



FINANCIAL SERVICES TRAINING INSTITUTION CONCEPT PAPER

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I. Executive Summary

The following concept paper lays out a basic approach to the establishment and support of a Financial Services Training Center, and makes preliminary recommendations for its initial and continued funding and financial sustainability.

The Need

Work conducted by USAID-funded IZDIHAR and BearingPoint projects over the past three years has shown the tremendous need for training in the banking sector. Years of operating as a funds disbursement mechanism for the State (the state-owned banks), and as financing arms for family conglomerates (the private banks), have rendered the banks largely incapable of performing their fundamental role of financial intermediation. Training in all banking areas and topics is a required precursor to any real institutional reform. As the need will be ongoing, development and delivery of training courses over the life of one or two projects will prove insufficient. We should attempt to create and institutionalize a training capacity that outlives USAID-funded projects currently underway.

The Solution

This concept paper describes a comprehensive and sustainable Program that has the following characteristics:

- Iraqi led and driven from day one; eventually, the entire training Program is divested to a well-run Iraqi organization.
- Leveraging existing human resources that are already in Iraq.
- Sustainability of the Program.
- Leveraging of USAID's financial contributions.

Initial USAID and other donor funding is needed for such a Program. USAID's funding would be used to initiate the project, and be provided in two stages:

II. Establishment, Operations, and Funding of a Financial Services Training Center

The Program would be established in two states. Stage 1 involves the initial organization and operations of the Program, as well as funding for these two areas. Stage 2 involves creating and funding an endowment that would be used to ensure financial sustainability of the Program, provide scholarships, and otherwise support development of financial services training in Iraq.

Stage 1: The training Program could be developed and administered with grant funding. However, other funding sources (described below) could leverage USAID's funding.

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The grant would be awarded to one of a number of specialized NGOs (for-profit or non-profit) that administer professional continuing education programs and endowments. Two key factors in evaluating grant applicants are:

1. The applicant's cost-sharing proposals, matching funds, and fund-raising abilities.
2. The technical skills and capabilities of the grantee as an administrator of professional training programs in the financial services area. Its ability to administer educational endowment funds and investments, either directly or with an investment manager, would be key.

The grantee would develop and administer the training Program during the grant term. The grantee would also develop funding sources for the Program (such as trainee fees, donor contributions, cost-sharing and matching contributions, etc.). Funding from other sources will first be used for the Program's operating costs, and any excess accumulated and added to the Stage 2 endowment.

Stage 2: The grantee will create a permanent educational endowment that will ensure the long-term financial sustainability of the Program. The amount of donor funding for the endowment depends on a number of factors (including contributions to the endowment by other donors and results from the grantee's fund-raising activities). However, assuming there is **minimal** participation by other donors, Stage 2 funding of \$500,000 could be leveraged (for example, with matching funds) into the endowment at a 2:1 ratio. Assuming an endowment of \$1 million and a 10% rate of return, \$100,000 would be available annually from the endowment to fund the Program's operations.

Other key concepts underlying the proposed Program include:

- A professional continuing education administrator will administer the Program during the grant term. This ensures a high-quality, well-run administrator for the Program.
- All stakeholders in the Iraqi banking industry will have an opportunity to participate in the Program.
- IZDIHAR's current bankers' training activities serve as the foundation for the Program and will be transitioned to it.
- At the end of the grant term (2 to 3 years), the Program's administration will be divested to a well-qualified Iraqi organization (ideally, one dedicated to training Iraqi financial sector professionals, such as ICBG or the IPBL).
- All unspent USAID grant funds will then be returned to USAID or used to further the purposes of the Program.

The balance of this paper discusses issues that significantly impact these concepts. First, finding instructors for the Program is discussed (since it is difficult to find instructors present in or willing to travel to Iraq). Second, Iraqi stakeholders involved in the Program, and where the Program will have its training facilities and administrative office, are then discussed. Third, identifying outside funding sources for the Program and endowment, how the Program and endowment will be administered, and an "exit strategy" for donor involvement are then discussed. Fourth, the Program's financial sustainability, and preliminary estimates of costs and LOE, are the last items discussed.

If USAID decides to provide funding, the benefits are enormous. Without the Program, Iraq will not have a safe, sound, and functioning banking industry. The need is urgent: one to two years of training are needed for the Program's effects to be fully felt, and a comprehensive

training Program is not under development by other international or bilateral donors. USAID's costs (estimated at \$250,000 for the FOG and \$500,000 for the endowment) will provide a legacy in Iraq that will continue for years and perhaps generations: **Iraq's private sector will not have access to a functioning banking industry without USAID's assistance in this area.**

III. Instructors

- A. For the first 12 months, the Program will use a pool of qualified instructors who are already in Iraq (or who can readily access Iraq). This pool is sufficient to sustain the Program for that period, during which the FOG grantee can establish the Program's long-term pool of instructors.
- B. The initial pool can draw from include:
- University professors.
 - USAID consultants.
 - Staff and consultants from the US and other Embassy (Treasury, IRMO, Econ, others).
 - Iraqi government: senior staff (for example, from the CBI and Ministry of Finance).
 - Kurdistan Regional Government: senior staff (for example, from the CBK and Ministry of Finance).
 - Senior staff from the Government of Jordan and other states in the Region (central banks, JLGC, others).
 - Union of Arab Banks.
 - Staff and consultants from other donors (DFID, World Bank, IMF, others).
 - Private sector volunteers from the Iraqi, Kurd, Jordan, and regional financial sectors.
 - Others.

