

Joint SDG Fund – Component 2 – SDG Financing

Template for the Joint Programme Final Progress Report (preparatory funding)

Purpose: to provide the UN Joint SDG Fund’s donors with evidence that preparatory funding provides good value for money - so that we can continue allocate resources to your programming.

Instructions: be succinct and to the point; emphasize only results and issues that you want to bring to the attention of the Fund; do not go over the max number of pages.

Deadline: January 31st, 2021

Cover page

Reporting period: June 30 – December 30, 2020

Country: Iraq

Joint Programme (JP) title: Sustainable Communities: Eco-Innovative, gender-responsive economic growth strategies for Iraq

Short title: Iraq’s SDGs funding and leverage

List of PUNOs: UNDP, IOM, FAO, and UNICEF

RC (name): Irena Vojáčková-Sollorano

Representative of Lead PUNO (name and agency): Zena Ali Ahmad, Resident Representative, UNDP-Iraq; Hamida Ramadhani, Representative, UNICEF-Iraq; Salah Hajj, Representative, UNFAO-Iraq; Gerard Waite, Chief of Mission, IOM-Iraq.

Government JP Focal Point (name and ministry/agency): Dr. Maher Johan, Deputy Minister, Ministry of Planning; (tec.deputy@mop.gov.iq)

RCO JP Focal Point (name): Irene Bernabeu **E-mail:** Irene Bernabeu <bernabeu@un.org>

Lead Agency JP Focal Point (name): Ghimar Deeb , Deputy Resident Representative - UNDP Iraq **E-mail:** Ghimar.deeb@undp.org

Budget (Joint SDG Fund contribution): \$200,000 (pre-funding for the development of the fully-fledged JP document which was submitted to the SDG Fund on 30 November 2020).

Budget Expenditures: \$90,840

Delivery Rate 45.42% - *Prep Funding Rate (%)* = $\frac{\text{Expenditures PUNO}}{\text{Total transferred funds Jan 2020 to December 2020}}$:

Short Description of the Joint Programme (1 paragraph for each section)

Financials	Prepatatory Funding (USD) 200,000	Estimated Leverage (USD) 12.3 mln
Proposal	<p>Challenge</p> <p>Unfunctioning financial markets have led to significant under-investment in SDG priority sectors including renewable energy, agriculture, agribusiness, and water security. Moreover, Iraq's private sector is made up of largely Micro, Small and Medium Enterprises (MSMEs), which often struggle to access funding.</p> <p>Innovation</p> <p>Options to reinforce and establish credit guarantees, smart subsidies, and a micro finance facility, will be tested to achieve the SDGs.</p>	

This description will be used to update your country page in our online platform (please scan the website before answering) <https://sdginvest.jointsdgfund.org/proposals> (copied above from website)

Financial leverage (estimated target in US\$): \$8.4M

The proposed Guarantee Scheme will generate immediate leverage in terms of loans from commercial banks to MSMEs for investments in agricultural value chains, energy access, and water access. Moreover, developing the MSMEs entrepreneurial capacity to enhance their access to finance and develop their businesses is expected to leverage significant future investment in MSMEs that are active in the agricultural, energy, and water sectors from the Iraqi government, national and international private sector, as well as IFIs and ODA funds. This will require improved MSME support services, with on-line and local programs to

expand training and technical support. At the same time, local banks will need training, and the development of trust when lending to MSMEs, and have acceptable due diligence costs and loan profitability. When the designed system proves itself successful, then leverage will be actualized. Financial leverage will also require the integration of capable young Iraqis, both men, and women, individually and collectively in cooperative businesses, after training in modern technology and IT systems.

Challenge:

Explain the key challenge(s) the JP aims to tackle with reference to both development and financing challenges and how they interconnect.

