



PROVIDING TRANSPARENT

financial services
to micro and small
enterprises and low-income
households in Iraq

AL-THIQA

**A N N U A L R E P O R T
2008**



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General Manager's Message

Al-Thiqa had a very successful 2008. Despite increased competition from private and government banks, microfinance institutions and foreign aid programs, Al-Thiqa enjoyed a 53 percent growth in number of clients and 68 percent in outstanding portfolio over the previous year's results. Despite the strong growth the Al-Thiqa portfolio quality remained excellent with portfolio at risk being a fraction of one percent.

In 2008 we launched three new loan products to expand our outreach and better meet customer needs. These included loans to start up businesses, short-term trade loans and a line of credit product for small-scale consumer expenses. Start-up loans were tailored to businesses that have been in operation for less than one year. Short-term trade loans were designed for businesses with quicker inventory and sales turnover needing short-term financing. The credit line was designed for small medical or educational expenses, weddings, holiday expenses, and consumer purchases.

We opened four satellite offices in Erbil, Kirkuk and Diyala provinces to reach clients in remote areas and resumed lending in areas that we could not reach in the previous year due to the security situation.

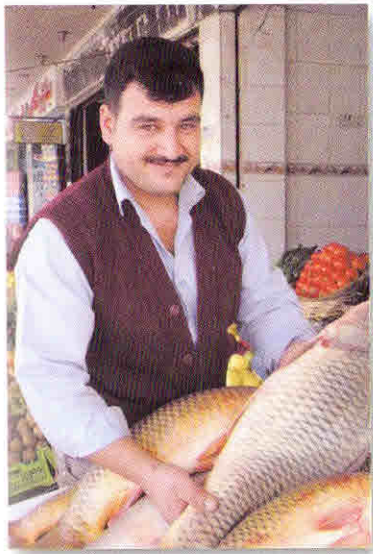
With financial support from the U.S. Agency for International Development (USAID) we created Women Business Opportunities Funds in Erbil, Sulaymaniya and Dahuk in order to increase access to loans for women-owned enterprises. The purpose of funds was to improve the gender ratio of the borrowers. To increase women's awareness of Al-Thiqa services, we closely cooperated with women's empowerment organizations, women's unions and business development service providers in Iraq.

Some Al-Thiqa clients were concerned about adherence of Al-Thiqa's products to Shariya principles. In response to clients' needs in 2008 Al-Thiqa staff attended a comprehensive training in Islamic lending and developed the Murabaha loan product, which is currently being tested in two provinces.

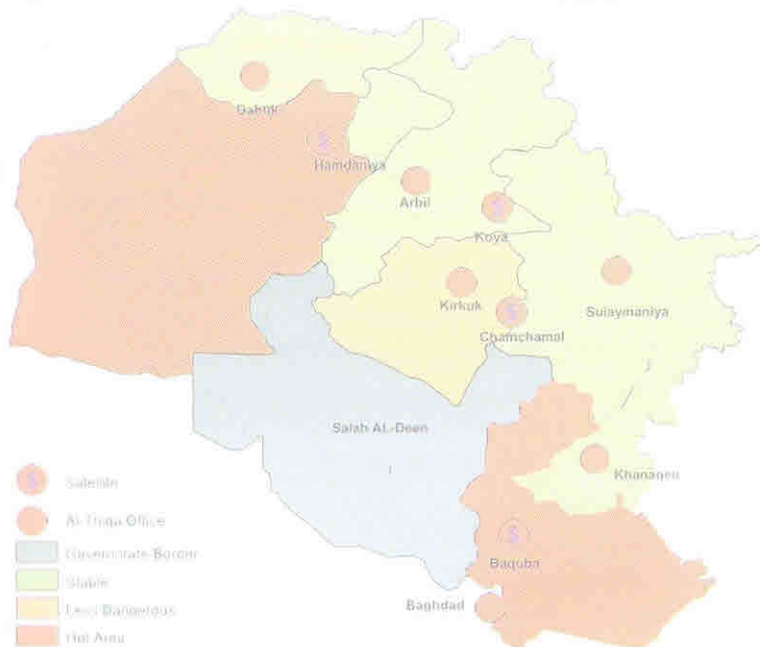
In 2008 we raised over \$12 million US in grants from various donors and supported the donors in their development efforts in Iraq. In 2008 we received a four-diamond rating from MIX Market recognizing a high level of disclosure and transparency, and became the first Iraqi MFI to be included in the MIX Market's 2007 benchmarking report.

