money to cover their operational costs. According to the classic model, most MFIs worldwide are set up as NGOs and receive significant financial support from

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<sup>3</sup> The duties of system administrators are wide-ranging and include installing, supporting, and maintaining servers or other computer systems, and planning for and responding to service outages and other problems. Meanwhile, the duties of system users are limited to reading information and accessing data.

international donors. As donors' money decline, MFIs need to gain access to alternative source of funding and attract private capital to expand their operations.

Another key finding is related to the segment of “capacity building support/institution.” This segment is weak and represented by just one NGO, the Iraqi Microfinance Network (IMN).

Based on its findings, the evaluation team concluded that while USAID provided notable technical and financial assistance to create a sustainable microfinance ecosystem in Iraq, this ecosystem is fragile. If the donor community (particularly USAID) reduces sector support, the Iraqi microfinance industry will be greatly weakened and at risk of collapsing over the long run.

The team recommends the following set of interventions and technical assistance programs:

1. **USAID Should Focus on GoI Capacity Building.** USAID needs to train a diverse group of beneficiaries from the GoI to ensure the growth of a critical mass of state officials at the top and middle level. This increased critical mass of policy makers and state authorities will be able to make the changes needed to improve the legal and regulatory environment.
2. **USAID Needs to Actively Cooperate with the GoI and Donor Community (WB, UNDP) to Improve Iraq's Legal Framework.** In keeping with Tijara's macro-level efforts to expand microfinance in Iraq, USAID should intensify its cooperation and coordination with the international donor community and multilateral partners (including the World Bank, International Finance Corporation, and the United Nations Development Programme) to support the GoI in improving Iraq's legal and regulatory environment and amending existing and already drafted legal acts as appropriate.
3. **USAID Can Actively Cooperate with Donor Community in Supporting the GoI in Preparing a National Microfinance Development Strategy/Policy Paper.** This strategy should present a shared vision of the role that microfinance will play in developing the country and improving people's access to financing. This practice has been successfully applied in Egypt, for example, as well as in other developing countries.
4. **USAID Should Cooperate with the MF Network to Improve MFIs' Transparency and Strengthen Their Managerial and Operational Capacity.** The Iraqi Microfinance Network could play a key role in developing the country's microfinance industry. However, the Network is in need of assistance to achieve its potential as a strong MFI capacity-building and support institution.
5. **USAID Should Coordinate Its Efforts with the IFC in Revising MFI Strategy and Supporting MFI Transformation.** In the summer of 2012, IFC announced a tender to provide technical assistance services to microfinance institutions in the Middle East and North Africa (MENA) region. IFC is expected to launch its technical assistance program in the MENA region during August 2012–December 2013. To leverage this, USAID needs to initiate dialogue and cooperation with the IFC to support microfinance institutions in transforming themselves from NGOs to NBFIs.
6. **USAID Should Develop Educational Projects that Focus on Youth.** Investment in youth education projects could be conducted by means of a set of training and capacity-building programs as well as through Iraqi universities to prepare promising young entrepreneurs to qualify for microfinancing.

## LESSONS LEARNED

Taking into account the program's specifics, the evaluation team developed the following lessons learned:

- **A project exit strategy** needs to be formally developed and considered at an early stage of a project. This should be considered by both USAID and the project implementing partner.
- **Political support and local ownership** should be secured at an early stage of a project to create a more stable microfinance ecosystem. This lesson is crucial and needs to be considered by both USAID and the project implementing partner.
- **Intensive communication with and engagement of diverse state agencies** is needed, complemented by frequent discussions with local stakeholders on microfinance issues.
- **The Iraqi Microfinance Network** should have been created and become fully functional at an early stage of the program.
- **Information-sharing and catch-up strategies** should have been developed for those state officials who did not attend the training sessions but were in need of advancing their knowledge of microfinance issues and the enabling environment necessary to support microfinance.
- **Increased focus on maintaining consistency between bilingual web sites** is required to ensure accuracy and support transparency for all stakeholders.

## **1. INTRODUCTION**

### **1.1 EVALUATION PURPOSE**

This performance evaluation is a cumulative assessment of the microfinance component of the USAID/Iraq-Tijara Provincial Economic Growth Program (USAID-Tijara). The purpose of this evaluation is to assess whether a sustainable microfinance industry has been established in Iraq, and, if so, whether Tijara contributed substantially to its establishment. The evaluation aims to also determine the extent to which the project's microfinance component objectives under sub-IR 8.3.1 and IR 8.3 have been achieved.

### **1.2 EVALUATION TEAM**

The evaluation was conducted by a team of three evaluation experts and four data collectors. Of the three evaluation experts, two were international (one U.S. and one Georgian) and one was a local expert.

1. Guillermo Bolanos, Team Leader
2. Nelly Dolidze, Evaluation Expert
3. An Iraqi expert in monitoring and evaluation/training  
Haydar J. Mohammad, Local Expert

*Guillermo Bolanos, Team Leader:* Guillermo Bolanos is a private sector development, trade finance, credit bureau, management information system (MIS), small and medium enterprise (SME), and microfinance expert with over 27 years of high-level international experience, including managing the largest microfinance programs in Jordan and in Iraq; 10 years as a USAID senior private sector development project manager; 5 years as a Citibank Vice President; and 10 years as a senior financial and development consultant to USAID, Consultative Group to Assist the Poor (CGAP), IS Fund, the World Bank, the Inter-American Development Bank, European Union, German Agency for Technical Development, Catholic Relief Services, and central banks. Mr. Bolanos has worked as a Central American Institute of Business Administration professor, served as representative of University of California at Berkeley Extension, and has taught numerous executive seminars. He has written bank and credit bureau legislation and central bank regulations and has organized bank training programs. Mr. Bolanos' consulting experience spans the following countries: Afghanistan, Angola, Armenia, Bolivia, Cambodia, Colombia, Dominican Republic, Ecuador, Egypt, El Salvador, Guatemala, Honduras, India, Iraq, Kenya, Macedonia, Malawi, Mexico, Nicaragua, Nigeria, Paraguay, Peru, and the Philippines.

*Nelly Dolidze, Evaluation Expert:* Nelly Dolidze is an international development evaluation expert with over 12 years of cross-sectoral and international experience. Since 1999, Ms. Dolidze has managed numerous international donor-funded (USAID, European Union Delegation, Council of Europe) programs and conducted quantitative and qualitative research, program evaluations, and impact assessments. She currently performs a leading role in the assessment of the World Bank's Broadband Competitiveness Program in Eastern Europe and Central Asia. Ms. Dolidze possesses detailed knowledge of the development challenges faced by public and private sectors in emerging markets and conflict-affected countries. Her expertise covers programs and projects in economic restructuring; SME development; income generation and microlending for

rural communities; and democracy and governance/conflict transformation programs in the Caucasus, Central Asia, Eastern Europe, Middle East, and South Asia. She holds a master's degree in international development policy from Duke University, with a concentration in economic development and SME development, and a master's degree in project management from The George Washington University School of Business.

*Haydar Mohammad, Local Expert:* Haydar Mohammad has experience with two prior evaluations conducted by The QED Group for USAID/Iraq: the Mid-Term Evaluation of the Tijara Project and the Summative Evaluation of the Tatweer Project. He has extensive translation experience with the USAID/Iraq Agriculture and Reconstruction Project implemented by DAI, the Iraqi Liaison Office of the Ministry of Foreign Affairs of Japan, and the USAID/Iraq Local Governance Project implemented by RTI. Mr. Mohammad is also experienced with project and grants management, project monitoring and reporting, and the training of surveyors, local government officials, and local NGOs. Most recently, he worked with the Mustansiriya University of Iraq, participating in a project to update the master city plans of Al Samawah, Al Rumaitha, and Al Khider.

### **1.3 PROJECT IMPLEMENTING PARTNER**

On January 23, 2008, Louis Berger was awarded the USAID/Iraq-Tijara Provincial Economic Growth Program contract (267-C-00-08-00500-00-05), the objective of which is to grow the Iraqi economy by promoting private sector development through increasing access to finance.

### **1.4 PERFORMANCE EVALUATION AUDIENCE**

The intended audience of this performance evaluation is the United States Agency for International Development (USAID). The evaluation is aimed to inform USAID on the success of Tijara's microfinance component. In this report, the evaluation team provides recommendations on the macro, mezzo, and micro levels of the microfinance sector domain. USAID should use this performance evaluation in developing follow-up intervention strategies and technical assistance programs in Iraq to strengthen the country's microfinance industry.

### **1.5 EVALUATION QUESTIONS**

This performance evaluation provides evidence-based answers to the following questions:

#### **Question #1 (Q1):**

Has a sustainable microfinance industry been established in Iraq?

- a. Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by the operational sustainability of microfinance institutions (MFIs)?
- b. Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by the financial sustainability of MFIs?

#### **Question #2 (Q2):**

In the absence of the USAID-Tijara or a comparable U.S. Government project, what would be the likely state of the Iraqi microfinance industry, as perceived by the main stakeholders in Iraq (MFIs, NGO directorate, beneficiaries, etc.)?

## 2. BACKGROUND

Started in January 2008 and continuing through February 2013, USAID-Tijara promoted private sector growth and employment in Iraq through an integrated approach to the formation and expansion of micro, small, and medium enterprises (MSMEs).

Tijara was designed to carry on the work of a previous USAID-funded project, Izdihar-Private Sector Growth and Employment Generation Project, which ran from October 2004 through March 2008.

When Tijara was designed in 2007, the economic situation in Iraq was complicated and reflected post-conflict realities. An insecure environment had slowed oil production and economic growth and hampered the inflow of investment. After 2003, the country suffered from high annual consumer price inflation, which reached 64.8%<sup>4</sup> by the end of 2006. The same year, the unemployment rate was 18% of the total labor force, which was higher than that of the Arab world (12%).<sup>5</sup>

There was an obvious need to develop tools and programs that would stimulate sustainable economic growth. With regard to this, support to the MSME sector was seen as important for creating jobs and improving Iraq's long-term economic potential. USAID-Tijara was aimed at continuing Izdihar's work in private-sector lending, in particular, supporting Iraqi microfinance institutions and business development services, which was assumed would contribute to the creation and sustainability of SMEs and thereby the creation and sustainability of jobs.

Began in January 2008, USAID-Tijara was implemented nationwide. The program provided services to support USAID/Iraq's Strategic Objective #8, Private Sector Economic Opportunities Expanded. As such, Tijara encompassed the following components:

1. Establishment and support for a network of small business development centers (SBDCs) and assistance to the Iraqi Ministry of Trade to facilitate Iraq's accession to the World Trade Organization (WTO).
2. Expansion of commercial lending to SMEs through microfinance institutions as well as private banks.
3. Implementation of the Iraqi Youth Initiative (IYI) program (included in Contract Modification Number 14, effective April 27, 2010). The IYI component focused on creating both self-employment and employment opportunities for the youth of Iraq.

The Tijara contract has been subject to several modifications since January 2008. The first modification was issued in June 2008. It left the program budget unchanged, but addressed the role of the SBDCs. This modification highlighted the establishment and development of SBDCs as the primary provider of business development services. The modification also eliminated the references to specific industries named in the original contract, and created the business enabling

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<sup>4</sup> IMF Country Report No. 07/301, International Monetary Fund, August 2007.

<sup>5</sup> The World Bank, World Development Indicators Database.

environment (BEE) objective, with a focus on WTO accession and cooperation with the National Investment Council (NIC)<sup>6</sup> to attract investment to Iraq.

The next modification took effect in September 2008. It increased the budget and modified the scope of work (SOW) to include a focus on the agriculture sector's access to financing.

The third modification, issued in January 2010, did not affect the project budget, but expanded the SOW with three key intermediate results:

1. Public Sector Becomes an Enabler of Private Growth
2. Increased Capacity of the Private Sector
3. Infrastructure for Modern Economy Strengthened

The next modifications took effect in March and April 2010 (modifications 13 and 14). They added funding for the IYI component to address high unemployment among Iraqi youth. The most recent modification, Number 16, merged the budgets for the base period and the two option years, with no change in the end date of January 2013.<sup>7</sup>

With regard to the microfinance component, Tijara provided financial and technical support to microfinance institutions to expand their services. The project tackled the industry at different levels:

- a. Macro Level: Strengthening economic, legal, regulatory, and infrastructure factors to create an enabling environment to favor microfinance industry growth and sustainability and increase access to financial services for those groups of the population previously excluded
- b. Meso Level: Providing financial and technical support to microfinance institutions (MFIs) to expand their activities (including standardization of industry practices and collaboration)
- c. Micro Level: Deploying human capacity-building initiatives with a focus on representatives of the Government of Iraq (GoI) and MFIs

The Iraqi financial system is comprised of banking institutions (including private and state-owned banks), non-banking financial institutions (NBFIs), insurance companies, and microfinance institutions (Table #1). Seven state banks dominate the sector, accounting for around 86% of bank assets and 69% of credit.

It is noteworthy that microfinance activities are relatively new in Iraq. Prior to 2003, there was no microfinance industry in Iraq and the economy was largely based on cash transactions. Microfinance activities were launched in Iraq by the Coalition Provisional Authority (CPA) in 2003. The CPA provided funding to microcredit programs in south-central, southern, and northern Iraq. As a result, by the end of 2003, there were two large MFIs operating in these regions. In 2004, USAID launched a private-sector development and employment generation project, USAID-Izdihar, implemented by the Louis Berger Group through 2008.

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<sup>6</sup> A government body focused on attracting investment to Iraq.

<sup>7</sup> From Tijara reports.

**Table #1: Structure of MSME Finance Market**

<b>Commercial Banks</b>	<b>Non-Banking Financial Institutions/Companies</b>	<b>Insurance Companies</b>	<b>Microfinance Institutions</b>
State-owned banks (7) Private commercial banks (23) Islamic banks (8) Foreign banks (8)	Financial institutions (4) Financial companies (29)	State-owned companies (3) Private companies (10)	Local Iraqi MFIs (10) International MFIs (2)

Source: USAID-Tijara report (2011).

Within this project framework (at the beginning of 2006), multi-million dollar grants were awarded to these MFIs (as well as to a third large MFI). In addition, two indigenous MFIs started operations in the central and northern parts of the country. All the institutions received funding from the USAID-Izdihar Project. By November 2006, MFIs reported issuing 16,673 loans totaling \$18,276,661 in 14 governorates throughout Iraq.<sup>8</sup> Since then, the USAID-Izdihar Project, followed by USAID-Tijara, continued to provide technical and financial support to Iraqi microfinance institutions.

At the same time, the MFIs were challenged by security issues and the country's policy and regulatory system. Although MFIs started functioning as NGO-based credit institutions, their activities were not officially regulated until 2010. In 2010, the sector's overall regulatory environment was improved with the issuance of a new NGO law.<sup>9</sup> According to this legal act, MFIs in Iraq became recognized by the GoI as not-for-profit organizations. By clarifying MFI legal status, the new law ensured that MFIs could continue providing financial services to women, youth, micro and small entrepreneurs, and economically challenged people in Iraq.

Following the initial launch of microfinance activities by the CPA, the development of the microfinance sector in Iraq has been largely attributable to USAID's endeavors. USAID was, and remains, the sector's main supporter, providing MFIs with some \$63,965,532 in loans and operational capital.<sup>10</sup> In addition to USAID, the Iraqi microfinance sector started receiving support in 2007 from several United Nations institutions: the United Nations Development Programme (UNDP) and the International Labor Organization (ILO). The United Nations provided support through the Local Area Development Programme in Iraq (LADP) from 2007–2009. The program was a joint venture of seven UN agencies and the Iraq Ministry of Planning and Development Cooperation. The program addressed a poverty reduction and economic recovery agenda in Iraq and was financed through the United Nations Development Group - Iraq Trust Fund. The program covered three strategic areas including economic recovery. Within this specific domain, the International Labour Organization (in partnership with the United Nations Office for Project Services, or UNOPS) facilitated a microfinance component with total funding of \$1.5 million.<sup>11</sup>

<sup>8</sup> The Iraq Microfinance Strategy, USAID-Izdihar, February 2007.

<sup>9</sup> Iraqi NGO Law was enacted in 2010; the NGO Law of the Iraqi Kurdistan region was enacted in 2011.

<sup>10</sup> Tijara Reports (June 2012).

<sup>11</sup> [http://www.ilo.org/wcmsp5/groups/public/---ed\\_mas/---eval/documents/publication/wcms\\_145631.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_mas/---eval/documents/publication/wcms_145631.pdf)

In 2010 UNDP announced a pre-qualification exercise<sup>12</sup> for MFIs to implement the Private Sector Development Programme for Iraq-I (PSDP-I) project. The project plans to distribute up to \$200,000 to selected MFIs from Basrah, Anbar, and Erbil, subject to the MFIs' satisfactory performance against set targets.<sup>13</sup>

In the summer of 2012, the IFC announced a tender to stimulate the microfinance industry across the Middle East and North Africa (MENA) region, including Iraq. The tentative contract implementation period covers August 2012–December 2013. The tender incorporated four expressions of interest in the following focus areas:

- Risk management and corporate governance
- SME lending for MFIs: market research and SME product development
- Strategy review and support for transformation: strategic review/planning and transformation
- Product review: portfolio and product review and product revision and roll out

Currently the microfinance sector comprises 12 non-governmental MFIs (10 of which are indigenous institutions), operating in all 18 provinces with more than 109 offices. Two of the 12 are international: CHF International and Relief International. Some focus on specific provinces (for example, the Al-Takadum MFI, which operates only in Anbar province; Bright Future Foundation, which covers Iraqi Kurdistan; and Al Thiqa, which is active in the north and central parts of the country). Other MFIs operate nationwide, such as CHF International (Figure #1).

**Figure #1: Map of Tijara Microfinance Component Activities**



Source: USAID-Tijara report (June 2012).

The number of offices per MFI varies from 3 (Al Mosaned) to 15 (Al Bashaer) and includes both main and satellite offices (Table #2). In terms of staffing, MFIs employ a total of 1,015 staff, including 356 loan officers.

<sup>12</sup> [http://procurement-notices.undp.org/view\\_notice.cfm?notice\\_id=6404](http://procurement-notices.undp.org/view_notice.cfm?notice_id=6404)

<sup>13</sup> This project is ongoing.

**Table #2: Overview of Microfinance Institutions in Iraq**

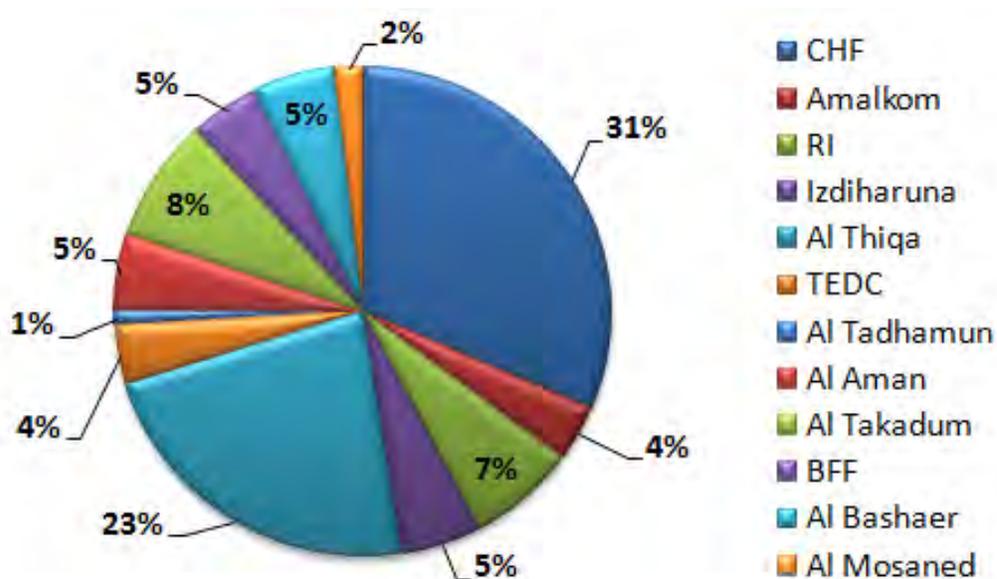
#	MFI	Operating Area	Total Loans Outstanding	Number of Offices	Number of Staff (Total)	Number of Loan Officers
1.	CHF	Babil, Baghdad, Sulaymaniya, Basrah, Al Mediana, Karbala, Al Samawa, Najaf, Diwaniya, Nassriya, Kut, and Erbil	\$45,265,018	13 main and 1 satellite office	320	95
2.	Al Thiqa	Kirkuk, Baghdad, Diyala, Baquba, Erbil, Dahuk, Sulaymaniya, Al Hamdaniya	\$32,718,236	8 main and 5 satellite offices	151	42
3.	Al Takadum	Al Qaim, Falluja, Ramadi	\$11,682,240	3 main and 10 satellite offices	107	44
4.	Relief International	Sulaymaniya, Kut, Karbala, Amara, Basrah, Hilla, Najaf, Erbil, Kirkuk	\$10,319,338	8 main and 4 satellite offices	104	30
5.	Al Bashaer	Baghdad	\$7,675,300	13 main and 2 satellite offices	52	27
6.	Izdiharuna	Iskandariya, Kut, Seddah, Hilla, Najaf, Karbala, Amara, Basrah, Sulaymaniya, Baghdad	\$7,486,410	9 main and 4 satellite offices	75	34
7.	Al Aman	Kirkuk, Taza, Daqiud, Al Hawiga	\$7,297,975	1 main and 3 satellite offices	27	12
8.	BFF	Erbil, Dahuk, Sulaymaniya, Kuysanjaq, Soran, Rania	\$6,568,213	3 main and 3 satellite offices	59	20

#	MFI	Operating Area	Total Loans Outstanding	Number of Offices	Number of Staff (Total)	Number of Loan Officers
9.	TEDC	Telafar, Sinjar, Al Eyadhiya, Al Qahtania, Shimal	\$5,605,861	1 main and 4 satellite offices	27	13
10.	Amalkom	Hilla, Karbala, Najaf, Diwaniya, Nassriya, Baghdad, Al Samawa, Basrah	\$5,297,077	6 main offices	47	20
11.	Al Mosaned	Tikrit, Al-Daur, Al Samarra, Baiji	\$2,637,395	1 main and 3 satellite offices	25	11
12.	Al Tadhamun	Mosul, Tilkaif, Al Shirqat, Al Shikhan	\$1,379,576	1 main and 3 satellite offices	21	8

Source: Tijara project reports (June 2012).

