

**EFFECTS OF THE MICROCREDIT PROGRAM ON THE GROWTH OF SMALL  
BUSINESSES IN POSTWAR IRAQ**

**By  
Eman M. Ali**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
for the degree of

**MASTER OF PUBLIC POLICY**

2010

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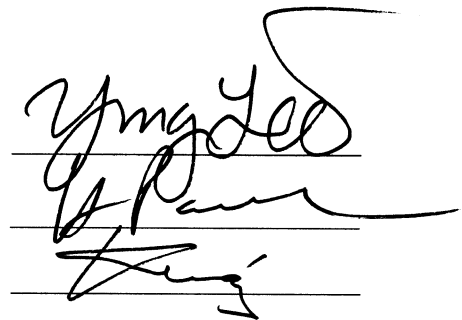
**MASTER OF PUBLIC POLICY**

Committee in charge:

Professor Yong, S - Lee, Supervisor

Professor Hun Joo PARK

Professor Dong Young KIM



Three handwritten signatures are shown on horizontal lines. The top signature is 'Yong Lee', the middle is 'Hun Joo Park', and the bottom is 'Dong Young Kim'.

Approval as of November, 2010

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# **EFFECTS OF THE MICROCREDIT PROGRAM ON THE GROWTH OF SMALL BUSINESSES IN POSTWAR IRAQ**

## **ABSTRACT**

Microcredit is widely used as a means of job creation in the recession periods. Iraq in 2007, adapted this policy to satisfy many socioeconomic disorders resulted from what is so called transition era. Hence, unemployment, displacement, families affected by military or terrorism operations are the sorts of disorders the government has to control by using this policy.

The study as a first academic research in this field in Iraq adapts a descriptive method to identify the MCs, the Small businesses, and the clients utilize them. Hence, it sets many criteria to help measuring the program's targets and performance based on these standards.

The Microcredit program to support Small businesses in the Ministry of Labor and Social Affairs is selected as a case study to carry out a qualitative study. The survey is the main sources to grasp the public opinion beside the secondary data. Hence, the borrowers from 6 vocational training centers out of 11 centers in Baghdad are chosen. A systematic random sample is adapted in the selection of the candidates in the survey to overcome the subjectivity inherited in the descriptive research. The other source of data is collected from different sources including reviewing of the official and governmental documents, books, journals, the UN, the ILO, the World Bank publication, the direct meetings with experts in the Ministries concern about this issue, in addition to the websites.

The result of the study shows that the microcredit program was a moderate according to the criteria proposed. Therefore, the study finds out that this policy contributes to

increase employment, the number of the small businesses, independent of small businesses, empowering the families affected by terror and violence, but this contribution is of poor quality and productivity.

The microcredit program seems not beneficial to the very poor clients, hence the high rate of default, none income generating, and vain small businesses.

The recommendations concentrate on reviving the managerial operations of the program to enhance its benefit and reduce the program cost on one hand; on the other hand it concentrates on raising the labor capital skills whether for the officials or the borrowers to maintain the Iraqi labor, with more concentration on protecting and encouraging the Iraqi products from the aimless imports of the Iraqi markets of nowadays.



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17\9\2010  
Eman M. Ali

**Deducted to the young of my family  
Leana, Sara, Ahmed,  
Mustafa, Taha, and Mohammed**

## ACRONYMS & ABBREVIATIONS

COSIT	Central Organization for Statistics & Information Technology
GBs	Grameen Banks
GD	Gross Domestic Products
ILO	International Labor Organization
ILVCS	Iraq Living Condition Survey
IMF	International Monetary Fund
KDI School	Korean Development Institution
MCP	MCP Microcredit Program
MFLS	Microfinance
NGOs	None Governmental Organizations
UN	United Nations
UNDP	United Nations Development Program

# I. INTRODUCTION

## 1. Problem Statement

Iraq, one of the richest Middle East countries in its resources, has fallen to a state of poverty, owing to years of political isolation, economic embargo, and wars. The fall of Saddam Hussein followed by the United States invasion in 2003 worsened the situation. The invasion, which demobilized the Iraqi army and the security services, invited a storm of terrorism, crimes, and sectarian conflicts all of which have brought the economy to the nation's infrastructure utterly destroyed. No sooner had the country gotten rid of one evil than another evil, terrorism, brought the paralysis of the nation's economy and its underlying infrastructure.

The postwar Iraq now has twin challenges—to build a democratic system of governance on the one hand, and to reconstruct the economy based on a free market on the other. These are tall orders which will take many years.

Meanwhile, the people must survive and sustain their life literally from their bootstraps. They needed help. Confronted with the tragic need, the Iraqi government and its partners led by the United States introduced that so called microcredit program that would help jump-start the development of small businesses—essentially the mom-and-pop shops—in the neighborhoods.

The microcredit program began in 2007 and for the past, 3 years, during which the government has distributed roughly about \$500 million. The total budget for the program was \$642 million.

The question I raise in this study is: How successful has this program been to help jump-start the development of small businesses? We need an answer to this question because the government needs to know whether the money has not been wasted, and if it has, the government must figure out a better way of channeling the money.

So far, no systematic study has been conducted to gauge the effects of this program owing to the political turmoil of the Iraqi nation and the precarious life condition plagued by incessant terrorism.

## 2. The Purpose of the Study

This study aims at measuring the economical impact of this policy upon the small to micro businesses specifically. It is conceived with to make an exploratory assessment, of the microcredit program in the postwar Iraq. It is important to stress at the outset that the study presented here is a descriptive study for the microcredit experiment.

There are no previous studies about microcredit in the country. Therefore, to gain a first impression on the microcredit policy experiment, a case study is adapted. I have select 6 vocational training centers and examine whether the microcredit program responds positively to the questions follows:

1. Has the microcredit program spawned small businesses as expected?
2. Has it helped creating new businesses?
3. Has it helped the client of the microcredit program to generate income?
4. Has it helped building the client's assets and ownership?
5. Has it helped prevent default and bankruptcy?
6. Has the microcredit program been efficient in allocating the microcredit?

## II. ISSUE BACKGROUND

In February 2006, Iraq has witnessed massive sectarian violations after the destruction of the holy shrine in Samarra. The deterioration of the security situation contributes to complicate the situation of most of the Iraqis, especially those directly affected by these situations. Hence, the decision of the prime minister targeted the unemployed, the citizens as individuals and families affected by terrorism. In addition to that, the open market trend itself, which has its share in promoting the problems' as the subsidies elimination for fuel, electricity, water supply and others.

Hence, the decision in 2007 was made to promote the security stability in Baghdad. Then it stretched to the rest directorates of the country except for Kurdistan the stabilize region.