IV. Physical Location

The Program will be based in Baghdad (over 80% of Iraqi bankers work in the Baghdad area), and have training facilities in Baghdad and Erbil. The Erbil location will provide redundancy if and support for the Baghdad facility. The Program's administrative office will be in Baghdad (although consideration can be given to initially having that office located in Erbil).

V. Funding of the Program

- A. USAID grant assistance is estimated at approximately \$250,000 for a grant term of 2-3 years. During the grant term the grantee will develop the Program, ensure training courses are conducted, engage in fundraising activities to help pay Program costs, and perform related activities.
- B. The Program will initially charge small fees for participants. Since some banks do not pay for employee training, a "tuition waiver" program should be available for bankers who cannot afford to pay course fees.
- C. Since fee income alone is insufficient to fund a sustainable Program, grantees will be evaluated on their ability to submit matching funds, provide other types of cost-sharing, and on fund-raising capabilities.
- D. If qualified, the grantee can serve as asset manager for the endowment; alternatively, a professional asset manager can be proposed by the grantee.

- E. The grantee will need to show how it will management endowment funds. The endowment will be structured so that it can continue to engage in fund-raising activities: e.g., by soliciting donations from other international and bi-lateral donors.
- F. The grantee will either be an Iraqi NGO, an Iraqi NGO with an qualified regional or international partner, or a regional or international NGO with a qualified Iraqi partner.
- G. Fundraising can be considered through such parties as:
 - The IFC.
 - Bankers associations (regional, U.S., coalition partners, other).
 - Iraqi-based NGOs that are stakeholders in the financial sector.
 - International NGOs.
 - US Military/coalition partners.
 - UN, World Bank, regional development banks, other international and bilateral donors.

VI. Administration of the Program by the Grantee

- A. Various NGOs (for-profit and non-profit), including Iraqi NGOs, specialize in administering professional education programs and educational endowments. Grant applications will be requested from grantees meeting such qualifications.
- B. The grantee will administer the Program during the grant term and have three main activities:
 1. Administering the training Program and ensuring the courses are taught.
 2. Fund-raising: additional funds raised by the grantee will be used to fund training Program operations to the extent needed. Any surplus in funds raised will be added to the Program’s endowment.
 3. Management of the endowment after the end of the grant term.
- C. Qualifications for the grantee include:
 - Fund-raising ability and financial participation. A weighting factor in evaluating the applications will be the percentage of matching funds guaranteed by the applicant.
 - Ability to provide asset management capabilities and to establish and manage the endowment used to provide sustainable, long-term funding for the training Program.
- D. The training Program and training courses will be open to all financial sector participants, including private bank employees, CBI staff, employees of state-owned banks, and NBF1 employees. Some courses will also be relevant to the staff of microfinance institutions. A number of the courses are also directly relevant to others working in the financial sector or providing services to the financial sector. Accordingly, the Program will also be open to:
 - Employees of the ISX, IASD, ISC, and others involved in the securities industry.
 - Employees of the Diwan (Insurance Council).
 - Employees working in the insurance industry.

- GOI employees working in areas of financial sector supervision and regulation (Ministry of Finance, Financial Services Commission, etc.).
- Accountants, attorneys, and business consultants working in the financial services area.
- University faculty and interested students.
- Others.

VII. Sustainability and Exit Plan

- A. The Program will be Iraqi-driven from its inception as much as possible. A qualified Iraqi partner will be identified to run the Program, either by itself or with subcontractors or business partners. The Iraqi partner will continue to administer the Program after the grant ends.
- B. Once the grant ends, the endowment's asset manager will continue administering the endowment, and to use the endowment's income to ensure the financial sustainability of the Program.

VIII. Curriculum/Certification

Curriculum for the institution may at the outset rely upon the over 30 bankers training courses developed to date by IZDIHAR. At the same time, collaboration with existing area training institutions, such as the Bahrain Institute of Banking and Finance, the Arab Academy for Banking and Financial Sciences, and similar organizations, should be actively pursued to achieve the following objectives:

- Enhance the curriculum
- Train Iraqi trainers
- Pursue certification arrangements.

IX. Conclusion: Benefits v. USAID's Costs

- USAID's funding will be well-leveraged.
- The Program will significantly impact the development of Iraq's banking industry.
- The Program ensures there is a microfinance training program in place, and a base from which other financial sector training activities can occur.
- The Program will help ensure that a safe, sound, and functioning banking industry is in place in Iraq: a necessary precursor to effective and efficient development of the real sector.
- The Program has commenced with IZDIHAR's training activities; these will be transitioned to the FOG grantee.