The microfinance industry in Iraq is dominated by CHF International and Al-Thiqa, which hold 31.45% and 22.73% of the total market share, respectively (Chart #1).

**Chart #1: MFI Market Share by Portfolio**



Source: USAID-Tijara report (June 2012).

The MFI industry currently enjoys a 99% repayment rate and a portfolio at risk (PaR) greater than 30 days of less than 1%. Despite high levels of activity, growing efficiency, and greater depth of outreach, significant challenges still exist. For one, MFIs currently meet only a fraction of the estimated demand. Meanwhile, the GoI is questioning the fundamental nature of lending to the poor—for example, whether loans should be interest-free and whether there should be repayment holidays.

### **3. SCOPE AND METHODOLOGY**

The evaluators applied a mixed-methods methodology for this performance evaluation, focusing on descriptive and normative evaluation questions. The methodology examined the financial, social, institutional, and operational aspects of Iraq's microfinance industry.

In this regard, the evaluation team outlined and further broke down key evaluation questions (Question #1 and Question #2). This approach facilitated the definition of quantitative and qualitative measures and indicators, as well as definitions for targets, baseline data, data sources, and sample sizes.

#### **3.1 EVALUATION PERIOD**

The evaluation addresses the performance of Tijara's microfinance component starting from its inception (January 2008) through the initiation of the evaluation team's field work (October 2012).

#### **3.2 EVALUATION RESPONDENT TYPES**

The evaluation team conducted interviews both in person and by phone with a diverse group of stakeholders to obtain information on their perceptions of USAID-Tijara's microfinance component. The key stakeholders identified were the following:

- USAID
- Louis Berger Group, the project implementing partner
- Representatives of the GoI, NGOs, and private agencies active in microfinance issues in Iraq
- Representatives of Iraqi MFIs (project partners): top and middle-level managers, board members, and loan officers
- Targeted communities: project beneficiaries and MFI borrowers

#### **3.3 DATA LIMITATIONS**

- The evaluation team acknowledges the following limitations that worked to hinder the process of gathering the requisite qualitative and quantitative data:
- It was difficult to reach out to all MFIs and gather a complete set of information due to local religious days, microfinance conferences, and vacations that coincided with evaluation fieldwork. The evaluation field work took place at the same time as two microfinance conferences with regional significance. The first, Inclusive Financial Services Stakeholders Conference, was organized within the Tijara framework and took place in Erbil in Iraqi Kurdistan on October 23 and 24, 2012. The second, Sanabel's Ninth Annual Conference, was the largest microfinance event in the MENA region and took place in Khartoum, Sudan, from October 31 to November 2, 2012. These conferences were attended by all key stakeholders

within the Iraqi microfinance industry, including USAID-Tijara team leaders, MFI representatives, and Iraqi state officials.

- The fieldwork also coincided with several religious holidays such as Greater Eid (known as Kurban Bayram and Bakrid) on October 26, 2012 (a three-day holiday), and Islamic New Year (El-Hijra or Muharram), celebrated on November 15, 2012.
- As a result, the QED evaluation team was able to meet with project beneficiaries, MFIs, and borrowers only after November 3, 2012, and before November 15, 2012. Also, the QED evaluation team was unable to schedule<sup>14</sup> a focus group discussion in Iraq's Salah ad Din Province (covered by the Al Mosaned MFI).
- Some MFIs were reluctant to share information. Only 11 MFIs (Al Thiqa, Al Aman, BFF, TEDC, Al Takadum, Al Tadamun, Izdiharuna, CHF International, Al Mosaned, Amalkom, and Al Bashaer) out of 12 partnering MFIs submitted self-assessment questionnaires. Relief International did not provide its self-assessment questionnaire to the evaluation team and did not provide a reason for its lack of response to the team's request.
- Local MFIs submitted incomplete sets<sup>15</sup> of internal policies and procedures. The evaluation team requested that all MFIs submit their internal policies and procedures, including:
  - MFI mission and bylaws
  - Strategic and operational plan
  - Organizational chart and legal structure
  - Board management information
  - Information and communications technology (ICT) positioning (procedures and policy); information technology (IT) audit measures
  - Human resource manual
  - Risk management manual
  - Internal control and audit procedures/manual

A checklist is presented in Table #4.

- It was difficult to reach out to some stakeholders due to security concerns. On November 8, 2012, the project team scheduled a focus group discussion with CHF International borrowers in the city of Hilla in Babil province. However, the focus group participants did not arrive due to security reasons, as a car bomb explosion had occurred in the city's center shortly before the scheduled time of the meeting.
- Logistical challenges limited the team's movement throughout the country. Due to anticipated road blocks during the Muharram holidays (Islamic New Year), the evaluation team had to complete on-site interviews and focus group discussions by November 15, 2012.

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<sup>14</sup>Al Mosaned's top MFI manager was out of the country. As a result, the evaluation team was unable to reach the manager within the time span allotted for the discussion.

<sup>15</sup> Internal policies developed by MFIs ensure their managerial and operational efficiency and affect MFI sustainability. Moreover, MFIs are required by NGO law to present certain documents in order to be registered.

- It was impossible to set up a meeting with the representative of the Central Bank of Iraq due to an ongoing investigation. In October 2012, the Governor of the Central Bank of Iraq, along with other bank officials, was targeted in an investigation into alleged financial wrongdoing. The evaluation team tried to set a meeting with the representatives of the Central Bank of Iraq using both QED and USAID-Tijara channels. However, the bank officials were unwilling to meet with either international experts or local staff due to the ongoing investigation.
- Incomplete records were maintained on the microfinance online portal. The evaluation team intended to analyze normative (the number of visitors) and descriptive (the feedback of visitors) information on the effectiveness of the microfinance portal through server logs and other Internet-based analytical tools. However, this was impossible, as USAID-Tijara did not keep track of this information and the file on the server logs was not maintained. The portal is accessible to the general public, although interviews revealed that MFI top managers are the main users of the portal and are mostly interested in receiving information about upcoming conferences and workshops.
- Some training participants were reluctant to share information. The evaluation experienced data limitations related to feedback from the NGO Directorate staff and beneficiaries of the Microfinance Pillars Basic Training Workshop, conducted in Erbil on April 11–12, 2010. There were four training beneficiaries, but feedback was received from only two.

### 3.4 EVALUATION DATA COLLECTION TOOLS

A mix of quantitative and qualitative questions have been incorporated into the evaluation tools used in this evaluation to deliver the most comprehensive picture of the project’s achievements and challenges with regard to microfinance. The data collection tools for this mixed methods evaluation were as follows:

- *MFI assessment questionnaires* were distributed in advance among partnering MFIs (12 in total) to assess their managerial, operational, and financial effectiveness.
- *Key informant interviews* were conducted in person or by phone with highly regarded experts and other knowledgeable persons. These experts had been selected among MFI mid- and top-level managers and board members, GoI representatives, international and local NGOs, and donor agencies, all involved in Iraq’s microfinance industry. In total, seven mid-level MFI managers were interviewed.
- *Focus group discussions* were conducted among project beneficiaries/borrowers (groups of women, youth, and internally displaced persons [IDPs]).<sup>16</sup> A total of 150 beneficiaries/borrowers participated out of a sample size of approximately 96,898 (the number of active borrowers as of September 2012). Questions were developed to determine whether there was a consensus on particular issues, and whether focus group participants shared common views and reactions. The outcome of focus group discussions was incorporated into project findings.<sup>17</sup>

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<sup>16</sup> The project’s work plan did not include focus group discussions conducted among religious and ethnic minorities.

<sup>17</sup> No separate summary of findings has been developed.

- *Direct observations* gave an opportunity for the evaluation team to observe what was actually happening at MFI offices. This is a behavioral observation instrument applied to assess MFI business processes and the behavior of MFI staff and clients in their natural setting.
- *Mini-surveys* were conducted among a small number of individuals, selected on the basis of availability and directed sampling. The questionnaires designed for these mini-surveys focused on a limited number of closed-ended questions to generate quantitative data. A total of 114 MFI loan officers participated, out of a sample size of 353, producing a response rate of approximately 32%. There was a reason for including mini-surveys focusing on loan officers. MFI loan officers play a fundamental role in ensuring a nondiscriminatory approach to screening potential clients. The officer is the key staff member who visits clients in the field and at their working premises and makes the decision on accepting or rejecting applicants. Thus, qualification of loan officers, as well as their familiarity with the MFI's mission and policies, directly correlates with MFI client outreach.<sup>18</sup>

### 3.5 SITE VISITS AND SELECTION CRITERIA

The evaluation team reached out to all 12 microfinance institutions, conducting either phone or in-person interviews with top and mid-level managers and loan officers. The evaluation team interviewed MFI representatives (top and mid-level managers and loan officers) in 16 provinces (out of 18): Erbil, Sulamaniya, Ninawa, Kirkuk, Baghdad, Karbala, Babil, Najaf, Diwaniya, Basrah, Muthanna, Wasit, Dhi Qar, Anbar, Diyala, and Salah ad Din.

Taking into account the project's scope of work and scheduling, the team selected 12 provinces (out of 18) to conduct focus group discussions: Erbil, Sulamaniya, Baghdad, Karbala, Babil, Najaf, Diwaniya, Basrah, Muthanna, Dhi Qar, Anbar, and Diyala. These provinces were selected to provide the best degree of geographic and religious/ethnic diversity. The evaluation team did not conduct focus group discussions in the provinces of Dahuk or Maysan. Dahuk province is located in the north of the country and is a part of Iraqi Kurdistan. There are two MFIs active in Duhok: Bright Future Foundation<sup>19</sup> and Al-Thiqa. QED evaluation team data collectors conducted a focus group discussion with Al Thiqa borrowers in Erbil province (also in Iraqi Kurdistan). It outlined a comprehensive picture of microfinance environment existing in this province in Iraqi Kurdistan.

Maysan province is located in the southeast part of the country and is covered by Relief International (RI).<sup>20</sup> Evaluation team data collectors conducted a focus group discussion with MFI beneficiaries/borrowers in Maysan but held these discussions in the nearest province, Basrah. Table #3 presents information on the geographic coverage of QED group site visits by province and type of stakeholders interviewed in each province.

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<sup>18</sup> A qualified and well-educated loan officer is capable of providing high-quality services to an increasing number of borrowers, thus directly affecting the MFI's outreach.

<sup>19</sup> The QED team interviewed top and mid-level managers (as well as loan officers) of the Bright Future Foundation office in Sulamaniya (part of Iraqi Kurdistan).

<sup>20</sup> QED data collectors interviewed RI mid- and top-level managers in other provinces.

**Table #3: Geographic Coverage of Interviews and Focus Group Discussions**

#	Province	Focus Group Discussion/MFI I	MFI Mid/Top Manager	Loan Officer/MFI
1.	Erbil	Al Thiqa	Al Thiqa	CHF
2.	Sulamaniya	Al Thiqa	BBF	BBF, CHF, RI
3.	Ninawa		Talafar, Al Tadamun	Talafar
4.	Kirkuk		Al Aman, Al Thiqa	Al Aman, Althiqa
5.	Baghdad	Al Bashaer, CHF International	Al Bashaer	Al Bashaer
6.	Karbala	CHF/Amalkom		RI/Izdiharuna, CHF/Amalkom
7.	Babil	RI/Izdiharuna		RI/Izdiharuna, CHF/Amalkom
8.	Najaf	CHF/Amalkom		RI/Izdiharuna, CHF/Amalkom
9.	Diwaniya	CHF/Amalkom		CHF/Amalkom
10.	Basrah	CHF, Amalkom		RI/Izdiharuna, CHF/Amalkom
11.	Muthanna	CHF/Amalkom		CHF/Amalkom
12.	Wasit			RI/Izdiharuna
13.	Dhi Qar	CHF/Amalkom		CHF/Amalkom
14.	Anbar	Al Taqadum	Al Taqadum	Al Taqadum
15.	Diyala	Al Thiqa	Al Thiqa	Al Thiqa
16.	Dahuk		BBF and Al Thiqa staff interviews already conducted in other provinces	BBF and Al Thiqa staff interviews already conducted in other provinces
17.	Maysan			RI staff interviews already conducted in other provinces
18.	Salah ad Din		Al Mosaned	Al Mosaned

Source: QED Group data (2012).

## 4. RESEARCH QUESTIONS

### 4.1 RESEARCH QUESTION #1 (Q1): Has a sustainable microfinance industry been established in Iraq?

To address the sustainability issue of USAID-Tijara microfinance institutions, the evaluation team concentrated on answering two sub-questions related to MFI operational and financial sustainability:

- Research sub-question (A): Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by the operational sustainability of MFIs?
- Research sub-question (B): Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by the financial sustainability of MFIs?

*Sustainability of MFIs* refers to a long-term continuation of microfinance activities and entails that USAID-Tijara has helped put in place systems and processes for its partnering MFIs that enable them to continue delivering their services to their beneficiary populations. Sustainability has many facets, of which financial sustainability is one. Other factors that influence sustainability include the macro-economic environment and MFI organizational and managerial capacity. These dimensions can be segregated into external (including state policy and legal framework) and internal factors (including organizational, managerial, and financial issues). The evaluation team considered both approaches and designed the evaluation work plan accordingly.

With regard to the sub-question (A), the team assessed external (macro-economic) and internal factors (organizational, managerial<sup>21</sup>) that affect the sustainability of Iraqi MFIs:

#### A. External Factors:

- (a) State policy and awareness
- (b) Legal environment
- (c) Cultural context

#### B. Internal Factors:

- (a) Managerial and corporate governance practices including internal policies and procedures
- (b) MIS regulations and data security
- (c) Human resource capacity of the microfinance institutions: staff turnover

### A. EXTERNAL FACTORS

To assess the external constraints MFIs face in Iraq, the evaluation team conducted meetings and interviewed key sector stakeholders, including USAID-Tijara team leaders, representatives of various Iraqi state agencies (the Ministry of Planning and Development, the Council of Representatives, the Prime Minister's Advisory Council, and the NGO Directorate) and representatives of the international donor community (the World Bank and UNDP). In addition, the team's data collectors visited the Inclusive Financial Services Conference, conducted in Erbil, Iraq, on October 23–24, 2012, and at the conference.

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<sup>21</sup> Financial aspects will be discussed with regard to sub-question (B).

## FINDINGS ON EXTERNAL FACTORS

### (a) State Policy and Awareness

The team analyzed existing legal acts and conducted a series of interviews with top GoI officials, private sector managers, and international donor representatives. The GoI regulates the sector through legal and normative acts and can create either a favorable or unsupportive environment that greatly affects sector sustainability over the long run. Thus, having a supportive state policy is one of the key prerequisites for ensuring long-term, sustainable development and growth.

#### i. Limited Understanding of Microfinance Issues Among State Officials

It is noteworthy that there is a significant gap among state officials with regard to their understanding of microfinance concepts and the potential impact of microfinance on poverty reduction and economic development. The project team set up meetings with the representatives of the Ministry of Planning, the NGO Directorate, the Prime Minister's Advisory Council, and the Council of Representatives. The representative from the Ministry of Planning lacked information on the microfinance sector, while the delegate from the Council of Representatives requested introductory notes on microfinance issues.

The NGO Directorate's new Director stated that the nature of microfinance institutions is unclear. His understanding was that as long as these institutions are registered as not-for-profit organizations, they are not supposed to make a profit through their loans scheme: "The nature of these MFIs is not clear, all these NGOs registered for the NGO Directorate as humanitarian NGOs/not-for-profit NGOs. These NGOs can't make a profit because they are supposed to be not-for-profit"). At the same time, the Director stated that as long as MFIs operate as profit-making organizations, their status should be changed: "If the MFIs work as companies, they need to register themselves as companies; likewise, if they operate as banking institutions, they need to be registered as banks"). It is noteworthy that the Director of the NGO Directorate is a newly appointed official and is less familiar with the microfinance context and related institutions in Iraq than his predecessor, who had recently passed away in a car accident.

It is important to note the interest and readiness of the Delegate of the Council to become familiar with microfinance issues and methodology (e.g., the Delegate of the Council of representatives cancelled his flight to Jordan to attend the meeting with the evaluation team).

To build the capacity of the state sector representative with regard to microfinance issues, USAID-Tijara organized a workshop<sup>22</sup> for four NGO Directorate staff members. The goal was to deliver information and train staff on microfinance basic principles and best practices. The evaluation team tried to determine the training's long-term outcome on state microfinance policy. The team reached out to training beneficiaries and received feedback from two of the four state officials who attended. Both participants regarded the training they attended as valuable, stating they now "know important parts of civil society and the financial and monetary culture and their roles in the investment of capital." Training participants highlighted that they now understood "the importance of directing this capital to gain results in the short- and long-term through knowing the economic feasibility of the MF projects, by providing materials for

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<sup>22</sup> Microfinance Pillars Basic Training Workshop, conducted in Erbil, Iraq, on April 11–12, 2010.

production and reducing unemployment.” The evaluation team’s effort to collect feedback from the other two workshop participants was not successful due to their transfer to regional offices.

## **ii. The Government of Iraq Lacks a Vision for the Microfinance Sector**

The evaluation team carried out meetings with representatives of various state agencies including the Prime Minister’s Advisory Council, the Ministry of Planning and Development Cooperation, the Council of Representatives, and the NGO Directorate. The team received a variety of feedback and different visions of the microfinance industry from these stakeholders. No one mentioned that a microfinance national strategy had either been prepared or was in the process of development.<sup>23</sup> Thus, it appears that no microfinance development strategy or policy paper exists. Having this type of strategic or policy document would help serve as a strategic platform for advancing MFIs and promoting development of the Iraqi legal environment. It would also provide an excellent indicator that the GoI considers the microfinance sector to be a priority. Most important, the development of a unified strategic paper is imperative for establishing a sound and supportive policy environment. Several state stakeholders could become more active in defining the unified strategic vision on the sector: the Central Bank of Iraq, the Prime Minister’s Advisory Council, the Ministry of Planning, and the Development Cooperation.

In 2009, the GoI approved the National Strategy for Poverty Reduction for 2010–2014. Among other key issues, the government acknowledged that “Iraq lacks the existence of micro-credit financial institutions in the formal credit market. Given the rigid governmental banking system and limited international support in this respect, it is difficult for the poor to obtain credit to set up their small scale enterprises.” However, until now, there has been no indication that the government has a unified vision on the utility of microfinance services in alleviating poverty.

It is noteworthy that the Iraqi Microfinance Strategic paper was developed in 2007 with USAID support.<sup>24</sup> However, this was done within the USAID-Izdihar project framework and does not necessarily imply that the GoI takes ownership for this strategic paper.

## **iii. Limited Appreciation of Microfinance Institutions**

There is limited appreciation and trust for MFI operations from the GoI side. Government bodies are unconvinced that MFIs address the needs of impoverished families. In fact, the GOI has developed an alternative scheme to the microfinance industry. In the summer of 2012, the Ministry of Labor and Social Affairs (MOLSA) launched an alternative interest-free loan scheme for small-scale projects, known as subsidized MOLSA loans.<sup>25</sup> The scheme is targeted to impoverished groups: widows, divorced women, women who are sole family providers, the handicapped, and people unable to work. Loan amounts range up to \$8,000.<sup>26</sup> However, preconditions<sup>27</sup> of the state loan scheme reveal that it is not necessarily targeted to impoverished families.