I would like to thank all Al-Thiqa clients, employees, donors and partners for your confidence in Al-Thiqa in 2008, and I want to wish everyone a successful 2009. And, as always, I welcome your thoughts and suggestions.

Abbas Saedy
General Manager



2008 Field Offices



Al-Thiqa at a Glance

Who We Are

Al-Thiqa, meaning Trust in Arabic, is an independent nonprofit Iraqi nongovernmental Organization (NGO) engaged in lending to micro, small and medium-size enterprises and the general population in northern and central Iraq. Founded in 2004 by ACDI/VOCA, a U.S. NGO and registered with Iraq's NGO Assistance Office, Al-Thiqa has been an independent organization from its very start. Today Al-Thiqa is the largest Iraqi NGO engaged in lending activities. Since its inception and through the end of 2008, Al-Thiqa disbursed 24,746 loans totaling over \$62 million, including 4,457 loans to women, and created an estimated 83,000 jobs. As of December 2008, Al-Thiqa is operationally self-sufficient at 240 percent and is financially sustainable.

Our Mission

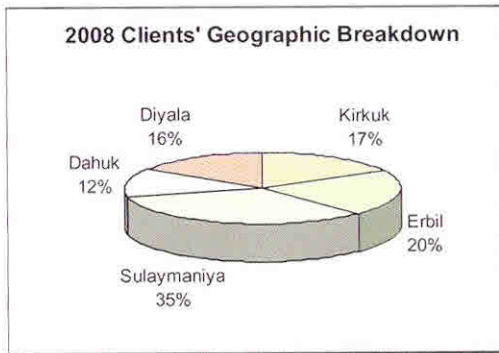
Our mission is to participate in rebuilding Iraq's economy by providing transparent financial services to micro and small enterprises and low-income households in Northern Iraq.

What We Do

We provide loans to businesses, farmers, homeowners and the general population in urban and rural areas in Northern and Central Iraq. Al-Thiqa offers the following individual and group loans:

- SME loan (for working capital, small investments, etc.)—for established and new businesses
- Taxi loan (parts and maintenance)
- Agricultural loan (crop production, animal husbandry and food processing)
- Housing loan (renovation and improvements)
- Islamic loan—coming in 2009

2008 Clients' Geographic Breakdown



Our Core Values

- We aim to meet our customers' needs.
- Our most important resource is our staff, and we operate to attract, develop and retain only qualified and committed team members.
- We operate Al-Thiqa as a profitable organization in order to be self-sustainable and to expand our financial services.
- We operate Al-Thiqa in a transparent and professional manner consistent with our mission and vision.

Where We Work

Al-Thiqa is headquartered in Kirkuk and has seven branches and four satellite offices in seven governorates of central and northern Iraq including Kirkuk, Erbil, Dahuk, Sulaymaniya, Diyala, Ninewa and Baghdad. The branches and satellite offices of Al-Thiqa allow us to be close to the communities we serve and to better know the needs of our clients.

“I am proud of working for Al-Thiqa because I feel happy to give loans to the poor and small entrepreneurs to improve their lives. I wish we could extend our services to rural areas because they also need capital.”
Abdullah Farhad, branch manager, Al-Thiqa,

“I am proud of working in Al-Thiqa because we work as one team. I am happy to put smiles on the face of the poor.”
Ahmed Shukur, branch manager, Al-Thiqa,



Our Product Highlights

Al-Thiqa's principal loan products are loans for SMEs (both established and start-up businesses), agriculture, taxi and housing, ranging from \$500 to \$25,000 and offered for 3 to 18 months. Loans are mainly individual, both conventional and Islamic. Solidarity-type group loans with greater emphasis on groups of women will be offered in 2009.

1. SME loans—regular

This loan provides working capital for seasonal purchases and inventory. It can be used for business expansion and growth. The clients are required to be business owners with a minimum of one year's experience and existence. The terms for the first loans are 12 months and for repeat loans up to 18 months.

2. SME loans—start-up

This loan is offered for the same purpose as a regular SME loan. The difference is that the borrower does not have to have been in business for at least one year but should a) have some experience in the economic activity that is proposed in the loan application, b) have received a sufficient amount of training or c) have had a paid-off loan from Al-Thiqa.

3. SME loans—short term

This loan is for businesses with quicker inventory and sales turnover needing short-term financing. The credit needs may be transaction based, seasonal or cyclical in nature. The loan can be taken for three, six and nine months.

