



IRAQ NATIONAL MICROFINANCE SUMMIT Erbil, November 13-16, 2006

Session 8

Closing Session Discussion Areas

1. Global Microfinance Issues
2. Summary of Key Issues Affecting Iraqi Microfinance.
3. Prioritize Donor and Practitioner Objectives for Iraqi MFIs and the Microfinance Industry.
4. Legal, Regulatory, and Enabling Environment Issues.
5. Establishing a Microfinance Network.
6. Outline of the ***Iraq Microfinance Strategy*** for Circulation and Discussion.
7. Discuss the Way Going Forward.

Global Microfinance

- To be successful, microfinance practitioners, donors, and other stakeholders should focus on sustainability: permanent institutions that cover their costs.
- MFI customers value access to financial services more than their costs.
- Microfinance works best for poverty reduction, not employment generation or immediate resuscitation of an economy.
- Government intervention should be at the enabling environment level and not rate setting, directed lending, or direct lending programs.
- Essential and preferable conditions need to exist before microfinance can become sustainable in a country.
- Human resources and staff capacity is essential.
- Good microfinance practices are important:
 - Agree on goals of the MFI.
 - Business plan is for the MFI.
 - Outreach: sustainability requires growth of outreach to scale.
 - Transparency is required for legitimacy.

Microfinance Practice Issues in Iraq

Key issues affecting delivery of microfinance, and stakeholder agreement and disagreement on those issues. Priorities of issues and determine how they will be portrayed in the ***Iraq Microfinance Strategy*** outline. Areas include:

A. Resources and Support. Key issues that impede or promote development of MFIs and the microfinance industry, and the types of technical assistance, training, and other support that is needed.

- Building the institutional capacity of MFIs is very important for a microfinance system to develop in Iraq.
- Staffing and management HR needs exist in Iraq, as they exist in many countries.

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- Training needs are paramount: ongoing training on microfinance issues should continue in order to build sustainable institutions in Iraq.

B. Standards and Reporting. Microfinance standards, financial reporting, performance monitoring, standardization, and donor objectives.

- Standardization and transparency in reporting is very important, both for developing a sustainable MFI, and for showing transparency to both donors and government officials.
- Reporting in an internationally-accepted format is needed.
- In a conflict or post-conflict environment, less attention can be given to reporting standards.
- Donors can impose many reporting issues.

C. Conflict and Post-Conflict Issues. How the political, economic, and security situation affects microfinance; donor strategies and objectives; MFI concerns and practices.

- Security issues affect microfinance greatly in Iraq. Safe areas turn unsafe. The type of card you hold determines where you can travel. In central Iraq, 1,200 potential customers were left without microfinance services because of the increase in conflict in the area.
- Interest rates and the inflation rate impact Iraqi microfinance
- Lack of viable banking industry impedes development.
- Lack of government involvement in microfinance also impedes development.

D. Business Development Services. Linking business development services to MFIs to provide support, training, and capacity development; management and staff recruitment, qualifications, and training; how MFIs, PRTs, and MNC can refer MFI customers to providers of business development services.

- MFIs should offer business development services to their clients.
- Three SBDCs are being established by IZDIHAR: both MFIs and PRTs can businessmen and women to these SBDCs to receive the training and support they need.
- Izdihar's Knowledge Portal is also an available resource.

E. Alternative Delivery Mechanisms. MFI linkages with banks; other linkages supporting the microfinance industry; resources and services provided by MFIs to support other businesses.

- Bank linkages are currently weak. A supportive banking industry does not exist in Iraq. In order to ultimately succeed, microfinance linkages with private banks need to be developed.
- ICBG has been formed, and it may be possible for it to consider a guarantee for a MFI seeking to borrow loan capital from an Iraqi bank.

F. IT Support, Management Information Systems, Loan Tracking and Registration Systems, and Related Issues.

- Sound information management systems and use of IT is important to develop sound institutions.
- Mobile banking is a possibility.
- Open-source software may be beneficial for some MFIs.
- Every MFI should have a disaster recovery plan.
- Lack of a telecommunications network to facilitate information flow between branches. VSAT is not an option because of its cost and lack of availability.

Donor and Financial Issues

A. Donor objectives; financial needs of MFIs from the perspectives of both donors and MFIs; sources of funding for MFIs; financial support for a microfinance network; donor coordination; monitoring and evaluation issues.

The World Bank notes the following impediments to Iraqi microfinance:

- Conflict and lack of security.
- Interest rates.
- Lack of a viable banking industry.
- Lack of government involvement in microfinance.