The unemployment rate in the country in 2006 is about 1.3-2 million Iraqis. It is noticeable that majority of the Iraqis in the private sector work in the micro, small and medium-sized businesses, since the embargo after 1991. According to (COSIT, 2004) survey, 60% of Iraq's working population or 2.3 million people, earn their living through working in a private or family business. It is recognized that reducing the high levels of unemployment especially amongst the "young and displaced workers would have a favorable impact on security and on the law and order situation.

### III. METHODS AND DATA

The data collected for the study is gained from two main resources: (1) a structured interview and (2) secondary sources mainly from the Iraqi government.

#### 1. The Survey Procedure

The study is of a descriptive nature. Therefore, a survey is conducted to have qualitative data about the public opinion of the microcredit program that supports the small businesses at the Ministry of Labor and Social Affairs in six vocational Training Centers out of the 11 centers for loans allocating in Baghdad as attached in Appendix B.

Security problems and other considerations (e.g., newly established centers) prevented me from surveying the prospective participants in certain centers. I choose the Vocational Training Centers to cover the entire occupations without bias results from distance or risks, I attempt to go beyond the security instability, and the behaviors of mistrust among the participants in the survey that let no place to borrowers to give information to strangers.

The Ministry of Labor and Social Affairs Database Division publishes data of the approved requests of its clients. These data is listed as outcomes of the access program. The access lists contains of the tracks, the borrower names, and their small businesses numbers.

I focus on the borrowers of 2008 who suppose to receive their loans or at least part of them until twentieth of November 2008 in which there are 2276 approved requests of applicants to have loans. The year 2008 is chosen for the loans are in the process of paying to the participants, and the regulations of the microcredit program of 2008 seem to give more credibility than of 2007. The violation environment was affecting everything in 2007.

The sample selected for the purpose of the study represents 10% of the community that was 2276. The systematic random sample was adopted. Hence, I selected one client out of every five individuals in the listed names of the access lists. The final number of the

sample is (n = 228).

The interview questionnaire consists of 21 items as attached in Appendix A. The questionnaire attempted to find answers to the main criteria that contribute to enhance or degrades this program. It aimed at finding out, the main problems accompanied with the program and what could be done to develop this policy from the participant's point of view.

The structured questionnaire was used to encourage the participants answer the same basic questions. The author clarified the questionnaire items for each participant and followed up on his or her responses.

Those who were eligible for loans are determined by the Ministry of Labor and Social Affairs regulations of 2008 as follows:

1. The unemployed whose subsidy of social protection net is cut.
2. The displacements according to terrorism, who return to their houses.
3. The destroyed stores due to military and terrorism operations.
4. The families affected by terrorism their providers are dead or disabled with disability ratio not less than (50%) or more.
5. The unemployed who are registered at the database of Ministry of Labor and Social Affairs until the thirty first of July 2007.

Telephone calls were made to 300 participants to attend interviews at the 6 vocational training centers by the officials of these centers in cooperating with me, but the actual number who participated in face to face interviews is 160 participants rated at 70.48% out of the 2276.

Therefore, well prepared halls were used to meet the participants. This was to enhance an informal environment that might go beyond the formal buildings the participants were to be interviewed in. I introduced myself to the participants as a student at the KDI School of Public Policy and Management MPP at the republic of Korea. I mentioned the study topic and purpose. Then, I informed them that the forms are anonymous, and its output would be used



for the purpose of the study only. I urge them to suggest whatever that contributes to develop a better program. Finally, I asked them to feel free to contact me anytime concerning the study.

About 22 percent of the original sample did not come to the interview sessions. Nor could I interview several prospective participants for the reasons that I explain below:

1. They have no time. They have work to do.
2. They do not believe that they would benefit anything from participating in such interviews.
3. They do not like to be involved in any action that might affect their own loan.

The interviews periods lasted for about two months, from December 18, 2008, to February 5, 2009.

## 2. The secondary data

It is used whenever needed to gain more reliability to the study. Most of which are governmental reports, letters, books, magazine, articles, studies, the publications of the UN, the ILO, and the World Bank, in addition to direct communications with many experts in this field.

#### IV. IMPEDIMENTS

The survey is limited to the MCs recipients in Baghdad. Therefore, the result of this study might not be generalized to the entire eligible population in Iraq. It is important to stress, however, that Baghdad is the capital of Iraq so the result of this study may be a good approximation of the eligible population who had been affected by the U.S. led invasion and the subsequent sectarian violence.

Another limit is the security situation instability in the time of data collecting. This does not help the student to send the questionnaires to the participant at their addresses. Hence, an interview is adapted at the Ministry of Labor and Social Affairs' centers, which are the only way that let me, reach the participants without any bias of distances and time. In addition to help me, gain full answers to the questionnaires. Moreover, it lets me, know more about the microcredit and the small businesses from the one hand sources.

The volume of the borrowers in the two centers of Abu-Graib, in which there is only 9 borrowers, in time the sample representatives suppose to be 10% of the participants. This reflects the instability security situation of the city.

The limited areas of Al-Sadir and Al-Shaab centers, reduces the ability of interviewing any participant there. In addition to Al-Rashaad and Al-Mahmoodia centers which are excluded as well from the study for they have just started their job during 2008.

## V. CONCEPTS, DEFINITIONS, AND ASSESSMENT MEASURES

### 1. The Microcredit Approach to Economic Development

Microcredit is a small amount of loans provided for the people lacking access to financial institutions. The microcredit is rather a new concept relates to 1976, the vision of Professor Mohammad Yunus. He is an economist who creates the idea of Grameen Banks GBs for poor villagers in Bangladesh and for the women specifically.

He believes that the poor can participate in development for they can build their own assets and discharge their loan. He also believes that income disparity is a serious threat to the global peace.

Micro lending is the responsibility of the banks. It is a profitable investment, and not a charity, though it has a socioeconomic dimension. The GBs adapt the group-based lending mechanism to help paying off the loans and reach the very poor. Therefore if any of the group defaults to repay, the whole group share helping in paying off and avoid bankruptcy, but what if most of them defaulted? It would be a big burden at the whole group, and at the banks! But, I think it is hardly happened in reality.

As a concept "microcredit, microfinance and micro lending, means providing small working capital to self employed." microcredit are based on the premise that the poor have skills which remain underutilized. Therefore, the ILO, the UNDP, the international year of microcredit, and the World Banks, start encourages the implementation of this sort of policy as a means of empowerment, social and human development, and poverty reduction.

