

ATILIM UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
DEPARTMENT OF BUSINESS ADMINISTRATION
BUSINESS ADMINISTRATION MASTER'S PROGRAMME

**MICROFINANCE AND ITS ROLE IN THE DEVELOPMENT OF SMALL
ENTERPRISES PROJECTS**

Master's Thesis

Mohammed Dhafer Asaad Al-Doori

Ankara - 2020

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Supervisor

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ACCEPTENCE AND APPROVAL

This is to certify that this thesis titled “Microfinance and Its Role in The Development of Small Enterprises Projects” and prepared by Mohammed Dhafer Asaad Al-Doori meets with the committee’s approval unanimously as Master’s Thesis in the field of School of Business Administration following the successful defense of the thesis conducted in 24/01/2020.

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I hereby declare that;

- I prepared this thesis in accordance with Atilim University Graduate School of Social Sciences Thesis Writing Directive,
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- I cited all sources to which I made reference in my thesis,
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Mohammed Dhafer Asaad Al-Doori

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ÖZ

AL-DOORI, Mohammed Dhafer Asaad. Mikrofinans ve Küçük İşletme Projelerinin Gelişimindeki Rolü, Yüksek Lisans Tezi, Ankara 2020

Finans genellikle proje boyutuna önemli bir etkisi olan, ekonomik faaliyetin mühim bir yönüdür. Mikrofinans kendi kendini finanse etmenin temelidir. Yarı resmi kurumlardan gelen dikkatli destek kanalıyla işin devam ettirilmesini sağlar. Bu da mikrofinans bankaların ve başka kurumların en azından mikro kredi verme maliyetlerini karşılayacak kadar bir temeli olmasını gerektirir. Bu kaynakların mikrofinans sürecinin çeşitli hedef bölümlerine bankacılık yetenekleri, ürün ve destek hizmetleri oluşturmak için özel sermaye ile bütünleşmeye eğilimli olması aksiyomatiktir.

Bu bağlamda, bankacılık kuruluşlarına dayanan en önemli Alman tecrübelerinin deneylerini üstlendik. Bunlar, Küçük Girişimler Avrupa Destek Programının (MAP) trendine benzer geniş çaplı finansal hizmetler temin etti. Bunlar çeşitli kategorileri kapsamaktadır ve hükümetin mikrofinans için Alman Fonu oluşumuna etkin katkıda bulunmasını sağlamıştır. 2010 yılında küçük mikro kredilerin boyutunda ciddi bir artış olmuştur.

Mısır da mikrofinans konusunda en yüksek öneme sahip ülkelerden biriydi. Gelişim ve Ziraat Kredisi Temel Bankası geçen yüzyılın ortasında kurulduğundan beri günümüze kadar Mısır'a hizmet etmiştir ve ayrıca yasal çerçeveler düzenlemiştir. Üretken aileler projesinin yasama hükmü oluşturulmuştur.

Araştırma göstermiştir ki Irak'ta verilen mikro, küçük ve orta ölçekli kredilerin genişletilmesi şart olmuştur. Bölüm, pek çok orijinal olarak hazırlanmış proje ve yasal çevreyi düzenlemede Mısır tecrübesinin benimsenmesi yoluyla kendini göstermektedir. Almanların küçük ve mikro altyapı projelerindeki deneyim ve dikkat çizgisiyle beraber benimseme hizmetleri sistemi, rekabetin görece korunumunun geliştirilmesi ve eğitim yoluyla gösterilmelidir.

Anahtar Kelimeler: Mikrofinans, Küçük İşletmeler, Gelişim Projeleri

ABSTRACT

AL-DOORI, Mohammed Dhafer Asaad. Microfinance and Its Role in The Development Of Small Enterprises Projects, Master`s Thesis, Ankara, 2020.

Generally, finance is a crucial aspect of economic activity, having a significant impact on project size. Microfinance is the foundation for self-finance, allowing the work to be continued through careful support from semi-official institutions. This requires that banks and other agencies of microfinance have enough of a base to cover at least the costs of micro-credit grants. It is axiomatic that those resources tend to integrate with private capital to build banking capabilities, and support services and products to various target segments of the microfinance process.

In this regard, we undertook experiments of the most important German experiences that relied on banking institutions. These provided a wide range of financial services, a trend typical of Microenterprise European Support Program (MAP). These encompass several categories, and caused the government to effectively contribute in the creation of the German Fund for Microfinance. In 2010, there was a significant increase in the size of tiny micro loans.

Egypt was also one of the countries that were of utmost importance in microfinance. Since the middle of the last century, when the Principal Bank for Development and Agricultural Credit was established, a services to Egypt to the present time, and also developed legal frameworks. The legislative provision of project for productive families was formed. This continued the work of institutions offering microfinance services transcended to small and micro enterprises.

Research has found that it is imperative to expand the granting of micro, small, and medium-sized loans in Iraq. The department reflects through the many built originally projects and the adoption of the Egyptian experience in organizing the legal environment. The adoption services system, along with the lines of the German experience and attention to infrastructure projects small and micro, needs to be shown via training and development of the relative protection of competition

Keywords: Microfinance, Development Projects, Small Enterprises

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CONTENTS

ÖZ	i
ABSTRACT	ii
ACKNOWLEDGMENTS	iii
CONTENTS	iv
LIST OF FIGURES	vi
LIST OF TABLES	vii
CHAPTER 1	1
INTRODUCTION	1
1.1. Research Importance	2
1.2. Research Problem	3
1.3. Research Objectives	3
1.4. Research Hypothesis	3
1.5. Research Method	3
1.6. Research Structure	3
CHAPTER 2	5
Conceptual and Theoretical Framework of Microfinance	5
2.1. Preface	5
2.2. Microfinance Theoretical Framework	5
2.2.1. Historical reference of microfinance	5
2.2.2. Microfinance definition	6
2.2.3. Small and micro projects definition	7
2.2.4. Importance of microfinance	9
2.2.5. Microfinance development	13
2.2.6 Types of services providing by microfinance	15
2.2.7. Obstacles facing MFIs	17
2.2.8. Criticisms of the contribution of MF programs	18
CHAPTER 3	21
Microfinance Experiment in Germany & Egypt	21
3.1. Preface	21
3.2. Microfinance Experiment in Germany	21
3.2.1. Historical view	21

3.2.2. Development of microfinance in Germany	22
3.2.3. Conditions of the growth of MF development	26
3.3. Microfinance Experiment in Egypt	26
3.3.1. Emergence of microfinance in Egypt.....	26
3.3.2. Development of microfinance in Egypt	27
3.3.3. Institutions that providing MF services in Egypt.....	29
3.4. Types of The Prevailing Loans in The MF Industry in Egypt.....	33
CHAPTER 4	35
Microfinance in Iraq	35
4.1. Preface	35
4.2. An Overview About Iraq	36
4.2.1. Types of loans provided by MFIs in Iraq.....	41
4.2.2. The beneficiary categories from the Iraqi company's loans for financing the small and medium projects	42
4.2.3. Conditions of the company's granting loans	43
4.2.4. The consequence effects of the use of microfinance in Iraq	43
CHAPTER 5	53
CONCLUSIONS	53
BIBLIOGRAPHY	55
CORRICULUM VITAE.....	63

LIST OF FIGURES

Figure 2.1 Identifies the microfinance clients of the poor	12
Figure 2.2 Spread of MFIs in the World	15
Figure 4.1 The growth of military expenses (2011-2014)	46

LIST OF TABLES

Table 2.1 EU Classification of the Projects.....	8
Table 2.2 Obstacles Facing MFIs.....	18
Table 3.1 Working of the MFIs in Germany (2005-2011).....	26
Table 3.2 MFIs data in Egypt.....	31
Table 3.3 Conditions for granting loans for the individual lending and the solidarity lending in Egypt.....	34
Table 4.1 MFIs Statement in Iraq.....	41
Table 4.2 Types of Loans Provided by in Iraq.....	41
Table 4.3 The beneficiary categories from the loans of the Iraqi company for financing the small, and medium projects of 2012-2015.....	43
Table 4.4 The rate of military expenses from GDP of (2011-2018).....	46

CHAPTER 1

INTRODUCTION

Finance is still an important place in the economic activity, it has been associated with the emergence of life and following the trading of commodities in the early stages of mankind, it is certain that the emergence of the monetary economy came at a historical stage lagging behind the emergence of money. However, after the development and complexity of life, funding has become a characteristic and a major impact on the overall economic activities. As long as funding goes to providing the necessary cash amounts that needed to pay and develop a private or public project, financial institutions have emerged to address a wide range of financiers in order to mobilize their savings and lead them on loans or Credit facilities, This was done on the basis of needs in the first place, and on the assumption of the continuous of the financed projects are far from the risks of default in payment, but this has developed and attracted a great attention. It has become a method that lies in the heart of development planning. The government was the private partner in crystallizing this type of financing, namely, microfinance.

The recent growth of microfinance has generated a great interest among decision makers in most developing countries as well as developed countries, this issue of a great importance in shaping economic development in the tackling of many important issues that have led to this process, including the problem of poverty, unemployment, as well as the other economic and social impacts of the use of microfinance. This great interest in microfinance has generated many researches in the microfinance industry and its international growth. Many previous studies have examined the services provided by microfinance institutions, the best management practices as well as MFI clients, policies, economic and social impacts.

Iraq is a country with an economy that combines the singularity of oil with the desire to transform into an economy that reduces dependency on the state and tends to transform itself into a free economy. This combination brings together many possibilities of moving toward a diversified economy, and the post-2002 eras have witnessed a distinct consumer society. Financing of industrial projects have fallen sharply. In this field, some institutions, some of them are governmental and the

others are private, have entered the field of granting loans to small economic projects.

There is no doubt that the economic development in Iraq has passed and is still in a period of randomization initiated by wars and fed by the requirements of the challenge of terrorism and reinforced by corruption, and thus, as a cumulative act has reached a scene of uncertainty about the future.

The ideologies of the economic thinking that aim to the solution collide with what cannot always be considered, and the thinking of an economic activity that achieves the growth and the sustainable development is very difficult. Alternatives go to what can be done at the level of guarantees to proceed with

Non-macro activities, from this perspective, the financial services provided by microfinance, including microcredit, have an important role to play in helping citizens to move forward and overcome their crises. Microfinance in all its services, including loans, savings, insurance for low-income households and small businesses, is one of the most important interventions that can encourage the local economic activity and help people to manage their economic shocks and setbacks because of the situation in the country.

Trying to explore the implications of microfinance in Iraq requires that the channels of this funding and its basic institutions to be combined, and standing on the obstacles it faces in order to build a vision of what can be achieved for developing short- and long-term solutions.

1.1. Research Importance

The research gets its importance from the importance of its essential topic. Microfinance has an important impact on the economic activities, so, importance of the research is to identify the importance of microfinance, and the extent of utilization to achieve the economic development to the country in general, and the extent of utilization of this type of funding.