The private sector is dominated by micro, small, and medium-sized enterprises (MSMEs) which account for about 90% of private-sector employment. However, about 68% of the MSME total workforce is associated with informal (i.e., unregulated) activities, hindering their access to finance, constraining efficient operation, and limiting their potential role in job creation. The lack of access to finance is evidenced by MSMEs accounting for only 9% of all bank loans in Iraq in 2017, with only 2.7% of MSMEs having financed investment projects through bank loans. This is due in large part to commercial bank's lack of experience in assessing MSME creditworthiness, resulting in cumbersome costly, and time-consuming loan processing. A large portion of MSMEs in Iraq operates across three key sectors: agriculture, water, and energy. Each of these sectors, however, faces a range of threats and challenges, as outlined in the proposed JP to tackle during 2021-2023. Thus, liquidity to increase the bank portfolio of MSME lending from below 5% to 15% will require liquidity support from the central bank and donor agencies, including loans from development agencies (such as those of IFC) to banks for on-lending to MSMEs. A major transformational shift is required in Iraq, from centrally controlled to community-led local development where communities and local institutions collaborate and develop.

Innovation (financial instrument/mechanism/approach):

Summarize the financial mechanism(s) proposed and why the approach is different from conventional and/or alternative approaches and how it is fit for purpose to address the challenge described above.

The proposed financial mechanism is built upon community-led local development. The proposed Guarantee Scheme is an excellent example of an innovative finance model that can be applied to improve agricultural value chains as well as improve access to energy and water. MSMEs can play a key role in delivering these improvements and in the process support the GoI's commitment to sustainable development and achievement of the SDGs. The proposed business model represents an innovative structure for promoting public-private partnerships, creating an enabling environment for scaling up sustainable development actions, and catalyzing private investment. Combining technical assistance capacity building programs with the Guarantee Scheme will serve the needs of both MSMEs and participating bank lenders. MSMEs will benefit from training on both the technical and financial aspects associated with activities in the water, energy, and agricultural sectors. Participating lending banks will benefit from the introduction of new streamlined approaches in the assessment of MSMEs that will reduce the time, cost, and effort associated with the process. Moreover, the introduction of effective Know Your Customer (KYC) techniques, onboarding processes, and loan assessment tools will provide a basis for banks to actively engage MSMEs around their products and services.

SDG Impact:

Please describe the development impact the JP aims to achieve. Do not list the SDGs.

The main development aims of the JP are agricultural value chains, water, and energy. Each of these aims is systemically interconnected, as well as with other SDGs. In the case of agricultural value chains, a major issue is the availability of irrigation water. The availability of irrigation is related to the pumping of water; the pumping of irrigation water requires power. The production of food in Iraq is impacted by climate change, less availability and lower quality water, and the local population supporting high quality, locally produced food instead of cheap imports. Short supply chains are designed, with production systems that are oriented on the changing ecology in Iraq, promoting solutions such as drip irrigation, hydroponics, agro-forestry, and community cooperatives. The development impact of the JP is better quality produce, regenerative and sustainable food systems, the incorporation of modern IT solutions for management and banking, and the establishment of trust relations between MSMEs and local commercial banks.

Partners:

Please list key partners involved in implementation as well as secured investors. Do not mention more than 4-5 partners. Do not mention generic stakeholders (e.g. Government, private sector), but only specific institutions/partners.

Iraq Company for Bank Guarantees, Central Bank of Iraq, Ashur International Bank for Investment, Al Janoub Islamic Bank, USAID

Final Progress Report (MAX 3 PAGES)

1.1. Progress achieved

Provide brief description of the project's developments, results and achievements during the preparatory phase including 1) financial vehicle design; 2) market assessment; 3) feasibility study; 4) pipeline assessment; 5) legal assessment; 6) investor mapping and matching; 7) others. Please list the names of strategic documents developed (if any).

The JP has made significant progress in discussion with potential partners at federal and local levels with, among others, ministries of planning, agriculture, finance, women empowerment directorate, and the central bank. A series of consultative sessions have also been made with local NGOs, as well as with women and youth groups in the targeted peri-urban areas. However, due to COVID 19, most of the meetings have been virtual in nature. Technical meetings have been held weekly among the PUNOs (UNDP, IOM, UNICEF, and FAO) focused on technical and financial challenges, opportunities, and potential synergies.

Investigation and integration of the proposed JP have been a key point with other UN research studies ongoing at the time (a major MSME study, a value chain study, an activity researching the Funding Facility for Economic Reform (FFER), and a Feasibility Study on Credit Guarantee Schemes) to ensure its success throughout the implementation phase. It was possible to coordinate and link to these parallel studies and obtain up-to-date documentation that is employed in the design.

