

Republic of Iraq
Central Bank of Iraq
Ordinance to Regulate the Operations of Small and Medium
Enterprise Financing Companies.
No. (3) of 2010-09-29

According to the provisions of paragraph (1) of article (104) of the banking law No. 94 of 2004 and the decision of Board Directors of Central Bank of Iraq in its session No.1461st which held on 30/07/2010 we issued:

Article 1:

May the Joint-stock or limited companies that finance the small and medium projects to be established in accordance with the provisions of the law Companies No.21 of 1997.

Article 2 : (Minimum Capital Requirements)

- Companies licensed under Article1 of this regulation shall maintain capital levels as prescribed below:
 - a- Two billion ID (2,000,000,000) for Joint Stock companies.
 - b- One Billion ID (1,000,000,000) for limited Liability Companies.
- The capital of the companies must be fully paid before issuing its licenses.
- SME Financing Companies are licensed and supervised by the Central Bank of Iraq.

Article 3: Application for license shall be made upon such terms and conditions as Central Bank of Iraq regulations may determine.

Article 4:

1. pursuant to Central Bank of Iraq approvals 1, SME financing companies may:
 - Establish branches within Iraq as approved in the annual plan.
 - Close, merge, or change the location of an existing branch.

¹CBI will provide such approval within 10 business days of application by the MSME Finance Company

- Giving loans and credit facilities to beneficiaries for the purpose of financing small and Medium Sized Enterprises.
- Issuing loans credit upon to the provisions of companies law No.(21) of 1997 if that is a Joint-stock company with an amount not exceeding (50%) from the capital of the company.

2.

- SME Financing Companies have the right to receive donations, grants and bequests from Iraq or a board subject to prior approval of concerned authorities and Central Bank of Iraq notification and utilization purposes. All donations, grants and bequests shall be a part from capital.
- SME Financing Companies may borrow from Iraq and foreign banking system including banks that participant in its capital as a stockholders with percentage not exceeding over (300%) from the company capital to accomplish its goals.

Article 5: SME Financing Companies shall commit to:

1. Giving loans to customers that committed to meet credit obligations.
2. Refrain from extending credit to company board members, managing directors, stockholder board members and stockholder executive directors.
3. Extend credit to Iraqi individuals and economic feasibility projects with aim to decrease unemployment and raise standards of living.
4. Setting financial allowances in facing the dangers may the company expose to upon the standards's of the Central Bank of Iraq.
5. The loan shall be :
 - a. Confessional interest rates specified in the loan contract signed between the SME Finance Company and the borrower.⁴
 - b. Facilitator with the payment grace period and schedule appropriate.⁵
 - c. Utilized as per the purposes stated in the contracted.

Article 6: The SME Financing Company shall monitor borrowers 5 utilization of credit in accordance with the law to ensure borrower repayment.

² As determined by the MSMEFC policies and procedures.

³ As determined by the MSMEFC policies and procedures.

⁴ MSME-FCs will determine concessionary interest rate in line with the international best practices to cover their operational and financial expenses, reserves for loan losses, and increase their capital base. This rate must be agreed in the loan contract signed by the MSMEFC and the customer.

⁵ The concessionary terms of repayment and scheduling will be defined in the loan agreement as per the credit policy of the MSMEFC.

Article 7:

1. Composition of the Board of Directors and its meetings, function, powers are Subject to the provisions of the Companies Law No. 21 of 1997 (amended)
2. In addition to the provisions of the companies law No. 21 (amended) as they pertain to Board of Directors membership shall be:
 - a. Fit and proper person.
 - b. Not convicted of a felony or misdemeanor involving moral turpitude.
 - c. Not disqualified or suspended by competent authority or the right to exercise his/her profession due to incompetence or personal misconduct.
 - d. Not subject to judicial ruling disbaring companies management.
 - e. Not occupy Chairperson or Board Member position of more than on SME Financing Company or the Board Membership of a licensed bank.
 - f. Not have occupied a management poison in a previously adjudicated bankrupted/insolvent bank or company.
 - g. Of good reputational standing.
 - h. At least thirty (30) years of age.
 - i. A resident of Iraq.
 - j. The Central Bank of Iraq Governor can exercise direction to the suitability of senior SME Financing Company employee nominees in accordance with regulations established by the Central Bank of Iraq.
 - k. A minimum of three (3) Board of Directors members shall demonstrate functional legal or financial, or banking experience and should hold at minimum undergraduate university degrees.
3. The Board of Directors in Joint Stock SME Financing Companies shall appoint subcommittees for risk management, audit and compliance in accordance to business needs. The management of Limited Liability SME Financing companies shall appoint the aforementioned subcommittees in addition to a consultative Advisory Committee to aid executive decisions.

Article 8:

1. The managing Director shall have demonstrated specialized experience, be an Iraq resident, be a full-time employee of the SME Financing Company and at minimum, hold an undergraduate university degree.

These criteria shall be in addition, not in derogation of Companies Law No.21 of 1997 (amended) provisions.

2. Should the Managing Director also serve in the capacity of a Board Member, the provision of Article 7 of this Ordinance shall be satisfied in the Managing Director with exception to Provision (k).
3. The Executive Director of a Limited Liability SME Financing Company shall exercise within his Company the powers vested to Board of Directors in joint Stock companies as provisioned in Section Two (2) of Article (123) of Companies Law No. 21 of 1997 (amended)..

Article 9: Taking in to account the legal provisions stipulated in the Companies Law No.21 of the Company is subject to audit and inspection by the Central Bank of Iraq and shall therefore:

1. To provide records, accounts in relation to all transactions.
2. Providing the Bank with the following:
 - a. Source of Finance.
 - b. Statement of outstanding loans and statement of pledged loans.
 - c. Prevailing interest rate(s) charged on credit products.
 - d. Purpose of loans and strategic alignment of loans purpose to SME Financing Company missions.
 - e. Lending and collateral policies and procedures.
 - f. A statement of loans-loss provision.

Article 10:

1. The SME Financing Company shall appoint a certified auditor approved by Central Bank of Iraq.
2. The certified auditor shall commit to inform the Central Bank of Iraq/ D. G. of Banking Supervision by writing the following
 - a. Any irregularities in operations.
 - b. Major errors and other deficiencies.
 - c. Violations of Central Bank of Iraq No.56 of 2004 and accompanying provisions, and violations of the Anti-Money laundering Law No. 93 of 2004 and accompanying provisions, and all other any other law or instructions concerning it's activity .

Article 11: All information and data that reviewed by the staff of the Iraqi Central Bank by virtue of their duties authorized by them as confidential and shall not be disclosed to others (third parties).

Article 12: the Central Bank of Iraq may:

1. Suspension the license of SME Financing Company for a period not exceeding thirty (30) days if the Company undertook any form of banking activity of the Banking Law No. 94 of 2004.

2. Revoke the license of the SME Financing Company on expatriation of the suspension period highlighted in sub-section one (1) in absence of corrective action to remedy the initial violation. Operating licenses shall also be revoked in the case of:
 - a. Exceeded company goals and objectives stated loan programs without legal justification.
 - b. Violation of the provisions of Anti-Money Laundering, No. 93 of 2004.
 - c. Conviction by criminal charges by final ruling of court of law.
 - d. Not to exercise its business within 6 six months of the licensing without a legitimate excuse for the Central Bank of Iraq to grant the similar period one time when the availability of the excuse of the project.

Article 13:

The Directorate General of Banking Supervision at the Central Bank to publish the names and addresses of SME Financing Companies that awarded the license to practice the profession or canceled licenses.

Article 14:

Implement these instructions, the date of publication in the Official Gazette of Iraq.