1.2. Research Problem

The problem of the research stems from the lack of significant interest by government decision-makers in the microfinance sector in Iraq, as well as poor use of this type of funding in the economic activity.

1.3. Research Objectives

The research aims to achieve the following:

- To recognize the importance of microfinance in economic activity.
- To recognize and get benefit from the successful microfinance mechanisms in the countries that used the microfinance.
- To identify the obstacles that facing the microfinance and try to find solutions for them.
- To access through the research to find the best possible uses of the microfinance.

1.4. Research Hypothesis

Microfinance plays an important role in the development of the projects if it is best managed, determining the priorities of the loans and directing them according to the requirements of the economic activity.

1.5. Research Method

In order to verify the research hypothesis, the researcher used the inductive method in the study of the microfinance. A sample analysis of countries was used in a study that aims to get benefit from the results of this sample. It also uses the analysis of the data of the microfinance used in financial institutions that providing these services, in order to extrapolate their business trends in this area and to follow up the financing problems that facing it.

1.6. Research Structure

In order to achieve the provided research objectives, the second chapter deals with the conceptual and theoretical framework of the microfinance, which has parted it in this research, the disappearance of the search for the concepts of finance and its

importance and sources. The third chapter dealt with the experience of the microfinance in Germany and Egypt. It was parted into two sections. The first one studied the microfinance experience in Germany, while the second one studied the experience of microfinance in Egypt.

The fourth chapter dealt with the microfinance in Iraq. It's parted into two sections. The first section discussed the reality of the microfinance in Iraq, while the second section specialized with the microfinance in Iraq: the basic issues, possible solutions and the prospects for the future development of the microfinance institutions in Iraq.

CHAPTER 2

CONCEPTUAL AND THEORETICAL FRAMEWORK OF MICROFINANCE

2.1. Preface

Finance is the Heart of economy, and the expansion of the financial sector is the key to revitalize both of economy, and society. Despite the diversity of the projects, they need financing to see the light on the ground, since what hinders the individual to carry out the economic activity is the extent of which he obtains of financing in order to create the projects. Due to the importance of microfinance in the assistance of the local communities to increase their income, develop their projects and thus reduce their vulnerability to external shocks, microfinance is a powerful tool to combat the poverty, and eliminate unemployment, as it contributes to the recovery of the poor from poverty, and its involvement in the economic process. Therefore, it is appropriate in this chapter to provide an overview of microfinance by providing the basic concepts of the finance in general, and the microfinance in particular.

2.2. Microfinance Theoretical Framework

2.2.1. Historical reference of microfinance

Microfinance is not a recent development; it has historical roots, and depth. Most of the developed countries have an experience with microfinance. This type of financing is return to innate practices. It is difficult to determine the era its inception, since the formation of groups in the early human ages, individuals in that period were lending their family, and relatives to make a work, through the principle of trust (Ismail, 2008). When it became under a clear name, and had specific rules, microfinance is return to the recent initiatives taken after the experience of the Grameen Bank in Bangladesh, and its aftermath. However, this affiliation is unacceptable, because many of them were making mistakes, not only on the historical depth, and size of microfinance, but also on the centuries of expertise prior to this experience. Through the learning from experience, error, failure and success as in history, some of microfinance practices provided in Europe, and have been practiced the microfinance, but they have been small, and informal. The Irish

experience is one of the oldest. In Ireland, loan funds (Kreditkassen) appeared in 1720. The repayment of the loans was in the form of weekly installments, without interest, and was financed by donations. A century later for the appearing of this experience, which was growing slowly, a leap of growth started rapidly through two events; The first one is: to make a private law in 1823, in which charities were transformed into financial intermediaries, which were allowed to take the interests on the loans, and at the same time to collect the deposits in interest. The second one is: to make The Loan Fund Board in 1836, to regulate, and supervise the financing.

In 1840, 300 institutions were appeared working to finance it selves, and supply their own resources by collecting the deposits, and the small loans from the poor, as they started to expand the profits, and the deposits until reached 20% of Irish households. These funds started to raise the interest rates to three times of the market interest rates. In 1843, the government puts an end to the interest rates. Thus, the loan funds decreased and started to decline in the second half of the 19th century, until they finally disappeared in 1950 (Seibel, 2003).

One of the oldest European experiments is the experiment that emerged in Germany, where the world's largest microfinance system was created in, and it is the status that emerged in 1778. This experiment will be presented more broadly in the second chapter of this research.

2.2.2. Microfinance definition

Microfinance: this terminology comes as a synonym for many labels such as the small finance, microfinance, microcredits.

The definitions that apply to such groups are varying from country to another, since there is no unified definition for the concept of microfinance.

Some of them define it as "providing loans to the poor families, so as to help these families to start productive activities or develop their small projects." (Lutfi, 2003).

Microfinance is defined as "the providing of the financial services such as the microcredits for the poor of this world" (Dichter, 2007), but this definition is limited only to provide the loans. The microfinance service has expanded over time to

include more services than loans, such as (savings, insurance, credit, vocational training, etc.).

it is also defined as "providing banking services to the lower-income classes of the people, especially the poor, and the poorest people." (Aristine et al., 2003).

It is also defined as a concept in which the financial services (Small companies and projects) are provided, which are lack access to the banking services, and most of the services related to their income status, provided either through a joint responsibility group or through individual borrowing. It reflects both of micro savings for the low-income people or more than this, microfinance services include (microcredit, micro deposits, micro insurance, transfer of funds, salaries, payment services and other by-products that targeting the low-income people) (Anaduaka, 2014).

Some are defined it by its simple meaning as: borrowing, saving, and providing the other financial services, such as remittances, insurance, consumption loans, marriage loans, technical assistances, credit cards, payment services, etc. (Al-Awad, 2008).

Microfinance is also seen as: the providing of the financial services (credit, savings, remittances), which are primarily considering from these services that offered to economically active poor clients who are unable to get the financial services provided by the official financial institutions. With the aim of overcoming on one of the main constraints faced by the poor all over the world, which is the scarcity of the opportunities for getting loans or the other banking services provided by the official banking systems (Ismail, 2008).

Microcredit is a part of the microfinance sector. Microcredits are about granting loans to the low-income entrepreneurs, while microfinance is lending as well as providing other services to its clients, such as savings, insurance, remittance ... and others (Elia, 2006).

2.2.3. Small and micro projects definition

There is no single agreed definition of the small, and micro projects, as the definitions vary according to the standards on which the definition is based (project

capital standard, number of the workers' standard, sales volume standard, etc.), the European Union defines micro projects as the projects with fewer than 10 workers, and the total sales or the annual budget that does not exceed (2) Million Euros (Recommendation, 2003) as shown in the table below:

Table 2.1 EU Classification of the Projects

Projects size	Workers No.	It sales (year/€)	Total budget
micro	Reach to 9	Reach to 2 Million	Reach to 2 Million
Small	10-49	2-10 Millions	2-10 Million
Medium	50-249	10-50 Million	10-43 Million
Large	More than 250	More than 50 Million	More than 43 Million

The definition adopted by the International Bank: In its definition of the small and the medium projects, the International Bank distinguishes between three types:

- a) Micro Institution: Which contains fewer than 10 employees, the total assets fewer than 100.000 USD, and also the annual sales size do not exceed 100.000 USD.
- b) Small Institution: Which contains fewer than 50 employees, both of the total assets, and the annual sales size do not exceed 3 Million USD.
- c) Medium Institution: The number of its employees fewer than 300, both of its assets, and the annual sales size do not exceed 15 Million USD.

In Egypt, small projects were defined as (the small projects with a capital of 50.000 to (100.0000) Million Egyptian Pounds, and the number of its workers less than (50). The law issued in Egypt in 2004 defined the micro-projects as "those with a capital of less than (50.000) Egyptian Pounds, regardless of the number of workers." (Elia, 2006).

Depending on the type of activity, micro-projects can be classified into three types: (Central Bank of Egypt)

- a) Projects which activities are relatively unstable: It is the companies that its employees did not find other works such as household industries, the crafts, the commercial activities, and animal husbandry.
- b) Projects which activities are relatively stable: Projects that achieve to its operates a modest life but dignified without any real growth. The commercial, the crafts activities, and the small service activities often fall under this classification.
- c) Growth-capable activities: Projects that are usually productive, have the potential of growth, and are already become small, dynamic projects.

2.2.4. Importance of microfinance

- Microfinance can help communities to increase their income, and develop their projects, thereby reduce their impact of the external shocks. Thus, Microfinance can be considered an effective mean of empowering the poor, especially women, to self-reliance, and make the positive economic change.
- The income generated by one of the projects do not help to develop the project itself, but also helps to diversify the sources of income of the entire family, which is reflected on other vital issues such as ensuring food security, children rearing, and their education.
- Women working with MFIs are becoming self-confident, able to interact with the community, and gain financial independence.
- Reducing the poor's impact of the external shocks, such as when the head of the family, and its breadwinner become ill, climatic variability, exposure to looting or theft, and other consequences of a heavy burden on the limited resources of the family. If the enough financial services are not available, the family is vulnerable to further poverty, and need, it cannot recover only after a long time.
- Human Development Report of 2009, of the International Bank shows the sources of the projects financing in the Arab countries. In Algeria, for example, the family-based financing source forming 59% of the projects financing sources, and almost the same results for the Arab countries such as Morocco, Lebanon, Syria, Yemen, etc. (Arab Labour Office, 2019).

a) The basic principles of microfinance

Microfinance is based on a set of the basic principles, which have been linked to the issue of cost of living, and human deprivation. In June 2004, the G-8 countries endorsed on the basic principles of microfinance at a meeting of these heads of the states in Sea Island, Georgia, and the basic principles, that prepared (adopted) by the 28 public and private donors of the Consultative Group to Assist the Poor (CGAP), have transferred to the practical guidance addressed to the members, the staff of donors, and investors, these principles are: (Consultative Group to Assist the Poor, 2011).

- In order to reduce poverty, a policy service is needed, and at its center is a direction of a variety of the financial services. The poor are in desperate need to the various financial services such as savings, and insurance services, as well as the providing of the easy loans.
- Microfinance is a powerful tool to fight poverty. Poor families use the financial services to increase their income, build their assets, and protect themselves from the external shocks.
- Microfinance means building financial systems to serve the poor, but do not achieve its full potential unless it is merged in the concerned country's normal financial system.
- The microfinance institution should be based on the self-financing; this is based on the necessity to continue the microfinance system. The financial support resources, whether the governmental or the semi-formal institutions, remain uncertain in terms of size, and continuity. This requires relying on a self-resources base, at least to meet the costs of granting loans.
- Microfinance means establishing permanent local financial institutions that can attract the local deposits, and then recycle it as loans, and offering other financial services.
- Microfinance is not always the solution. There are other types of support that may work more for the needy, who have no income or have no means of repaying what they have borrowed.

