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An Analysis of the Reality and Challenges of Microfinance Institutions in Iraq

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Abstract. The main objective of this study is to examine the microfinance sector in Iraq. The researchers tried to find solutions to the problems of unemployment and poverty as well as support rural farmers through the support provided by the microfinance institutions. This study was based on Data obtained from questionnaires and reports issued by microfinance institutions. This study also used descriptive method. The main findings of this study are that microfinance institutions in Iraq are facing major challenges that determines their operations, efficiency, outreach scope, etc. Moreover, this study suggested valuable and important recommendations in order to overcome such challenges and improve the performance of microfinance institutions activities in Iraq.

Keywords: Microfinance, Institutions, Challenges, Opportunities, Iraq.

INTRODUCTION

The Iraqi economy has lived through many post-conflict challenges. Microfinance institutions in Iraq have emerged with a prominent role, which were established after 2003. The microfinance institutions in Iraq provided 190,465 loans through which businessmen were supported throughout Iraq, and through these loans, approximately 424 million dollars were disbursed. As of March 31, 2010, and during this period, the microfinance institutions in Iraq reached the stage of maturity, because they became independent institutions that carry out the best practices identified globally and conduct their business independently after they were only entering to achieve stability.

Microfinance is one of the most powerful solutions to support small and micro enterprises (MSEs) and is a driver of economic growth in developing and developed countries. Microfinance institutions are among the most important development tools that have a major role in reducing poverty by providing financial services to the poor who have limited or no income for formal financial services. Microfinance institutions are very important for reducing poverty by supporting the poor to gradually build their assets, develop their businesses, enhance their earning capacity, smooth consumption, and better manage their risks (Robinson, 2001).

According to (Kasim & Jayasooria, 2001), microfinance is the process of giving loans of small amounts to small and medium-sized enterprises and the poor to help them start or invest in their projects and to improve their income, get rid of poverty and have a better future. (Armendariz & Labie, 2011) The concept of microfinance appeared in the seventies in the form of providing micro-credit, and then in the past decade, many microfinance institutions (MFIs) began to develop and expand their financial services such as savings, money transfer, insurance support, technical and training for small projects and micro as well as for the poor.

Iraq is considered one of the least economically developing countries. And the per capita income in the country, although it has improved in recent years, is only 180 US dollars and at the end of 2005/2006 in Iraq work was done to establish a lot of Microfinance Institutions (MFIs) which strive hard to solve the problem of financing small and medium enterprises and support the poor, especially those who are involved in small businesses.

REVIEW OF LITERATURE

The concept of microfinance institutions "giving the poor the opportunity to obtain basic financial services such as loans, savings and micro-insurance" (3:2010, Miki).

They are institutions that provide financial facilities to low-income people. (6:2015, Khushal). The researchers noted that these institutions focus on supporting an important segment of society, namely the poor, the unemployed, and rural farmers, and looking at how to facilitate their access to financial services.

The importance of microfinance institutions can be summarized as follows (The Third Arab Reform Conference, 2006: 21):

- 1- Microfinance institutions are one of the most important economic sectors for economic and social development in developed and developing countries, and they are the driving force behind national economic growth.
- 2- Microfinance institutions work to reduce the burden on governments and concerned authorities to open up work areas.
- 3- Microfinance institutions include all the main economic activities, including commercial, industrial, service, and agricultural activities
- 4- It helps in human development and capacity building for young people through cohabitation, practical training, and the development and refinement of talents.
- 5- A woman working with microfinance institutions generates self-confidence and the ability to interact with society and achieve her financial independence.

Iraq is probably the best possibility for microfinance. Microfinance is direct, far-attaining. The microfinance zone in Iraq includes 14 NGO-MFIs, running in all 18 provinces. Since 2009, the overall regulatory surroundings for the sector improved with the issuance of the brand new NGO (non-governmental groups) regulation. This new law enables MFIs to continue as good economic service vendors for the 7.1 million low-earnings and poor humans in Iraq. The finest accomplishment so far for the world become the imperative bank of Iraq's (CBI) reputation of microfinance as an effective intermediary for small and medium-scale businesses (SMEs).

Microfinance in Iraq has completed an ambitious price of growth and socio-monetary effect on the ones it serves. Despite important views that Iraq isn't equipped for microfinance, the arena, as of the stop of April 2010, has cumulatively disbursed over 197,000 loans of greater than \$453.3 million. The Iraqi microfinance sector had at the equal time period an incredible portfolio of \$85.5 million serving a lively patron base of virtually sixty-three,000. With a 99% repayment rate and a portfolio at danger greater than 30 days of round one according to cent, Iraqi MFIs grew at the rate of 31% for the only-year duration via the cease of April 2010. The high stage of activity, growing efficiency and extra depth of outreach, even though, have the handiest scratched the surface of this market. With much less than one consistent with cent penetration, it's far witnessing the access of greater donors and a developing list of stakeholders.