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<sup>23</sup> There is no legal act obliging state institutions to develop a unified vision on microfinance industry. The nomination of a specific state agency to spearhead the development of a unified vision is beyond the scope of this evaluation and authority of the evaluation team.

<sup>24</sup> [http://www.izdihar-iraq.com/resources/papers\\_pdfs/izdihar\\_iraq-microfinance\\_strategy\\_031607\\_final\\_web.pdf](http://www.izdihar-iraq.com/resources/papers_pdfs/izdihar_iraq-microfinance_strategy_031607_final_web.pdf)

<sup>25</sup> <http://www.molsa.gov.iq/>

<sup>26</sup> Repayment is eight years and the grace period is one year.

<sup>27</sup> Requirements: leasing contract to be submitted, state employee to be a guarantor, spouse of an applicant working for the state sector, etc.

One of the local MFIs (Al-Mosaned) reported that state agencies are not ready to cooperate with local MFIs. Moreover, 100% of MFIs responding to a question asking if they received any support from the Central Government gave a negative answer. Another example was provided by Al-Mosaned MFI. When Al-Mosaned tried to sue one of its default borrowers, the court did not accept the case, justifying its decision by stating that Al-Mosaned was an NGO.<sup>28</sup>

The representative of the Deputy Prime Minister at the conference in Erbil stated the following: “The Central Bank of Iraq has a very bad impression about MFIs. I expect that the Central Bank will close all the MFIs if USAID stops supporting them. The reason is that MFIs are not a part of the financial planning of the Central Bank, but they affect the financial planning of the entire country. Thus they are not welcomed by the Central Bank of Iraq.”

Moreover, the meeting conducted with the representative of the Prime Minister’s Advisory Council revealed several concerns held by the government with regard to microfinance industry. One of the issues was related to the interest rate imposed by MFIs. The government (NGO Directorate and PMAC) considers MFI interest rates as too high, and, as long as all MFIs are legally considered to be NGOs, they should not work for profit. Thus, high interest rates applied to loans to small businesses and targeted population groups cannot be justified. The Director of the NGO Directorate stated that as long as all MFIs are registered as NGOs (that is, as not-for-profit organizations), they should not be making profits. He also expressed his concerns with regard to MFI interest rates: “The MFIs justify high interest rates by the high risks in Iraq, but when we checked their charts we noticed that the repayment rate in Iraq is the highest in the region. We believe the interest rate is high. We know that the MFIs need to get some profits to cover their operational cost, but that does not justify giving loans to small businesses and poor, and charging 18% as the interest rate.”<sup>29</sup>

On the contrary, information received from MFI borrowers revealed that 49% of respondents consider the interest rate to be fair; only 29% of them thinks it is very expensive (Chart #2).<sup>30</sup>

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<sup>28</sup>The evaluation team did not uncover similar judicial cases in other MFIs.

<sup>29</sup>The interest rate imposed by private banks is relatively lower, an average rate in 2012 was around 14%; <http://www.tradingeconomics.com/iraq/lending-interest-rate-percent-wb-data.html>. In some banks, the rate is even lower, e.g., Rasheed Bank’s interest rate is around 9%.

<sup>30</sup> The evaluation team did not focus on identifying how the interest rate is determined or if it is fixed or variable, since this was not included in the work plan.

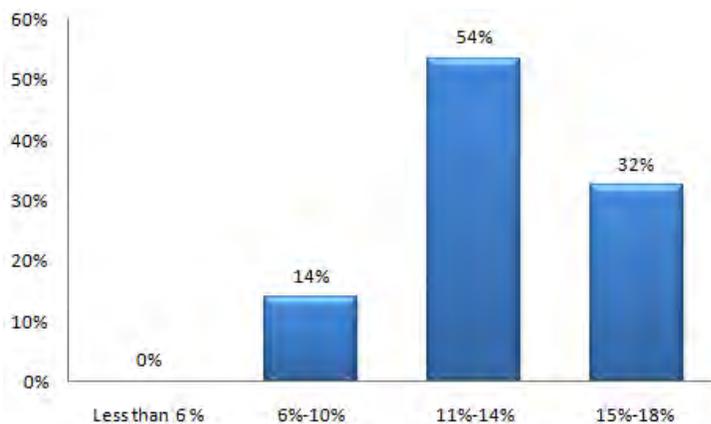
**Chart #2: Borrowers' Perceptions Regarding MFI Interest Rates**



Source: Focus group questionnaires, QED data (November 2012).

The evaluation team also assessed loan disbursement statistics provided by the MFIs regarding interest rates. None of the 114 MFI loan officers who responded reported average interest rates of under 6% for the loans they had approved. Of the participating loan officers, 14% (16 out of 114) reported average interest rates between 6%–10%. Around 54% of loan officers (61 loan officers) said they had approved loans with an average interest rate range of 11%–14%. Finally, 32% of loan officers (37 individuals) noted that they had approved loans with an average interest rate in the range of 15%–18% (Chart #3).

**Chart #3: MFI Loan Officers' Reported Interest Rates**



Source: Loan officer questionnaires, QED data (November 2012).

### **(b) Regulatory Environment**

To assess the regulatory environment, the team conducted desk research and interviewed key stakeholders from the GoI, two managers of local and international MFIs, and external donors active in the country (the World Bank and UNDP).

The legal and regulatory environment provides a foundation for the development and sustainability of all sectors, including the microfinance industry. State policy takes on vital importance in the case of post-conflict and fragile states, including Iraq.

**i. The NGO Law Prohibits NGOs from Borrowing to Fund Operational Activities**

In terms of the regulatory environment, the following legal acts stipulate the status and functioning of MFIs in Iraq:

- The Iraqi NGO Law (2010)<sup>31</sup>
- The NGO Law of the Iraqi Kurdistan region (2011)<sup>32</sup>
- MSME Finance Companies Ordinance (Ordinance 3 of 2010)<sup>33</sup>

All USAID-Tijara partnering MFIs operate as non-governmental entities and are accountable to the NGO Directorate. It is noteworthy that MFIs registered under the Iraqi NGO law are allowed to operate throughout the country and are expected to pay all taxes including value-added taxes (VAT) and custom duties. Conversely, the operations of MFIs registered under the NGO Law of the Iraqi Kurdistan region are limited to this specific region. Moreover, local MFIs (as well as other NGOs) registered under the NGO Law of Iraqi Kurdistan are exempt from taxes and custom duties.<sup>34</sup> Existing NGO law restricts NGOs to borrowing funds to cover operational activities, thus making MFIs dependent on grants and subsidies.

It is noteworthy that USAID-Tijara partnering MFIs consider funding (loan capital) to be one of the major challenges likely to affect the effectiveness of their operations and further expansion of their businesses.

**ii. The MFI Transition from NGO to NBFIs Is Challenging**

The issue of transition is related to the funds (loan and operational capital) provided to MFIs. As seen in Chart #4, a major share of MFIs' lending and operational capital was granted by international donors, including USAID (USAID's contribution was around 68.5%<sup>35</sup>). When interviewed, at least 50% of stakeholders, including top managers of the partnering MFIs, stated that a lack of funding sources is one of the major constraints they foresee in the future. Similar concerns were voiced by the Tazeez MFI, the only MFI that is not a member of the Tijara microfinance community.

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<sup>31</sup><http://www.ncciraq.org/images/stories/NCCI%20DB/NGOs/NGOlaw/RepublicofIraqLawonNonGovernmentalOrganizationsof2010FinalTextENG.pdf>

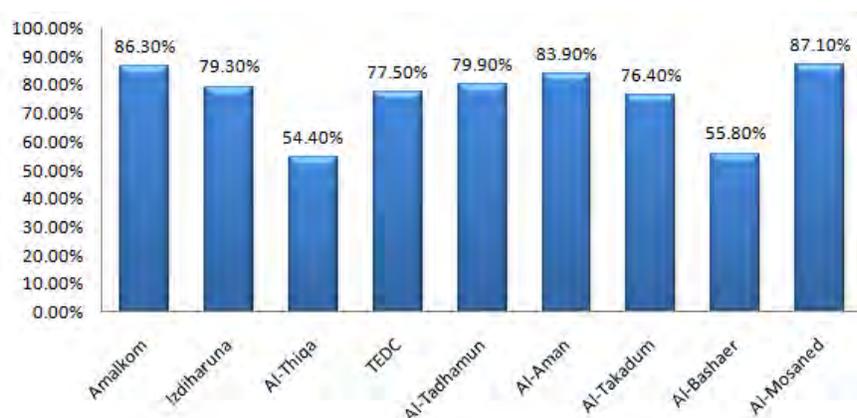
<sup>32</sup> <http://www.ncciraq.org/images/stories/NCCI-DB/NGOs/NGOlaw/KurdishKRGLaw/krgngolaw-en.pdf>

<sup>33</sup> <http://www.cbi.iq/documents/ordinance%20to%20regulate%20the%20operations.EN.pdf>

<sup>34</sup> Article 14 (Section # 4) of the "Law of Non-Governmental Organizations in the Iraqi Kurdistan Region" (issued in 2011) stipulates that "The Organization's revenues, properties and funds shall be exempted from taxes and customs duties."

<sup>35</sup> Excluding international MFIs: CHF International and Relief International.

**Chart # 4: USAID Contribution to MFI Loan and Operational Capital (%)**



Source: USAID-Tijara report (June 2012).

According to the MSME ordinance, the companies that provide loans and credits to small businesses must possess a minimum capital level to be registered. This capital must come from private sources. As for financial support received from donors, the GoI either claims its right to monitor the capital of MFIs or is convinced that should MFIs change their status to NBFIs, any money received from donors should be transferred to another NGO with a similar mission and goal. This was clearly articulated by the representatives of the Prime Minister’s Advisory Council and NGO Directorate. Thus, should an MFI try to change its status from an NGO to an NBF, it would be faced with a funds transfer challenge.

### **iii. Drafted Microfinance Law Causes Confusion**

The MSME Finance Companies Ordinance, issued in 2010, stipulates that legal entities providing funding to SMEs must meet specific requirements, including having a minimum capital of 1 billion Iraqi dinar (ID) for limited liability companies and 2 billion ID for joint stock companies. All SME financing companies are subject to the supervision of the Central Bank of Iraq (CBI).

In 2012, UNDP provided support in drafting the Microfinance Law.<sup>36</sup> Despite the fact that this legal act had been drafted, this does not necessarily imply that it emanates from the vision of GoI. In fact, different state stakeholders have different opinions about the microfinance industry. UNDP representatives highlighted that the drafted Microfinance Law causes confusion among state officials. Government representatives have a limited capacity to understand the difference between these two legal acts and consider the Microfinance Law to be similar to the MSME Finance Companies Ordinance issued in 2010.

<sup>36</sup> The Microfinance Law was drafted with the strong support of UNDP. In fact, the GoI is not yet ready for its enforcement. Evaluation team interviews revealed that this law has caused a degree of confusion among state officials.

**iv. The Mandate and Reporting Scheme of the Council and Its Departments Are Somewhat Vague**

The representatives of the Prime Ministers Advisory Council and UNDP mentioned the Economic Reform Law draft submitted to the Council of Representatives for further approval.

The Economic Reform Law considers the creation of the Economic Reform Supreme Council (ERSC). It is anticipated that one of the council's departments will assume a supervisory role and serve as a mediator between the GoI, local MFIs, and SMEs. UNDP representatives shared their opinion with the team that neither this law nor any other legal act regulates the mandate and reporting procedures of the ERSC and its departments. The evaluation team did not receive a copy of the Economic Reform Law.

**v. Lack of Coordination Between State Agencies with Regard to Microfinance Issues**

The representatives of Prime Minister's Advisory Council (PMAC) and UNDP confirmed that the Microfinance Law and the Economic Reform Law had already been drafted and submitted for approval to the Council of Representatives. UNDP representatives also confirmed the UN's contribution in drafting these legal acts. No information on these legal acts is available at the Council of Representatives. Likewise, the representative of the NGO Directorate had no information on the Microfinance Law that had been drafted, but supported the idea of drafting the law. Altogether, this demonstrates a lack of coordination among Iraqi state agencies.

**vi. Law Enforcement Risks**

The representative from the Council of Representatives noted that there were cases when approved legal acts had never been enforced. As a rule, the enforcement process is slow and takes a minimum of two years. For example, Iraq's Parliament has already approved four legal acts that are pending implementation:

- Consumer Protection Law
- National Production Law
- Copyright Law
- Tariff and Trade law

The Head of the Economic and Investment Committee of the Council of Representatives welcomed USAID's technical assistant to promote coordination between Iraqi government institutions in adopting and implementing legal acts and policies.

The Prime Minister's Advisory Council is one of the most active GoI stakeholders with regard to economic reforms and microfinance issues. Even so, it has no executive power to influence the enforcement process.

In terms of regulation and legal act changes, the representative of the Deputy Prime Minister at the conference in Erbil noted that "changing regulations is difficult. There are regulations that are not laws, and it is easier to start changing these ones."

### (c) Cultural Context

The evaluation team identified four major facets of the Iraqi cultural context: religious beliefs, person culture, communication culture, and the cash culture of local society. Each facet plays an important role in attracting potential borrowers. Religious beliefs might prevent people from applying for loans, as Islam considers charging interest to be a sin. Communication culture dictates specific rules of information dissemination and might cause information gaps among potential borrowers. Person culture makes the local population dependent on the decisions of a specific leader, whether religious or tribal. As a result, the decision as to whether individuals should or may apply for a loan is in hands of the local leader. Finally, Iraq's cash culture causes distrust toward banking institutions and serves as an impediment to microfinance activities.

#### i. Religious Beliefs

In Iraq, *religion* is an important element of the local context. At the early stage of the program, local residents were reluctant to apply for loans due to local religious beliefs. The population considered borrowing money at a specific interest rate as a sin. This was noted by the representative of the Deputy Prime Minister at the conference in Erbil. The conference was conducted on October 23–24, 2012. The local population needs an official approval (known as a *fatwa*) from religious leaders to apply for a loan. Interestingly, sometimes a *fatwa* is published online.<sup>37</sup> Thus, at the outset, Iraqi MFIs faced a considerable challenge with regard to changing people's attitudes toward microloan schemes. Likewise, religious beliefs have influenced microfinance expansion throughout the Islam world, with Islamic microfinance constituting less than 1% of global microfinance.<sup>38</sup> According to a survey conducted by the Consultative Group to Assist the Poor (CGAP)<sup>39</sup> in Jordan, Algeria, and Syria in 2008, from 20% to 40% of respondents named religious reasons for not using conventional micro loans.<sup>40</sup>

#### ii. Communication Culture Impediments

In terms of *communication culture*, the local population customarily receives information from local religious and community leaders and by word of mouth. These communication channels are still regarded by local communities as the most reliable and trustworthy.

Only 27% of the borrowers interviewed (out of 151 focus group discussion participants) said they received information from advertisements, billboards, and flyers. Around 55% of respondents reported they received information on MFI activities from other borrowers, friends, relatives, and neighbors. Only 14% received information from MFI loan officers. Thus, Iraqi MFIs put significant efforts into active cooperation with local leaders to communicate their message to the local population. In some cases (e.g., the Al Tadhmun MFI), local tribal and community leaders were invited to join the MFI's board of directors.

In terms of information-sharing, some MFIs (5 of the 10 MFIs) developed and maintained their own web sites, although the functionality and information available on these sites was rather limited. The sites require further improvement in terms of content and language selection options

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<sup>37</sup> <http://www.alomah-alwasat.com/fatwaMore.php?id=825>

<sup>38</sup> <http://www.microworld.org> (2011).

<sup>39</sup> An independent policy and research center supported by over 30 development agencies and private foundations that share a common mission to alleviate poverty.

<sup>40</sup> <http://www.microworld.org/en/news-from-the-field/article/islamic-microfinance-has-difficulty-developing#.UNa6l6xn3Kc>

to accommodate the needs of the local audience. Iraqi MFI sites often lack information on interest rates (which is understandable) and clear instructions on loan conditions and the application package for potential clients. On the other hand, most poor families in Iraq have little or no access to formal sources of information, including the Internet, and therefore greatly depend on informal sources of information, as previously noted.

In addition to MFI sites, a microfinance knowledge portal created within the USAID-Tijara framework provides a supplemental source of information on loan range and conditions. The portal provides information on Tijara partnering MFIs and serves as a good source of information for the Iraqi microfinance community. An evaluation team inquiry conducted among local MFIs revealed that not all actively use the portal. According to the representative of the Bright Future Foundation, the site was designed for “the relevant authorities and donors organizations. As for the customers, it is not very useful because they are simple people. Direct contact is much better for them.”

### **iii. Person Culture Issues**

*Person culture* is another aspect of local culture to be considered. In Iraq, knowledge is often encapsulated in a specific person and is not institutionalized. The best example of this phenomenon is related to the NGO Directorate. The USAID-Tijara team actively cooperated with the previous director of the NGO Directorate, one of the key state stakeholders and well informed about microfinance industry. Unfortunately, he passed away after an accident in the summer of 2012. His successor was interviewed by the evaluation team and expressed his concern about the nature of local MFIs.

### **iv. Cash Culture Challenges**

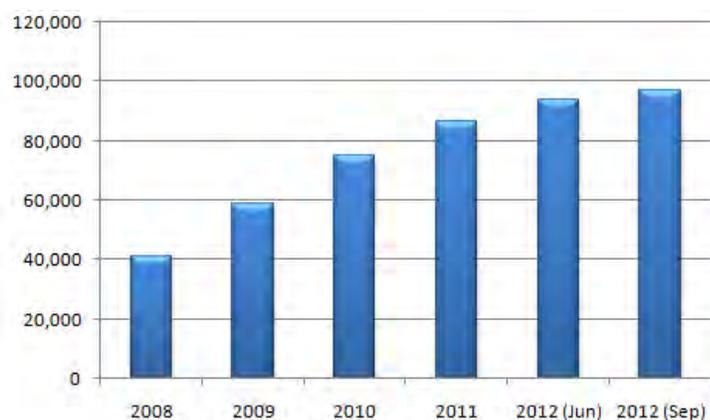
The local *cash culture* puts additional limits on MFI operations. The insecure environment in which people live in Iraq has fostered mistrust toward banking institutions. Added to this is the fact that some groups of the population lack knowledge of the banking sector, including the procedures to follow to open a bank account, as pointed out by a representative of the Al Bashaer MFI. In 2010, USAID-Tijara started implementation of a pilot mobile banking initiative for Al Bashaer. The activity targeted 20 Al Bashaer borrowers, and was designed to support Iraqi MFIs in adapting mobile banking technology to increase client outreach. Yet, even though the initiative was aimed at reducing transaction costs for Al Bashaer, the result was increased costs. One of the challenges the MFI faced was the fact that most of its borrowers lacked bank accounts and had no understanding of how to carry out transactions through mobile banking. Al Bashaer representatives needed to teach their clients how to open bank accounts. Even in those cases where borrowers did have bank accounts, they were mistakenly putting the money into their own accounts rather than depositing payments to Al Bashaer’s account.

Despite these challenges, there has been a notable change in people’s perception over the last decade, especially in the last five years. As an example, the Director of the Al Thiqa MFI shared the case of taxi drivers in Kirkuk city: “At the beginning, the people were hesitant to get loans but now it is completely improved. I give an example of Kirkuk city, 6,000 taxi drivers changed their car to new cars, benefiting from our loans.”

Chart #5 presents the growth rate of MFI active borrowers for the past five years, from 2008 to September 2012. In 2008, the number of active borrowers was reported as 40,915; by 2009, it

had increased to 58,852. By September of 2012, the number of active borrowers reached 96,898, an almost 137% increase.

**Chart #5: Number of Active Borrowers**



Source: USAID-Tijara report (September 2012).

Focus group discussions conducted by QED data collectors revealed that families generally supported taking out loans. Only one interviewee stated that the family was not supportive, as family members were afraid the borrower would be unable to repay. At one focus group, participants reported that while family members generally react positively to the idea of microfinance borrowing, although there could be some hesitation due to religious issues and the fact that the loan is taken out in U.S. dollars rather than in Iraqi dinars. For young borrowers, the only concern shared was related to the relatively high interest rate and short repayment periods of these loans.

## **B. INTERNAL FACTORS**

The evaluation team conducted an assessment of partnering MFIs to appraise the determinants of MFI sustainability, including their managerial effectiveness, internal business processes, and use of ICT to advance their businesses.

### **FINDINGS ON INTERNAL FACTORS**

#### **(a) MFI Management and Corporate Governance**

The evaluation team carried out the following activities to appraise MFI managerial competence and corporate governance:

- Distributed MFI self-assessment questionnaires
- Requested information on internal policies and procedures from each MFI
- Conducted interviews with top managers of each MFI
- Interviewed MFI mid-level managers and loan officers

##### **i. Internal Policies Streamlined and Manuals Developed**

In order to be registered, MFIs needed to improve their corporate governance practices. Iraqi law requires that NGOs submit information on their organizational structures; MFIs must also develop bylaws, define election mechanisms and the power of internal committees, and develop

streamlined management and accounting practices, including defining the authority to hire staff, setting up salary scales, and defining their accounting procedures. In addition, MFIs are required to submit their annual reports to the NGO Directorate, along with a detailed description of the funding sources and the projects implemented during the year.