- Interest rates hurt the poor because it makes it more difficult for them to get the credit. The cost of providing a large number of microcredits exceeds the cost of providing a small number of large loans. Interest rates prevent MFIs to cover its costs, so it will be reduced the offering of the credit to the poor.
- The function of the government is to facilitate the financial services, and not to offer it directly, governments can never succeed with providing the lending services, but they can create the necessary supportive policies environment.
- Financial resources provided by the donors should complete, and not compete the private capital. Donors should use grants, and loans on a temporary basis, until building institutional capacities of the financial services providers, and develop the supportive infrastructure, as well as support the experimental services, and products.
- Microfinance should be based on strong institutions with competent managers, and based on studies of the nature of the work of the institutions that operating in this field, which have achieved good results.
- Microfinance achieves the best results when it's reporting about the results of its performance. Reporting is not only useful to help the stakeholders to assess the value of costs, and benefits, but also to improve the performance. The MFI has to make accurate, and comparative reports on its financial performance (for example, loans repayment, and costs import), and its social performance (for example, the number of the customers that have been served, and their level of poverty).

b) Arguments about the benefits of providing support to MFIs (Hardy, Holden and Prokopenko, 2002)

- Offering of the financial services that provide to the customers some means that the cut amounts transfers do not provide to them. Instead of relying on the assistance, customers who obtain financial services can gain independence and thus gain access to the formal economy.
- It has an information utility that allows assistance to be addressed to a limited category, and this information utility is taken two meanings:

- The availability of the financial services allows customers to make their own decisions in the important economic issues, such as the consumption settlement.
- MFIs are in a position allows it to evaluate the projects before they are applied and monitor its performance, so that resources are allocated more effectively.
- If the institution is successful, it may be able to return some assistances to the donors who can then allocate resources for new projects, i.e. the institution must be designed to be sustainable, able to cover the operational costs, and achieve a rational return on the capital.
- Promoting the support that presented to the least advantaged groups, through the mobilization of savings or the access to the capital markets.
- The institution helps to mobilize additional savings. The country may be affected if its liquidity restricted, as is the case in some developing countries.

c) MF clients

Microfinance targets the micro, small projects (Lutfi, 2013), and low-income individuals who cannot access the services of the formal finance institutions. The poor microfinance clients are the economically active, so they must have economic opportunities, and business skills to engage in the economic activity, and the poor are outside of the targeted group of MFIs (Elia, 2006).

The following figure shows the microfinance clients of the poor:



Figure 2.1 Identifies the microfinance clients of the poor

Therefore, the targeted customers are: (small projects, small traders, peddlers, small farmers), and also the service providers (barbers, tailors, bus drivers, taxis, artisans, etc.) (Anaduaka, 2014).

The increasing role played by the commercial banks, and the non-financial institutions as channels for the financial services will focus more on those who swing under, and above the poverty line. However, both of the banks and the commercial microfinance institutions have shown interest in targeting the lower income classes, and have showed their ability to do so, especially if this approach opens new markets in which they can gain the competitive advantages. Sogisol, the microfinance services company owned by Haiti's largest bank, has offered cash rapid loans in order to get closer to the bottom of the poverty ladder. In the same direction, the Mibanko Bank in Peru has inserted a Chasque loan (called The Famous Anka Messengers), this loan starts with the value of 80\$. It has already opened a new market that cannot be approached by his competitors. It can be guessed that the competitive edge of MFIs will be exhausted their ability in a trying to target the poorer groups of people, as the principle of the first-best advantage can be to improve the MFI's position (Rhyne and Otero, 2006).

2.2.5. Microfinance development

The development of microfinance started in 1970, with the first experiments in Bangladesh, Brazil, and some other countries, such as (Bolivia, Mexico, Nigeria, and Indonesia), which deliver the microcredit to groups of the poor, and those who are economically active to invest in the small projects. These experiments included lending programs for the small projects, and the financial institutions organized to finance itself. These schemes were based on the solidarity collective lending approach, in which each member was ensured to repay by all the other members of the group. This type of financing returns to the role played by the Professor Muhammad Yunus, the innovator of the idea of microfinance in Bangladesh, the success of his program directly affected the emergence of the other microfinance schemes, and the specialized institutions of serving the poor in the years 1980-1990 (Lahn, 2005).

During the same period, microfinance has appeared in parts of Latin America to provide the credit, and loan services to the poor, and generally excluded from the official financial services. This model has gained popularity, and has been replicated in both of the low, and high-income countries. Over time, the financial service providers have developed a wide range of the services for the low-income people in both of the urban, and rural areas, including assets-building, management of the irregular income flows, and crisis management such as illness, death, natural disasters, and conflict. Many financial service providers are recently introducing a wide range of products that extend beyond the credit, such as savings, insurance, and cash transfers to help the poor manage their financial life. New technologies are still offering opportunities to expand the access of the financial services to the poor, and reduce the cost of its offering. Recently, financial services are available in many markets to any person via mobile phones in these countries, innovation improves both of the product design, and its offering way. Microfinance is increasingly seen as a component of the broader financial inclusion system, and consists of several effective parts with the same objective of providing the high-quality financial services to the low-income people (Consultative Group to Assist the Poor, 2011).

This concept has developed to include more services, as CGAP calls it Microfinance Plus: the core of MFIs' message is to provide the financial products and services to their clients. However, many MFIs benefit from their position in the communities which they work in, in providing more than just financial products.

With the increasing and diversity of the individuals' financial needs, Microfinance Plus has appeared. Through this type of Microfinance, MFIs can provide products or services related to the health, education, energy or the environment programs. Sometimes these programs are linked to the financial products, or they may be a stand-alone products or services designed to make a greater impact in the communities, achieve more customer satisfaction, encourage more people to become, and remain their customers. These products, and services can be offered directly by the provider of the financial services or in partnership with the other specialized institutions, and the offering of these additional services may be costly, so the institutions often seek to find a balance between the cost of those services, and the potential income (Consultative Group to Assist the Poor, 2011).



Figure 2.2 Spread of MFIs in the World

2.2.6 Types of services providing by microfinance

2.2.6.1. The individual lending

The individual lending uses the traditional methods in which banks are working with, but the main difference is the acceptance of the non-traditional guarantees. This type of guarantees is called the alternative guarantees, which may be a home or other property, such as a bicycle, television, etc. This type of lending is provided to meet the needs of the borrower in order to spend on his small project. The loan is offered once and infrequently as the borrower is able to be self-sufficient by the first loan (USAID in Egypt).

2.2.6.2. The gradual individual lending

This type of lending is similar to individual lending, but grants the loan to the individual more than once when he proves that he is able to repay the previous loan. The trust of the lender institution has increased toward this client, and this can increase the value of his next loan (USAID in Egypt).

2.2.6.3. Lending by group guarantee

Lending by group guarantee is one of the most successful lending systems in many countries. Its basic idea is the choosing of the group's members for themselves

to obtain a loan by ensuring each other, and this leads to a representation within the same group to carry out their activities as well as to the control among the group's members. The Group's lending methodology has emerged as a means of providing the financial services to the poor to develop their businesses, and thereby to increase income that reduces the poverty. The Group's lending methodology has the potential to reach a large number of poor people commensurate with their projects and the financial potential (Al-Safaidi, 2004).

2.2.6.4. Savings services

MFIs encourage their clients to save a part of their profits to increase the individual's ability to hold a part of his profits, and use it for other purposes, at the same time increasing his ability to repay the loan. This savings is also guarantees to the institution to repay these loans, and there are some institutions make this savings compulsory (USAID in Egypt).

2.2.6.5. Consumption loans

This loan is granted to use it in the purchase of the consumer goods (consumer spending), as it is not a productive, and income-generating, such as the loans of investment projects.

2.2.6.6. Housing loans

The purpose of this loan is to help the families who do not able to get the funds to improve or expand or get housing.

2.2.6.7. Remittance services

The transfer of funds from one person to another for the financial services providers that meet the needs of the poor, as well as other types of the formal, and informal transfers (Isern and Deshpande, 2005).

2.2.6.8. Small institutions credits plus (United Nations and Work Agency for Palestine Refrugees in the Near East)

With the development of the small institutions, they often need larger loans with longer repayment periods to continue to expand their capital, and increase their

employees. In order to meet this need, credits should be offered to the small institutions for borrowers who have shown repayment ability over the previous three lending cycles, and also for more formal small institutions.

2.2.6.9. Non-financial services

Including services such as training programs for the small projects, marketing services, providing technical consultancies, and providing all the types of consultancies of the development, and success of their projects

2.2.7. Obstacles facing MFIs

Despite the great success of some microfinance institutions, there are other institutions that fail in this area. The success of the financial institution in its ability to finance, and sustainable development (i.e., its ability to stay in the financing market, and provide its services continuously), it must cover all of the costs that it spends to provide the financial services to its customers, and its ability to recover its money from the borrowers. Some of the obstacles are from the microfinance clients. Some poor clients may deal with the loans as donations or social services, and not as an investment. Therefore, after the loan is disbursed, the client will not be able to repay it, or the obstacles will be in the same project because many of the small projects do not have a feasibility study or the project's idea is complicated. Therefore, projects are unsuccessful, and lead to loss, it is difficult to repay the loan they borrowed for, and also by the institution itself, most of the MFIs are new, so it has a lack of experience in the art of dealing with customers, providing technical advice, advising them, and not knowing what services are appropriate for the poor clients (USAID in Egypt).

Table 2.2 Obstacles Facing MFIs

Clients Obstacles	MFIs Obstacles	Small Project Obstacles	Credit Obstacles
<p>1-Poor clients are afraid to enter the banks and the financial institutions.</p> <p>2-Poor clients may not be able to repay the loan.</p> <p>3-Some poor people tend to understand the financing as a social service and charity rather than an investment.</p>	<p>1-The lack of experience in the art of dealing with the poor customers.</p> <p>2-The lack of experience of the advising.</p> <p>3-The lack of experience of the feasibility study of the offered projects.</p> <p>4-No ability to identify the appropriate services of the poor clients</p>	<p>1-Failure to publicize and register the project legally.</p> <p>2-The provided project has no feasibility study; it proves the inactivity or the success of the project.</p> <p>3- The idea of the small project is technically, marketing, and administratively complex; it is difficult for a person to do it without advice.</p>	<p>1-Credit has a cost; the poor person cannot repay it.</p> <p>2-There are different types of credit and financing services; the poor person cannot understand it.</p> <p>3-Inability of the financial institution to identify the type of the appropriate financial services for the small project.</p>

2.2.8. Criticisms of the contribution of MF programs

Microfinance programs faced some criticisms from some researchers, and we will mention the following:

- The skills acquired by small entrepreneurs may be the reason of the positive results of these projects to increase income rather than to provide loans. Microcredit may not be the most beneficial financial service for the majority of the poor. The study by Banerji, Doffo, Glenester, and Kenan

(Massachusetts Institute of Technology) did not find any impact on the health, education or women decision-making standards in Hyderabad, India. The study conducted by Dean and Zinman of measuring the probability of inclusion under the poverty line, and the quality of food that people deal with; did not find any significant impact (Chowdhury, 2009).