(Desai, Sameeksha, 2007) post-struggle microfinance: assessment and policy notes for Iraq. This paper explores the capacity of microfinance in submit-struggle economies and specifically examines policy issues in the case of Iraq. It presents crucial situations of the put up-warfare economy, and examines three essential requirements for successful microfinance operations, as outlined via the Microenterprises best Practices task. Political balance, monetary demand and populace balance are evaluated in the case of Iraq. Numerous different issues are also addressed, which include matters of scale, governance mechanisms and support, and gender and spiritual contexts.

STATEMENT OF THE PROBLEM

Microfinance performs an essential function in the economic development of the world; poverty and unemployment reduction, boom process opportunities, gender equality, and so on. Microfinance is distinctly new to Iraq and came to Iraq. Microfinance institutions had been mounted and had been operating in presenting get admission to economic services to poor, rural farmers, and people engaged in different comparable activities in addition to micro and small-scale establishments and entrepreneurs. Almost all the MFIs operating in Iraq have both the twin undertaking of accomplishing terrible clients and being financially sustainable.

This study examined the challenges and opportunities of microfinance institutions in Iraq.

SIGNIFICANCE OF THE STUDY

This study will be of great importance to Microfinance Policy Makers; MFIs Chief Executive Officers, MFIs Branch managers, local & International donors & supporting Agencies, Academicians, Researchers and society by highlighting the most important challenges facing the work of microfinance institutions in Iraq

Significance of the Study:

International Donors & Agencies
MFIs
MFIs CEOs
MFIs Branch Managers
MFIs Financial & Operational Managers
MFIs Loan Officers
Academicians & Researchers

OBJECTIVES OF THE STUDY

The main objectives of this study will be as follows:

1. To present general profile of Microfinance Institutions in Iraq.
2. To identify the challenges facing Microfinance Institutions in Iraq.
3. To identify the market opportunities of Microfinance Institutions in Iraq
4. To recommend based on the findings of the study, the most appropriate suggestions to overcome such problems and enhance the performance of Iraqi Microfinance Institutions.

RESEARCH METHODOLOGY

After careful review of the existing literature, this study used descriptive method as it is suitable for this study.

Research Design

A studies layout changed into devised in a greater conventional form specifying the research strategy. The research method will use the multi-strategies method to dig in and acquire greater information about the performance of Microfinance institutions. The increase of Microfinance establishments is exceptional as it's miles being contemplated with the aid of the entry of new microfinance establishments into the marketplace. But, the boom of the MFIs industry is connected with the successful implementation of precise overall performance of microfinance institutions. The subsequent steps have been achieved so as to make the study design a hit.

- Sample of the Study.
- Data collection.
- Data analysis.

Sample of the Study

TABLE 1. Microfinance institutions and companies study sample

No.	Name	Date of Establishment
1	CHF	2003
2	Iraqi Security Center	2005
3	International Relief	2006
4	Iraqi Microfinance Network	2012

The sample size of this observation can be all microfinance institutions operating in the country. The sampling process used in the questionnaire is non-opportunity sampling because of the character of the records available. The usage of convenience sampling is made; as the questionnaires were, submitted by hand and additionally despatched to senior MFIs specialists; govt Managers, department Managers, monetary Managers, mortgage officials, running Managers of various MFIs as they have got suitable understanding approximately the fact of MFI plus they are the decision-makers.

Data Collection

This study is based totally on data obtained from questionnaires and reports issued by microfinance institutions, reviewed literature, and many others.

Data Analysis

The collected data analyzed using the following:

- SPSS (Statistical Packages for Social Sciences).
- Statistical techniques will be used are - percentages, averages, and frequencies.
- The researcher used standard deviation and Mean to analyze the data.
- The researcher also will use Tables, Graphs, and Charts as well.
- In case of sorting questions with Likert scale, the scale has 5 degrees and the range is 5-1=4, so each degree range equal $4/5=0.8$.