USAID-Tijara delivered basic trainings on governance to the boards of directors of local MFIs to ensure they could meet these requirements. The project also supported MFIs in developing the templates, tools, and guidelines needed for effective governance. In addition, the Tijara team continued working with MFI boards of directors and members of their management teams to institutionalize governance best practices, attending board meetings and providing guidance. Tijara also encouraged board members to take part in conferences and workshops to advance their understanding of microfinance principles and the industry as a whole.

The evaluation team interviewed top managers of all the MFIs, either in person or by phone. Nine of the 10 MFIs that responded reported that USAID-Tijara had made great efforts to improve MFI capacity through training, workshops, and conferences, as well as by means of follow-up assistance and attendance at board meetings.

Even so, only 1 of the 10 respondents (specifically, the Al Thiqa MFI) indicated an interest in its staff attending more advanced training sessions. It should be noted that this MFI is comparatively strong and has a longer operational history than the rest of the MFIs, having been established by ACDI/VOCA in 2004.

At the outset of its fieldwork, the evaluation team requested that each partnering MFI submit a set of its internal policies and procedures, as these would provide a comprehensive picture of the policies and methodologies used by the MFIs. The requested set included the following as a minimum:

- MFI mission and bylaws
- Strategic and operational plan
- Organizational chart and legal structure
- Board management information
- ICT positioning (procedures and policy, IT audits measures)
- Human resource manual
- Risk management manual
- Internal control and audit procedures/manual

These manuals have an equal importance and affect different facets of an MFI's operational effectiveness and its sustainability as an organization. For example, the mission statement developed and adopted by an MFI helps ensure that it is on its chosen path over the long run. The expectation is that the MFI's activities would be evaluated for their compatibility with its defined mission. Likewise, an MFI's human resource manual supports human resource sustainability by providing clear rules on how to hire, train, and maintain well-qualified staff who are capable of delivering high-quality services to clients.

Four of the 10 MFIs submitted a complete set of the requested policy and procedural documents. Three of these MFIs either have a long operational history (e.g., Al-Thiqa started functioning in 2004 and Al-Aman opened in 2006) or have received strong support from local authorities (e.g.,

Bright Future is supported by the Government of Kurdistan). There is room for further advancements in terms of the content of the internal policy and procedural documents that were submitted. Table #4 presents a checklist of the internal policies and manuals submitted by the MFIs.

**Table #4: Checklist of Procedures and Manuals Used by Iraqi MFIs**

	Al Tadamon	Al Takadom	Al Thiqa	Al Aman	Al Bashaer	Al Mosaned	BBF	Amalkom	CHF	Izdiharona	RI	TEDC
Board Management	x	x	x			x	x	x	x			x
Bylaw	x			x		x	x					x
HR Policy	x		x	x	x	x	x		x	x	x	x
Internal Control and Audit Plan	x	x	x	x	x		x					x
Organizational Structure	x	x	x	x	x	x	x			x	x	
Lending Policy and Procedures, Credit Policy			x	x			x	x	x	x		x
Risk Control			x									
Strategic Business Plan	x	x	x	x		x			x		x	x
Accounting Manual			x	x								x
Registreation Certificates				x			x					
Mission					x					x		
Governance							x					
Operation Manual									x			x
Branchs Management												x
Security Manual									x			

Source: QED assessment (November 2012).

It is interesting to note the case of the Amalkom MFI. This MFI was established with the support of CHF international in January 2010 and still depends on CHF's support. The only policy it submitted was its credit policies and procedures manual; this manual incorporates information from other domains, including organizational chart, job descriptions, code of conduct, etc. Although Amalkom claimed in its self-assessment questionnaire that it has structured ICT and data security policies, no written policies were provided.

## ii. Board of Directors Established

Boards of directors for the MFIs have been established and are functioning. However, it is noteworthy that, in some cases, board members were enlisted because of their senior social status in local communities (e.g., a tribal leader on the board of the Al Takadom MFI). From one perspective, having these types of leaders on a board is understandable, taking into account the local cultural context. On the other hand, it creates a credibility gap for the MFI, as was openly expressed by the Director of the NGO Directorate. At an interview, the NGO Directorate Director shared his concern that once USAID-Tijara is completed, members of boards could start fighting with one other, motivated by their personal interest in taking control of the MFI.

A related issue is the qualifications of board members. ACDI/VOCA and Relief International representatives highlighted that the board member representatives of some MFIs are unfamiliar with the microfinance concept and basic management principles. Moreover, some board representatives lack the capacity to recognize their own potential conflicts of interest.

## (b) MIS Regulations and Data Security Policies

Insufficient capacity of management information systems and information technology currently in use remains one of the challenges to the expansion of microfinance services. Many MFIs worldwide are reluctant to invest in information systems and technology, as they lack an understanding of the impact these upgrades can have on long-term operational capacity. MFIs in

Iraq have received significant support from the USAID-Izdihar and Tijara projects to set up their information systems. However, as the number of clients increases, the MFIs face the need for system upgrades.

#### **i. Information Security and Access Control Measures**

The evaluation team found that information security and access control (ISAC) measures were not implemented in three out of eight responding MFIs: Al Aman, BBF, and TEDC. ISAC control solutions, when used, facilitate the management of diverse groups of company users while enforcing a centralized security-and-access-control policy. Although seven partnering MFIs reported<sup>41</sup> having a written ICT policy, none submitted a written ICT policy or information security document to the evaluation team (Al Thiqa reported that it is in the process of preparing an information policy document). Moreover, the three MFIs that lack adequate information security measures—Al Aman, BBF, and TEDC—have not considered hiring a full-time IT/MIS specialist, instead assigning these functions to other staff members. This increases the risk of ICT failure, as those individuals are likely to possess less advanced IT skill sets.<sup>42</sup>

#### **ii. Management Information Systems**

Another important issue is the efficiency of the Loan Performance System that USAID-Tijara introduced to MFIs. The Loan Performance System is software used by partnering microfinance institutions for systematic reporting of microfinance loan activities. It is noteworthy that seven out of eight MFIs have requested system updates. They reported dissatisfaction with the system's efficiency as the volume of information increased.

It is noteworthy that the weaknesses and problems of MIS were already recognized by a team of evaluators in a 2010 assessment of microfinance program reporting and lending institution operations for the Tijara Provincial Economic Growth Program. In its final report, the team stated: "The MFI assessments noted several weaknesses with regard to information systems and their management, and specifically in data processing and reporting. Specifically, the policies and procedures regarding MFI data reporting to Tijara are inefficient and inadequately monitored at MFI level."

#### **(c) Human Resource Capacity: Staff Turnover and Ongoing Training Needs**

Growing MFIs are vulnerable to human error due to the difficulty they face in hiring and training employees fast enough to meet market demand. As a result, the staff turnover rate and number of trainings are key elements in evaluating the risk for human error. The major reason for turnover is that people prefer working for state agencies due to their superior retirement packages.

#### **i. Staff Turnover and Its Impact on MFIs**

All MFIs reported a gradual increase in number of staff during the 2008–2012 period. Likewise, they reported an increase in the number of loan officers over the same time span (Chart #6). However, this report does not provide information on staff turnover rate and dynamics. To capture this data, the evaluators conducted a separate assessment of MFI staff turnover.

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<sup>41</sup> MFI self-assessment questionnaire.

<sup>42</sup> MFI staff members who are not certified IT experts, but are replacing certified IT/MIS specialists, generally lack the knowledge and skills required to maintain IT systems properly.

Information was gathered through MFI self-assessment questionnaires<sup>43</sup> distributed at the beginning of the team’s field work.

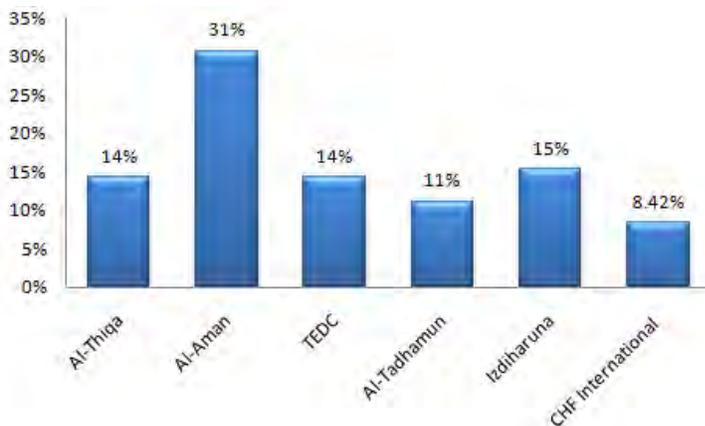
**Chart #6: Staff of Tijara Partnering MFIs<sup>44</sup>**



Source: USAID-Tijara report (September 2012).

Seven out of 11 MFIs provided quantitative information on their turnover rate for loan officers (Chart #7). The Izdiharuna MFI indicated that its 2012 turnover rate for loan officers was 15.38%; in 2010, this MFI reported a 5% rate, with sharp increases in 2011 and 2012 to 11.11% and 15.38%, respectively. The Al-Aman MFI reported an average 31% annual turnover over the life of the project, stating that “It is a difficult job and cannot be handled just by anybody,<sup>45</sup> and that is why most of loan officers tend to leave this job and head to other positions in private or public sectors instead.” Al Thiqa and TEDC reported turnover rates of around 14% in 2012. For the same year, the loan officer turnover rate for CHF International and Amalkom was 8.42% and 0%, respectively.

**Chart #7: Loan Officers Turnover Rate for 2012**



Source: MFI self-assessment questionnaires, QED data (November 2012).

<sup>43</sup> Eight responses received out of 12 distributed.

<sup>44</sup> The chart highlights statistical data on loan officers because they play a key role in MFI outreach.

<sup>45</sup> This implies that MFIs need to invest in training newly hired loan offices and these loan officers are unable to perform their duties without attending skills development trainings.

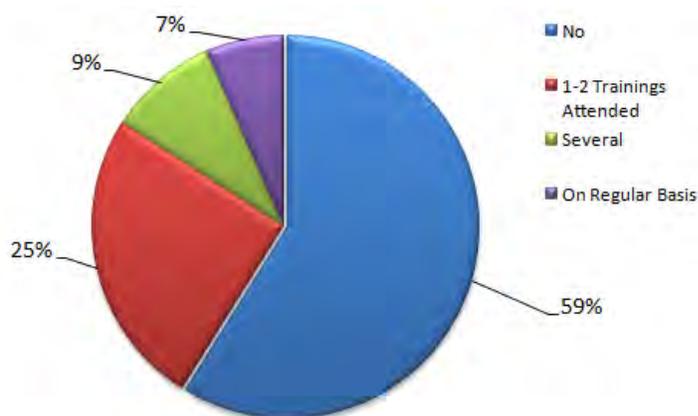
Al Takadum reported that there were five loan officers replaced in 2007 due to inefficiency and an inability to further develop their skills. In 2010, two loan officers were replaced because they had obtained jobs in the public sector.<sup>46</sup> Other MFIs noted high turnover rates at interviews with the evaluation team, but were unable to provide an actual rate in the self-assessment questionnaires.

**ii. MFI Staff Training Needs**

To address the staff training issue, the evaluation team conducted interviews and mini surveys among MFI loan officers. A total of 114 loan officers participated out of a sample size of 353 officers (7 of the loan officers did not address this issue), bringing the response rate to approximately 30%. A total of 59% of the respondents confirmed that they had never attended any training course; 25% reported having attended trainings once or twice. Only 7% of the loan officers attended training on a regular basis (Chart #8).

The evaluation team also interviewed 41 loan officers who had attended the training course conducted within the framework of USAID-Tijara. The majority of respondents confirmed that trainings were either very good or excellent. Only 3 out of 41 reported that the training was only “good in some aspects.”

**Chart #8: Loan Officers Attending Training Courses (%)**



Source: MFI mini surveys, QED data (November 2012).

USAID-Tijara viewed the Iraqi Microfinance Network (IMN) as supportive in terms of taking on some capacity-building activities and providing support for the local microfinance industry. IMN was officially registered as an NGO in April 2012, although the Tijara team reported that the idea of establishing IMN goes back to 2008. USAID-Tijara envisioned the network as playing a key role in advancing Iraqi microfinance and sustaining the industry after Tijara concluded its activities in January 2013. The network’s goal is “to create an ever more inclusive financial services sector in Iraq that proactively meets the financial needs of poor, micro and small entrepreneurial women and men to improve their standard of living.” It is important to note that

<sup>46</sup> No data was provided for 2012; an additional information gap does not allow a turnover rate to be defined for 2007 and 2010.

IMN is still nascent and has just two staff members, only one of whom will remain after the termination of the Tijara Program. All 12 partnering MFIs are among the founders of IMN.

The evaluation team questioned MFI representatives with regard to the network; all were enthusiastic and supported further strengthening for IMN. For example, the Al-Thiqa representative remarked that the network “has a potential to be as a mediator between MFIs and the NGO Directorate.” At the same time, he said that “currently, the network is rather weak and needs further support and strengthening.”

Sub-question B: Has USAID-Tijara created a sustainable microfinance in Iraq, as demonstrated by the financial sustainability of MFIs?

With regard to sub-question (B), of Research Question #1, the evaluation team examined the following financial indicators:

- (a) Growth, outreach indicator, and structure
- (b) Portfolio quality
- (c) Efficiency and productivity

### **C. FINANCIAL INDICATORS**

The team focused on gathering financial information from two sources: USAID-Tijara data and MFI self-reporting. The team faced data limitation problems and MFI information gaps.

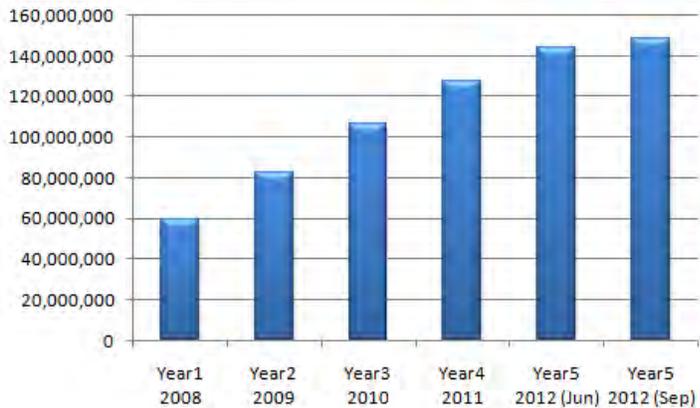
#### **FINDINGS ON FINANCIAL INDICATORS**

##### **(a) MFI Growth, Outreach, and Structure**

Iraqi MFI institutions achieved significant progress in terms of outreach and portfolio structure. Over the past five years, starting in 2008, the gross loan portfolio of partnering MFIs more than doubled. In 2008, the total gross loan portfolio was \$59,262,289; by September 2012, it had reached \$148,263,928, an increase of nearly 150% (Chart #9). One of the major reasons for this rise was a solid financial injection from donors, mainly USAID.

By September 2012, the 12 MFI institutions were providing micro loans to a total of 96,898 clients through 109 offices. The average loan amount was \$2,392.

**Chart #9: Gross Loan Portfolio (\$ U.S.)**

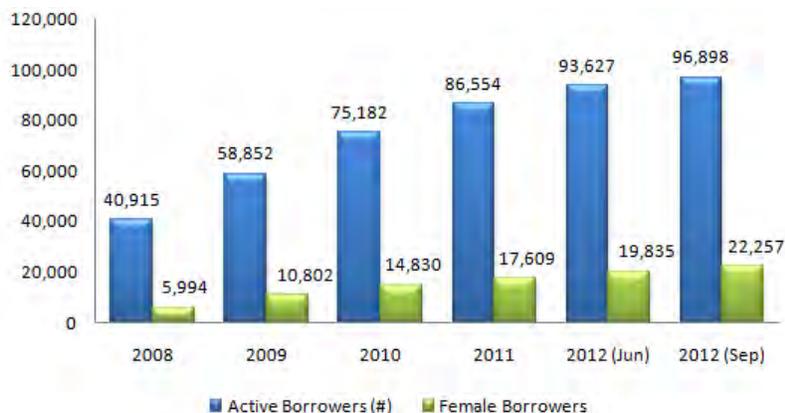


Source: USAID-Tijara data (September 2012).

In terms of gender balance, USAID-Tijara reported an increased number of female borrowers over the 2008–2012 period. In 2008, the number of female borrows constituted 15% of the total number of active borrowers; by September 2012, the indicator had reached 23% (Chart #10).

During its field research, the evaluation team interviewed 114 loan officers and seven mid-level managers using an open-ended questionnaire. Of the total number of loan officers interviewed, 105 stated that the application procedures for both genders do not differ in any way. At the same time, interviewees referred to the social difficulties (i.e., gender issues) facing women in applying for loans. One loan officer stated: “Regardless the gender, the applicant who meets the requirements can get a loan. However, the majority of applicants are men due to our culture.”

**Chart #10: Iraqi MFI Female Borrowers Change Dynamics**



Source: USAID-Tijara data (September 2012).

Forty loan officers stated that they encourage women to apply for loans, with some reporting that they preferred working with female borrowers. Having considered the social context, some MFIs have hired female loan officers to overcome cultural obstacles in working with women borrowers. In addition, they encourage female borrowers to spread the word about micro loan opportunities to other women. Another strategy is talking with husbands and other male household members and asking them to encourage their wives to apply for loans. A loan officer

from CHF reported that CHF advertises in many local women's organizations and uses female loan officers to spread the word and reach out to female borrowers. Another CHF loan officer said that the MFI offers bonuses to motivate loan officers to bring in more women borrowers.

In terms of outreach to the poor, the August 2011 audit of USAID-Tijara's microfinance component revealed that the program's microfinance activity was not focused on the poor. The recommendation was "*USAID/Iraq to revise its performance monitoring plan to include performance indicators and targets for reaching poor borrowers for the remaining 2 years of the Provincial Economic Growth Program, particularly for microfinance institutions that have attained performance targets for financial sustainability.*"<sup>47</sup> Despite the fact that solidarity group loans were introduced in 2009, there were no indicators in the performance management plan measuring outreach to the poor.<sup>48</sup>

As a result, following these recommendations, USAID-Tijara conducted a workshop for its partnering MFIs in 2012. The workshop's goal was to highlight the solidarity group lending methodology as an implementation tool for poverty lending. Starting in 2012, the program disbursed a total of \$4,498,386 to 5,215 poor Iraqi borrowers.<sup>49</sup>

The evaluation team asked MFI mid-level managers how effectively the MFI was in reaching out to the poor. The most concrete answer was provided by Al Thadamun representatives, who said that its loan officers distribute brochures in poor areas.

In March 2012, USAID-Tijara introduced the Iraqi Vulnerable Groups Support Initiative (IVGSI). IVGSI aimed at supporting the most vulnerable groups of Iraqi population such as ethnic and religious minorities as well as women-headed households and youth. The project implemented another youth-focused activity, the IYI. This initiative provided general business and financial training to potential young entrepreneurs and then considered them for access to financing to create their own businesses, with training sessions provided through 12 small business development centers. USAID-Tijara reported the disbursement of 1,603 loans by June 2012 within the IYI framework (with 12% of loan funding allocated to women), creating over 3,189 permanent jobs (14% of which have been filled by women).

### **(b) Portfolio Quality**

Portfolio quality is a crucial part of financial analysis, particularly for microfinance institutions, as MFI loans are not backed up by collateral. Portfolio at risk<sup>50</sup> is the most widely used measurement of portfolio quality<sup>51</sup> in the microfinance industry. Portfolio at risk change dynamics reported by USAID-Tijara shows that the indicator dropped by 30% in 2010 (Chart #11).

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<sup>47</sup> Audit of USAID/Iraq's Microfinance Activity Under Its Provincial Economic Growth Program, Audit Report No. E-267-11-003-P, August 4, 2011.

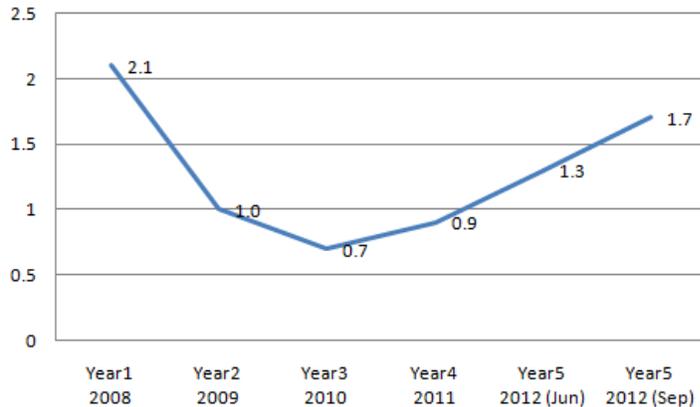
<sup>48</sup> According to Iraq's National Strategy for Poverty Reduction and the World Bank, Iraq has an estimated poverty rate of 23%, translating to 7.36 million people living below the poverty line of \$2.20 a day.