- Some see discrepancies in the results of some studies of measuring the impact of microfinance on violence against women, have given different results. The results of a study conducted at the Grameen Bank, and the Rural Development Committee of Bangladesh show that loans reduce violence against the borrower women. Another study, however, indicates that the People's Committee for Rural Development loans are increasing, and raising the levels of violence against the borrower women. The reason, according to this study, is that some men do not accept the change of the power relations (Ismail, 2008).
- Despite the high rates of education, and access to get the financial services in the developed countries, 90% of men power in these countries are consist of the employees, and not of the entrepreneurs (Ismail, 2008).
- The frequent recourse and use of the financial services by the poor may not necessarily mean that the poor actually benefit from them. In other words, the recourse of the poor to the frequent borrowing may not always be based on the rational decisions (Ismail, 2008). The frequent loan demand indicators should not be adopted as an argument for the financial services effectiveness provided by microfinance programs.

Microcredit has not played a role in the development of the small projects. Many of these loans have been used in the consumption areas rather than in the income-generating projects, and the main goal of the microfinance movement which is to provide funds in order to invest it in the small projects, raises many questions. Thomas Deicher, support his criticism, which is that, as at the present time, as in the past, the beginnings of the projects in the developed countries have adopted, and are adopting on the savings, and the informal sources of loans. In that opinion, he is based on the observation by the French historian Paul Perush, that self-finance was the dominant, and almost the exclusive form of the commercial projects financing at

the beginning of the Industrial Revolution, and also based on the criticisms of the issue of microfinance in a survey conducted in 2000 for 12 developed, and high growth countries (such as the United States, the United Kingdom, Norway, and Singapore) reported that about 78% of the beginner projects, and businesses had received financing from informal sources (Seibel, 2003).

CHAPTER 3

MICROFINANCE EXPERIMENT IN GERMANY & EGYPT

3.1. Preface

Many countries used microfinance to support the small projects, and deal with poverty. Each country has its own methods, and approaches of applying this type of financing. In developed countries, microfinance has been used to support the small projects, and the poor. These countries are: (England, Spain, United States, France, Germany, etc.) as well as the developing countries that pay the greatest attention to this type of financing.

The experiment of Germany and Egypt will be discussed because the approach, and the practice are different in the developed countries from the developing countries. To explain why these countries are selected, Germany has the advantage of providing this type of financing, its banking system, and the mechanism of microfinance companies' working in this country is mainly depending on providing knowledge, training the clients before, and after providing them the services, and the other features will be addressed in this chapter in the first section. The experiment of Egypt is socially close to Iraq, and microfinance has a great interest from the Egyptian government. Therefore, we will review the mechanism used in this country in the second section of this chapter.

3.2. Microfinance Experiment in Germany

3.2.1. Historical view

Historically, Germany is one of the countries that have clearly focused on the development of the credit system for the small projects, and this is return to the types of changes that happened in Germany in the ancient, and the contemporary history. In 1778, the first Savings Association was founded in Hamburg, in 1801, the first collective savings fund (SPARKASSE) was created, and with the flow of savings, savings funds were forced to expand the range of the credit of the commercial businesses, including the agricultural lending, where the Prussian state responded to this organization. In 1838, the first decision of the savings banks in Prussia was

announced. After a year of hunger 1946-1947, Raiffeisen, and Schulze-Delitzsch banks created two projects that operate in today's so-called microfinance, the first is in the rural areas through the rural savings, and the credit cooperatives, they were called the associations of loans, in the German language it called Darlehnsvereine, and later known as Raiffeisenkassen safes (Raiffeisen), but now they are called (Raiffeisenbanken) Raiffeisen Banks.

The second was created in the urban areas through the urban cooperatives of the savings, and credit, which is now called Volksbanken (banks of the people), and with the assistance of some wealthy people in those areas. Over the later 20 years, this initiative turned into a movement, with the number of the rural cooperatives in 1880, to more than 245 cooperatives, then, all the networks, and the associations of loans in the countryside, and the urban were brought, under a special law called the cooperatives law (German Reich), it is the first cooperative law in the world. In 1914, the number of the rural cooperatives in Germany increased to 15.000 cooperatives, which extended to the other countries (Seibel, 2003).

3.2.2. Development of microfinance in Germany

The Nazi phase started in an important era, in the frame of state's monopoly for the banking services. The predominant feature was the tightening in the granting of the short-term credit, and microcredit to the entrepreneurs who, in the view of the state, were primarily serving the interests of Germany. In any case, there were three types of

Organizations that grant the micro financial support: microfinance institutions (MFIs), promotional banks (Landesförderinstitute), local employment agencies (duty stations), a total of 12 microfinance institutions, 8 promotional banks, and one duty station, the total is 21 organizations (Bendig, Uterberg and Sarpong, 2010).

It is noteworthy that the work of these institutions are not limited to microfinance, but it was banking institutions that offering a wide range of the financial services. Micro lending was one of their main concerns. These institutions have found different ways of promoting, and attracting customers. This trend was in line with the EU Program (MAP), a program was developed to support the small, and

micro projects with a credit ceiling of only (25.000) Euros for the small and, already existing projects (Lahn, 2006).

It is worth mentioning that 90% of the companies in the EU are of the small projects, a large proportion of them are operated without banking loans, the small projects are 30% of the labor forces, and 20.5% of the added value. About 16% of the labor forces in 2005 are depending on themselves (19% males and 16% females). In Germany, the labor forces in this field grew from 1.4 to 2.1 million population in 10 years (Bankengruppe, 2006).

Microfinance procedures in Germany included a survey of the target groups who want to get benefit from the small finance, and the microfinance, they are classified into three categories (Lahn, 2006):

First category: The socially poor, and the low-income, those are targeted by the credit in order to achieve the community satisfaction, which is an integral part of the human development indexes, and reduce the deprivation in the developed countries.

Second category: Includes the small investors who are hampered by the achievement of the initial capital to start the projects. The targeting of this category is by the credit in order to develop the productive, and the scientific abilities, not to neglect the innovation, and the creativity that may be achieved in the next phase.

Third category: This finance targets the small investors who face financial difficulties that make them unworthy to get the credit from the banks. The targeting of this category by the credit is aimed to keep the competition, and then achieve an acceptable level of the economic growth.

MFIs work locally, and regionally. At the local level, it works under the multiple legal frameworks, because it is relatively small. As it cannot reach the banks. Since 2014, the cooperation model has been developed. MFIs provide supporting through the direct contact with their customers over the length of credit. The cooperation bank distributes the default risks insurance, a part from MFI, and a part from the guarantee fund (Bendig, Unterberg and Sarpong, 2010).

In 2010, a micro lending fund called the Microcredit Fonds Deutschland was created and managed by the Federal Ministry of Labor, and Social Affairs to facilitate reaching to unemployed, the beginner projects, and the self-employed, through getting loans up to the amount of (20.000) Euros. This model is depending on the cooperative principle, and as follows (Neuberger, 2015):

- MFIs recommend the loans to the banks, and are responsible for all the clients. These institutions analyze the loan applications, providing advice to the clients, monitoring repayments, and achieving the guarantees during the term of the contract.
- Loans are granted by the cooperative bank, which has no contact with the clients.
- The fund involves in the risks of defaulting with MFIs, MFIs are responsible for the first loss by a proportion up to 20% of the total loan portfolio.
- MFIs are monitored by the German microfinancing institute (Deutsche Mikrofinanz Institut) (HDMI) to ensure the high quality of lending.

The German financing fund started the work with an amount of (100.000.000) Euros providing by the German government, and the European social fund. The fund ensures that the banks are not responsible for any credit risks, and the amount of the granted loans is usually a little bit at first. Large-amount lending depends on the success of the repayment process for the borrowers in the future, and varies from one region to another in the supplying of the promotional micro-credit of the clients. In the banks, in their natural state, the so-called house-bank principle, and in the cooperation with one of the partners, such as the Chamber of Commerce or directly with the promotional banks (Bendig, Unterberg and Sarpong, 2010).

By mid-December in 2012, and despite the success of the Federal Ministry of Labor, "MikrokreditfondsDeutschland", it canceled its agreement, which was extended to 2015, it was an agreement with GLS Bank "Gemeinschaftsbank für Leihen und Schenken", and all the 60 MFIs, adopted until 31 December 2013, as a result of the change in the policy in the months came before that era, a few MFIs adapted with the current assumptions, and a few were about to bankruptcy. As

planned initially, it was designed to be an experimental phase, the programs unexpectedly, and abruptly stopped for all of the MFIs. The national MF network stopped alongside the model. MFIs immediately began to plan an alternative microfinance model by the European Precious Metals Federation (EPMF). By Autumn of 2013, "Mikrokreditfonds" will continue to work for another year with a selected group of about 35 MFIs, this opened the door for MFIs to work again (Bendig, Unterberg and Sarpong, 2010).

The above situation led to a significant lack of confidence for MFIs, and a decline in the activity. In 2012, (5.520) of the small loans were provided with the amount of (33.7) Million Euros, while in 2013, (4.520) loans were distributed with the amount of (25.6) Million Euros. All of MFIs have individual interests in the targeted groups, the general framework of these institutions was as follows: the actual interest price of the commercial loans is 8.9%, with the maximum amount of (20.000) Euros, and the maximum duration of the loan is (36) months, the borrower should be responsible for the additional fees due to the delay in the repayment (Bendig, Unterberg and Sarpong, 2010).

The promotional banks apply interest prices between (3% - 7%), the maximum loans are ranging from (15.000-25.000) Euros, and the duration of the loan is up to 10 years. Moreover, it gives (6-24) months as a grace period (Bendig, Unterberg and Sarpong, 2010).

The German Federal Development Bank (DFB), and 16 of the regional promotional banks in 2012, provided 7.454 of the small loans with the amount of 134.8 Million Euros. In 2013, 7.460 loans were distributed, with the amount of 136.8 Million Euros (Bendig, Unterberg and Sarpong, 2010).

Micro lending in this regard differs from the commercial banks by the loans, as they are in MFIs are small, fast, and easily accessible. The creditworthiness assessment differs from the conventional banks, also the terms and guarantees, are not as in the conventional banks.

Table 3.1 Working of the MFIs in Germany (2005-2011)

Microfinance in Germany	2005-2009	2010	2011
Number of the loans for the small projects	500	1.750	4.850 (monthly more than 400)
Total of the granted loans Amount of the loans	3 Million €	10 Million €	39 Million €
Rising of the small loans average	6.500 €	5.700 €	6.200 €
Failure rate	Less than 3%	2.1%	Not identified
Creating jobs by the small loans	1.5 for each loan	Not identified	Not identified
Small loans ratio for women	40% of the granted loans	Not identified	33% of the granted loans
The adopted MFIs	10	35 (the end of 2010)	60

3.2.3. Conditions of the growth of MF development (Lahn, 2006)

When assessing MFI, there is two basic conditions should be considered:

The first condition: The awareness rising is intended to be targeted for those who are constantly lacking services by the financial institutions (such as poor women, urban people, rural people). Awareness rising is measured by size, serving a number of clients, and the depth of the poverty level of the clients reached by MFIs.