The Microcredit Summit in 2005 defines them as" programs extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families." Hence, Hari Srinivas, the coordinator of Virtual Library on Microcredit summarizes the main features of it as follows:

- Loans are micro, or very small loans in size.
- They target micro entrepreneurs and low-income households.
- Funds are used for income generation, enterprise, and community development.
- The conditions for microcredit are flexible and easy.

Some studies suggest that microcredit is beneficial but only for a limited extent. A client of microcredit is an entrepreneur in the literal sense: hence, raises the capital, manages the business and is the residual claimant of the earnings. But the vast majority of microcredit clients are caught in subsistence activities with no prospect of competitive advantage. The self-employed poor usually have no specialized skills and often practice multiple occupations.

The Iraqi microcredit program is a governmental program started in the first of October 2007. It aims at helping the illegible to have loans to start or develop small businesses those generate incomes. The illegible are the unemployed, the affected citizens by terror and military operations. The program grants are 3000-10000\$, hence, they are micro in volume. This program displays many incentives as: These loans are free from any sort of taxes or interests, the borrowers are permitted not to pay any installments in the first 6-12 months, and the borrowers are to repay the loans within 5-8 years due to the loan's sums. Meanwhile, these loans are not a charity, for they should be repaid.

The program does not set any role of any sort of discrimination between sexes, but the program's application encourages men rather than women for different reasons.

## 2. Evaluating criteria

### a. Unemployment reduction

This program stresses reducing the unemployment. Therefore, the graduated unemployed who lost their subsidy of social protection net, and all the unemployed who are registered in

Ministry of Labor and Social Affairs database up to thirty first of December 2007 are the candidates of this program. So does it help unemployed reduction?

b. Reconstructing the small businesses

The microcredit program also implies reconstructing the shops affected by military operations and terrorism. Are there any limits to cover these shops?

c. Empowerment

This policy sets to assist the displacements who return to their houses, and the families affected by terrorism that their providers are killed or disabled. Thus, does it imply empowering these populations to have a new start?

d. Viability and sustainability

Viability and Sustainability: "Sustainable Development is a pattern of resource use that aims at meeting human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations." Viability is the ability of the business to survive. This policy supports starting or developing small businesses aiming at generating income to the targeted population. Hence, could these small businesses survive and generate sustainable income?

## VI. RESULTS OF THE STUDY

### 1. Profile of the Participants

In the survey chart1 shows that the males represents 90.6% participants (n=145), and the females represents 9.4% participants, (n=15) out of (n=160) participants.

The reasons for the low participation of the women resulted from: First, the Iraqi tradition which treats men as the main source of responsibility for their family. Second, the Ministry of Labor and Social Affairs regulation aims at covering as more as eligible. Therefore, if the husband is employed in the public sector, his wife would be ineligible to apply for having microcredit. This kind of regulation reflects the weakness of the market studies in the country. Hence, the informal economic is a phenomenon in the country.

Third, the widows and divorced women prefer to have the social protection pensions rather than starting businesses.

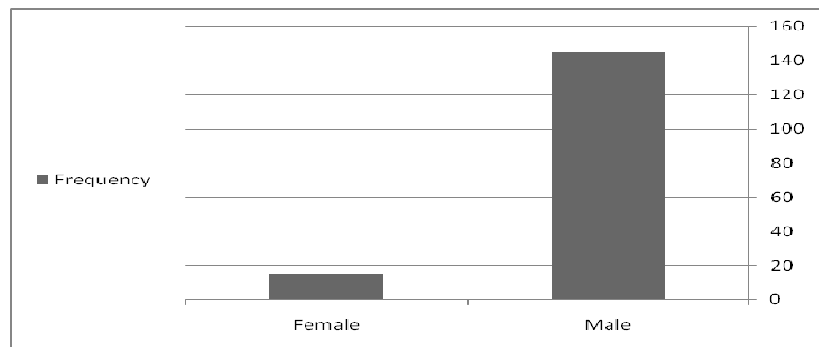


Chart1. Gender distribution of the participants

When broken down to age groups, table1 shows that the category of 30-40 represented 40.6%, (n=65). The age group 20-30 represented 35% (n=56), the age group 40-50, and 23.1% (n=37), and the age group 50-more represented only 1.3% (n=2).

Group's Ages	Frequency	Percent
20-30	56	35.0
30-40	65	40.6
40-50	37	23.1
50-more	2	1.3
Total	160	100.0

Table1. Client's Age groups

In terms of family life table 2 shows that the largest category of participants is the married sigma. It consisted of 77.5% participants, (n=124), the singles represented 20% participants, (n=32), the divorced and widows represent 1.3% participants, (n=2) for each of the two categories. Which means that most of those participants are responsible for raising families?

Social Status	Frequency	Percent
1. Single	32	20.0
2.Married	124	77.5
3.Divorced	2	1.3
4.Widow	2	1.3
Total	160	100.0

Table2. Client's family life

I have also broken down the participant in terms of their education. Table 3 shows that the illiterate category is the fewer quota among the other categories, they represent 6.3% participants, (n=10). Those who either can read or\ and write and have the primary school certificate represent 10.0% participants, (n=16).The graduated from secondary schools, are 33.1% participants (n=53). The last category is the graduated from institutions and colleges, they represent 50.6% participants, (n= 81). The reason behind their stand is that they are the

main targeted category of the program.

Education Level	Frequency	Percent
1. Illiterate	10	6.3
2. Read, Write & Primary School	16	10.0
3. Secondary Schools	53	33.1
4. Institution or College	81	50.6
Total	160	100.0

Table3. Education status of the clients

The survey shows as well the compatibility of education and training of the participants with their businesses. Chart 2 Shows that there are 46.9% participants, have convenient education to start business (n=75). Over than fifty three percent participants, (n=85) think that their education would not support their businesses. Five point six percent participants, (n=9) only have a formal education that support their businesses, 6.9% participants, (n=11), have occupational training courses that fit with their businesses, and (34.4%) participants, (n=55) have experiences during working with others.