<sup>49</sup> USAID-Tijara Quarterly Reports for January–March and April–June 2012.

<sup>50</sup> Portfolio at risk is calculated by dividing the outstanding balance of all loans with arrears over 30 days, plus all refinanced (restructured) loans. Portfolio at risk refers to the outstanding balance of all loans with an amount overdue.

<sup>51</sup> Portfolio quality ratios provide information on the percentage of non-earning assets, which in turn decrease the revenue and liquidity position of an MFI.

**Chart #11: Consolidated Portfolio at Risk**



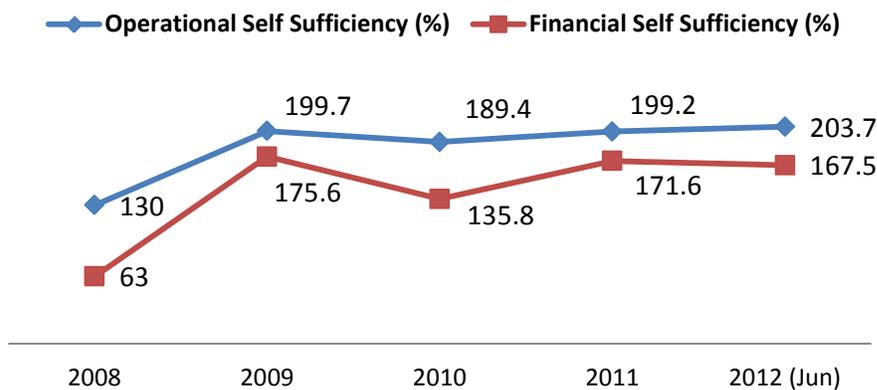
Source: USAID-Tijara data (September 2012).

**(c) Efficiency and Productivity**

The evaluation team analyzed MFI efficiency and productivity through the prism of operational self-sufficiency (OSS), which indicates whether a microfinance institution is able to cover its administrative costs with client revenues. A second measure, financial self-sufficiency (FSS), demonstrates whether an MFI has sufficient revenue to pay its operating costs without donor support and adjusting for inflation.

In 2008, operational and financial self-sufficiency indicators for all MFIs were equal to 130% and 63%, respectively. In 2009, MFIs demonstrated a sharp increase in both indicators, with OSS reaching 199.7% and FSS attaining 175.6%. Near the end of USAID-Tijara in June 2012, the operational self-sufficiency of MFIs was equal to 203.7% and financial self-sufficiency had reached 167.5% (Chart #12).

**Chart # 12: Operational Self-Sufficiency and Financial Self-Sufficiency**



Source: USAID-Tijara data (September 2012).

## **CONCLUSION: RESEARCH QUESTION #1**

USAID-Tijara created a strong microfinance industry in the country and was able to successfully promote the sector in a complicated cultural and post-war environment. Even so, the sector's sustainability and future growth is greatly affected by an unsupportive state policy.

### **i. State Policy Is Not Supportive**

The current GoI policy fails to create a favorable environment to support microfinance industry development. Moreover, the GoI intervenes in the microfinance sector to address perceived market failure through its micro loan scheme. This scheme is targeted to groups within the population that the government believes are underserved or unreached by MFIs operating in the country.

The GoI's three legal acts promulgated to regulate microfinance operations have been approved and enforced with the active support of the USAID-Tijara team. In addition, two other legal acts have been drafted: the Microfinance Law and the Economic Reform Law. The enactment of these laws will fill in important gaps in the legal code for the sector's overall development and may even reshape the industry. Even so, a clear lack of coordination among state agencies and the absence of a unified GoI vision for the microfinance industry bring into question the timeline for enforcement of these legal acts.

### **ii. MFI Capacity to Grow by Attracting Funding Is Not Ensured**

There is an increasing demand for microfinance services in Iraq. However, existing legislation puts strict constraints on MFIs in terms of loan capital fund sources and access to the wholesale lending market. As the demand for microfinance services continues to grow, the limited sources of loan capital will significantly undermine the capacity of local MFIs to expand their service portfolio. It will result in reduced opportunities for poor and lower income households to access basic socio-economic benefits. The resources of mainstream capital markets, either international or local, need to be made available to avoid a financing gap that could limit the supply of microfinance services.

### **iii. The Cultural Context Is a Challenge Affecting MFI Operations**

The cultural context greatly affects the performance of Iraq's microfinance industry. Among cultural considerations, religious beliefs are widely viewed as the most important. In addition, it should be remembered that word of mouth is the communication channel most used by the local population. Iraq's strong cash culture and person culture also have a strong influence over the local population.

### **iv. MFI Transparency Is Challenged, with the Population Lacking Information on Loan Terms and Conditions**

The Iraqi microfinance industry needs further investment to support transparency. While trying to reach out to a broader group of potential borrowers, local MFIs still mostly use personal and family contacts to deliver information on their activities, loan schemes, interest rates, and available services.

There is room for further improvement of the microfinance knowledge portal, as there are some disparities between information presented on the portal and information on the web site of each MFI. This disparity has the potential to cause confusion among consumers. The development of

online information channels is a first step toward creating a digital community in the country. This is a long-term process and will require solid investments at the macro (legislation), mezzo (infrastructure and education), and micro levels (community training).

**v. MFIs Lack a Coherent Long-Term Approach to Institutional Development**

Despite significant achievements in streamlining internal business processes and applying internationally accepted business practices, some local MFIs are still in need of assistance to advance their operational and managerial systems and internal procedures. This applies to all domains of MFI operations, from human resource policies and procedures manuals to credit policies and procedures.

**vi. Governance Is Weak and Disputed in Some MFIs**

The governance structure of local MFIs has been institutionalized but may not be sustainable. In an ideal scenario, boards of directors should be composed of members with diverse skills and market knowledge who can evaluate critical management decisions and initiatives. Having tribal leaders involved in board activities may help local MFIs adapt to the local context, but in the long run could lead to dysfunctions caused by conflicts of interest and lack of knowledge and skills on the part of some board members.

**vii. MIS/ICT Is Weak in Some MFIs and Loan Performance Systems Need to Be Upgraded**

MFIs' information and communication technologies and management information systems are potential sources of operational risks due to the potential for information discrepancy and data inaccuracy. MFIs should apply information security and data integrity measures to reduce the risk of communications system problems.

Iraqi MFIs lack a strong concern for issues related to ICT security and data integrity. Information and computer systems are poorly protected from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording, and destruction. Moreover, the duties and functions of system administrators are not clearly delineated, increasing the risk of security violations. MFIs lack information system and technology policies to provide a basis for system and technology security procedures and practices.

**viii. Qualified Workforce Availability Is a Challenge for Iraqi MFIs**

Human resource capacity remains one of the key constraints for microfinance institutions. Iraqi MFIs also face an ongoing need to professionalize their activities through training and standardized practices.

**ix. MFIs Have Provided Equal Opportunity Lending to Both Genders**

USAID-Tijara reported an increasing number of female borrowers for the period 2008–2012. In 2008, the number of female borrows constituted 15% of the total number of active borrowers; by September 2012, this indicator had reached 23%.

**x. Financial Self-Sufficiency and Operational Self-Sufficiency of Iraqi MFIs Demonstrate Their Institutional Success**

Both indicators, operational self-sufficiency and financial self-sufficiency, demonstrate the sustainability of MFI lending operations. Iraqi MFIs have sufficient revenue to pay all operating costs even without donor support and considering inflationary factors.

**4.2 RESEARCH QUESTION #2 (Q2): In the absence of USAID-Tijara or comparable U.S. Government projects, what would be the likely state of the Iraqi microfinance industry, as perceived by the main stakeholders in Iraq (MFIs, NGO directorate, beneficiaries, etc.)?**

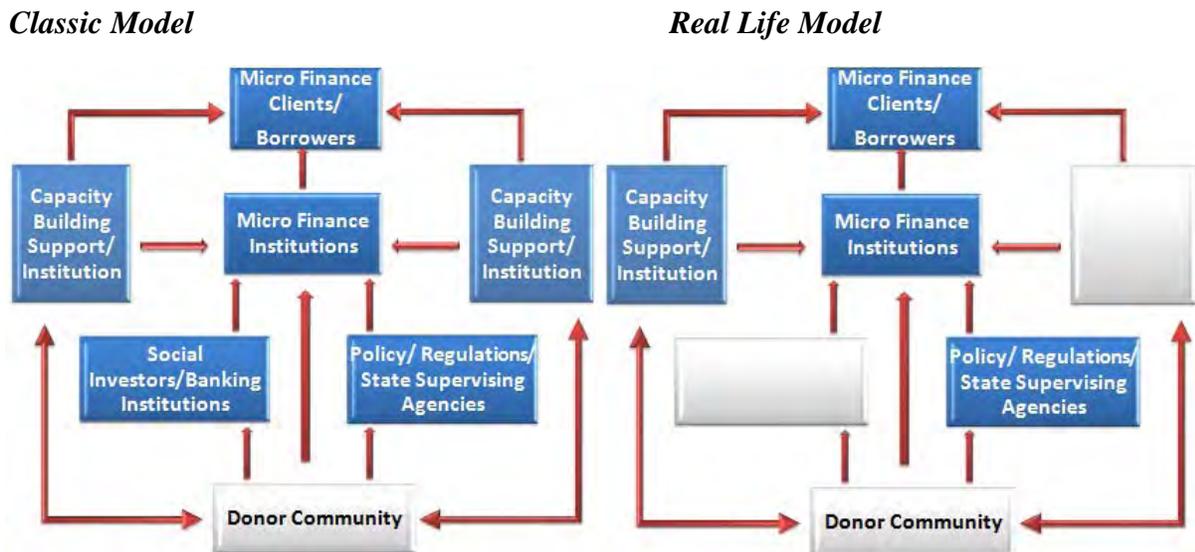
In response to the Research Question #2, the evaluation team conducted a comparative analysis of two types of microfinance ecosystems: the classic and the Iraqi real life ecosystem. The real life ecosystem was designed in accordance with the evaluation’s findings and feedback provided by key stakeholders (Iraqi state representatives, USAID-Tijara team leaders, representatives of Tijara partner MFIs, and international donors).

**FINDINGS**

**• Real Life Model of the Iraqi Microfinance Industry**

As the result of the assessment, the evaluation team found considerable gaps in the Iraqi microfinance ecosystem. Chart #13 presents the classic model and real life Iraqi model of the microfinance industry. Having strong players in each segment, and intensive information and resource exchange linkages among these players, strong supports microfinance industry sustainability.

**Chart #13: Classic and Real Life Models of Microfinance Ecosystem/Industry**



Source: QED data (November 2012).

USAID-Tijara provided considerable contributions to building up the local microfinance industry.<sup>52</sup> That said, Iraq's real life microfinance ecosystem demonstrates an essential deviation from the classic model. For example, no "social investors" pool is currently available due to legal restrictions faced by MFIs when trying to borrow money for operational purposes. This investment pool incorporates either banking institutions, or any organization lending out some funds to microfinance institutions. Likewise, the segment of "capacity building support/institution" is rather weak and is represented only by the NGO Iraqi Microfinance Network. "Policy/regulations/state supervising agencies" category is also weak and to some extent disorganized. It represents different state organizations and legal acts to regulate microfinance sector operations. This pool incorporates the NGO Directorate, the Central Bank of Iraq, and the Council of Representatives. Moreover, legal acts and policies related to the sector's functioning are not supportive and impose limitations and restrictions on MFI institutions.

There is a general lack of knowledge of either microfinance opportunities or simply loan application procedures, which, if addressed, could increase the pool of potential borrowers. Moreover, this specific segment is strongly influenced by external factors<sup>53</sup> and the local context.

The "donor community" segment is mostly led by USAID technical assistance programs. However, there are other donors involved, including the World Bank, IFC, and UNDP.

The evaluation team interviewed MFI representatives to gather information on their perceptions of the state of microfinance industry in the absence of USAID-Tijara. To some extent, local MFIs feel insecure with the completion of Tijara. This was clearly articulated by the top managers of several local microfinance institutions. The Director of the Al Thiqa MFI noted the following: "There are two types of MFIs, small and big organizations. The small organizations are depending completely on Tijara while the big organizations are less dependent." The Director of the Al Basheer MFI said that "without Tijara, it will be very difficult to continue the way it is now."<sup>54</sup> The Microfinance Network is trying to do its best but it is still difficult without Tijara. We still need USAID support." Moreover, the General Director in the Prime Minister's Office, who represented the Deputy Prime Minister at the October 2012 conference in Erbil, stated: "The Government is suspicious about the source of this money of the MFIs. The Government even suspects the organizations' activities and without USAID-Tijara support, the Government might start questioning local MFIs." The Director of the IMN General Assembly noted that USAID-Tijara was serving as a kind of protective umbrella for local MFIs.

Evaluation team members questioned the USAID-Tijara team leaders about the exit strategy for the project's microfinance component.<sup>55</sup> It is important to note that the purpose of an exit strategy is to ensure the sustainability of program impacts after a program has ended. USAID-Tijara's team leaders responded that no exit strategy had been drafted as an official document, although some activities implemented within the Tijara framework (e.g., the creation of the IMN) could be considered as part of an exit strategy.

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<sup>52</sup> Highlighted by different stakeholders, including GoI, MFIs, and UNDP.

<sup>53</sup> Such as an alternative loan scheme developed by the GoI.

<sup>54</sup> This insecurity is caused by an unsupportive policy environment.

<sup>55</sup> Different program activities and components call for different approaches to developing exit strategies.

## **CONCLUSION: RESEARCH QUESTION #2**

In the absence of USAID-Tijara or comparable U.S. Government projects, Iraq's microfinance industry will be able to continue its operations, although it will be unable to grow and attract alternative sources of funding. There is a risk that the GoI will create legal barriers for the microfinance sector, which could lead to the collapse of the sector over the long run.

### **i. The Iraqi Microfinance Industry Still Lacks Strong Key Players**

USAID provided notable technical and financial assistance aimed at creating a sustainable microfinance ecosystem in Iraq. This ecosystem is fragile: If the level of support received from the donor community and USAID in particular drops, the Iraqi microfinance industry may face increasing pressure from the GoI. In the long run, such pressure could lead to policy decisions and interventions that are destructive to the microfinance market and put it at risk of collapsing.

## **5. RECOMMENDATIONS**

### **• USAID Should Focus on GoI Capacity Building**

Capacity constraints remain a major issue, not only for MFIs but also for GoI policy and regulatory agencies. It is important to involve a diverse group of GoI stakeholders in donor-supported efforts to build the capacity of GOI institutions to ensure the development of a critical mass of informed state officials at the top and middle levels. Such a critical mass of informed policy makers and state authorities will be positioned to improve the national climate for microfinance through an enhanced legal and regulatory environment.

### **• USAID Should Actively Cooperate with the GoI and the Donor Community to Adjust Legal Acts**

USAID/Iraq should intensify its cooperation and coordination with the international donor community and multilateral funds—including the World Bank, IFC, and UNDP—to encourage and support the GoI in improving the country's legal and regulatory environment affecting the microfinance sector or amending existing or drafted legal acts. Such efforts would provide further support to sustain USAID-Tijara's macro-level efforts to expand commercial lending through microfinance institutions. It is particularly important to provide support for the enactment of the draft Microfinance Law and the draft Economic Reform Law.

### **• USAID Should Actively Cooperate with the GoI and the Donor Community on Development of a National Microfinance Development Strategy**

USAID should support the GoI in taking a leading role and committing itself to microfinance sector development. This commitment, as well as GoI vision and strategic directions, should be clearly articulated in a State Microfinance Strategy paper. This strategy paper should be integrated with Iraq's economic development and poverty reduction strategies.

### **• USAID Should Cooperate with the IMN to Improve MFI Transparency and Advance Their Managerial and Operational Capacity**

The IMN has the potential to play a key role in further developing Iraq's microfinance industry. However, the network itself requires significant assistance to be positioned as a strong MFI capacity-building and support institution.

USAID may want to consider implementing a diverse MFI capacity-building program through the IMN. This strategy would serve dual goals: strengthening of the network itself and provision of ongoing assistance to local MFIs. It would ensure continued microfinance networking and improvement of Iraq's knowledge-sharing environment.

The range of activities could vary, starting with trainings and seminars and moving on to activities to support strategic planning, enhanced transparency, and increased web visibility. Web visibility could be incorporated into a larger program aimed at creating a digital community in Iraq. Over the long term, the IMN could play a prominent role in creating a sense of mutual trust between the GoI and local MFIs. The network should not only deliver capacity-building services to MFIs but also serve as a sector consolidator and mediator between local MFIs and the GoI to advocate the microfinance industry's needs at the policy level.

- **USAID Should Coordinate Its Efforts with the IFC in Revising MFI Strategy and Supporting MFI Transformation**

It is important to give established MFIs an opportunity to grow and transform themselves from NGOs into NBFIs. One of the IFC's intervention areas is to provide support for non-profit institutions to be transformed into commercialized, for-profit legal entities. Starting in August 2010, the IFC began providing technical assistance to microfinance institutions in the MENA region; this effort will continue through the end of 2013. Taking into account the IFC's program priorities and timeline in the MENA region, this would seem to be the right time to coordinate USAID efforts with those of the IFC and the World Bank.

- **USAID Should Develop Educational Projects with a Focus on Youth**

USAID investment in youth education could be implemented via a set of training and capacity-building activities as well as through Iraqi universities to promote buy-in for microfinance from local communities. One option is to build the capacity of universities and other organizations that provide training so they can effectively deliver microfinance-related training. In addition, the curricula of local educational institutions should be adjusted to ensure that microfinance issues are addressed in the context of Iraqi economic development and poverty alleviation.

## 6. LESSONS LEARNED

- **A project exit strategy** needs to be formally developed and considered at an early stage of a project. This should be considered by both USAID and the project implementing partner.
- **Political support and local ownership** should be secured at an early stage of a project to create a more stable microfinance ecosystem. This lesson is crucial and needs to be considered by both USAID and the project implementing partner.
- **Intensive communication with and engagement of diverse state agencies** is needed, complemented by frequent discussions with local stakeholders on microfinance issues.
- **The Iraqi Microfinance Network** should have been created and become fully functional at an early stage of the program.
- **Information-sharing and catch-up strategies** should have been developed for those state officials who did not attend the training sessions but were in need of advancing their

knowledge of microfinance issues and the enabling environment necessary to support microfinance.

- **Increased focus on maintaining consistency of content between bilingual web sites** is required to ensure greater transparency for all stakeholders.

## **ANNEX# 1: EVALUATION STATEMENT OF WORK**

### **PERFORMANCE EVALUATION OF USAID/IRAQ TIJARA PROVINCIAL ECONOMIC GROWTH PROGRAM**



For Annex 1 please refer to the PDF file attached:  
“ANNEX 1 Statement of Work\_Tijara Evaluation.PDF”

## **ANNEX # 2: STATEMENT OF DIFFERENCES**

There were no significant and/or unresolved differences of opinion presented by USAID at the time of the Exit Briefing (conducted on November 21, 2012) or among the evaluation team members. USAID's implementing partners have not been provided with a pre-release draft of the report and as such have not had the opportunity for comment.

### **ANNEX # 3: TIJARA EVALUATION RESEARCH TOOLS**

For ANNEX 3-1

Direct Observation Data Collection Form, see the attached Word file:  
ANNEX 3-1 Direct Observation\_MFI\_Tijara Evaluation.doc

For ANNEX 3-2

Questionnaire for External Donors, see the attached Word file:  
ANNEX 3-2 External Donors\_Tijara Evaluation.doc

For ANNEX 3-3

Questionnaire for GOI Training Beneficiaries please refer to the Word file attached:  
ANNEX 3-3 GOI Training Beneficiaries\_Tijara Evaluation.doc

For ANNEX 3-4

Questionnaire for GOI, Private, and Non-Profit Sectors, see the attached Word file:  
ANNEX 3-4 GOI\_NGO\_Tijara Evaluation.doc

For ANNEX 3-5

Questionnaire for Loan Officers, see the attached Word file:  
ANNEX 3-5 Loan Officers\_Tijara Evaluation.doc

For ANNEX 3-6

Questionnaire for MFI Loan Officers Training Beneficiaries, see the attached Word file:  
ANNEX 3-6 Loan Officers\_Training Beneficiaries\_Tijara Evaluation.doc

For ANNEX 3-7

MFI Loan Officer Survey, see the attached Excel file:  
ANNEX 3-7 MFI Loan Officers\_Tijara Evaluation.xls

For ANNEX 3-8

Questionnaire for Mid-Level Staff of Partnering MFIs, see the attached Word file:  
ANNEX 3-7 MFI Mid Managers.doc

For ANNEX 3-9

Questionnaire for Leaders & Managers of MFIs, see the attached Word file:  
ANNEX 3-8 MFI Team Leaders.doc

For ANNEX 3-10

MFI Assessment Questionnaire, see the attached Word file:  
ANNEX 3-9 MFI Assessment\_Tijara Evaluation.doc

For ANNEX 3-11

SME Mini-Survey, see the attached file Excel file:  
SME\_Mini\_Survey\_Tijara Evaluation.xls

For ANNEX 3-12

Borrowers Questionnaire, see the attached Word file:  
ANNEX 3-12 Stakeholder\_MSMEs\_Tijara Evaluation.doc

For ANNEX 3-13

Questionnaire for USAID/ Tijara Team Leaders, see the attached Word file:  
ANNEX 3-13 USAID\_Tijara\_Tijara Evaluation.doc

For ANNEX 3-14

Questionnaire for Youth Family Members, see the attached Word file:  
ANNEX 3-14 Youth Family\_Tijara Evaluation

## **ANNEX # 4: SOURCES OF INFORMATION**

### **ANNUAL WORK PLANS:**

TIJARA Provincial Economic Growth Program/Work Plan Year 1.