The second condition: To make enough profits to cover costs of the providing financial services. When we talking about the sustainability, it is important to distinguish between the operational self-sufficiency, generating enough operational revenues to cover the direct costs (operating expenses, financing costs, loan losses), and the financial self-sufficiency: generating enough revenues to cover the direct, and indirect costs, including the adjusted capital cost. If the MFI fails to reach the operational self-sufficiency, the first stocks will be eroded by losses, which means that the total amount of the money that available for lending will decline, which in turn could lead to the closure of the MFI due to lack of the capital.

3.3. Microfinance Experiment in Egypt

3.3.1. Emergence of microfinance in Egypt

Until the 1950s, the main source of lending to the low-income people in Egypt was the loans that provided by the usurious persons. There were no small

loans to be obtained from the banks. Between the 1950s and 1970s, subsidized loans programs, which were geared to the agricultural sector (Wali, 2010) were organized. After this period, and after the success of the Karamin model in Bangladesh, donors began to apply this model in the developing countries, including Egypt. The microfinance industry in Egypt started to emerge. The first practice of this experiment was in the late of 1980s, with the experiment of the USAID, through two institutions: The Cairo Foundation (currently known as the Egyptian Association for the Development of the Small Projects), and the second institution is the Association of Businessmen in Aleskandria, which used the methodology of the individual lending, until the creation of the Association of businessmen in Al-Sharqia in 1997, and this group adopted the method of the collective lending in about (20) years. USAID provided the technical, and the material assistance to nine MFIs, that were distributed across the different geographic areas and there was a limited competition among these institutions. Over the same period, more than (200) additional NGOs began to enter the microfinance field by providing microfinance services, many received the financial, and the technical support from the Social Fund for Development (SFD), and a number of the other donors (Sanabel, 2010).

Over the last ten years until 2010, where the Microfinance industry was developed steadily in Egypt, and in the whole world. It became the attention of the development polices makers in the donor countries, and the local governments, it has been seen as a sustainable practical mechanism to combat the poverty, and to provide the employment opportunities. This attention led to an increase in the institutions operating in this field, and spread throughout Egypt, until they became more than (400) institutions, most of them were non-profit NGOs, four banks, and two companies are providing service through partner banks (Findevgateway, 2011).

3.3.2. Development of microfinance in Egypt

Micro lending in Egypt was known in the 1950s, this services was provided by two financial institutions: The State-owned Central Bank for Development, and the Agricultural Credit, the Productive Families Project that was initiated by the Ministry of Social Solidarity in 1967. Until the late of 1980s, the Association of Businessmen of Aleskandria, and the National Development Bank provided

microcredit to the small projects in Egypt, through the support of the USAID. This agency contributed in the expansion of the sector significantly, and made important changes. Various methods, and targeting mechanisms emerged, that emphasize the "Upgrading work" model to face the model of the "poverty reduction" (Planet Finance, 2008).

In the early of 1990s, the solidarity group lending system was developed, through the NGOs, and the poor economically active women were targeted. Over the next two decades for this period, many NGOs, and banks launched microfinance programs (Wali, 2010). The Social Fund for Development (SFD) was created at the same time by a Presidential Decree in 1991, it's a quasi-governmental authority created to mitigate the negative effects of the structural adjustment policies.

In 2004, the National Strategy was formulated, and launched in 2005 with the aim of developing the microfinance industry. Through it, the sustainable financial services are integrated into the lower market segments within the comprehensive development of the comprehensive, and diversified financial sector. The strategy made a number of recommendations on the levels of the supporting institutional basic structure, the regulatory, and supervision environment. The main recommendations include (Wali, 2010).

- Laws and regulations: It aims to review the laws, and regulations to allow the creation of the non-banking microfinance commercial institutions, and the transformation of the successful NGOs to commercial institutions for microfinance.
- The basic structure: To support the creation of MFIs network. Indeed, the Egyptian MF network, that consists of 12 MFIs, was created, as well as the social development fund.
- Institutional recommendations: To support, and the diversification of the products, and consolidate the reports.

In the same year, Law No. 141 of 2004 about the development of the micro, and small projects, in Egypt, was approved. This Law defines the micro, and small projects according to the following (Wali, 2010):

- Micro Projects: Projects with capital less than (50.000) Egyptian Pounds, regardless of the number of employees.
- Small Projects: Projects with capital ranges from (50.000), and one Million Egyptian Pounds, the number of the employees is less than (50) employees.

Microfinance in Egypt had a positive impact on the development of micro projects. The results show that this financing represents one of the most few important external sources to finance the economically active poor in Egypt (Planet Finance, 2008), and attention in this sector is given the priority for a certain period, then, this attention is reduced, and disappeared for the benefit of the other issues. Therefore, the sector has proceeded in a very slow pace that is not commensurate with the importance they have given to it. The sector still needs more policies, procedures that can help to advance it, to face the great challenges that are facing it, which are many, and varied, the first one is the extreme competition in the local markets, especially the imported, smuggled goods, the weakness of the potentials, the lack of technical, training, marketing expertise for its employees, the weakness of the regulatory environment, as well as the complexity of procedures, and governmental bodies that deal with this sector (Al – Jebaly, 2015).

3.3.3. Institutions that providing MF services in Egypt

a) Social fund for development

In 1991, by a Presidential Decree, the social fund for development was created in Egypt, it was considered as a social, and economic safety net. The aim of its creation is to combat unemployment, reducing poverty, improving living standards, accelerate the comprehensive economic, and social development (Social Fund for Development in Egypt). The main role of the fund is to provide the MF, and the technical assistance to the MFIs, as well as to supervise on the industry's progress through the advocacy, and the investment in the industrial initiatives. The fund was managed to finance the local currency needs for most of the Egyptian MFIs, by providing loans with specific privileges (Sanabel, 2010), the fund works in other fields such as (Social Fund for Development in Egypt) :

- Developing, and financing the small and the micro projects.

- Providing the developed financial, and the non-financial services to support the growth, and the development of the small projects.
- Financing the projects that providing the working opportunities, and improving the basic and the social environment.
- Encouraging the dissemination of the ideas of entrepreneurship, and linking the large industries with the small projects and industries.

Categories targeted by the project are (Social Fund for Development in Egypt)

- The graduated young people of the higher, intermediate, and above intermediate qualifications.
- The experienced people that are capable to manage the small projects from the professionals, and craftsmen.
- Owners of the small projects, the existing crafts, and those who are wishing to develop their projects.
- The marginalized groups, and people with the special needs.

b) Public and private banks

Including two of the public banks (Cairo Bank, and Egypt Bank), and two of the private banks (The national Bank for development, and Aleskandaria Bank).

c) The service companies

Representing with two companies (Refie Company), created in 2007, and (Tanmia Company), created in 2009.

d) MFIs in Egypt

Entities that are providing MF services in Egypt are estimated to be about (400) Institutions until 2010 (Egyptian Financial Supervisory Authority , 2010), most of these institutions are small, and it is difficult to get its data. It can be divided into (Egyptian Financial Supervisory Authority , 2010), (Planet Finance, 2008):

- 1- *Community development associations*: They are associations for developing the community, these associations are mostly small, local, and voluntary,

most of them are financially, and technically supported by the Social Fund for Development.

- 2- *NGOs*: Consist of (15) MF institutions, most of them are financed by the USIAD.

Table 3.2 MFIs data in Egypt

S.	MFI Name	Creation date	Loans USD\$	Borrowers No.	Data Date
16	Young Muslims Association	1945	1267649	11856	2006
6	Coptic Evangelical Organization for Social Services	1950	12984257	60792	2014
5	Cairo Bank	1952	35347222	93516	2005
1	Aleskandria Businessmen Association	1983	71528633	272113	2011
8	Small projects Development Institution	1988	163000861	70640	2011
15	Sohag Association for Community Development and Children with Special Needs	1994	784561	1951	2009
4	Assiut Businessmen Association	1995	86115569	-	2013
3	Al Tadamon MF Association	1996	8560605	66302	2015
7	Businessmen Association for Community Development in Dakahlia	1997	34547894	125787	2015
14	Eastern Businessmen Association for Community Development	1997	12241449	-	2013
12	North Sinai Businessmen Association	1998	667285	5055	2008
13	Regional Association for Projects Development in Sohag	1998	2248960	12735	2012
2	Assiut Business Women Association	2000	5281522	-	2012
10	Al Mostaqbal Association for community Development	2003	1419373	10451	2013
11	Egyptian Association for Development & Developing Projects (LID)	2003	25635073	642890	2014
3	First MFI Agha Khan MF Agency	2004	5014048	18654	2012

3.3.3.1. MF services in Egypt

MF services provided by MFIs are vary, and the private institutions that concerned with providing this type of services.

Listed below are the prevailing services in Egypt (Planet Finance, 2008):

- 1- Lending services: There are two kinds of loans that are providing in this type of financing in Egypt.
 - *Individual loans*: This type of loan is granted to the existing projects that have been operating for at least one year.
 - *Solidarity groups loans*: Which are directed to support the income-generating activities for their owners, especially the breadwinner women of their families in the low-income segments of society.
- 2- Savings and deposit services: This type is limited in the Egyptian MFIs, so the main provider of such services in Egypt is the National Post Office of Egypt. The number of its branches has increased to reach 3700 branches, and its base expanded to include 17 Million clients (Sanabel, 2010).
- 3- Insurance services: Although, the governmental insurance companies direct some of their products to the small projects, and small consumers, these insurance packages include only the borrowing packages to reduce the risk of non-payment for MFIs, and are offered as stand-alone products, designed to target the small projects owners, as they follow supply-side techniques. Therefore, their products are not designed to meet the needs of the small projects. Some MF programs, such as the National Development Bank, offer insurance on the lives of their clients to cover a part of the borrowed amount in the case of default, due to death. There are two private companies work in this service: Allianz Insurance Company, developed by Planet Finance Institution. The second company is the American Life Insurance Company, developed by the American International Insurance Group (Sanabel, 2010).
- 4- Cash Remittances: This type of services witnessed a great development recently, Egypt being the top among the local countries, and the sixth globally in the financial remittances for 2012-2013, as it reached (20) Billion

Dollars (Lutfi, 2013). The Egyptian banks and mail offer money remittances services to facilitate, and speed up the process better. In order to develop the cash remittances, two companies have provided mobile cash remittance services, which are: Orascom Telecom Holding company, Western Union, and are available in the markets that are managed by Orascom Telecom (General Authority for Investment and Free Zones, 2013).

- 5- The other non-financial services: One of these services is the providing of the non-financial services by some of the financing institutions, such as literacy training, providing technical consultations, training courses for the small projects owners, and others (General Authority for Investment and Free Zones, 2013).