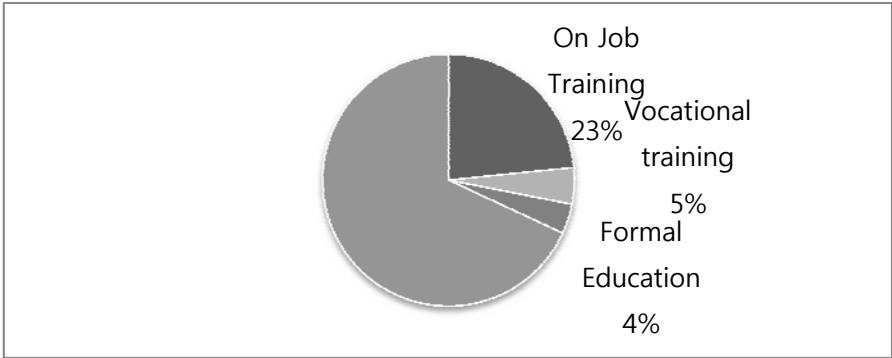


Chart2. Education sort's compatibility and businesses



## 2. Implementation of the Microcredit Assistance Program

### a. Reasons behind applying to have microcredit

I grouped the two categories of unemployment into one category. They are the graduated unemployed and the unemployed in different levels of education as one group. Table 4 shows that more than eighty eight percent participants, (n=141) are unemployed. The displaced who return back to their houses represented 8.8% participants, (n=14). The damaged stores represented 1.9% participants, (n=3). The last category is the families that lost their breadwinners by disability or death. They represented 1.3% participants, (n=2)

Reason Behind Applying to Have Microcredit	Reasons	Frequency	Percent
	1. Unemployed	141	88.1
	2. Displaced	14	8.8
	3. Damaged Store	3	1.9
	4. Family affected b Terror	2	1.3
	Total	160	100.0

Table4. Reasons behind applying to have microcredit

### b. The process of allocating microcredit

Table 5 shows that sixty percent participants (n=96) have received their microcredit or its (1<sup>st</sup>) payment by the date of interviewing. This means that 40.0% participants, (n=64) did not receive anything by the interviewing time. The survey shows that those who receive their 1<sup>st</sup> payment are as follows: 64.6% participants, (n=65) received 2000\$, 16.9% participants, (n=27) received 3000\$, 2.5% participants, (n=4) received 3500\$ by the date of their interviewing.

According to the Ministry of Labor and Social affair's regulations the total microcredit

supposes to be 3000-10000\$.The total loans in the survey would be as follows: 3.8% participants, (n=6) would receive 7000\$. 15.6% participants, (n=25) would receive 6000\$. And 40.6% participants, (n=65) would receive 5000\$. That mean none of the participants receive the maximum total loan.

	Category	Frequency	Percent
Receiving loans or part of them	1. Yes	96	60.0
	2. No	64	40.0
	Total	160	100.0
The payment Received	1- 2000	65	64.6
	2- 3000	27	16.9
	3- 3500	4	2.5
	Missing System	64	40.0
	Total Credit	160	100.0
Total Microcredit	1- 5000.0	65	40.6
	2- 6000.0	25	15.6
	3- 7000.0	6	3.8
	Missing System	64	40.0
	Total	160	100.0

Table5. Microcredit allocating processes

c. The waiting periods for microcredit

The survey shows in table 6 that the dominant period of receiving every payment is between 3-5 months, in which, there are 33.8% participants, (n=54), there are 16.9% participants, (n=27), who receive their payment within 1-3 months, there are 8.8% participants, (n=14) who receive their payment within 5-7 months, and there is one participant 0.6%, received it within 7 months. The missing system reflects the participants who have not received anything in the time of their interviews.

Waiting Period in months	Frequency	Percent
1. (1-3)	27	16.9
2. (3-5)	54	33.8
3. (5-7)	14	8.8
4. (7- more)	1	0.6
Missing System	64	40.0
Total	160	100.0

Table6. Waiting periods to receive microcredit

d. The complexity of procedural requirements

Table7 shows that 40.0% participants, (n=64) thought that the procedures of obtaining the microcredit were very complex. Over thirty-six percent participants, (n=58) thought that the procedures were complex, and 23.8% participants, (n=38) thought that the procedures are easy and acceptable.

Procedure's Complicity	frequency	percent
1. Very Complex	64	40.0
2. Complex	58	36.3
3. Easy & acceptable.	38	23.8
Total	160	100.0

Table7. Procedure's complexity of microcredit allocating

e. The periods of discharging microcredit obligations

Table8 shows that over fifty percent participants, (n=25) consider the period of paying off the loan within 5-8 years as very proper. 45.0% participants, (n=72) consider it as proper. And, 39.4% participants, (n=63) consider them improper.

	Category	Frequency	Percentage
Periods of Discharging Obligations	1. Very proper	25	15.6
	2. proper	72	45.0
	3. Improper	63	39.4
	Total	160	100.0

Table.8. Periods of discharging Obligations

f. Monitoring of the business progress

There are several monitoring committees concerning the microcredit program at the Ministry of Labor and Social Affairs within and outside the microcredit program.

Monitoring started after one month of having the 1<sup>st</sup> payment of the loans by the borrowers, the small businesses are to be visited by these committees to consider their determination and commitments to start or develop business. Therefore the businesses suppose to be furnished with no less than 70% of the main necessities, photos are taken to the borrower and their businesses with the committees that visited them. Then written reports are raised by these committees to release the last payments or not.

Chart3 shows that there are 41.3% participants, (n=66) reported that their businesses are visited by the monitoring committees; 58.8% participants, (n=94) reported that their businesses are not visited yet.

Over thirty four percent participants, (n=55) announce that their businesses are visited for only one time. That means they receive their 1<sup>st</sup> payment and suppose to be ready to receive the last one.

About 6.9%, (n=11) participants declare that their businesses are visited by the ministry of Labor and Social Affairs committees for 2 times, which means that they receive

their last payment. None of the 160 businesses are visited for more than 2 times. This means none of the other comities at Ministry has visited them, even the general investigation department during the period of collecting the data, which lasted for about 2 months.



Chart3. Monitoring process

3. Effects on employment

The unemployment in Iraq is about 1.3-2 million Iraqis out of the 7 million Iraqis active labor force in 2006. A majority of the Iraqis in the private sector work in the micro, small and medium-sized businesses. According to (COSIT, 2004) survey, 60% of the Iraqi working population or 2.3 million people earn their living through working in a private of family business.

Given the large size of Iraqi families approximately 6.4 million non-agriculture workers depend on these incomes as their sole source of livelihood. Therefore, the eligible populations to be considered as unemployed for this program are (a) persons above 15 years of age and (b) persons who are unemployed, (c) those who are registered as unemployed on the database of Ministry of Labor and Social Affairs until December 31, 2007, and (d) persons who are available and seeking for jobs.

The survey shows in chart 4 that 61.9% participants, (n= 99) announce that they would employ between 1-3 unemployed at their small businesses. About eleven percent participants, (n=17) would employ between 3-5 unemployed. Over three percent participants, (n=5) would

employ between 5-7 unemployed, and 1.3% participants, (n=2) would employ between 7- more unemployed. Whereas, 32.1% participants, (n=37) are not willing to employ others in their businesses out of the 160 participants.