TIJARA Provincial Economic Growth Program/Work Plan Package Year 2.

TIJARA Provincial Economic Growth Program/Work Plan Package Year 3.

TIJARA Provincial Economic Growth Program/Work Plan Year 4.

TIJARA Provincial Economic Growth Program/Work Plan Year 5.

### **AUDIT REPORTS**

Audit of USAID-Iraq Audits of Microfinance Activity (E-267-11-003-p).

Final Action request for Rec3.

Data Quality Assessment of USAID-Tijara Indicators No.8.3.c.

### **CONTRACTS AND MODIFICATIONS**

Tijara Provincial Economic Growth Program/Contract No. 267-C-00-08-00500-00. January 2008.

Tijara: Provincial Economic Growth Program/Modifications No.1. March 2008.

Tijara: Provincial Economic Growth Program/Modification No.2. June 2008.

Tijara: Provincial Economic Growth Program/Modification No.3. July 2008.

Tijara: Provincial Economic Growth Program/Modification No.4. September 2008.

Tijara: Provincial Economic Growth Program/ Modification No.6. February 2009.

Tijara: Provincial Economic Growth Program/ Modification No.7. April 2009.

Tijara: Provincial Economic Growth Program/ Modification No.8. April 2009.

Tijara: Provincial Economic Growth Program/ Modification No.9. May 2009.

Tijara: Provincial Economic Growth Program/ Modification No.10. September 2009.

Tijara: Provincial Economic Growth Program/ Modification No.11. January 2010.

Tijara: Provincial Economic Growth Program/ Modification No.12. March 2010.

Tijara: Provincial Economic Growth Program/ Modification No.13. March 2010.  
Tijara: Provincial Economic Growth Program/ Modification No.14. April 2010.  
Tijara: Provincial Economic Growth Program/ Modification No.15. July 2010.  
Tijara: Provincial Economic Growth Program/ Modification No.16. November 2010.  
Tijara: Provincial Economic Growth Program/ Modification No.18. September 2011.  
Tijara: Provincial Economic Growth Program/ Modification No.19. November 2011.  
Tijara: Provincial Economic Growth Program/ Modification No.20. May 2012.

## **MONTHLY REPORT**

Tijara: Provincial Economic Growth Program. Monthly Report/April 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/May 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/June 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/July 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/August 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/September 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/October 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/November 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/December 2008.  
Tijara: Provincial Economic Growth Program. Monthly Report/January 2009.  
Tijara: Provincial Economic Growth Program. Monthly Report/February 2009.  
Tijara: Provincial Economic Growth Program. Monthly Report/March 2009.  
Tijara: Provincial Economic Growth Program. Monthly Report/April 2009.  
Tijara: Provincial Economic Growth Program. Monthly Report/May 2009.  
Tijara: Provincial Economic Growth Program. Monthly Report/June 2009.  
Tijara: Provincial Economic Growth Program. Monthly Report/July 2009.  
Tijara: Provincial Economic Growth Program. Monthly Report/August 2009.  
Tijara: Provincial Economic Growth Program. Monthly Report/September 2009.

Tijara: Provincial Economic Growth Program. Monthly Report/October 2009.

Tijara: Provincial Economic Growth Program. Monthly Report/November 2009.

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Tijara: Provincial Economic Growth Program. Monthly Report/January 2010.

Tijara: Provincial Economic Growth Program. Monthly Report/February 2010.

Tijara: Provincial Economic Growth Program. Monthly Report/March 2010.

Tijara: Provincial Economic Growth Program. Monthly Report/April 2010.

Tijara: Provincial Economic Growth Program. Monthly Report/May 2010.

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Tijara: Provincial Economic Growth Program. Monthly Report/July 2010.

Tijara: Provincial Economic Growth Program. Monthly Report/August 2010.

Tijara: Provincial Economic Growth Program. Monthly Report/September 2010.

Tijara: Provincial Economic Growth Program. Monthly Report/October 2010.

Tijara: Provincial Economic Growth Program. Monthly Report/November 2010.

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Tijara: Provincial Economic Growth Program. Monthly Report/March 2011.

Tijara: Provincial Economic Growth Program. Monthly Report/April 2011.

Tijara: Provincial Economic Growth Program. Monthly Report/May 2011.

Tijara: Provincial Economic Growth Program. Monthly Report/June 2011.

Tijara: Provincial Economic Growth Program. Monthly Report/July 2011.

Tijara: Provincial Economic Growth Program. Monthly Report/August 2011.

Tijara: Provincial Economic Growth Program. Monthly Report/September 2011.

## **QUARTERLY PROGRESS REPORTS**

Tijara: Provincial Economic Growth Program. Quarterly Report/October 2011–December 2011.

Tijara: Provincial Economic Growth Program. Quarterly Report/January 2012–March 2012.

Tijara: Provincial Economic Growth Program. Quarterly Report/April 2012–June 2012.

### **SPECIAL REPORTS**

Tijara: Provincial Economic Growth Program/Consolidated Microfinance Report. March 2012.

Tijara: Provincial Economic Growth Program/Assessment of MFI Reporting and Lender Operations.

Tijara: Provincial Economic Growth Program/State of Iraq’s Microfinance Industry.

### **OTHER RESOURCES:**

Ministry of Planning-Iraq/National Strategy for Poverty Reduction 2009.

Ministry of Planning-Iraq/National Development Plan for the Years 2010–2014.

NGO Directorate-Iraq/NGO Law 2010.

## **ANNEX # 5: DATA AND RECORDS**

## ANNEX # 6: EXECUTIVE SUMMARY (IN ARABIC)

### ملخص تنفيذي

انطلق برنامج تجارة في العراق (رقم العقد مع الوكالة الأمريكية للتنمية الدولية -267-C-00-08-00500) في كانون الثاني 2008 ومازال مستمر خلال شهر شباط من العام 2013. هذه المبادرة ذات الخمس سنوات كانت ممولة ماليا من قبل الوكالة الأمريكية للتنمية الدولية ونفذت من قبل مجموعة لويس بيركر (LBG). الهدف الرئيسي لمشروع تجارة العراق هو الارتقاء بالتنوع الاقتصادي، تطوير القطاع الخاص وخلق فرص عمل على المستوى السياسي وكذلك الارتقاء باقتصاد السوق على المستوى الوطني.

المشروع يشمل على سبعة محاور: (1) خدمات تطوير الأعمال (2) المبادرات الشبابية (3) التجارة الدولية و الوصول إلى منظمة التجارة العالمية (4) بيئة تمكين الأعمال (5) الارتقاء بالاستثمار (6) تطوير المشاريع الصغيرة والمتوسطة والإقراض المصرفي (7) تمويل أصغر مستدام و مستقر .  
وفيما يتعلق بالمشاريع المتناهية الصغر ، فإن مشروع تجارة يحدد عدة مستويات:  
أ- التقوية والتأمين الاقتصادي والقانوني والتنظيمي و البنى التحتية للبيئة التمكينية التي تدعم نمو صناعة التمويل الأصغر والديمومة وزيادة فرص الوصول إلى الخدمات المالية  
ب- توفير الدعم المالي والتقني لمؤسسات التمويل الأصغر لتوسيع نشاطاتها.  
ت- نشر مبادرات بناء القدرات البشرية مع التركيز على كل من ممثلي الحكومة العراقية ومؤسسات التمويل الأصغر .

### منهجية التقييم

تقييم الأداء هو تقييم تراكمي لمكون التمويل الأصغر للمشروع المعروف بعنوان "الوكالة الأمريكية للتنمية الدولية/مشروع التطوير الاقتصادي الإقليمي / تجارة/العراق". غرض التقييم هو لمعرفة فيما إذا تم إنشاء صناعة لتمويل أصغر مستدام في العراق وإذا كان كذلك فهل كان لمشروع الوكالة الأمريكية للتنمية الدولية /تجارة دور في ذلك الأنشاء . التقييم كذلك سيحدد إلى أي مدى تم تحقيق أهداف مكون التمويل الأصغر للمشروع الواقعة بموجب الأهداف المحددة بالجزء R8.3.1 و 8.3. التقييم يحدد أداء مكون التمويل الأصغر منذ بداية انطلاقه في كانون الأول 2008 وحتى انطلاق العمل الميداني لفريق التقييم في تشرين الأول 2012.

تم إجراء التقييم من قبل فريق يتكون من ثلاثة خبراء تقييم و أربعة أشخاص محليين مساعدين (جامعي بيانات). التقييم تم تنفيذه بفترة تجاوزت الثلاثة أشهر من سبتمبر 26، 2012 إلى كانون الأول 28، 2012 متضمنا أربعة أسابيع عمل ميداني (جمع وتحليل البيانات) في العراق. استخدم في تقييم الأداء عدة طرق وتصاميم باستخدام بيانات كمية و نوعية تم تجميعها و تحليلها وقد تم الاعتماد في جمع البيانات على المقابلات الشخصية و الهاتفية لمستويات الإدارة العليا و الوسطى وضباط الائتمان لشركاء وكالة التنمية الدولية / مشروع تجارة الذين عددهم 12 مؤسسة تمويل اصغر . عقد الفريق أيضا لقاءات مع مسؤولين في الحكومة العراقية و مانحين<sup>56</sup> دوليين ونفذ الفريق نقاشات مع مجاميع مختلفة من المستفيدين من المشروع وكذلك المقترضين من مؤسسات التمويل الأصغر

<sup>56</sup> المصرف العالمي وبرنامج الولايات المتحدة الانمائي

## النتائج، الخاتمة والتوصيات

التقرير يوفر نتائج التقييم والتوصيات لأثنين من أسئلة التقييم الرئيسية والتي تتعلق بالاستدامة لـ 12 مؤسسة إقراض لتمويل الأصغر ضمن مشروع تجارة. التقرير يستند أساساً على الأجوبة على سؤالين وهما :-

سؤال رقم 1 (س1): هل تم إنشاء صناعة للتمويل الأصغر مستدامة في العراق؟  
أ. هل قام مشروع تجارة بإنشاء تمويل أصغر في العراق مستدام من خلال ديمومته التشغيلية؟  
ب. هل قام مشروع تجارة بإنشاء تمويل أصغر في العراق مستدام من خلال ديمومته المالية؟  
بالإشارة إلى السؤال رقم 1، فإن الفريق أخذ بنظر الاعتبار عوامل خارجية ( البيئة الثقافية و الاقتصادية و السياسية ) و عوامل داخلية (التنظيم ، الإدارة و المالية ) و التي تؤثر على استدامة مؤسسات التمويل الأصغر و من خلالها تم التوصل إلى النتائج التالية

- هناك تقدير وفهم محدود لمشاكل التمويل الأصغر من قبل مسؤولي الحكومة. مسؤولي الحكومة العراقية لا يأخذون بعين الاعتبار إن مفهوم التمويل الأصغر قد يؤثر على برنامج تقليل الفقر والتنمية الاقتصادية و إنهم يعتقدون إن قيمة الفائدة التي تطلبها مؤسسات الإقراض تعتبر عالية. علاوة على ذلك فإن حكومة العراق تتدخل في قطاع التمويل الأصغر موفرة بذلك مخطط بديل للقروض الصغيرة. بالإضافة لذلك فإن مسؤولي الدولة لديهم شكوك من مصادر تمويل مؤسسات التمويل الأصغر و يعلنون بان طبيعة مؤسسات التمويل الأصغر هي غير واضحة لديهم .
- الإطار السياسي والقانوني محدد بثلاث قوانين طبقت في 2010 و 2011. هذه القوانين هي: قانون المنظمات الغير حكومية (2010)، قانون المنظمات الغير الحكومية لإقليم كردستان (2011)، و قانون شركات التمويل للمشاريع الصغيرة والمتوسطة (فقرة 3 لعام 2010). وهذه القوانين تقيد قدرة التشغيل لمؤسسات التمويل الأصغر . كما أن قانون المنظمات الغير حكومية يمنع مؤسسات التمويل الأصغر مناقرة اراض الأموال لتمويل "نشاطاتها التشغيلية". مؤسسات التمويل الأصغر المسجلة ضمن قانون المنظمات الغير حكومية (عام 2010) مسموح لهم بالعمل في كافة أرجاء القطر و متوقع منها تسديد كل الضرائب من ضمنها ضريبة القيمة المضافة (VAT) و واجبات مخصصة. علاوة على ذلك، فإن تحول مؤسسات الإقراض الأصغر من منظمة غير حكومية إلى مؤسسات مصرفية غير مالية<sup>57</sup> يعتبر تحدياً بحد ذاته.
- الحكومة العراقية لاتمتلك رؤية تخص قطاع التمويل الأصغر وليس هناك تنسيق بين وكالات الدولة العراقية فيما يتعلق بأمور مؤسسات التمويل الأصغر . فريق التقييم لم يعثر على أي إثبات لوجود رؤية موحدة أو إستراتيجية للحكومة العراقية فيما يتعلق بتطوير صناعة التمويل الأصغر في البلد؟ وكذلك نرى ضرورة امتلاك رؤية إستراتيجية موحدة لوضع سياسة سليمة وبيئة سياسية داعمة.
- السياق الثقافي بالتالي يعتمد على المعتقدات الدينية، التواصل، الثقافة المالية للأشخاص. هناك تأثير قوي على السكان العراقيين يتمثل بعبادات المجتمع المحلي، رؤوساء العشائر، القيادة الدينينوبالاضافة لذلك فإن قنوات الاتصال المتوفرة للسكان محدودة لأستلام التعليمات و الارشادات

<sup>57</sup> المؤسسات المالية الغير مصرفية (NBFI) هي مؤسسات مالية لاتمتلك ترخيص مصرفي مكتمل أو غير مدارة من قبل وكالة مصرفية منتظمة محلية كانت او دولية.

من رؤوساء العشائر والمراجع الدينية و عليه فأن الأعتقاد على الكلام المتداول بين الأهل و الأقارب و الأصدقاء هو الاساس . الأمر الذي أدى الى تردد السكان المحليين في ممارسة الأقتراض بسبب المعتقدات الدينية وقادة المجتمع و لغرض تغيير الفهم و الأدرارك إتجاه نشاطات التمويل الأصغر قامت مؤسسات التمويل الاصغر بالعمل في البداية مع المراجع ورؤوساء العشائر لتغيير هذا الموقف وايضا" ثقافة التعامل بالنقد (في أحد المراحل و نتيجة البيئة الغير آمنة ) وضعت قيود على نشاطات مؤسسات التمويل الأصغر . ولا تزال هنالك مجموعات عراقية لتمتلك المعرفة بالنظام المصرفي وحتى بطريقة فتح حساب مصرفي، كما أن البيئة غير الآمنة السائدة في العراق ساهمت في تعزيز أزمة الثقة بين المواطنين والمؤسسات المصرفية.

● **المؤشرات المالية، إدارة وحوكمة مؤسسات التمويل الأصغر العراقية.** فريق التقييم حلل الممارسات الإدارية وحوكمة مؤسسات التمويل الأصغر الشريكة لمشروع تجارة ووجد بان مؤسسات التمويل الأصغر قد استطاعت تحسين وتبسيط العمليات التجارية الداخلية الخاصة بهم بمساعدة من برنامج تجارة . وقد تأسست مجالس للإدارة لهذه المؤسسات من افراد ذوي وضع اجتماعي مميز في مجتمعاتهم، كما وجد الفريق بأن فقط ثلاث من كل ثمان مؤسسات لا تطبق إجراءات أمن المعلومات وتقنين الدخول إلى انظمتها. و نتيجة لتلك التحسينات الادارية والحوكومية، فإن مؤسسات التمويل الأصغر حققت تقدم كبير في التوعية و بناء المحفظة المالية. خلال السنوات الخمس الماضية، بدءاً من 2008 فإن الحقيبة المالية الاجمالية لمؤسسات التمويل الأصغر الشريكة قد ازدادت أكثر من الضعف. في 2008، فإنالحقيبة المالية الاجمالية للقروض وصلت \$59,262,289 وفي سبتمبر 2012 فإنها وصلت إلى \$148,263,928 (تخدم 96,898 عميل بضمنهم 23% من المقترضات الإناث).

مجالس الإدارة لمؤسسات التمويل الصغير قد تأسست وبدأت بالعمل. على كل حال، فإن الجدير بالذكر إن في بعض الحالات تقوم مؤسسات التمويل الأصغر بتشكيل مجلس الإدارة من أفراد يشغلون مكانات اجتماعية عالية في المجتمعات المحلية. فريق التقييم أيضاً وجد إن تدابير أمن المعلومات والسيطرة على الوصول للمعلومات لم تطبق في ثلاث من أصل ثمانية مؤسسات تمويل اصغر استجابت للتقييم حول هذا الموضوع.  
بناءً على ماتم التوصل عليه أعلاه فإن فريق التقييم توصل للتالي:

● **سياسة الدولة غير داعمة.** السياسة الحالية والنصوص القانونية المشرعة من قبل الحكومة العراقية لاتخلق بيئة مؤاتية لتنمية صناعة التمويل الأصغر .

● **لا يمكن ضمان قدرة مؤسسات التمويل الأصغر على النمو من خلال جذب التمويل.** التشريعات القائمة تضع القيود الصارمة على مؤسسات التمويل الأصغر المحلية (مؤسسات التمويل الأصغر) ويحد من مجمل إمكانية وصولهم إلى سوق الإقراض.

● **السياق الثقافي هو التحدي الذي يؤثر على عمليات مؤسسات التمويل الأصغر .** من حيث السياق الثقافي المحلي والمعتقدات الدينية فانها تؤثر بشكل كبير على أداء صناعة التمويل الأصغر في البلاد.

● **شفافية مؤسسات التمويل الأصغر تواجه تحدياً، السكان يفتقرون إلى المعلومات حول متطلبات وشروط القروض** المواقع الالكترونية لمشروعات التمويل الأصغر تحتاج الى تحسين وتحديث معلوماتها وذلك لوجود اختلاف بينها وبين الموقع الالكتروني للتمويل الاصغر وهذا الأمر قد يؤدي الى إرباك في معلومات الزبائن عن هذه المؤسسات.

- **تفتقر مؤسسات التمويل الأصغر إلى منهج متماسك طويل الأمد للتطوير المؤسسي.** على الرغم من الإنجازات الهامة في تبسيط العمليات التجارية والعمليات التشغيلية، فإن بعض مؤسسات التمويل المحلية مازالت بحاجة إلى المساعدة والدعم لتطوير أنظمتها الإدارية والتشغيلية بالإضافة إلى إجراءاتها الداخلية.
- **نظام الحوكمة في بعض مؤسسات التمويل الصغير ضعيف ومثير للجدل.** نتيجة لإشراك رؤساء العشائر في نشاطات مجلس الإدارة مما جعل مؤسسات التمويل الأصغر أكثر قرباً من الواقع الاجتماعي و المحلي على الرغم انه في المدى الطويل قد يؤدي إلى حالة من الاختلال الوظيفي بسبب محدودية المعرفة والخبرة في تقييم القرارات الإدارية الحرجة.
- **إن مجالات أنظمة إدارة المعلومات وتقنية المعلومات ضعيفة في بعض مؤسسات التمويل الأصغر ونظام الأقرض يحتاج إلى تحديث .** نظم المعلومات، ونظم الحاسوب ضعيفة الحماية من الاستخدام الغير مرخص به مثل الوصول، الكشف، النشر، التعديل، التشويش، قراءة المعلومات، التسجيل، المراقبة، أو تدمير الملفات. مؤسسات التمويل الأصغر لا تقوم بتقويض الواجبات و العمليات مابين إدارة النظام و مستخدمي النظام<sup>58</sup>.
- **القوى العاملة المؤهلة يمثل تحدي لمؤسسات التمويل الأصغر العراقية.** تبقى قدرة الموارد البشرية إحدى المحددات الرئيسية لبعض مؤسسات التمويل الصغيرة. و أيضاً تواجه هذه المؤسسات حاجة مستمرة لأحترافية أنشطتها والتدريب و مراعاة المعايير في عملياتها .
- **مؤسسة التمويل الأصغر توفر فرص متساوية لكلا الجنسين للحصول على قروض.** مشروع تجاره أرسل تقارير توضح ارتفاع أعداد المقترضات للفترة بين 2008-2012. بينما في عام 2008، عدد المقترضات شكل 15% من العدد الكلي للمقترضين النشطين، لكن بحلول أيلول 2012 نفس المؤشر وصل إلى 23%.
- **الاكتفاء المالي الذاتي والاكتفاء التشغيلي الذاتي لمؤسسات التمويل الأصغر العراقية تبرهن نجاحها المؤسسي.**

سؤال رقم 2 (س2):

في حالة غياب مشروع الوكالة الأمريكية للتنمية الدولية تجارة أو أي مشاريع مشابهة للحكومة الأمريكية، ماذا ستكون حالة صناعة التمويل الأصغر في العراق، حسب وجهة نظر ذوي العلاقة الرئيسيين في العراق (مؤسسات التمويل الأصغر ، مديرية المنظمات الغير حكومية(المجتمع المدني)، المستفيدين، الخ...)?