3.4. Types of The Prevailing Loans in The MF Industry in Egypt

MFIs in Egypt deal with the lending by using two lending mechanisms: the individual lending mechanism, and the solidarity lending mechanism (collective) (Egyptian Financial Supervisory Authority, 2010):

- 1- The individual lending: It is a loan that providing to an individual, small or micro-project. There are various types of individual loans, including (activity financing loan, auto repair loan, livestock loan, educational loan, agricultural loan, doctors and pharmacists loan, home improvement loan, consumption loan), and that the vast majority of the individual loans are directed to the development of the income-generating activities.
- 2- The solidarity lending: Known as the collective loans, this type of lending is based on the mutual guarantee of a group of borrowers who are usually closely known each other, and each of them guarantees the remaining members of the group to repay the loan. This mechanism applies on the economically active poor, especially women in Egypt. The group is formed from five women, who receive one loan divided equally among them, and all of them pay the installment weekly. This type of loan aims to finance the income-generating activities, especially in the commercial and service sector.

The conditions of granting loans to both types are as follows:

Table 3.3 Conditions for granting loans for the individual lending and the solidarity lending in Egypt

Lending Conditions	The Individual Lending	The Solidarity Lending
Loan Amount	100-500 Thousand Pounds	50-1500 Pound (per member)
Repayment Period	From 4-22 Months	10-40 weeks
The Annual Interest	13.5%-16%	24%-28%
Installment Repayment	Monthly	Weekly or every two weeks
Guarantees	Non (signature of an instrument or delivery by the client)	Non (signature of an instrument or delivery by the client)
Guarantor	Personal guarantee (usually a relative of the first degree)	The collective guarantee of the group
The Required Documents	National ID, ownership or rent contract of the enterprise and housing	National ID, birth certificate, marriage contract (personal identification)
Conditions for qualifying the loan	<ul style="list-style-type: none"> - Type: Men and Women. - Age: 18-60 years old. - Existing projects for at least one year. - Good reputation. 	<ul style="list-style-type: none"> - Type: Men and Women. (the majority of women) - Age: 18-60 years old. - Existing projects or new (the most are of the private sector) - Good reputation.
Lending Providers	The Private Associations	The Private Associations and banks

CHAPTER 4

MICROFINANCE IN IRAQ

4.1. Preface

The Iraqi economy mainly depends on the oil revenues in the financing of the economic sectors. The crises, and events, which Iraq is witnessed, and witnessing since 1980 in its war with Iran, the invasion of Kuwait in 1991, the subsequent of the economic sanctions that imposed on Iraq, the events that took place after the phase of the fall of the regime in 2003, the legacy of the sectarian, and the political wars for years. Because of these crises, the Iraqi economy has been affected by the enormous effects that are fueling the sources of declining the long-term growth rates. In addition, the problems caused by the global financial crisis of 2008, which caused the decline of the crude oil prices, and what happened after June 2014, when the so-called terrorist organization of the Islamic State in Iraq, and Levant (ISIS) occupied the city of Mosul, the adjacent areas, led to an increase in the military, and the security spending to liberate these areas, the increasing of spending coincided with the decline of oil prices during the same period, which led to financial fatigue for the state, this led to the emergence of a large deficit in the state budget in 2015, which significantly affected the economic activity, due to the dependence on a single supplier of financing. Legal solutions, and reforms must be developed to liberate the movement of capitals, to provide financing, various services that help to develop the financial markets in particular, and the national economy in general, this action is a part of the general reforms.

In this chapter, we will focus on a type of finance, namely, Microfinance, as most countries are considered it as the cornerstone in the development of economy, and the economic activity, this sector will be studied in this chapter through two sections. First, we will discuss the reality of microfinance, and microfinance in Iraq. In the second section, the study of the small, and microfinance will be studied analytically to reach the mechanism for how to develop this sector by taking the advantage of the study of the cases of Germany and Egypt, which we discussed in the second chapter of this research.

a) Reality of MF in Iraq

The study of any phenomenon requires standing on its introductions, and priorities. Therefore, attention must be paid to the reality of microfinance in Iraq. There is no doubt that it requires attention to the policies that are motivating microfinance, identifying the institutions that are concerned with providing microcredit in Iraq, and this is what we will address in this section.

4.2. An Overview About Iraq

- The area of Iraq is about (438.000) km².
- The population of Iraq, up to 2018, is about (38) Million people (Central Bank of Iraq, 2017).
- The GDP at the current prices is (251.1) Trillion IQ Dinars in 2018 (Central Bank of Iraq, 2017).
- The average per capita from the GDP, at the current prices of 2018, is (6.6) Million IQ Dinars (Central Bank of Iraq, 2017).
- The rate of inflation of 2018 is (2%) (Ministry of Planning in Iraq, 2019).
- The rate of unemployment of 2017, according to estimates of the Central Bureau of the Iraqi Statistics, is (20%) (Ministry of Planning in Iraq, 2019).
- The rate of poverty of 2017 is (18%) (Ministry of Planning in Iraq, 2019).

Iraq is ranked (121), according to the Human Development Index, with an index of (0.654) degree of 2019, and according to the following Development Indexes:

- The expected life rate index at birth, (Health Index), is (69.4) degree.
- Education index, (average number of the years of study), is (10.1) degree.
- Income, and Resources Utilization Index, (GNI per capita), is (14003.4) Dollars.
- The inequality index is (0.512) degree.
- Poverty index is (0.052) degree.

To illustrate the reality of microfinance in Iraq, it is necessary first to review the most important institutions that are used the small, and micro finance in Iraq, and

then to see the reality of the monetary, and financing policy in Iraq, to know how it affects the microfinance.

b) Institutions and companies that are involved to finance the small and micro projects in Iraq

Microfinance in Iraq started in 2003, through institutions funded by US government resources represented by the US Agency for International Development, as a tool to help the victims of wars and violence. In mid-2003, the Iraqi government started its own microfinance program, through the Ministry of Labor, and Social Affairs, as a leadership program, and then expanded to include all of provinces except Kurdistan Region. On the same point, the Ministry of Industry, and Minerals provided loans to the small, and medium industrial projects.

A) Iraqi network for MF

Microfinance institutions in Iraq began to emerge in the late of 2003, supported by the US Agency for International Development (USAID). The first MFIs were the International Housing Organization (CHF), and Al-Thiqa Organization for Microfinance. After 2005, MFIs increased, and in 2006, a meeting of MFIs was held. This meeting resulted to put a special strategy for the work of these institutions. In 2010, the representatives of MFIs in Iraq established the network of MF in Iraq, supported by the USAID Trade Project, in order to add more strength to Iraq's MF industry infrastructure through the providing of the services that aim to expand its base, by involving the governmental entities on policies that aim to build a comprehensive financial sector in Iraq. The meeting was including (12) MFIs in Baghdad, this meeting resulted in the signing of the Code of the Conduct, and Ethics, which later became a binding document to all of the members. This document included several commitments, and guidelines, such as guidelines for the MF industry of the ethical practices of lending, the rules of consumer protection, and the commitment to uphold the basic values, such as the high quality, sustainable financial services, transparency, respecting the religion, the legitimate practices for lending, debt collection, keeping the confidentiality of customer information, and the integration of social values (Iraqi Network of MF). During this meeting, the decision was taken to establish the network, and start to work in, a board of directors was

established to monitor the process, and the submission. On 12/2/2012, an application for registration, in the NGOs department, was submitted, in the General Secretariat of the Iraqi Council of Ministers, the application of registration was approved on 26/4/2012. The network became an independent institution, has its legal position, which allows to work as coordinating focal entity in the industry of MF in Iraq (Berger).

The Iraqi network of MF consists of 12 MFIs, in all over Iraq, which are:

1. Cooperative housing institution: It is the first Non-governmental institution of MF in Iraq, it was established in 2003, it is providing a collection of services, such as (loans for the small, and micro projects, loan to repair the house, consumption loan, and loans for people with special needs). The amount of loan starts from 100\$ to 25000\$, according to the type of the loan. It consists of 14 branches all over Iraq, and employs more than 465 employees (Cooperative Housing Organization).

2. Al-Thiqa organization for financing the small projects: It considered one of the first MFIs in Iraq, it was established in 2004, it was registered in the department of the NGOs as a NGO that works independently, and doesn't aim to gain profits. It works in the field of financing the medium, small, and micro projects, for the all of the people in the middle, and the north areas of Iraq (Al-Thiqa Organization). Its role is to participate in the economy building by providing financial services for the owners of the small, and micro projects, and the low-income families all over Iraq (Al-Thiqa Organization, 2010).

Services that providing by this organization, are: (small, and medium projects loans, taxis loans, agricultural loans, house repairing loans, Islamic loans, solidarities groups loans). The number of loans that were spent till the end of 2015, are (109500) loans annually, its amount together is (346.749.400) Million Dollars. In terms of the self-sufficiency, as till the end of December of 2015, it achieved the operational self-sufficiency and the financial sustainability (Al-Thiqa Organization).

3. Iraqi aman center: It was established in 2005, as a NGO, it began to practice it business in 2006, through its main branch in Kirkuk. After that, the project was expanded, and added two more branches, which are: (Al-Haweja branch, and Erbil branch). Its goal is to support the existing small projects, and develop it,

encourage the projects of women by lending them small amounts for a short-term period. Its products are: (the educational loan, the Islamic loan, house repairing loan, taxis loan, small business loan, the collective loan), the loans that were spent till 2014, are (25.437) loans, with the amount of (63) Million Dollars (Al-Thiqa Organization).

4. Relief international organization: It began its work in Iraq in 2006, it now employs more than (2600) employees that are working in its five branches in the middle, north, and south of Iraq. It is providing MF services by meeting to the needs of the Iraqi community for the small, and women projects, providing the individual loans, and house repairing loans (Relief International Organization).

Since 2016, Relief International has provided water, sanitation and hygiene services in Iraq to more than one million of the country's most vulnerable people, working in refugee camps, internally displaced persons' camps, host communities, areas of return, and areas destroyed by years of conflict.

We are also helping to rebuild the local economy of Hawija, the last area of Iraq to be liberated from ISIS control. We are providing small grants to help establish businesses and cash-for-work activities. Our goal is to regenerate markets in Hawija and facilitate further returns of displaced people to their homes.

In remote western Anbar Province, Relief International is the only international NGO providing healthcare to vulnerable populations cut off from services, including Syrian refugees crossing the border. Overall, RI has provided 289,855 free healthcare consultations across Anbar.

5. Al-Bashaer Iraqi organization of MF: It is a NGO, established in 2006, aiming to support, and develop the small projects by providing simple procedures loans for limited periods, encouraging them to grow, and develop, focusing on the projects that make more employments for those who are unemployed, which improving the level of living for the owners of these projects. To encourage, and motivate the projects, (with the focusing on the women projects), by providing loans with easy conditions for the owners of these projects (Al-Bashaer Iraqi Organization for MF).

6. Bright future organization: This organization was established by an initiative, and financing provided by Kurdistan region of Iraq in 2007, with a capital of (8) Millions UD Dollars, it is a NGO, and its branches are in (Erbil, Sulaimanya, and Duhok governorate) (Bright Future Organization).