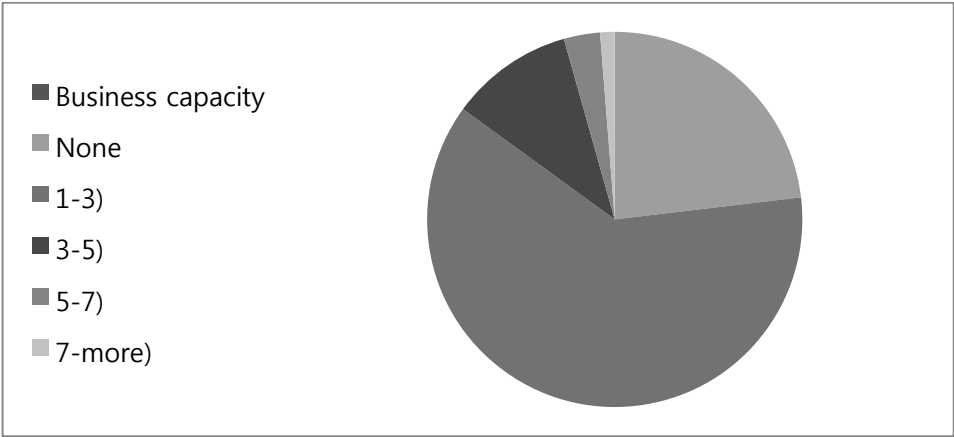


Chart4. Small businesses capacities

Several items are worth reporting. First, the record shows that 92,606 requests were approved for starting or developing small businesses for the period 2007-2009 by Ministry of Labor and Social Affairs that would definitely contribute to increase employment volume. According to (Ali Riyadh, 2009), the unemployment is reduced to be (1.165.110) in 2009 comparing to 2006, which is (1.3-2) out of the 7 million labor force.

Second, considering that the economically weakest members of Iraqi society might not be unemployed, but in fact they might be part of the working population; it is probable that the poorest rural Iraqis find their source of livelihood in the micro or small enterprise segment.

Third, the new additions by the microcredit program would amplify the volume of the self employed to micro businesses specifically. Fourth, the other thing is that reducing the high level of unemployment especially amongst the "young and displaced workers would have a favorable impact on the security and on the law and order situation. The question might be raised is, what does this addition means to the Iraqi economy? In fact using this

policy invokes the other question of whether this policy is the best way of using the program's high "cost" efficiently. My concerns are that many of these borrowers have no vision to be used in such businesses. Thus, 12% of the clients defaulted to pay off for their loan in time, 10% of these small businesses are none income generating, and 3.1% are vain businesses according to the survey.

This program might sacrifice the qualifications of many of these populations in doing businesses that are not compatible with their skills or qualifications. Thus, they fail to survive.

Finally, the impact of these businesses upon the economy according to the ILO is poor due to comparative study of seven developing and transitional countries found that jobs in "small businesses are less remunerated, less productivity, and of poorer quality on average.

#### 4. Effect of microcredit on new small businesses

The abbreviation Small Medium Enterprises SME in Iraq refers to all businesses with a headcount less than 30 employees, with 1 to 4 workers are considered to be micro businesses and those with 5 to 9 workers are considered to be small businesses. According to (ILSC, 2004) micro businesses in the non agricultural sectors represents 78%, the small businesses represents 14%, the medium businesses represents 6%, and the large businesses represents only 1% out of the whole businesses in the country.

In 2005 the non agricultural small businesses in the country is 1,343,612. The survey shows in table 9 that 82.5% participants, (n=132) are going to start new businesses. Almost seventeen point five percent participants, (n=28) are going to develop their businesses through this program. This means that more than 3 quarters of the small businesses are sorts of addition to the country economy.

Microcredit Direction	Categories	Frequency	percent
	1. Start new business	132	82.5
	2. Develop business	28	17.5
	Total	160	100.0

Table9. New businesses volume due to the program

#### 5. Effects on local economic revitalization

Most of the participants in the survey are living and starting their businesses in the same areas. The survey shows in table 10 that these areas are located in 6 arrondissements out of the 8 in Baghdad. They represent 54 areas in 48 Nahias in the city. Over six percent participants, (n=10) declared that their small businesses are located in rich areas, whereas, 93.8% participants, (n=150) declared that their businesses are located in rather moderate to poor areas. Most of these small businesses are located in the rural areas of the capital.

Category	Frequency	Percent
1. Rich Areas	10	6.3
2. Moderate – Poor Areas	150	93.8
Total	160	100.0

Table10. Standard of living of the participants

#### 6. Viability of the microcredit-supported small businesses

Viability means "the ability to survive". People are to satisfy their basic needs as food, cloth, shelter, and other sort of developments as health, education, and other things. A World Bank study finds that profits from Grameen-financed businesses help increasing borrower's consumption by 18% per year, and that the percentage of Grameen borrowers living in extreme poverty is reduced by 70% within 4.0 years.

In Iraq, the pay off rate of microcredit program in 2009 is 88%; indicate the borrower's



capability to survive.

The survey sets 4 items that supposedly contribute to consider businesses viable. These are the profitability, competitive, sustainability, and infeasibility of other businesses. The participant's responses are set in table 11 as: twenty percents participants, (n=32) think that their businesses are profitable, 9.4% participants, (n=15) think that their small businesses are competitive, 67.5% participants, (n=108) think that they are viable and 3.1% participants, (n=5) think that their businesses are infeasible or vain.

Category	Frequency	Percents
1.Profitable	32	20.0
2. Competent	15	9.4
3. Viable	108	67.5
4.Infeasible	5	3.1
Total	160	100.0

Table11. Businesses viability

The survey shows as well the sufficient of the microcredit in contribution to viability of small businesses. Chart 5 shows that over six percent participants, (n=10) think that the microcredit are totally convenient to start or develop their small businesses. Thirty and half percent, (n=52) think that their microcredit are convenient to start or develop their businesses, but 61.3%, (n=98) think that the loans are inconvenient to start or develop their any businesses. That means more than a half of the participants declare that those loans are insufficient to cover their business's basic needs.