The financial design has been established as a linkage to the existing credit guarantee scheme, central bank staff, more than 3 commercial banks currently developing programs and lending to MSMEs. Three "peri-urban" areas of Iraq were selected as models to prove the design, and then replicate results to other areas of Iraq.

1.2. Challenges faced

Did the UNCT face any major challenges in the preparatory phase? Briefly explain the challenges, their impacts, and how you overcame those.

Projection scenarios have portrayed different paths under different anticipated conditions to assess the impact of COVID-19 and the decline in international oil prices, covering the impact on poverty levels, fiscal position, vulnerability, local communities as well as other socioeconomic adverse effects. The JP is designed to overcome the above challenges/barriers by expanding access to finance for MSMEs engaged in agricultural value chain, water, and energy business enterprises.

Categorized data availability related to the key results areas of the proposed JP (mainly access to finance for MSMEs) was challenging to find. So, research, case studies, and other existing UN and other organization's documents were explored to find more accurate data to ensure better design for the JP. In the same context, it was challenging in communicating with local banks and the private sector as Iraq suffers from the absence of an active credit guarantee scheme, weak collateral capacity, and an inadequate legal framework for the microcredit sector. Good border countries' practices related to access to finance for MSMEs were brought into the communications along with UN ongoing studies and projects in different parts of Iraq.

1.3 Partnerships leveraged

Did you leverage new partnerships during the preparatory phase (e.g. government, private investors, IFIs, bilateral/multilateral banks, etc.)?

- Yes (Y)
 No

Provide in bullet points the main highlights on strategic partnerships and with whom.

- New stakeholders (as mentioned in the below table) have been substantively engaged in the JP design.
- As the project mobilizes, stakeholders will continue to be engaged through a consultative process to ensure that stakeholders remain well informed, with any concerns laid out and discussed.
- Table 4 provides an overview of key stakeholders, mapped according to engagement levels.

Stakeholder name	Role of stakeholder in activities	Level of engagement/support to date	Engagement strategy	Follow-up strategy
Central Bank of Iraq	Funding leverage Approval of CGS	Provide liquidity to banks through existing initiatives targeting MSMEs	Direct engagement through UNDP/IOM to formalize CGS. Continuous engagement through Private bank, & ICBG.	periodic meeting and reporting from involved stakeholders
Commercial banks	Direct lending to MSMEs including women and youth	Expected to exceed 600 loans to MSMEs throughout the life of the project (potential to increase with the increase in the size of CGS)	Agreement between ICBG and selected banks. Training of banks officer.	Direct communication with ICBG on approval of loans from the bank. Periodic reporting to ICBG
MSMEs	Beneficiaries	Creation/support of approx. 1,200 jobs	Baseline study on MSMEs needs. Engagement of MSME through capacity building programs and service as well as through private bank.	Ongoing outreach through a delivery partner for capacity building activities. Ongoing outreach through private banks for lending.
Local water utility departments	Beneficiaries	Public service providers	Direct engagement with the utility departments, as beneficiaries of the JP support	On-going engagement with the utility departments, to implement support activities throughout the JP lifetime

1.4. Co-funding mobilized

Did you secure additional funding or in-kind support for the proposal during the preparatory phase?

- Yes (Y)
- No

If yes, please include amounts committed during the prep-phase.

Source of funding	Yes	No	Type? (\$ or in-kind support)	Name of organization	Amount (USD)	Comments
Government	Y <input type="checkbox"/>	<input type="checkbox"/>	<i>In-Kind</i>	<i>Ministry of planning</i>	<i>N/A</i>	<i>Hosting several consultation/meetings sessions on designing the JP</i>
Donors/IFIs	<input type="checkbox"/>	<input type="checkbox"/>				
Private sector	<input type="checkbox"/>	<input type="checkbox"/>				
UN/PUNOs	<input type="checkbox"/>	<input type="checkbox"/>				
Other partners	<input type="checkbox"/>	<input type="checkbox"/>				

1.5. Budget changes (if relevant)

If there were changes in the actual budget from the one shared as part of the Fund Transfer Request, please briefly justify these changes. **No changes in the budget had been done**

Please, explain briefly:

N/A