7. Al-Masaned organization: It is a NGO, established in 2008, with the support of USAID. Its work is to support the small, and micro project, develop the small projects, and providing the Islamic lending in Salah Al-deen governorate.

8. Al-Taqadom organization for financing the small project: It is a NGO, established in 2008, with the support of USAID in Iraq. It is providing MF services in Al-Anbar governorate, its goal is to support the new investors, improve the economic environment of Iraq, support the foreign investors to get the required facilitates, because they make a market for the Iraqi manpower, on condition that more than a half of Iraqi youth should be employed, and to limit the incoming employment to Iraq (Iraqi Network of MF).

9. Izdiharona organization for the economic development: It is a non-profit, and a NGO, established in 2008, it is providing MF services. It was established to provide the assistance to the small and medium projects to develop its businesses, also for individuals to raise the level of income, and enhance livelihoods. It works in the middle, south, north of Iraq, and in several governorates, such as: (Baghdad, Al-Basra, Karbala', Messan, Al-Nasiriya, Al-Najaf, Al-Sulaymanyia, Babel, Wasit, and Erbil). It is providing the following services: (commercial loans (individual or collective), agricultural loans, house repairing loans, young people loans, Islamic loans, state employees loans). The total number of loans since the establishment till 2018, total amount disbursed since inceptions (212,134,696) (Amlkom Organization).

10. Al-Tadamon center for economic development: It is a NGO, established in 2008. It aims to encourage the businesses and the small women projects by providing lending services, developing, and expanding the existing projects to make work opportunities for those who are unemployed, and supporting the small projects which are working in the trade, and agriculture field to revive, and develop the economy of Nainawa governorate (Amlkom Organization).

11. Amlkom for economic development: It established in 2009, as a NGO concerned with MF. It is a collective lending organization, located in four governorates, which are: (Babel, Al-Najaf, Karbala', Al-Dewaniah), and it is providing a group loan, the group consists of three persons as minimum, and eight persons as maximum. The amounts are about 500-3000 USD\$ per capita with a simple rate of interests, and it includes all of the small classes with a limited-income (Berger).

Table 4.1 MFIs Statement in Iraq

S.	MFI Name	Establishment Date	Loans Amount USD\$	Borrows No.	Data Date
1	Cooperative Housing Institution	2003	38774317	-	2012
2	Al-Thiqa Organization	2004	28767980	13727	2015
3	Iraqi Safety Center	2005	7266806	3879	2013
4	Al-Bashaer Iraqi Organization	2006	8851504	5832	2012
5	Relief International Organization	2006	10438894	10775	2011
6	Bright future Organization	2007	6739256	4594	2012
7	Tela'fer Organization	2007	6148961	-	2012
8	Al-Tadamon Center	2008	2469296	2739	2012
9	Taqadom Organization	2008	12010759	12023	2012
10	Izdiharona Organization	2008	10058946	8998	2012
11	Al-Masaned Organization	2008	1811548	1193	2012
12	Amlkom Organization	2009	5002305	-	

4.2.1. Types of loans provided by MFIs in Iraq

Iraq has three main lending methodologies in the Iraqi MF sector, which are: (individual lending methodology, collective lending methodology, and Islamic lending methodology) (Berger, 2015), and providing as the following table:

Table 4.2 Types of Loans Provided by in Iraq

Type of Loan	(Rate) Loan Amount	InterestPrice(between)
Micro, small, and medium projects establishment loans	100-5.000 \$	10% - 16%
Micro, small, and medium projects loans	500-5.000 \$	10% -15%
Small, and medium loans	5.001-25.000 \$	10% - 15%

Agricultural projects loans	500-25.000 \$	10% - 16%
Projects establishment loans	500-25.000 \$	10% - 16%
Professionals loans	3.000 \$	10% - 18%
Taxis loans	500-25.000 \$	10% - 18%
Loans directed to the consumer	500-2.000 \$	10% - 12%
Loans for students to buy a laptop	500-2.000 \$	10%

There are other types of loans, which is housing loan, and it differs from the normal financing in the mortgage. In this type of loan, guarantees are easy, unlike the normal financing (The Iraqi Company for Financing Small, and Medium Projects, 2015).

B) Iraqi Company for financing the small, and medium projects

It is a financial, non-banking institution, established in 2009, and works under the supervision of the Iraqi Central Bank. This company is represented by the contribution of eight banks; these banks are providing loans within the company grants programs. These banks are (The Iraqi Company for Financing Small, and Medium Projects, 2015):

- Ashur International Bank.
- Baghdad Bank.
- Al-Khalej Commercial Bank.
- Al-Sharq Al-Awsat Iraqi Bank for Investment.
- Al-Mosul Bank for Investment, and Development.
- The Iraqi Private bank.
- Al-Shamal Bank for Financing, and Investment.
- Sumar Commercial Bank.

4.2.2. The beneficiary categories from the Iraqi company's loans for financing the small and medium projects

The company supports, through its programs, all of the community categories by providing loans which contributes in the establishment of the new projects, or re-operate projects the have been stopped because of bad circumstances. The company

has been able to reach all of the community categories, by its contributor banks network, as shown in the table below:

Table 4.3 The beneficiary categories from the loans of the Iraqi company for financing the small, and medium projects of 2012-2015

Categories	No. of the Granted Loans	Granted Loan Amount \$	Direct Work Opportunity	Indirect Work Opportunity
Displaced People	7136	105.800.000	2424	3802
Breadwinner Women	2561	36.940.000	1221	1917
Young People	2011	327.000.000	334	680
Christian Minority	810	225.150.000	450	707
Yazidi Minority	162	75.250.000	189	297
Others	2601	23269646	2327	3653

4.2.3. Conditions of the company's granting loans (The Iraqi Company for Financing Small, and Medium Projects, 2015)

- The applicant must be an owner of the small, or medium projects.
- The number of the employees in the project must be ranging from 2 to 29 employees.
- The amount of loan must be ranging from 5000-25.000 \$.

4.2.4. The consequence effects of the use of microfinance in Iraq

It is certain that the size of expansion in the lending systems of the small projects in Iraq, as we mentioned, will lead to positive results. It contributes effectively in the limitation of unemployment, the surplus of labor supply is reduced, this effect is merged in the economy, and the community as well, as the increasing of working leading to good socially, and economically effects.

However, the effect may not be happened directly, and clearly, cause the financing is not only the solution for an unemployment, the matter is requiring the use of funds in economic projects that contributing to achieve the required effects.

The economic effects resulted by the use of MF, are: production increasing, the limitation of unemployment, encouraging working in the economic sectors, especially the agricultural ones. By the previous data, it is possible to see the contribution of financing in the limitation of unemployment. If we get back to the

projects that were financed by the employment, and loans department, for example, as shown in the table (12), which are 73323 projects for the period of 2007-2017. When we take a rate of the number of workers for each projects, we find that 219969 workers, have been worked, (on the assumption of estimating that the number of workers in the project, is (3) workers, as average), this means that number of unemployed was decreased by this number. It is also for the other financial institutions, that are providing MF. On the other hand, the amount of production of these projects, and its diversity. It is for, even if by a few, the benefit of economic in Iraq, and its development. The social effects are: addressing, and reducing poverty.

Microfinance is one of the strong means for combating poverty, as we see by the number above, how microfinance lead to the increasing of introduction of those workers, who they are often from the poor class. Politically, it is by employing a larger number of unemployed persons, who may be drawn to the terrorist groups, or belonging to gangs of robbery, murder, or similar, which leading to the disruption, or the increasing of security instability in Iraq, it is due to the money destitution, and the human disadvantage that they are in, or the increasing of unemployment may lead to a revolution against the government.

The purpose of providing loans, and the mechanism that is used to grant loans, is for carrying out producing projects, but there is an inversion for this mechanism, as a lot of those who have been granted loans, were have cheated these institutions, in order to get those funds; for consumption, not for investment. Moreover, the financial, and administrative corruption, that is spread in the most of organization sections. On the other hand, the absence of consumption loans, granting by the official department to the people. The official financial institutions, it is granting a few loans of those types, all of that resulted to that cheating, and just to make the people, who need these funds, to get the loans, for consumption purposes, such as daily, and commitments needs, to make the life continues. Therefore, such loans must be provided.

By the results of institutions study that grant the small, and micro finance loans, we found that it was more in the urban areas, than the rural ones, in Iraq. By the comparison of that with the investment activities in the governorates, we did not

find any noticed increasing in the assets that are used in the investment activities, and did not lead to any seen economic results. However, the small loans effect on the profits, and on individual-income level, which is clearly indicated the loans that have been granted was not linked with a developed credit system in Iraq.

So, it is important to study the monetary, and financing policies in Iraq, to reach the credit system origin, and to know the reasons that led to a defect in the credit system.

c) Impact of the political and security factor on the MF in Iraq

The most prominent events, especially after 2014, are the wars of Iraq against terrorism, the absence of approval of the budget of 2014, the spreading of the financial, and administrative corruption in all over the state, the absence of a sovereign fund as it exists in most countries of the world. All of this led to a serious liquidity crisis, its impact became clear on the banks, as the deposits had decreased, and the clients' accounts had increased in the private banks, which forms the basic balances of the banks, which made these banks have a serious crisis, will lead to falls for the most of private banks if it does not solve. Due to the bad security conditions in Iraq, the governmental and private banking sector suffers from the problem of inability of a large number of the borrowers to repay their debts on the specific date, as well as the increasing risk to grant the credit to clients. This led to a confusion in the work of the banks, which will lead to a negative impact on the economy, also on the financing activity, and the investment which will lead, by its role, to a decrease in the number of the granted loans by the banks. It is noticed that the impact of the war against terrorism in the financing is so clear, the increasing of the state's expenses on the security, and defense from the general budget, also the expenses of the public army, as the expenses have become the double on the arming, and on military processes, as shown in table (17), on the interest of the other economic sectors, as shown in the deterioration of the economic, and service activity. This was what approved by the budget of 2015, is to reduce the expenses, as well as the expenses of the displaced people, all of those matters are heavier than the budget of the state, and reducing from the financing of the other economic sectors, this what had shown clearly in the regression of the working of the financial institutions, in the term of the

numbers of granting loans, as well as the inability of that institutions to reach the areas which are under control by ISIS, such as the city of Al-Mosul, and Al-Anbar, also its control on important areas of the country, which led to the decreasing of loans number.