TABLE 2. First Scope: Challenges facing microfinance institutions in Iraq

No.	Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D.	Order	General Direction
		Frequency	Frequency	Frequency	Frequency	Frequency				
		Percentage	Percentage	Percentage	Percentage	Percentage				
1	Microfinance Institutions lacks modern infrastructure	12	2	0	0	0	3.52	9.33	1	Agree
	Weak legislations, jurisdictions concerning Microfinance industry	50%	12%	0%	0%	0%				
2	Lack of well qualified staff	5	19	0	0	0	27.7	7.95	2	Agree
	Lack of professional consultants and experts	20%	80%	0%	0%	0%				
3	Lack of well qualified staff	16	3	1	4	0	250.	1.39	2	Agree
	Lack of professional consultants and experts	70%	8%	5%	10%	0%				
4	Lack of well qualified staff	20	3	0	1	0	1.86	6.60	1	Agree
	Lack of professional consultants and experts	80%	6%	0%	4%	0%				

N o.	Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D.	Order	General Direction
		Frequency	Frequency	Frequency	Frequency	Frequency				
		Percentage	Percentage	Percentage	Percentage	Percentage				
5	Absence of investment environment	19	5	0	0	0	3.52	9.33	1	Agree
		78%	22%	0%	0%	0%				
6	Absence of awareness among community about microfinance products and services	11	6	2	3	2	27.7	7.95	2	Agree
		54%	15%	4%	6%	4%				
7	Absence of modern financial products and services that meets the requirements of clients.	12	9	1	1	1	210.	1.19	2	Agree
		58%	20%	2%	2%	2%				
8	Absence of government support	15	4	2	2	1	1.86	6.60	1	Agree
		75%	8%	4%	4%	2%				
9	Microfinance institutions staff needs good quality of training	17	5	2	0		3.62	9.24	1	Agree
		70%	20%	10%	0%					
10	Clients inability to bring all the required guarantees	0	4	0	8		27.4	7.65	2	Disagree
		0%	15%	0%	40%					
11	Lack of international donors supporting microfinance	15	6	3	0		320.	1.49	2	Agree
		67%	25%	15%	0%	0%				
12	Lack of liquidity	16	8	0	0	0	1.26	6.40	1	Agree
		70%	30%	0%	0%	0%				

No.	Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D.	Order	General Direction
		Frequency	Frequency	Frequency	Frequency	Frequency				
		Percentage	Percentage	Percentage	Percentage	Percentage				
13	Lack of financial-Self Sufficiency	5 20%	19 77%	0 0%	0 0%	0 0%	3.62	9.23	1	Agree
14	Lack of operational-Self-Sufficiency	0 0%	0 0%	0 0%		18 75%	27.4	7.85	2	Disagree
	Mean of the First Scope				6.821					Agree

TABLE 3. Second: Microfinance institutions Opportunities

No.	Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D.	order	General Direction
		Frequency	Frequency	Frequency	Frequency	Frequency				
		Percentage	Percentage	Percentage	Percentage	Percentage				
1	Microfinance sector is still new	17 80%	7 20%	0 0%	0 0%	0 0%	3.32	9.34	1	Agree
2	There is huge market opportunities for microfinance institutions	15 75%	2 6%	0 0%	4 6%	3 5%	21.7	7.75	1	Agree
3	Microfinance institution can develop good financial products that meets the needs of the clients	4 6%	6 10%	0 0%	11 41%	3 5%	450.	1.19	2	Dis Agree

No	Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D.	order	General Direction
		Frequency	Frequency	Frequency	Frequency	Frequency				
		Percentage	Percentage	Percentage	Percentage	Percentage				
4	There is more demand on microfinance products	6	18	0	0	0	1.56	6.20	1	Agree
		10%	82%	0%	0%	0%				
5	There is attractive investment environment for microfinance products and services	8	13	0	3	0	3.52	9.43	1	Agree
		24%	45%	0%	5%	0%				
6	People have good knowledge about microfinance products	5	16	0	3	0	77.7	7.95	2	Agree
		8%	80%	0%	6%	0%				
7	There is demand on solar systems product	8	11	1	4	0	510.	1.12	1	Agree
		12%	45%	4%	8%	0%				
8	There is more opportunities for agricultural product	13	6	0	5	0	1.86	2.60	1	Agree
		50%	9%	0%	8%	0%				