4. Taxi loans

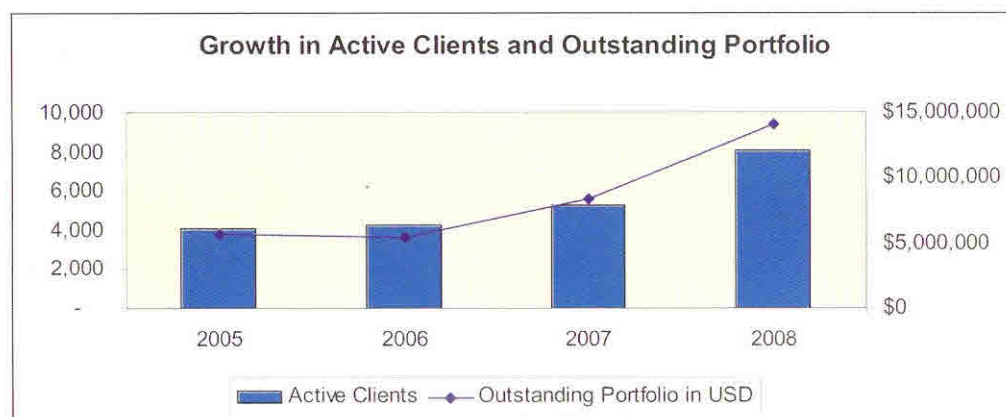
This loan is to finance taxi operators in the governorate in which they work and to finance those who work between governorates. The borrower must hold a public transportation license.

5. Agriculture loans

This loan is for crop production, livestock breeding or fattening and related operations, as well as agricultural processing or trade. The purpose of this loan is to fund cash flow and capital expenditures. It is offered for 12 months for first-time borrowers and up to 18 months for repeat borrowers.

6. Home improvement loans

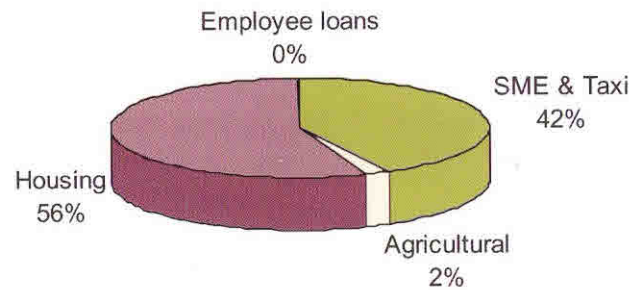
This product is to fund home improvements and expansion projects for those with low incomes. It is not for new construction. It is offered for 12 months for first-time borrowers and up to 18 months for repeat borrowers.



2006-2008 Al-Thiqa Key Indicators

	2006	2007	2008
Number of Clients	4,202	5,268	8,055
Outstanding Portfolio	\$5,519,906	\$8,341,706	\$14,052,344
Portfolio at Risk > 30 days	11.20%	0.43%	0.04%
Operational Self-Sufficiency	88%	115%	240%
Cumulative Number of Loans Disbursed	10,397	16,280	24,746
Cumulative Amount Disbursed	\$23,903,496	\$38,706,860	\$62,894,108
Number of Staff	142	99	110

2008 Portfolio Distribution by Product



Clients

Al-Thiqa's clients are local businesses with sound business ideas and low income homeowners located in central and northern Iraq. Many of these clients live in or are displaced from conflict-affected areas. Some clients have been in business for a year or more while others have developed skills in a particular industry and are now ready to establish their own business. They have an average of three to five employees. Some of these clients are successful graduates of the small business development centers' training programs who need loans to start or expand their businesses.

Generally, these clients cannot access capital from the formal banking sector. Some have access to government programs administered by various ministries through the state-owned banks. These programs provide loans to internally and externally displaced people, business owners who are victims of material damage from violence, farmers, homeowners and registered SMEs. However, these loans are either not renewable, have a lengthy approval process, have limitations on the number of loans disbursed per month, or have other costs in addition to official interest rates that make them costlier than loans from Al-Thiqa.

* Ahmed Hassan - Kurdistan

Ahmed is 45 years old and a father of two. He lives with his family in Kurdistan. He started his business three and a half years ago as a small shop in his front yard. He lost his leg to diabetes and did not have enough cash to invest in his business so that it could grow. In early 2008, he received his first \$2,500 loan from Al-Thiqa, which allowed him to relocate his business to a bigger shop at a mall. His second loan later the same year was twice as big and allowed him to buy inventory for his store. Since then his business has been growing day by day, and his life has been changing for the better. The shop is keeping him busy and keeping his mind off his illness. He bought a car with the income from his business so that he can easily move around. His business is doing well and he is now thinking about opening another shop at the same mall, this time for his son. He is very thankful to Al-Thiqa for enabling him to do all of this.