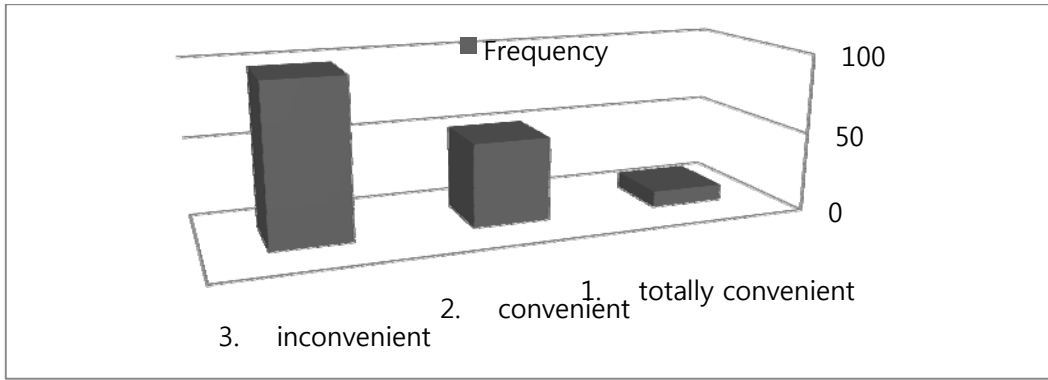


Chart5. Microcredit's sum sufficiency to start or develop businesses

### 7. The growth of small businesses

Small businesses spread in all of the economic sectors in Iraq; the microcredit program has worked to support these sectors. The survey shows in chart 6 that the contribution of the program in these sectors is as follows: 44.4% participants, (n=71) working in the commercial sector. Thirty one point three percent participants, (n=50) are working in the industrial sector. Over eighteen percent participants, (n=29) are working in the services sector. The last and least sigma is the small businesses in the agriculture sector, they represent 6.3% participants, (n=10).

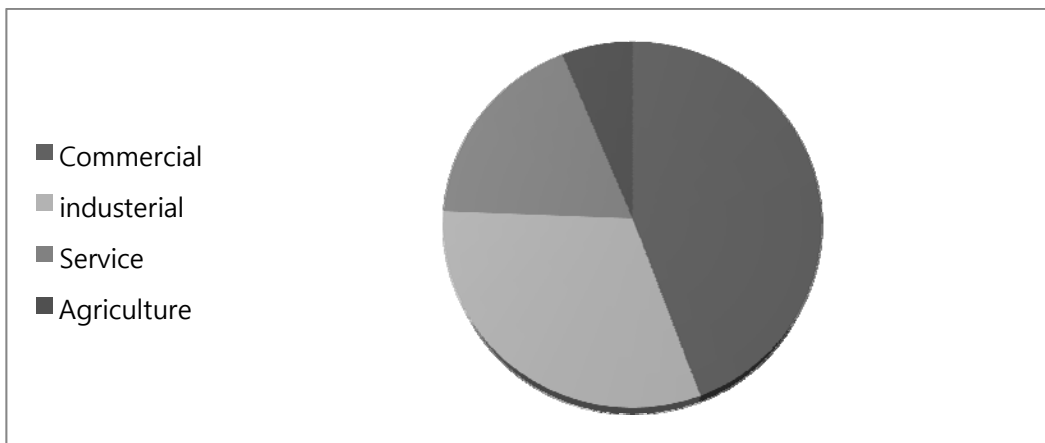


Chart6. Distribution of microcredit sectors

## 8. Unintended consequences of the program

The survey shows that there are 61% participants, (n=98) announce that the loans sums are insufficient to start businesses. That means, first: more than half of the program's clients are not satisfied with it. This outcome reveals the reason behind the high rate of default of 12% of the borrowers, and the 10% as none income generating of client's businesses in the country?

Second, the program might sacrifice the qualifications of many of its client in doing businesses that are not compatible with their educations or skills. Thus, many of these businesses fail to survive. Hence, the survey shows that 53% participants, (n=85) declare that their education is not compatible with their businesses, in time the graduated forms 50.6% participants, (n= 81). This might mean that those populations are going to lose the opportunity cost of their educations.

Third, the impact of these businesses upon the economy seems to be poor on average, according to the ILO most of these businesses are "less remunerated, less productivity, and of poorer quality on average."

Fourth, microcredit program has declined since 2008 to cover 10% only from the stores affected by the military or terrorism operations, as well as it declines encouraging the women to join this form of businesses, therefore the survey shows that the women quota as is shown in chart 7 is no more than 9.4% participants, (n=15), in time the men share is 90, 6% participants, (n=145).

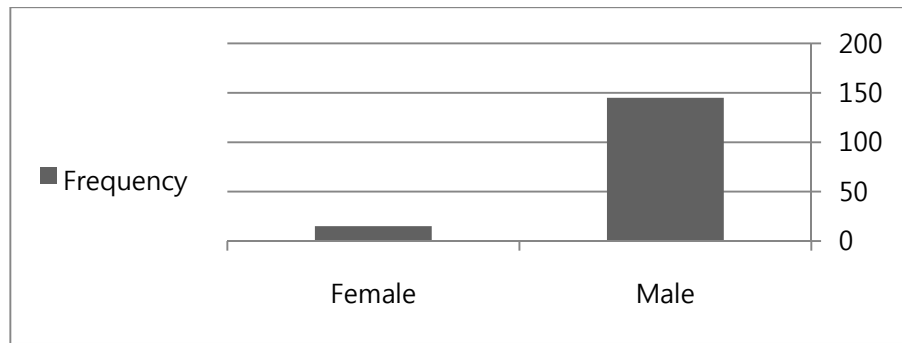


Chart7. Gender distribution in the program

Sixth, the survey shows fully that most of the managerial processes are inefficient. They are slowly, long, complicated, routine, far away from the flexibility of microcredit allocating which raise their cost and reduce their benefit.

The last thing is that, the simple observation obtained by the researcher during the interviews refers to the inadequate of the credit to cover the large applicants applied to have small loans.

## VII. Case examples

To provide a clearer picture of the microcredit program in action, I highlight a few personal stories I have gathered when I was conducting face-to-face interviews with my subjects.

### Case #1, Khalida

Khalida is 27 years old a female. She lives in Aur city a moderated area as socioeconomic status. She is single. She is the older sister in her family that consists of 7 individuals. She is a civil engineer, but never works before. She thinks that the microcredit program is a good chance for her to start business that helps her and the family to survive. Her business is a store to sell food stuff in her neighborhood. The first payment of her loan is 2000\$, she is hoping to have the last payment soon to start her job. Her total loan is 5000\$. She expects that her business is viable. It would enable her to earn 500 000ID a month, though the sum is not much, but she hopes that it would be developed in the near future.

### Case #2, Abo Hasaneen

Abo Hasaneen is a male of 45 years old. His major is agriculture and horticulture. He lives in Al-Fodailia a moderate to poor area. He has a buffalo's farm. Hence, he applied to have the loan to develop his job. He received the entire loan which is 5000\$. His whole family is participating in the job. He thinks that these loans can hardly add anything to his job for the high cost of these animals, but still it is better than nothing. He thinks that he might earn (400 000ID) a month due to this loan. He wishes that the rotten of approving the loan would be faster than it is, and the loan would be decided according to the project's cost, size location, and significant. He wishes that the government gives the businesses in the agriculture sector subsidies for the feed and other facilities.