No	Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D.	order	General Direction
		Frequency	Frequency	Frequency	Frequency	Frequency				
		Percentage	Percentage	Percentage	Percentage	Percentage				
9	Suitability of microfinance products and Iraq lending environment	5	6	0	9	4	3.42	9.14	1	Dis Agree
		6%	9%	0%	40%	8%				
10	There are huge opportunities to develop Islamic products for the clients	6	13	1	4	0	27.4	7.65	2	Disagree
		9%	52%	2%	8%	0%				
11	There are international donors supporting microfinance sector	6	13	1	3	0	321.	1.49	2	Agree
		9%	52%	2%	5%	0%				
12	Microfinance institution continuously develops its products and services	4	6	2	10	1	1.26	6.40	1	Disagree
		5%	9%	4%	40%	2%				
13	There are more demands on consumption project	3	13	1	3	4	3.42	9.22	1	Agree
		5%	50%	2%	5%	6%				

No	Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D.	order	General Direction
		Frequency	Frequency	Frequency	Frequency	Frequency				
		Percentage	Percentage	Percentage	Percentage	Percentage				
14	There are more demands on productive projects	6	12	0	5	1	27.1	7.82	2	Disagree
		8%	50%	0%	7%	2%				
15	There are more demands on services projects	5	11	1	3	4	27.4	7.81	2	Agree
		8%	55%	2%	5%	6%				
	Mean of the Second Scope				1.411					Agree

FINDINGS OF THE STUDY

The main findings of this study are as follows:

Challenges

Microfinance institutions in Iraq face major challenges such as the following:

- 1- one of the major challenges facing MFIs in Iraq is lack of qualified staff as microfinance is still new to Iraq, most employees don't know this sector very well.
- 2- Another major challenge facing MFIs in Iraq is that lack of financial and economic products and services provided. MFIs don't provide wide range of financial products and services in order to reach large number of clients and achieve outreach scope.
- 3- Another major challenge facing MFIs is that Clients inability to bring all the required guarantees such as gold, etc.
- 4- The study found that Lack of international donors supporting microfinance industry which is very important for MFIs in order to achieve financial- Self-Sufficiency and operational Self-Sufficiency, etc.
- 5- The study found that Lack of Lack of liquidity is another major challenge facing MFIs as most MFIs don't have adequate capital and resources to operate all over the country and provide wide range of financial products and services.
- 6- The study found that Weak legislations, jurisdictions concerning Microfinance industry is also another crucial challenge facing MFIs in the country.
- 7- The study found that Absence of Community Awareness about microfinance products and services, etc. MFIs products and services are not recognized by the community as there is lack of advertisement, awareness campaigns, etc.

Opportunities

- 1- The study found that there is an attractive investment environment for microfinance products and services as microfinance sector/industry is still new and it has more demand and potential market.
- 2- The study found that there are more demands on consumption projects as it has more potential market and opportunities.
- 3- The study found that there are more demands on services projects as most microfinance institutions are offering loans for service project.
- 4- The study found that there are more demands on productive projects as there is market opportunity for this product.
- 5- The study found that there are more opportunities for agricultural products in the microfinance sector. Microfinance institutions are offering loans and finance to farmers, women, etc.
- 6- The study found that there are huge market opportunities for microfinance institutions as microfinance industry in Iraq is still new and there many potential sectors in which MFIs should target and develop variety of financial products and services to be tailored to the needs and requirements of the targeted group.

SUGGESTIONS

This study suggested the following:

- Microfinance institutions should build the capacity and skills of their staff in order to provide wide range of financial products and services.
- Microfinance institutions should contact international donors in order to increase the outreach scope and reach the poor.
- Microfinance institutions should develop many of products and services that meets the needs and requirements of the targeted groups.
- Microfinance institutions should develop solar systems product in order to provide it to the targeted group, farmers, youth, women, entrepreneurs, etc.
- Microfinance institutions should adopt best practices and lessons learned at the microfinance in Iraq context.
- Microfinance institutions should make awareness campaigns such as social media, advertisement, TV, Radio, etc. about MFIs products and services, etc.
- Microfinance institutions should establish Risk Management Department at their institutions in order to avoid risk and minimized the Portfolio at Risk(PAR).
- Microfinance institutions should build strong infrastructure in order to provide wide range of financial products and services to their clients.

Limitations of the Study

This study is limited to the following:

- This study is limited to challenges and opportunities of MFIs in Iraq.
- This study covers the period from July 2020 till August 2020.
- Lack of respondents.
- Lack of data.

CONCLUSION

Microfinance Institutions in Iraq are facing major challenges such as lack of qualified staff, lack of variety of financial products and services, absence of government support, weak legislation and jurisdictions, etc. However, this industry has huge market opportunities as there are potential market and demand for microfinance products and services. Microfinance institutions should develop variety of products and services that meets the needs and requirements of the targeted groups such as farmers, youth, women, entrepreneurs, etc.

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