“After I developed sugar diabetes and lost my leg two years ago, I had a hard time making my ends meet. I wanted to grow my business but did not have capital to do so. I went to a private bank and I asked them for a loan, but they turned me down because I did not have real estate and because my business was small. I did not have any friends or family to help me. Thus, Al-Thiqa provided me an opportunity to grow my business. Now my store is twice as big as it was four years ago. The revenue from the business allowed me to buy a car and now I am planning to buy a new house for me and my family.”

Ahmed Hassan - Beneficiary of Al-Thiqa

* The name has been changed to protect the client's identity

Financial Reports

Statement of Financial Position as of December 31, 2008

2008 un-audited, 2007 audited by Grant Thornton

	US Dollars 2008	US Dollars 2007
ASSETS		
Cash and Bank Current Accounts	3,205,849	1,063,889
Short-Term Investments/Interest bearing deposits		
Gross Loans Outstanding	14,052,344	8,341,706
(Loan Loss Reserve)	(295,840)	(451,178)
Net Loans Outstanding	13,756,504	7,890,528
Other Current Assets	66,608	8,631
Total Current Assets	17,028,960	8,963,048
Long-Term Investments	-	-
Fixed Assets, Net	161,098	155,982
TOTAL ASSETS	17,190,058	9,119,030
LIABILITIES AND NET WORTH		
Liabilities		
Client Savings and Time Deposits	-	-
Other Short-term liabilities	-	2,128
Short-term Borrowings (Commercial Rate)	-	-
Total Current Liabilities	-	-
Long-term Debt (Commercial Rate)	-	-
Long-term Debt (Concessional Rate)	-	-
Deferred Income	37,000	-
Conditional Grants for Loan Capital from ACIDI/VOCA	11,488,623	7,107,048
Other Liabilities	1,711	-
Total Liabilities	11,527,334	7,109,176
Net Worth/Equity		
Paid-In Equity (Shareholders)	-	-
Donated Equity (Loan Fund) - Current	900,000	-
Donated Equity (Cumulative Grants for Operations) - Current	58,326	-
Donated Equity (Loan Fund) - Prior	-	-
Donated Equity (Cumulative Grants for Operations) - Prior	2,613,382	-
Retained Net Profit/(Loss) - Prior Years	(603,528)	691,839
Net Profit/(Loss) - Current Period	2,694,544	1,318,015
Total Net Worth/Equity	5,662,725	2,009,854
TOTAL LIABILITIES AND NET WORTH	17,190,058	9,119,030

Income Statement for the Year Ended December 31, 2008

2008 un-audited, 2007 audited by Grant Thornton

	US Dollars 2008	US Dollars 2007
FINANCIAL INCOME		
Service Fees	3,690,782	2,258,248
Application Fees	88,590	42,477
Penalty Fees	115,285	57,352
Interest on Deposits	-	-
Other Income	-	-
Total Financial Income	3,894,657	2,358,077
FINANCIAL EXPENSES		
Interest on Debt	-	-
Interest Paid on Deposits	-	-
Total Financial Costs	-	-
Gross Financial Margin	3,894,657	2,358,077
(Provision for loan losses)	425,599	(487,140)
Net Financial Margin	4,320,256	1,870,937
OPERATING EXPENSES		
Personnel Expense	886,450	743,762
Other Administrative Expenses	699,439	599,824
Depreciation Expense	99,357	66,937
Total Operating Expenses	1,685,246	1,410,523
Net Income from Operations	2,635,010	460,414
Gain on Sale of Fixed Assets	58,441	(11,263)
Non-operating Income	1,094	21,194
Net Income Before Donation	2,694,544	470,345
Grants for Operating Expenses	58,326	847,670
Grants for Loan Capital	900,000	-
Net Income - Profit/Loss	3,652,870	1,318,015

Partnerships

Since its inception in 2004 Al-Thiqa has been engaged with a number of international and Iraqi partners who have contributed to its success:

Partners

ACDI/VOCA

Inma Agribusiness Program

Izdihar Iraq Private Sector Growth and Employment Generation Program

Tijara Provincial Economic Growth Program

Women Empowerment Organization, Erbil

Al Murshed Center, Kirkuk

Association of Experts in the Fields of Migration and Development Cooperation (AGEF)

Development Alternatives, Inc.

Memberships and Affiliations

Iraq Microfinance Network

Sanabel Microfinance Network of Arab Countries—affiliate member
MIX Market



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