#### Case #3, Kasim

Kasim is a male of 43 years old. He has a workshop to produce shoes. He lives with his family of 5 individuals in Al-Adamia city a moderated area as socioeconomic status. He applies to have a loan to develop his business. He receives 3.500\$. He employs other 4 unemployed with him. He thinks that the imported goods are destroying his business. He complains that the loan's sum is below his expectation. He wishes that the government would subsidize the Iraqi products, marketing them and protect them from the aimless imports of the Iraqi market of nowadays as well.

#### Case #4, Abu Ahmed

Abu Ahmed is a male of 33 years old. He lives in Al-Hurria city a poor to moderated area as socioeconomic status. He is graduated from the education college\ Arabic department. He never works according to his major because of the last unjust salaries in the public sector. His project is a small store part of his house to sell food stuff. He has the first payment, which is 2000\$. He said that the store is hardly gains anything. The man seems to me as if he is lost. Most of his answers are to be repeated, though they are written. He said to me that his family of 3 individuals seems to be in a big trouble because of this failure business. He thinks that his project is nothing but vain and infeasibility.

#### Case #5, Saladin

Saladin is a male of 52 years old. He is graduated from languages college\ Russian language. His business is a store for formulation the gold ornaments and silver. He applies to have a loan to develop it. He receives the first payment of his loan which is 3.500\$. The total loan is 7000\$. He employs 3 unemployed in his store. He earns as much as 3000 000 000ID a month. He believes that his business is viable and profitable. He thinks that the microcredit

program is a good program to develop the Iraqi product, but he wishes that the loan sum would be bigger than it is.

## 9. SUMMARY, CONCLUSION, AND RECOMMENDATIONS

### 1. Summary

Microcredit program has been successful among several criteria, in an extremely difficult era, the sectarian conflict, the fragile security, and the barriers that blocked most of the main roads in Baghdad specifically. Despite these limitations, data reflect the sorts of the success as well as the failures as in bellow:

The microcredit program acts as a means of job creation and unemployment reduction. Thus, there are 92606 approved requests to have microcredit for the periods 2007-2009. The survey shows in table 12 that the program is encouraging its clients to employ other unemployed in their businesses. Thus, 61.9%, (n= 99) participants tend to employ between 1-3 unemployed, about eleven percent participants, (n=17) would employ between 3-5 unemployed. Over three percent participants, (n=5) would employ between 5-7 unemployed, and 1.3%, (n=2) would employ between 7-more unemployed. Whereas, 32.1% (n=37) are not willing to employ others in their businesses out of the 160 participants.

	Coded Response	Frequency	Percent
Businesses Capacities	None	37	32.1
	1-3	99	61.9
	3-5	17	10.6
	5-7	5	3.1
	7-more	2	1.3
	Total	160	100.0

Table12. Businesses capacities



Most of these small businesses are means of income generating. An investigation campaign in Baghdad discovers that 90% of these businesses are generating income; Data from the Ministry of Labor and Social Affairs shows that 88% of the clients pay off their loan or part of them in time. The survey shows that 96.9% of the small businesses are viable, for they are profitable, competitive, sustainable, but the rest 3.1% businesses turns to be infeasible or vain.

The program promotes the skilful by helping them building their ownership and independence. According to the survey as demonstrates in chart 8 that there are less than half of the participants have sorts of education that fit with their businesses. Thirty four point four percent participants, (n=55) have experiences during working with others, 5.6% participants, (n=9) only have a formal education that support their businesses, 6.9% participants (n=11), have occupational training courses that fit with their businesses, whereas the rest 53.1% participants, (n=85) think that their education would not support their businesses.

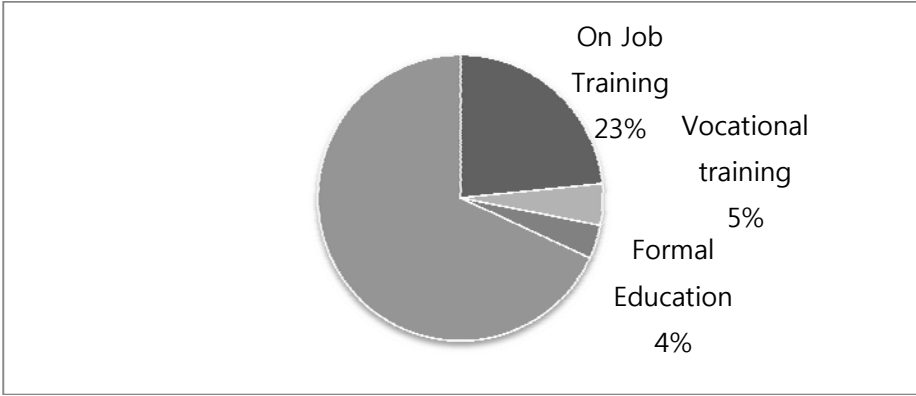


Chart8: Education compatibility with client's businesses

## 2. Conclusion

The program has been successful in achieving its objective as a means of unemployment reduction mechanism. Therefore, the program contributes to the viability and sustainability of income generating of most of its clients in the recession era.

The program plays as a social security net to the client by promoting businesses to generate income and revitalize the local societies. Therefore the program promotes the fortune and welfare of the participants rather than being an economic engine.

All the evidence from the field refers to the program impact on settling down the violation of many hot areas in Baghdad and the rest provinces. This contributes to human security of these areas, as well as the local economy.

## 3. Recommendations

Microcredit program in postwar Iraq has begun as a public investment for the building of the neighborhood, and local economy. As it turned out, much of the program has been functioning as though it were a social, welfare program. If the microcredit program were to continue to function as a welfare program, it will cease to a catalyst as intended to revitalize the local economy. If Iraq were to make the program as a way to develop an indigenous local economy, I suggest that the government might consider the following recommendations.

- a. As the loans are small in volume thus, the long chain of unnecessary steps leads to nothing but deletion in the outreach of these loans, reduce the loan's value and amplify its cost. Therefore, more efficient procedures are needed in this respect.
- b. This program supposes to be one of the established policies that help to rebuild a base of small businesses in Iraq. Therefore, it should be able to develop the Iraqi economy, with successful and competitive businesses. Thus, these businesses are to concentrate on the

cultural crafts, clustered businesses as for agricultural production chains, in addition to the other sorts of small businesses in the localities, rather than selling food stuff and cell phones.

