

## Iraq

### Access to Credit Project



Iraq continues to face exceptional political and economic uncertainty despite efforts to stabilize the country and build mechanisms for democratic governance. Signs of progress and improved security are evident in many parts of the country. However, the challenges of rebuilding damaged infrastructure, restoring civil society and revitalizing the economy remain, and the danger of violent insurgency destabilizing daily life is all too real. Widening access to credit at the micro, small and medium enterprise and individual levels has the potential to stimulate Iraq's grassroots economy and encourage entrepreneurial ventures that generate employment for economically displaced Iraqis.

Under a \$3 million grant from the U.S. State Department's Targeted Development Program, ACIDI/VOCA implements the Access to Credit in Northern Governorates of Iraq project (ACNI). The project supports the evolution and sustainability of an Iraqi nongovernmental organization (NGO) that is engaged in small and medium-sized enterprise (SME) lending in the northern governorates of Iraq. ACIDI/VOCA created a

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locally registered financial institution in early 2004 and began providing technical assistance under a grant from the Coalition Provisional Authority. From early 2006 through mid-2008, ACIDI/VOCA continued providing technical assistance and funding to the institution under the USAID-funded Izdihar project. The focus of ACIDI/VOCA's activities for the past four years has been to build the institution's capacity to become financially sustainable—that is to have the ability to cover not only expenses but also the cost of capital, either real or imputed, and keep up with inflation—by 2011. The institution has already become operationally self-sustainable, and thus able to cover costs through its revenue, but achieving financial sustainability is more difficult, especially in Iraq's highly inflationary environment.

Capacity building and continued expansion, both in scale and outreach, will continue as ACIDI/VOCA coordinates with donors and acts as a technical adviser under the U.S. State



# Project Profile

Department's grant. As of December 31, 2008, the institution has an outstanding loan portfolio of \$14 million extended to 8,055 borrowers, of whom 18 percent are women. Since its inception, it has disbursed 24,746 loans valued at over \$62 million. Loan products include taxi loans, agricultural loans, housing loans and SME loans. Loan sizes range from \$500 to \$25,000, with the average being about \$1,750.

One of the challenges of working in Iraq has been offering conventional loans because of the prohibition in Islam against charging interest. To respect Islamic traditions, the institution charges fees on all loans up front and thus has received fatwas—which are legal pronouncements made by muftis (Islamic scholars or expounders on Islamic law)—officially condoning the institution's work. There has been a growing demand in some areas for truly Islamic products, and the institution is planning to introduce Islamic products specifically designed to adhere to Islamic law.

The institution has had all-Iraqi management since January 2006. Empowering local staff from early on is central to ACDI/VOCA's philosophy and our commitment to sustainability. In the short term, this presents the enormous challenge of engaging staff in democratic and transparent decision making for the benefit of the institution. However, in the long term, all-Iraqi management leads to the creation of viable local institutions and a sense of ownership by staff, which is key to ensuring its continuation.

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