Table 4.4 The rate of military expenses from GDP of (2011-2018)

Years	2011	2012	2013	2014	2018
The rate of military expenses from GDP	3.2	2.8	3.4	4.3	18.6

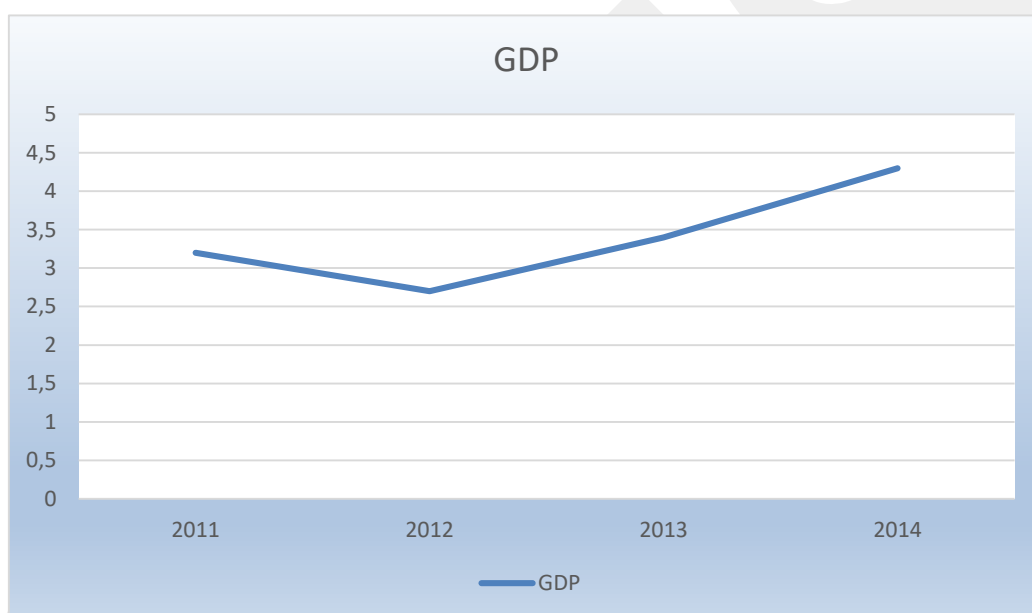


Figure 4.1 The growth of military expenses (2011-2014)

d) Microfinance in Iraq

Main Problems, Possible Solutions and prospects to develop microfinance Institutions in Iraq

e) Main problems and possible solutions

Through the study of Mf in Iraq, also the study of Egypt, and Germany experiments, what is noticed by the methods, and mechanisms made by these countries in the field of MF, which can be considered to build an integrated financing system for the sector of MF. By the existing problems which obstructs the success of

this project in Iraq, and the methods of those experiments, it possible to specify group of problems which faces the MF sector in Iraq, with the suggestion of the solutions for each one, as follows:

A) Absence of legal environment that regulates MFIs working, and supervising it.

Solution:

It is noticeable in the Egyptian experiments in the field of MF, which was mentioned in the second section of the second chapter of this research, a law to regulate the work of MFIs was issued, i.e., there was an official legal environment regulates the work of these institutions. It is possible to get benefit from this experiment by issuing laws to regulate the work of these institutions, and a supervisory entity on the work should be made, such as the central bank of Iraq, or the Iraqi financial supervisory office. Encouraging the MF sectors, by urging the institutions, and organizations to practice such type of financing, for what it has a lot of social, and economic benefits, urging the private commercial banks to provide such services.

B) Lack of the competencies in the banking services:

Most of institutions are lacking for the efficiency in the field of banking services, especially in Iraq, because these institutions are originally NGOs. To solve this problem, there should be a supervision by an enough experience entity in this field, in this case, without any doubt, it is the Iraqi central bank, because it has all of the experience qualifications in the field of banking work.

C) Depend on one service of the MF services:

All of the MFIs in Iraq provides only one service of the MF services, which is lending services, instead of the expanding of the banking services.

To solve this problem, it is possible to MFI to provide the other services without being satisfied by the loans only, the development of the other products, such as micro insurance system, teaching children, providing awareness among illiterate clients, especially women, with new information, and also providing other facilities, opening an account and withdrawal the savings from this account. In another phrase, it can be said that these institutions should providing the services that are providing

by the governmental financial sector, these small financial services should be for the poor, in order to improve their standard of living.

D) Unavailability of the specialized consultative staff in the financial institution:

Solution:

There must be a trained consultative staff of the institution that working in the field of small, and micro finance, in order to give the technical, and administrative advices about how to administrate this field to the client.

E) Absence of the training courses and advice by the institutions to the clients

Solution:

In order to insure the perfect using for this type of financing, the clients should be trained on how to use the services of this financing, by providing advice to start working, and the vocational advice, especially for the young people. As we noticed that through the study of German experiments in the second chapter of this research, as it was using this method to be able to achieve a maximum benefit that can be gained, and to success its plans in this field.

F) Problem of one loan:

Most of the institutions that providing micro, and small lending services, are providing only one loan.

Solution:

The poor may be need for more than one loan, and as continuous payments, in order to reach the goal, which is being out of poverty circle, and reaching to participate in the economic activity.

G) Loan system with interest:

Which is used by the financial institutions: most of the institutions that are providing such type of services, are using the system of interest in its dealings. It is known that Iraq is an Islamic country, interests are forbidden in, there are a lot of people who are not dealing with these transactions, which are called Interest Transactions.

The Islamic banking system is maybe the right choice to expand the circle of lending, increasing the clients, and achieving the required goals of such type of financing. The institutions that are providing micro lending, faces a big difficulty of dealing with the types of financing, which depends by the Islamic economic system, cause the microfinance is a small amount, and the loans are much in, the small projects are difficult to expect its success, cause the workers are not trained to manage projects, the possibility of project's owner to success in his projects is unknown, which generates the disability to repay the loan, and there are no profits that can get benefit from it to the providing institution of this loan. In addition to the institutions that are dealing in MF field, are of large administrative, and operative costs, so, it is necessary for the institutions to get an enough returning in order to achieve the sustainability in its work.

So, the obstacle of loan with an interest can be disposal, which most of people are avoiding it in the Islamic community, by take another method can be replaced instead of the interest, which is:

Cause it is necessary for any financial institution to have administrative, and operative costs, starting with the land that the institution is established on, the fixed, variable, and etc. costs, for any work or service there should be a reward, and cause this service or work is costing funds, so it must be rewarded by funds, this is from the economic, and financial aspect, to illustrate this, we will take the following example:

A borrower is lending from a financial institution, an amount of (one Million Dinar), this institution gives him a form in order to fill it, the wages of this transaction is mentioned in, with an amount of (100.000 IQD). (if he was, for an example, wanted to lend two Million, the institution will give him another form, the wages of transaction will be increased, cause the risk is increasing whenever the amount of loan is increasing). Mentioning in the transaction, he has to repay the amount of loan as installments, as to be monthly, if he being late to repay, he should pay a financial penalty, with an amount of (10.000 IQD), if he being late to repay, this penalty will multiply for two months. The institution will stay with him to provide the advice, the following field, and may -be give him a training, and educational courses of managing the projects, and increasing the cultural awareness,

on order to be a successful businessman, helping himself, and increasing the producing capacity of the country.

This is how the institution guaranteed the repayment of the loan, and getting a profit according to sell its services. In this case, the institution will continue its works, and achieving the operative sustainability. In order to achieve the goal of this type of lending, which is helping the poor to build their economic activity up, to achieve a higher income, it is necessary to take into consideration the wages amount receiving by the institution.

H) Affection of Iraqi banking system by the security and economic variables in the country

The impact in the Iraqi banking system can be reduced, according to the security and economic crises, by taking into consideration the German experiment which was mentioned in the second chapter of this study. The banking system consist of three types of banks: (the commercial banks, the private banks, the general and cooperative banks). We find through this study that the cooperative banks were not affected largely by the financial crisis of 2008, or the crisis of sovereign debts. The cooperative banks were found to provide financing for a large class of the community, most of them are the poor, the limited-income people, and in the most of economic sectors.

I) Absence of electronic banking services in loan providing:

In order to reach a broader scale in the providing of loans, it is necessary to activate the electronic services to provide loans, by a specific Apps designed by the banks, and financial institutions, as we noticed in the German experiment in this field, and how this type of financing was developed. The electronic services will facilitate the process of borrowing, be a way from the routine procedures, the difficulty of reaching the banks and financial institutions; it is in turn leads to faster transaction completion, which in turn encourages the process of borrowing by the clients.

By the previous mentioned solutions, we can make a proposal to develop the working of MFIs in Iraq; we will mention it in the next paragraph.

f) Future prospect to develop MFIs in Iraq

Many mechanisms, which may be developing the working of MFIs in Iraq, can be formed, by the following proposal to facilitate, and develop the working of these institutions, as follows:

- To create an integrated financing system to help, support the small and micro projects.
- To create a special system to develop MFIs:
 - To provide data and statistics base.
 - To search for the problems and difficulties which facing the work these institutions, and to find the suitable solutions for it.
 - To bring a group of specialized experts to provide advices about (marketing, technical, administrative, financing problems, etc.).
- To pay attention for products marketing and develop producing efficiency for these institutions.
- To increase the facilities and the governmental supporting for these institutions.
- To take the incubators idea for the projects: it is an integrated group of services, facilities, supporting mechanism, and investment providing by a legal entity institution, has the necessary experiences, ability of communications, and the necessary movement to success its tasks.

CHAPTER 5

CONCLUSIONS

- 1- Microfinance is one of the important means to support the small projects, by the financial resources, and depending on its purpose. It means to build a financial system serving the limited-income people to help them to make their projects, as it is one the attracting means which is integrating with the concepts, and frames, which helping to improve the financial, and social performance.
- 2- Through the study of the German experiment in the field MF, we find that the electronic development in this field helped to reach a large number of clients, as well as the ease of providing MF services.
- 3- We find in the German experiment that 90% of the companies in Germany are micro-companies, and it acquires on about 26.6% of manpower, according to the survey of 2008, this indicates to the importance of these projects in the German economy.
- 4- Through the study of the Egyptian experiment in the field of MF, we found a clear and great attention by the government in the supporting of this sector, by providing the suitable legal environment to the work of the institutions which are dealing with the MF.
- 5- Microfinance contributes to reduce unemployment if it is directed to the right direction.
- 6- The advisory services providing by MFIs, has a great effect in the development of these institutions, cause the clients of MF are not of those who have an experience, and the enough awareness in the management of these projects.
- 7- Microfinance provided a local social assistance, it has an important effect in the increasing of clients' entrance, and developing their projects, thus, reducing their vulnerability to the external shocks. So, microfinance can be considered as one of the effective means of empowering the poor, and granting the self-capacity which is helping to the economic participation.
- 8- Through the study of the chosen countries, (Germany, Egypt), and also Iraq, we can say that MFIs increasing its attention towards women in particular, by

increasing the capacity of interaction with the community, and what achieving the financial independence to her.

9- Reducing the vulnerability to the external shocks of the poor, such as the sickness of the head of the family, and its breadwinner, or climate variability, looting or theft, and others, which makes the limited-income family in a difficult situation. If the enough financial services are not available, the family will suffer from the poverty and the need.

10- When we studied the sector of MF in Iraq, we found that it has no legal environment to the work of this sector.

11- Iraqi Central Bank is far away from the processes of MFIs in Iraq: i.e., the central bank has no role in the work of those institutions.

12- There is a lack of attention by the academic researchers in Iraq, in the study of MF.

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