The World Bank suggested the following points as the way forward:

- Encourage a national microfinance strategy as is being developed as a result of this conference.
- Enabling policy statement that will support the microfinance industry.
- Consideration of an apex institution to support microfinance.
- Encouragement of new MFIs.

B. Microfinance, PRTs, and MNF-I C9.

- Working with community leaders is vital: community-based security can be fostered.
- Strive to gain independence from donors.

Legal, Regulatory, and Enabling Environment Issues

A. CBI interface, licensing, supervision, regulation, and registration; other legal and regulatory issues; implementation strategies.

- The MF practitioners and donors believe that very significant issues exist at the policy level. To deal with these issues, the participants have asked that a working group be established on legal and regulatory issues. This group, working with IZDIHAR, will seek to identify the most effective ways to improve the

policy, legal, and enabling environment in Iraq, including registration issues, establishing for-profit MFIs, and expanding the base of products MFIs can offer, including savings accounts.

B. Islamic finance, existing loan products, and potential new products.

- Islamic finance, effective loan disclosures, AML issues, and potential new products (including savings products, equipment leasing, secured financing, and real estate lending) all raise legal and regulatory issues, and will be studied by the Legal and Regulatory Working Group as well.

Establishing an MFI Network

The business form of a microfinance network; formal v. informal status; objectives and role; services to members; funding, donor coordination, and donor support; implementation strategies.

An informal network under the auspices of IZDIHAR, will also be formed. All MFIs in Iraq are asked to participate in this network, which will conduct activities like:

- Regular meetings of microfinance stakeholders.
- Co-training.
- Strategic thinking for microfinance in Iraq.
- Sharing of key information.

IZDIHAR’s knowledge portal will serve as the information forum for all of these activities, as well as acting as a bridge to donors and other economic development programs.

The Way Forward: Implementation and Fulfillment of the *Iraq Microfinance Strategy* Outline

Establishing immediate and mid-term goals, a description of methods, and a timetable. Stakeholder involvement will be discussed, along with support needed from donors and governing officials. Implementation costs will be projected if possible.

Goals of Microfinance Strategy Working Group:

1. Identify key issues affecting Iraqi microfinance.
 2. Prioritize donor and practitioner objectives for Iraqi MFIs and the microfinance industry.
 3. Outline an ***Iraq Microfinance Strategy*** for circulation and discussion.
 4. Establish a sub-group responsible for developing a microfinance network.
- Issues affecting Iraqi microfinance have been identified and discussed during this Summit.
 - Donor priorities have been discussed by the donors themselves. We would like to thank them for their support: USAID, the World Bank, the MNC-I C9, and the US and Republic of Korea militaries.
 - An ***Iraq Microfinance Strategy*** will be developed and circulated in mid-December.
 - An informal microfinance network will be established under IZDIHAR’s auspices.
 - A Microfinance Policy, Legal, and Regulatory Working Group will also be established.

Drafting of Iraq Microfinance Strategy Outline

Outline	Assigned	IZDIHAR Contact
I. Introduction		
II. Existing Microfinance Industry in Iraq		
III. Microfinance Practice Issues in Iraq		
A. Building Institutional Capacity		
B. Standards & Reporting		
C. Conflict and Post-Conflict Issues		
D. Business Development Services		
E. Alternative Delivery Mechanisms		
F. IT Support and MIS		
IV. Donor and Financial Issues		
A. Donor objectives and funding, and coordination		
B. Microfinance, PRTs, and MNF-I C9		
VI. Legal and Regulatory Issues		
A. CBI interface, licensing, supervision, regulation, and registration; other legal and regulatory issues; implementation strategies		
B. Islamic finance, existing loan products, and potential new products.		
VI. Establishing an MFI Network		
VII. Implementation and Fulfillment		

Key Dates and Deadlines

23 November 2006	Drafting completed.
30 November 2006	Draft outline is initially reviewed by IZDIHAR and Working Group members.
4 December 2006	Draft Strategy Paper shared with participants of Microfinance Summit and other important stakeholders. The draft <i>Iraq Microfinance Strategy</i> paper will also be posted on IZDIHAR's Knowledge Portal. A microfinance forum will be available on the Portal to discuss the draft. Comments can also be furnished on the Portal or by e-mail to cruder@izdihar-iraq.com .
10 December 2006	Deadline for comments on draft <i>Iraq Microfinance Strategy</i> paper.
15 December 2006	<i>Iraq Microfinance Strategy</i> outline finalized and circulated for discussion and comment by MF summit participants, donor community, key stakeholders, and others.