- c. As a policy, the microcredit program should cover all sorts of small businesses these suppose to be developed. Hence, reconstructing of the small businesses all which are affected due to the military and terror actions are very significant, in addition to the businesses that needed to be supported as for the small businesses covered by the industrial services code number 3.
- d. The small businesses are sort of risky businesses. It seems that this sort of program is very costly if we are to consider all the efforts, as: the initial costs, establishing the managerial effort, database, auditing, monitoring, training "if it is needed", and the legal framework whether at Ministry of Labor and Social Affairs program, or at the Banks, and the uncounted interest as an extra cost to the program. Hence, the monitoring effort should amplify steering, protecting, and enhancing these small businesses.
- e. The microcredit program legal framework falls short behind the legislation which makes it vulnerable to alteration, amendment and addendum. Therefore, the legislation should be stabilized.
- f. The loans sums should be reconsider in the light of the businesses importance, size, location and activities.
- g. Most of the borrowers required to reconsider the yearly payment procedure which might affect their ability to repay in time. Therefore, it is deeply recommended to apply the monthly payments procedure to intensify the borrowers' commitments and reduce the big payments burden upon them.

- h. Most of the participants recommend to use the Iraqi currency instead of the USA\$ to enhance the domestic currency from one hand, and to escape the burden of the charges between the two currencies upon the borrowers.
- i. The survey shows clearly that the borrowers who start industrial and agricultural small businesses require different sorts of promotion to develop their businesses. Hence, having other loans, marketing their products to the governmental sectors on one hand, on the other hand, it is recommended to subsidy some businesses or protects them by means of using financial policies as the imposition of taxes on the imported goods and services to protect these products at least in the short run.
- j. The survey shows that the borrowers themselves admitted that the program helps them to overcome this era. Therefore, it is important to raise sort of public awareness about the importance of small business in supporting the Iraqi economy and reducing the harmful effects of economic reforms towards the market regime.
- k. The survey shows that the women category participation in this program is very small. Therefore, many skilful women withdraw from participation according to the program applications. This, result supposes to be reconsidered as the women is one of the targeted categories of the program all over the world.

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## APPENDICES

### Appendix A. The borrowers views points about the microcredit allocating program

Dear Borrowers

I am Eman M. Ali a student at the (KDI) School of Public Policy & Managements in Korea. I am about to write my thesis as part of fulfillment to have a master degree in that field. The study is entitled (The Effects of Microcredit program on the Growth of Small businesses in Post war Iraq

Hence, the form in bellow is to see your opinion about the program as you are presenting the main actors in this field. Therefore, please fill in this form to see your propositions, and advices about the program, to enhance it.

Notice that the form is anonymous and any information would be used for the study requisition exclusively.

Please use the sign (✓) in front of the questions below, you could write down in your own words whatever you like in the last page of the questionnaire.

#### General Information:

**1: Gender:**

1.Male

2.Female

**2: Date of Birth:**

day.....Month.....Year.....

**3. Resident** .....

**4: Status:**

1.Single

2: Married

3.Divorced

4. Widow or Widower

**5: Mention the number of individuals you are supporting within your family.....**

**6: Education:**

1: Illiterate

2: Read & Write or Primary School

3: Intermediates & High Schools

4: Institution or Colleges

**6. a: What is your major.....?**

2. None

**6. b: What sort of education you happen to have that contribute to your business?**

1. Systematic Education

2. Vocational Training Courses

3.On Job Training

**Targeted Population:**

7: What is the reason behind applying to have the loan?  
1. Unemployed                      2. Displaced & return back  
3. Damaged Workshop              4. Family affected by terrorism

**Businesses Activities:**

8: What is the concentration of your business?  
1. Industrial      2. Agricultural      3. Commercial      4. Service

**Increasing Employment:**

9: Do you employ other unemployed at your business?      1. Yes      2.No  
10.a: if your answer is yes; how many individuals do you employ?.....

**Increasing small business:**

11: What is the direction of your business?  
1. Establishing new business      2. Established business

**Empowerment:**

12: Where is your business located?      1. Rich Area      2. Medium to poor area  
12.a: will you mention the arrondissement of the location beside your address?  
1. Ademia      2. Al-Sader      3. Al-Rusafa      4. Al - Madain      5. Al-Karih      6. Al-Kadumia

**Viability:**

13: Do you think that your business is feasible for one of these reasons?  
1. Profitable      2. Competitive      3. Sustainable      4. Infeasible

**Measuring the microcredit program Efficiency:**

**Receiving the microcredit:**

14: Have you received your (MC) or part of it?	<input type="checkbox"/> 1. Yes	<input type="checkbox"/> 2. No
15: If the answer is Yes, how much the loan that you received in the (USAS)?.....		
16. a: How much the total loan is?.....		

**The Durations of Receiving the loan or part of it:**

17: When do you apply to have your (MC)?.....
17.a: And when do you receive your (1 <sup>st</sup> ) payment?.....

**Procedures' Complexity**

18: Do you think that the Ministry of Labor and Social Affairs procedure's of allocating loans are:	<input type="checkbox"/> 1. Very Complex	
	<input type="checkbox"/> 2. Complex	<input type="checkbox"/> 3. Easy & Acceptable

**Proper Periods for Paying Off:**

19: Do you think that the period of discharging the loans within (5-8) years is?		
<input type="checkbox"/> 1. Very Proper	<input type="checkbox"/> 2. Proper	<input type="checkbox"/> 3.Improper

**Loan's sum compatibility with business:**

20: Do you think the loan's sum is? <input type="checkbox"/> 1. Very Proper	<input type="checkbox"/> 2. Proper	<input type="checkbox"/> 3. Improper
for establishing or developing you're your business?		

**MONITORING:**

**21: Did any of (MOLSA)'s committees visited your business?**  **1. Yes**  **2.No**

**21. a: Mention the number of the visit(s) please ? .....**

**Please feel free to contact me at any time concerning the program.**

Thank you  
Eman M. Ali

## Appendix B

	<b>(VTC)</b>	<b>No. of Borrowers of 2008 until 20\11\2008 in Baghdad</b>	<b>Forms Received</b>	<b>percent</b>
1.	(VTC) of Al Wazeeria	155	14	%93.3
2.	(VTC) of Al -Zafarania	572	43	%75.43
3.	Aur (VTC)	282	25	%89.28
4.	Al - Mutasam (VTC)	482	33	%68.75
5.	Al - Waleed (VTC)	441	15	%34.09
6.	A I - Shula (VTC)	345	30	%85.71
<b>Total</b>		<b>2277</b>	<b>160</b>	<b>%70.48</b>

**Appendix B. Tracks of microcredit allocating, and the volume sample in each track.**