ردا على سؤال البحث رقم 2، فإن فريق التقييم قام بتحليل مقارن بين نوعين من النظم البيئية للتمويل الأصغر: النظام البيئي التقليدي والنظام البيئي العراقي الواقعي. و الذي تم تصميمه بالاستناد الى نتائج التقييم و المعلومات التي تم استخلاصها من ذوي العلاقة (ممثلتي الدولة العراقية، مدراء فريق مشروع تجارة، والممثلين عن مؤسسات التمويل الصغير الشريكة مع تجارة و المانحين الدوليين).

كنتيجة للتقييم، فإن فريق التقييم وجد فجوات يجب أن تأخذ بعين الاعتبار في النظام البيئي للتمويل الأصغر. احد الفجوات يعود إلى عدم وجود مجموعة مستثمرين محليين داخل المجتمع ويمثل مؤسسات مصرفية أو منظمات تقوم بتوفير التمويل لمؤسسات التمويل الأصغر . وهذا سببه عدم وجود بيئة قانونية داعمة لمثل هذه المواضيع في البلاد، مؤسسات الإقراض الأصغر غير مسموح لها اقتراض أموال للأغراض التشغيلية

<sup>58</sup> مهام مدراء الانظمة واسعة وتتضمن تنصيب، دعم وصيانة الخوادم وانظمة الحاسوب الاخرى، والتخطيط الى والاستجابة لأنقطاع الخدمة ومشاكل اخرى. في الوقت الذي تكون فيه مهام مستخدمي الانظمة محددة بقراءة المعلومات والولوج للبيانات.

الخاصة بها. وفقا للنموذج التقليدي فإن معظم مؤسسات التمويل الأصغر تتأسس كمنظمات غير حكومية (منظمات مجتمع مدني) وتتلقى دعما كبيرا من المانحين. في حال توقف أموال المانحين تحتاج مؤسسات التمويل الأصغر الوصول إلى مصدر تمويل بديل وجذب رأس المال الخاص لتوسيع عمليات تلك المؤسسات.

النتيجة الرئيسية الأخرى التي تم الوصول لها تتعلق بـ "المؤسسات الداعمة /دعم بناء القابليات"، وهذا الجانب ضعيف نوعا ما ويتمثل فقط في المنظمة الغير حكومية الوحيدة، شبكة التمويل الأصغر العراقية (IMN).

بناء على النتائج فإن فريق التقييم استخلص إن الوكالة الأمريكية للتنمية الدولية وفرت مساعدة تقنية ومالية ملحوظة هدفت إلى خلق نظام بيئي مستدام للتمويل الأصغر في العراق. على الرغم من هذا النظام البيئي نوعا ما هش وإذا ما انخفض مستوى الدعم من مجتمع المانحين (وبالذات الوكالة الأمريكية للتنمية الدولية)، فإن صناعة التمويل الأصغر في العراق ستضعف بشكل كبير ومعرضة لخطر الانهيار على المدى الطويل.

من حيث التوصيات، يقترح الفريق التالي من التدخلات والبرامج التقنية المساعدة :

1- **الوكالة الأمريكية للتنمية الدولية تركز على بناء القابليات للحكومة العراقية.** الوكالة الأمريكية للتنمية الدولية تحتاج إلى تدريب مجموعة مختلفة من المستفيدين من الحكومة العراقية لتضمن نمو قدرات مسؤولي الدولة على المستويين العالي والمتوسط. وهذا العدد المتزايد من اصحاب القرار ومسؤولي الدولة سيؤدي إلى صنع تغييرات على مستوى السياسة من خلال تحسين البيئة القانونية والتنظيمية.

2- **التعاون الفعال للوكالة الأمريكية للتنمية الدولية مع حكومة العراق ومجتمعات المانحين (البنك الدولي و برنامج الأمم المتحدة الإنمائي) لتحسين النصوص القانونية.** لتوازي الجهود التي بذلها برنامج تجارة في مجال التمويل الأصغر في العراق، تحتاج الوكالة الأمريكية للتنمية الدولية لتركيز من تعاونها وتنسيقها مع المانحين الدوليين والممولين المتعددين الآخرين (مثل البنك الدولي ومؤسسة التمويل الدولي و برنامج الأمم المتحدة للتطوير ) لدعم حكومة العراق في تحسين بيئتها القانونية والتنظيمية في البلاد أو إجراء تعديلات على مسودات النصوص القانونية القائمة.

3- **التعاون الفعال للوكالة الأمريكية للتنمية الدولية مع حكومة العراق و المانحين في دعم حكومة العراق في اعداد استراتيجية وسياسات وطنية لتطوير التمويل الأصغر.** هذه الاستراتيجية يجب ان ان تمثل رؤية مشتركة للدور الذي يلعبه التمويل الأصغر في تطوير البلد وتحسين قدرة الناس في الوصول للتمويل. كمثال فإن هذا التمرين تم تطبيقه بنجاح في مصر بالإضافة الى دول نامية اخرى.

4- **تعاون الوكالة الأمريكية للتنمية الدولية مع شبكة التمويل الأصغر لتحسين شفافية مؤسسة التمويل الأصغر وتطوير قابلياتهم الإدارية والتشغيلية.** قد تلعب شبكة التمويل الأصغر العراقية دور ريادي في تطوير صناعة التمويل الأصغر في البلاد. مع ذلك، فإن الشبكة نفسها تتطلب مساعدة لغرض أن تصبح كمؤسسة تمويل اصغر قوية لدعم وبناء القابليات.

5- **الوكالة الأمريكية للتنمية الدولية تنسق الجهود مع مؤسسة التمويل الدولي في تنقيح إستراتيجية مؤسسة التمويل الأصغر ودعم تحول مؤسسات التمويل الأصغر.** في صيف عام 2012 ، أطلقت مؤسسة التمويل الدولي مناقصة لتوفير خدمات مساعدة تقنية إلى مؤسسات التمويل الأصغر في منطقة الشرق الأوسط وشمال أفريقيا و بدءاً من آب 2010 وحتى نهاية 2013 وبنافق ما يقرب من 4-5 ملايين دولار خلال هذه الفترة. وعليه فإن الوكالة الأمريكية للتنمية الدولية تحتاج إلى بدأ الحوار والتعاون مع مؤسسة التمويل الدولي لدعم مؤسسات التمويل الأصغر في تحولها من منظمات غير حكومية إلى مؤسسات مالية غير مصرفية.

6- الوكالة الأمريكية للتنمية الدولية تطور مشاريع تعليمية مع التركيز على الشباب. الاستثمار في تعليم الشباب قد يتم تنفيذه من خلال سلسلة من برامج التدريب وبناء القابليات وكذلك من خلال الجامعات العراقية لإعداد رجال اعمال من الشباب الواعد ليصبحوا مؤهلين للتمويل الأصغر.

### الدروس المستفادة

- مع الأخذ بنظر الاعتبار خصوصيات المشروع فإن فريق التقييم توصل إلى الدروس المستفادة التالية:
- **استراتيجية المغادرة للمشروع** تحتاج إلى أن توضع وبشكل رسمي ويتم أخذها بعين الاعتبار في مرحلة متقدمة من المشروع. ويجب اخذ هذا بعين الاعتبار من قبل كلاً من الوكالة الأمريكية للتنمية الدولية والشريك المنفذ للمشروع.
  - **يجب تأمين الدعم السياسي وملكية محلية** في مرحلة مبكرة من المشروع لغرض إنشاء نظام بيئي أكثر استقراراً للتمويل الأصغر. هذا الدرس هو أمر حاسم ويجب أن يؤخذ بنظر الاعتبار من قبل الوكالة الأمريكية للتنمية الدولية والشريك المنفذ للمشروع.
  - **هناك حاجة لتكثيف الاتصالات و المشاركات المختلفة للجهات الحكومية و الوكالات** في مناقشة قضايا التمويل الأصغر مع تعزيز الحوار مع الشركاء المحليين .
  - **كان ينبغي إنشاء شبكة التمويل الأصغر في العراق** وكان يجب أن تعمل بكامل طاقتها في مرحلة مبكرة من البرنامج.
  - **استراتيجيات مشاركة المعلومات والحقاق** يجب تطبيقها لموظفي الدولة الذين لم يحضروا دورات تدريبية ولكنهم في حاجة إلى تعزيز معرفتهم حول قضايا التمويل الأصغر، وكيفية خلق بيئة تمكين لهذا القطاع.
  - **مطلوب زيادة التركيز على المواقع الالكترونية ثنائية اللغة** للتحقق المضاعف للمحتوى لضمان دقة المعلومات الواردة فيها.

## ANNEX # 7: GLOSSARY OF TERMS<sup>59</sup>

**Active clients:** The number of clients with loans outstanding on any given date. An institution's official statistics on active clients are usually recorded as the number of clients with loans outstanding on the date its financial statements are filed.

**Collateral:** Asset pledged by a borrower to secure a loan, which can be repossessed in the case of default. In a microfinance context, collateral can vary from fixed assets (a car, a sewing machine) to cross-guarantees from peers.

**Financial self-sufficiency:** Total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. In a microfinance context, an institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses, and funds.

**Governance:** Anything related to the activities of governing the organization (e.g., board of directors, bylaws, and so on).

**Group lending:** Lending mechanism that allows a group of individuals—often called a solidarity group—to provide collateral or loan guarantee through a group repayment pledge.

**Microfinance institution:** A financial institution—it can be a nonprofit organization, regulated financial institution, or commercial bank—that provides microfinance products and services to low-income clients.

**Microfinance:** Banking and/or financial services targeted to low-and-moderate income businesses or households, including the provision of credit.

**Microentrepreneur:** Owner/proprietor of a microenterprise.

**Micro loan:** A loan by a microfinance institution to a microentrepreneur, to be used in the development of the borrower's small business. Micro loans are used for working capital in the purchase of raw materials and goods for the microenterprise, as capital for construction, or in the purchase of fixed assets that aid in production, among other things.

**NGO:** An organization registered as a nonprofit for tax purposes or some other legal charter. Its financial services are usually more restricted and usually do not include deposit taking. These institutions are typically not regulated by a banking supervisory agency.

**Non-bank financial institution:** An institution that provides similar services to those of a bank but is licensed under a separate category. The separate license may be due to lower capital

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<sup>59</sup> <http://www.gdrc.org>

requirements, limitations on financial service offerings, or supervision under a different state agency. In some countries this corresponds to a special category created for microfinance institutions.

**Number of active borrowers:** The number of individual who currently have an outstanding loan balance with the MFI or are responsible for repaying any portion of the gross loan portfolio.

**Number of active clients:** Number of individuals who are active borrowers and/or savers with the MFI. A person with more than just one such account (i.e., with a loan and a savings account) is counted as a single client in this measure.

**Operating expense/loan portfolio (%):** Operating expense/period average gross loan portfolio.

**Operating expense:** Expenses related to operations, such as all personnel expenses, rent and utilities, transportation, office supplies, and depreciation.

**Operational self-sufficiency (%):** Financial revenue (total)/(financial expense + loan loss provision expense + operating expense). A measure of financial efficiency equal to total operating revenues divided by total administrative and financial expenses. If the resulting figure is greater than 100, the organization under evaluation is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover administrative costs with client revenues.

**Outreach:** Active attempt to find/interact with clients in selected populations, geographic catchment areas or targeted initiatives. This term will often relate to impact studies and would also include market research and delinquency studies.

**Portfolio at risk:** Measurement of the total outstanding balance of loans past due—not late payments or payments not yet due—divided by the active portfolio. A more rigorous manner of assessing portfolio quality than portfolio past due/delinquent portfolio.

## **ANNEX # 8: EVALUATION METHODOLOGY**

### **BACKGROUND**

The USAID/Iraq Tijara - Provincial Economic Growth Project (Tijara), started in January 2008 and continuing through January 2013, promotes private sector growth and employment in Iraq through an integrated approach to the formation and expansion of micro, small and medium-size enterprises (MSMEs).

USAID/Iraq's Tijara Project was designed in part to carry on the work of a previous USAID-funded project, Izdihar, which ended in 2007. USAID/Tijara continued Izdihar's work in private-sector lending, in particular the support of microfinance institutions. USAID/Iraq's Tijara Project ended in February 2013.

The USAID/Iraq Tijara Project is implemented nationwide and provides financial and technical support for expansion, new product development, and other forms of capacity building activities to retail microfinance institutions. The project also focuses on investments in the market infrastructure to increase access to financial services for currently excluded population groups.

The USAID/Iraq Tijara Project encompasses seven areas: (1) business development services, (2) youth initiative, (3) international trade and WTO accession, (4) business enabling environment, (5) investment promotion, (6) small and medium enterprise development and bank lending, and (7) sustainable microfinance.

With regard to the microfinance component, the USAID/Iraq Tijara Project addresses multiple levels:

- a. Strengthening and securing economic, legal, regulatory and infrastructure for an enabling environment that favors microfinance industry growth and sustainability and increasing access to financial services for those excluded before;
- b. Providing financial and technical support to microfinance institutions (MFI) for expanding their activities; and
- c. Deploying human capacity building initiatives with focus on both representatives of the Government of Iraq (GoI) and microfinance institutions (MFI).

Currently, the microfinance sector comprises 12 non-governmental MFIs, operating in all 18 provinces (10 of them being indigenous institutions) through over 105 offices. Since 2009, the overall regulatory environment for the sector has improved with the issuance of a new non-governmental organization (NGO) law. This new law enables MFIs to continue as quality financial service providers for the women, youth, micro and small entrepreneurs, and economically challenged people in Iraq. The greatest accomplishment to date for the sector was the Central Bank of Iraq's (CBI) recognition of microfinance as an effective means of financial intermediation for MSMEs.

The MFI industry currently enjoys a 99% repayment rate and a portfolio at risk greater than 30 days of less than 1%. Despite high levels of activity, growing efficiency and greater depth of outreach, significant challenges still exist. For example, MFIs are currently meeting only a small

part of estimated demand. The Iraqi Government is debating the nature of loans to the poor, for example, whether they should be interest-free, and whether there should be repayment holidays.

## **FRAMEWORK**

### ***Evaluation Purpose***

The performance evaluation is a cumulative assessment of the microfinance component of the USAID/Iraq Tijara – Provincial Economic Growth Project. The evaluation purpose is to assess whether a sustainable microfinance industry has been established in Iraq, and if so, whether the USAID/ Iraq Tijara Project contributed substantially to that establishment. The evaluation will also determine the extent to which the project’s microfinance component objectives under - Sub-IR 8.3.1 and IR 8.3 have been achieved.

The evaluation will address the performance of the microfinance component starting from its beginning (January, 2008) through the initiation of the evaluation team’s field work (October, 2012).

### ***Evaluation Questions***

The performance evaluation will provide evidenced-based answers to the questions below:

**Question #1 (Q1):** Has a sustainable microfinance industry been established in Iraq?

- Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by operational sustainability of MFIs?
- Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by financial sustainability of MFIs?

**Question #2 (Q2):** In the absence of the USAID-Tijara or comparable U.S. Government project, what would be the likely state of the Iraqi microfinance industry, as perceived by main stakeholders in Iraq (MFIs, NGO directorate, beneficiaries, etc.)?

## **METHODOLOGY**

The evaluators propose a mixed-method methodology for this performance evaluation, focusing on descriptive and normative evaluation questions. The methodology will look into the financial, social, institutional and operational aspects of the microfinance industry in Iraq. In this regard, the evaluation team outlined and broke down further the evaluation questions presented in the Scope of Work (Annex #1). This approach allows defining quantitative and qualitative measures or indicators, targets, baseline data (if any), data sources, and sample sizes. The team shall present the approved evaluation plan and design to the USAID representatives during the initial evaluation briefing, which will be held prior to the field work.

**To address the first evaluation question (Q1),** the evaluation team will conduct assessments of partnering MFIs to appraise the sustainability determinants of MFIs such as: managerial effectiveness, outreach indicators, internal business processes, and the utilization of information and communication technologies to advance their businesses. These assessments will be conducted either by representatives of partnering MFIs on their own or jointly by MFIs and QED data collectors (if needed).

The team will identify and consider quantitative records related to operational and financial sustainability of MFIs. The evaluators will focus on two key indicators of sustainability such as operational self-sufficiency (OSS)<sup>60</sup> and financial self-sufficiency (FSS).<sup>61</sup> The Operational Self-Sufficiency indicator assesses whether an MFI generates enough revenues to cover all of its direct costs (administrative/operating and financing costs). In other words, the OSS indicator shows an MFI's ability to recover all of its operating expenses. Financial Self-Sufficiency demonstrates to what extent a MFI not only recovers its operating costs but is able to make some profit. MFI sustainability indicators are based on comparable studies<sup>62</sup> done elsewhere or for other sectors in Iraq. Due to data limitations this performance evaluation shall only incorporate before-after comparisons.

The evaluation team plans to review additional MFI financial records and performance reports available from the USAID/Iraq Tijara Project implementing partner. These records allow tracing the growth trends of the microfinance industry in terms of the number of clients and of the outstanding loan portfolio. In addition, the evaluation team plans to take a look at data collected from MFIs, and calculate performance ratios such as: portfolio at risk (PAR),<sup>63</sup> operating expense ratio (OER)<sup>64</sup>, and loan officer productivity (LOP).<sup>65</sup>

To better answer the question on the sustainability of the Iraqi microfinance industry, the evaluation team, depending on the data available and, again, as time allows, will try to get a sense of the likelihood that MFIs can attract debt or quasi equity financing going forward. Thus, the team envisions conducting a basic institutional risk rating of a sample of representative MFIs based on the CAMEL rating system for financial institutions (Capital, Asset quality, Earnings, and Liquidity).

**To address the second question (Q2),** the evaluation team will assess the perception of key stakeholders (state representatives, partnering organization, and beneficiaries) on the effectiveness of MFIs and appraise access to funding of vulnerable groups of the Iraqi population. The stakeholders (key informants) will be selected among other donor agencies, state officials, and the key staff of MFIs (including board members). Key informants are expected to be nominated by USAID and by the Louis Berger Group, the Tijara contractor. The methodology considers asking counterfactual questions to determine the professional opinion of the informants on what would have happened if the USAID/Iraq Tijara Project had not taken place. In addition, the methodology considers the inclusion of project direct and indirect beneficiaries (women, youth and IDPs), into the assessment process. Project beneficiaries will be selected among the borrowers who:

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<sup>60</sup> A measure of financial efficiency equal to total operating revenues divided by total administrative and financial expenses.

<sup>61</sup> FSS measures the extent to which operating profits cover an MFI's costs.

<sup>62</sup> The Microfinance Revolution: Sustainable Finance for the Poor, Marguerite Robinson, The World Bank, 2001; Building Viable Microfinance Institutions: Lessons from Other Developing Countries, Elias A. Udejaja Ph.D., Central Bank of Nigeria, Nigeria, 2004; Vietnam: Developing a Comprehensive Strategy to Expand Access [for the Poor] to Microfinance Services, The World Bank, 2007; The Effect of Subsidies on the Performance and Sustainability of Microfinance Institutions in sub-Saharan Africa, Menzie Dlamini, University of Pretoria, 2012.

<sup>63</sup> The percent of total portfolio in arrears for more than 30 days.

<sup>64</sup> The total operation expenses divided by average total assets

<sup>65</sup> The value of the outstanding loan portfolio divided by number of loan officers

- Applied for a loan for the first time (IDPs, women, youth) over the last six months
- Succeeded in receiving the first loan more than six months ago
- Received a loan below \$50 and might be considered as representing poor borrowers
- Live in areas/communities with above average population density
- Represent different geographic areas of the country (central, north, east)
- Participated in a loan scheme several times
- Represent different market sectors (e.g., agro-sector, services, etc.)
- Participated in different credit schemes

The methodology not only addresses the problems of the microfinance sector in Iraq, but also considers drawing lessons on the success stories and proposing intervention strategies for future program planning. One of the key research questions will focus on successes, barriers, challenges, and policies that affect the sustainability efforts of partnering microfinance institutions. Another focus will be on increased access to funding in the country and whether the targeted groups of population easily get information on funding sources and requirements. In addition, the team will address the issues of replicating the activities of microfinance component of the USAID/Iraq Tijara Project.

### **Preparation for Field Work**

The evaluation team will take the required steps to avoid any conflict of interests. It is anticipated that the Tijara team will facilitate meetings and interviews, although, the evaluators will have a right to determine the scheduling and audience of the meetings as well as the data collection methodology.

In terms of preparatory work, the project team plans to conduct a training session in Baghdad for the data collectors. The training goal is to deliver detailed information to the audience on the evaluation objectives, planning, tools, and collection methods. This is one of the crucial components of the evaluation project as far as the data collectors are in the front line of information gathering process. Preparatory work will also include drafting all questionnaire and surveys which will be used during the evaluation.

### **Data Collection Tools and Analysis**

The data collection tools for this mixed method evaluation will be as follows:

- Debriefings
- MFI assessment questionnaires
- Key informant interviews
- Focus group discussions
- Direct Observations
- Web-server logs
- Mini-surveys

A mixture of quantitative and qualitative questions will be incorporated into the above mentioned evaluation tools to outline the most comprehensive picture of the project's achievements and challenges with regard to the microfinance domain.

**Debriefings** will be conducted with representatives of USAID to cover the evaluation plan, USAID requirements, the key indicators of success, evaluation findings and the recommendations proposed.

**MFI assessment questionnaires** mostly will include open-ended questions. The questionnaires will be distributed among participating MFIs in advance to assess their managerial, operational and financial effectiveness.

**Key informant interviews** will be conducted in-person or by phone with key informants, well-regarded experts or knowledgeable persons. These experts will be selected among MFI managers and board members, representatives of the Government of Iraq, international and local non-governmental organizations and donor agencies (those involved in supporting the microfinance industry of Iraq). This tool allows receiving detailed information and informants' feedback on specific topics and depicting a comprehensive picture on the project performance.

Taking into account that the evaluation project is limited in time, resources and costs, the evaluation team is not considering conducting interview of non-partnering MFIs. However, the team does consider interviewing the project's direct or in-direct beneficiaries: youth, women, and IDPs. Some interviews will be slated as follow-ups to certain questionnaires filled out earlier by targeted groups.

All interviews will be structured to actively engage key informants into the conversation for the purpose of analyzing and synthesizing their feedback and perception of the activities of the USAID/Iraq Tijara Project microfinance component.

**Focus group discussions** will be limited to people who fit a similar position, i.e. a homogeneous group of Tijara beneficiaries. Questions will be developed to determine if there is a consensus on a particular issue, and whether the focus group participants share common views or common reactions. The team will focus on asking questions and encouraging a full discussion to provide comprehensive answers. Focus groups are particularly useful in developing conclusions and recommendations, a critical part of Question # 2. Focus group participants will be selected among beneficiaries of the micro credit programs in Baghdad, Basrah, Hilla, Karbala, Sulaymaniya, and Erbil.

**Direct observation** will give an opportunity for the evaluation team to observe what is actually happening at MFI offices. This will allow processes to be observed in their natural setting, thereby providing a complete understanding of the subject.

**Web server logs and users feedback** will allow the team to get normative (the number of visitors) and descriptive (feedback of visitors) information on the effectiveness of the microfinance portal developed within the project framework.

**Mini surveys** will be conducted among a small number of individuals, selected on the basis of availability and directed sampling. The questionnaires designed for this mini-surveys focus on a limited number of closed-ended questions to generate the quantitative data.

### Site Visits and Selection Criteria

The evaluation team will focus on 16 cities throughout Iraq which count a significant presence of micro and small enterprises. It will provide a degree of geographic and religious/ethnic diversity. QED data collectors will visit project stakeholders (MFIs and beneficiaries) in these cities to conduct key informant interviews and focus group discussions.

The cities to be visited are:

- Erbil-Sulaymaniya-Mosul-Kirkuk
- Baghdad
- Ramadi-Falluja-Al Samarra
- Karbala-Hilla-Najaf-Diwaniya-Nassiriya
- Basrah-Muthanna-Kut

In addition, one of the team key members may make some visits outside of Baghdad (the cities of Basra, on the south, and Erbil, on the north parts of the country) to observe the work of MFIs, attend some informants' interviews, and conduct focus groups discussions.

### Key Stakeholders

The project team anticipates interviewing a diverse group of stakeholders to obtain information on their vision and perception with regard to the microfinance component of the USAID/Iraq Tijara Project. The key stakeholders identified are:

- USAID
- Louis Berger Group
- Representatives of the Government of Iraq, non-governmental, organizations and private agencies active on microfinance issues in Iraq
- Representatives of Iraqi microfinance institutions (project partners): top and middle level managers, board members, and loan officers
- Targeted communities: project beneficiaries and borrowers of microfinance institutions

The following table summarizes the key informants and groups to be interviewed, the purpose of the interview, and the number of the meetings. This is the preliminary model assuming that meeting scheduling details will be refined once the team is on site in Iraq.

Key Informant	Purpose
Key staff of the implementing partner and USAID	<p>The evaluation team will conduct several meetings/briefings with USAID representatives and key staff of the implementing partner, the Louis Berger Group. At the meetings, the team will discuss the approved evaluation plan, baseline data, USAID requirements, and key indicators of success.</p> <p>The team will request and collect the project data (including contact data for key decision makers of MFIs) and determine the need for follow up meetings and data requests. Follow-up meetings will be conducted to debrief USAID representatives on evaluation findings, conclusions, and recommendations.</p> <p>The team will also ask USAID and the Louis Berger Group to nominate and share contact information of the key informants from the government, private,</p>

Key Informant	Purpose
	and non-profit sectors as well as other relevant stakeholders.
Representatives of GoI, private, and non-profit sectors	<p>The team will conduct individual meetings with the key informants from the Government of Iraq, private, and non-profit sectors to question them about microfinance successes, barriers and challenges, and the sustainability of microfinance institutions.</p> <p>The evaluation team will explore whether any element of the MFI component of the USAID/Iraq Tijara Project can serve or has served as a model for replication. Informants are expected to share their perception of what the state of the Iraqi microfinance industry would be in the absence of USAID/Iraq's Tijara or comparable U.S. Government project. The team will also talk over the effectiveness of the micro-finance portal developed within the project framework.</p> <p>The Prime Minister's Advisory Council is one of the key informants identified.</p>
Leaders/ managers of MFIs	<p>In-person or telephone interviews will be organized with MFI key leaders to assess the effectiveness of the project efforts in facilitating the financial and operational sustainability of MFIs. The meeting will cover the issues of further development perspectives of the micro-finance industry in Iraq and the measures recommended.</p> <p>The questions will also address matters of improved corporate governance practices of MFIs. In addition, the MFI representatives expect to share their perceptions of what the state of the Iraqi microfinance industry would be in the absence of USAID/Iraq's Tijara or comparable U.S. Government project.</p> <p>The team will also talk over the effectiveness of the microfinance portal developed within the project framework.</p>
Mid-level staff of partnering MFIs	<p>Meetings will be held with the staff (mid-level) of partnering MFIs. (MFIs will be selected according to geographic location and demand-side of the market) to discuss overall progress, barriers, processes, successes, and challenges faced or anticipated.</p> <p>The meeting will also focus on further development perspectives of MFIs and the measures recommended.</p> <p>In addition the team will discuss the effectiveness of the micro-finance portal developed within the project framework.</p>
MFI staff and loan officers who are training beneficiaries	In-person or telephone interviews with MFI staff who attended the training sessions will be organized. These interviews will focus on the effectiveness of the project efforts in facilitating the financial and operational sustainability of

Key Informant	Purpose		
	MFIs.		
External donors who are providing subsidiary and /or any type of financial or in kind support to MFIs.	<p>Meetings will be conducted with each of the partner/GOI/donor institutions to discuss their activities and involvement in stimulating MFIs' development.</p> <p>In addition, the informants will be asked about their perceptions of MFI activities and what the state of the Iraqi microfinance industry would be in the absence of USAID/Iraq's Tijara or comparable U.S. Government project.</p>		
GOI training beneficiaries.	<p>In-person interviews will be conducted with GOI staff who attended the training sessions organized within the framework of the microfinance component of the project.</p> <p>Interviews will focus on the effectiveness of the project efforts in facilitating the development of policies aimed at stimulating the microfinance industry in Iraq.</p>		
Staff of MFIs, middle level managers and loan officers	<p>In-person or telephone interviews will be conducted with identified MFI staff to assess MFIs' policy of reaching the targeted groups of population: poor, women, youth, and IDPs to discuss current practices and suggestions for the future.</p>		
Borrowers of Iraqi MFIs in Baghdad.	<p>2 to 3 meetings with different groups of MFI borrowers: IDP and low income family representatives, to discuss the effects of MFI operations on targeted communities, and their perceptions of the MFI activities and information received.</p>	<p>Meeting 4: Group discussions with female entrepreneurs in Baghdad.</p>	<p>Meeting 5: Group discussion with youth (project beneficiaries) to assess the impact of the project on their access to funds for start-up activities.</p> <p>If possible meetings with selected families of project beneficiaries might be organized to assess their perception of MFI activities.</p>
Borrowers of Iraqi MFIs outside Baghdad.	<p>2 to 5 meetings with different groups of MFI borrowers: IDP and low income family representatives to discuss the effects of MFI operations on targeted communities, and their perceptions of the MFI activities and information received. This may include a meeting with group borrowers.</p>	<p>Meeting 5 to 7: Group discussions with female entrepreneurs.</p>	<p>Meeting 7 to 8: Group discussion with youth on effects of MFI operations, and their perceptions of the MFI activities and information received.</p> <p>If possible meetings with selected families of project beneficiaries might be organized to assess their perception of MFI activities.</p>

## ANNEX # 9: MATRIX OF RESEARCH QUESTIONS AND SUB QUESTIONS

Main Evaluation Question and Research Sub-Questions	Type of Question	Source of data	Sampling or Selection Criteria	Baseline Data	Measures/Indicators	
<b>Question # I: Has a sustainable microfinance industry been established in Iraq?</b>						
<b>A) Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by operational sustainability of MFIs?</b>						
1.	Has the project contributed to improving the business environment of the country with regard to microfinance domain?	<ul style="list-style-type: none"> <li>• Descriptive</li> </ul>	<ul style="list-style-type: none"> <li>• Project records</li> <li>• Interviews with key informants</li> <li>• Legislation, state strategic and policy papers</li> </ul>	Identified key stakeholders and legal acts developed	<ul style="list-style-type: none"> <li>• 135/182 as of 2008</li> <li>• 4/10 as of 2008</li> <li>• The baseline is 0 as of 2008</li> </ul>	<ul style="list-style-type: none"> <li>• Getting credit ranking<sup>66</sup> (doing the business report/WB)</li> <li>• Strength of legal rights index<sup>67</sup> (Getting credit ranking)</li> <li>• Number of new legal acts developed and number internal policies or regulations better defined by the Government of Iraq to implement the law</li> </ul>

<sup>66</sup> Measures the degree of credit information sharing and the legal rights of borrowers and lenders.

<sup>67</sup> This index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending.

Main Evaluation Question and Research Sub-Questions		Type of Question	Source of data	Sampling or Selection Criteria	Baseline Data	Measures/Indicators
2.	Has the USAID/Iraq Tijara Project contributed to improved management and corporate governance of MFIs?	<ul style="list-style-type: none"> <li>• Descriptive</li> </ul>	<ul style="list-style-type: none"> <li>• Project records</li> <li>• Interviews with key informants (MFI leadership: managing directors and board members)</li> <li>• Interviews with key informants (mid managers)</li> <li>• MFI charters, mission, bylaws, etc.</li> </ul>	Identified key stakeholders and MFI procedures and policies developed	The baseline is 0 as of 2008	Number of new internal policies and procedures developed by MFIs
3.	How effectively has the MFI been in reaching the poor (outreach)?	<ul style="list-style-type: none"> <li>• Comparative</li> </ul>	<ul style="list-style-type: none"> <li>• Project records</li> <li>• Surveys</li> <li>• Interviews with key informants</li> </ul>	<ul style="list-style-type: none"> <li>• Identified key stakeholders; directed sample</li> <li>• MFI procedure and policies developed</li> <li>• Survey on credits issued</li> </ul>	0% of portfolio outstanding at USG assisted MFIs held as poverty loans (2011 data)	% increase in number of poor beneficiaries

Main Evaluation Question and Research Sub-Questions		Type of Question	Source of data	Sampling or Selection Criteria	Baseline Data	Measures/Indicators
4.	Did MFIs apply equal practices to male and female borrowers?	<ul style="list-style-type: none"> <li>• Descriptive</li> </ul>	<ul style="list-style-type: none"> <li>• Project records</li> <li>• Interviews with key informants</li> <li>• Focus group discussions</li> </ul>	<ul style="list-style-type: none"> <li>• Key informant discussion; directed sample</li> <li>• Survey on credits issued</li> </ul>	To be confirmed	<ul style="list-style-type: none"> <li>• % increase in number of female borrowers</li> </ul>
5.	Was MFIs' loan scheme gender responsive?	<ul style="list-style-type: none"> <li>• Comparative</li> </ul>	<ul style="list-style-type: none"> <li>• Project records</li> <li>• Interviews with key informants</li> <li>• Focus group discussions</li> </ul>	<ul style="list-style-type: none"> <li>• Key informant discussion; directed sample</li> <li>• Survey on credits issued</li> </ul>	The baseline is 0 as this is a new indicator	Number of internal regulations developed
6.	How effective was the curriculum of trainings delivered within the project framework for MFIs staff?	<ul style="list-style-type: none"> <li>• Comparative</li> </ul>	<ul style="list-style-type: none"> <li>• Project records</li> <li>• Interviews</li> </ul>	<ul style="list-style-type: none"> <li>• Key informant discussions; convenience sample</li> <li>• Survey on training participants</li> </ul>	1,344 training participants of USG supported trainings in microfinance for the period of 2008-2012	Number of training participants who report that they regularly apply the skills and knowledge received at the training at their working places
<b>B) Has USAID-Tijara created sustainable microfinance in Iraq as demonstrated by financial sustainability of MFIs?</b>						

Main Evaluation Question and Research Sub-Questions		Type of Question	Source of data	Sampling or Selection Criteria	Baseline Data	Measures/Indicators
7.	Has the project contributed to reduced dependency of MFIs on subsidies?	<ul style="list-style-type: none"> <li>Comparative</li> </ul>	<ul style="list-style-type: none"> <li>Project records</li> <li>Interviews</li> </ul>	<ul style="list-style-type: none"> <li>Key informant discussions; directed sample</li> <li>Survey on subsidies received</li> </ul>	<ul style="list-style-type: none"> <li>193 loans outstanding at MFIs and Partner Bank SME Lending Units (2008 data)</li> <li>The baseline is 0 as of 2008</li> </ul>	<ul style="list-style-type: none"> <li>% increase in MFIs' loan portfolio</li> <li>% MFIs that have reached Financial Self Sufficiency</li> </ul>
8.	Has the project contributed to the creation of new products by MFIs?	<ul style="list-style-type: none"> <li>Comparative</li> </ul>	<ul style="list-style-type: none"> <li>Project records</li> <li>Interviews</li> </ul>	<ul style="list-style-type: none"> <li>Key informant discussions; directed sample</li> <li>Survey on subsidies received</li> </ul>	The baseline is 0 as this is a new indicator	Number of products offered by partnering MFIs
<b>Question # II: In the absence of the USAID-Tijara or comparable U.S. Government project, what would be the likely state of the Iraqi microfinance industry, as perceived by main stakeholders in Iraq (MFIs, NGO directorate, beneficiaries, etc.)?</b>						
9.	Did the microfinance component serve as a model for replication by non-assisted institutions?	<ul style="list-style-type: none"> <li>Descriptive</li> </ul>	<ul style="list-style-type: none"> <li>Interviews</li> </ul>	<ul style="list-style-type: none"> <li>Key informant discussions; directed sample</li> <li>Indirect</li> </ul>	The baseline is 0 as this is a new indicator	Number of cases and evidences of replicating the microfinance component of the project reported by

Main Evaluation Question and Research Sub-Questions		Type of Question	Source of data	Sampling or Selection Criteria	Baseline Data	Measures/Indicators
				measure of history		informants
10.	What major distinctions are/were identified between USAID-assisted and non-assisted <sup>68</sup> microfinance institutions?	<ul style="list-style-type: none"> <li>• Descriptive</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews</li> <li>• Focus group discussions</li> </ul>	<ul style="list-style-type: none"> <li>• Directed sample</li> <li>• Indirect measures of history, barriers and intentions</li> </ul>	12 partnering MFIs	Number of informants who report improved operational, financial, and institutional practices of partnering MFIs
11.	What were the effects of MFIs' operations on target communities?	<ul style="list-style-type: none"> <li>• Descriptive</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews</li> <li>• Focus group discussions</li> </ul>	<ul style="list-style-type: none"> <li>• Key informant discussions; directed sample</li> <li>• Clustered sample</li> </ul>	The baseline is 0 as of 2008	<p>Number of new businesses created by borrowers after receiving loans from partnering MFIs</p> <p>Number of new jobs created after receiving the loans from partnering MFIs</p>
12.	How were MFIs perceived by the borrowers?	<ul style="list-style-type: none"> <li>• Descriptive</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews</li> <li>• Focus group discussions</li> </ul>	<ul style="list-style-type: none"> <li>• Key informant discussions; directed sample</li> </ul>	Total number of 189,417 loans outstanding at MFIs and Partner Bank	Number of clients of partnering MFIs who positively evaluated their work and lending conditions

<sup>68</sup> It is possible to get information and comparative analysis from other donors and local NGOs

Main Evaluation Question and Research Sub-Questions		Type of Question	Source of data	Sampling or Selection Criteria	Baseline Data	Measures/Indicators
				<ul style="list-style-type: none"> <li>Clustered sample</li> </ul>	SME Lending Units for the period of 2008-2012	

## ANNEX # 10: FINANCIAL INDICATORS

Table of Iraq MF Industry Indicators for QED Evaluation						
Performance Indicator	Year 1	Year 2	Year 3	Year 4	Year 5	Year 5
	2008	2009	2010	2011	2012 (Jun)	2012 (Sep)
<b>Outreach, Growth, Structure</b>						
Gross Loan Portfolio (\$ US)	59,262,289	82,855,717	106,406,242	127,733,002	143,932,639	148,263,928
Outstanding Portfolio Annual Growth Rate (%)	76	40	28	20	20	16
Active Borrowers (#)	40,915	58,852	75,182	86,554	93,627	96,898
-Group Loan Members	-	5,901	12,850	15,568	23,077	25,591
-Female Borrowers	5,994	10,802	14,830	17,609	19,835	22,257
Average Disbursed Loan Size (\$ US)	2,233	2,302	2,304	2,354	2,376	2,392
Branches (#)	49	56	100	107	109	109
Staff (#)	710	804	859	985	1,015	1,057
Loan Officers (#)	248	264	313	341	356	353
<b>Portfolio Quality</b>						
PAR 30	2.1	1.0	0.7	0.9	1.3	1.7

Efficiency & Productivity						
Operating Expense Ratio (%)	28	13	11.3	12.8	12.7	
Loan Officers Productivity (# borrowers)	165	223	240	254	263	274
Operational Self Sufficiency (%)	130	199.7	189.4	199.2	203.7	
Financial Self Sufficiency (%)	63	175.6	135.8	171.6	167.5	
Yield (%)	32	29.6	27.1	26.2	26.5	
<b>Capitalization</b>						
Total Equity	45,030,285	72,500,695	116,895,211	136,072,581	137,680,757	
-USAID Funding	26,012,722	36,615,722	52,987,444	56,144,740	63,965,532	65,760,382
<b>Impact</b>						
Jobs Created	-	82,233	193,776	204,458	216,838	246,275

Source: USAID-Tijara reports (2011)

## **ANNEX # 11: DISCLOSURE OF CONFLICT OF INTEREST**

For ANNEX 11-1

Disclosure of Conflict of Interest for Team Leader, Guillermo Bolanos, see the attached Word file:

ANNEX 11-1 Disclosure of Conflict of Interest - Tijara Evaluation - Team Leader.doc

For ANNEX 11-2

Disclosure of Conflict of Interest for Evaluation Expert, Nelly Dolidze, see the attached Word file:

ANNEX 11-1 Disclosure of Conflict of Interest - Tijara Evaluation - Evaluation Expert.doc

For ANNEX 11-3

Disclosure of Conflict of Interest for Local Expert, Haydar Mohammad, see the attached Word file:

ANNEX 11-1 Disclosure of Conflict of Interest - Tijara Evaluation - Local Expert.doc

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