

**The Role of the Central Bank in Supporting Comprehensive Financial Systems in the Region of the Middle East: Case Study of the Central Bank of Iraq**  
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**Abstract:**

This research aims to comprehend and understand key theoretical concepts related to financial inclusion through our study of the role of the central bank in promoting financial inclusion, with a focus on the Central Bank of Iraq as a case study, including its various aspects and evaluating indicators. The study also emphasizes the significance of financial inclusion in enhancing economic and social aspects within countries. To achieve the objectives of the study, descriptive and analytical methodologies were employed, chosen to align with the study's data and reports. A case study was conducted on the role of the Central Bank of Iraq in promoting financial inclusion. The study's findings indicate that central banks bear a significant responsibility in raising the level of financial inclusion due to their distinct advantages and capabilities, whether in terms of material resources or human personnel. Based on these capabilities, central banks are qualified entities to lead national strategies aimed at enhancing financial inclusion. The success of the national strategy adopted by the Central Bank of Iraq in achieving the aspirations of enhancing financial inclusion has been confirmed.

**Keywords :** Financial Inclusion, Central Bank, Financial Exclusion, Financial Services, Financial Access.

## **I- Introduction**

Financial inclusion emerges as a vital cornerstone for attaining sustainable development at all levels in a world of continuously increasing breakthroughs across numerous disciplines. The world has its sights on improving this notion on global, regional, and local scales, seeing it as more than merely providing financial services, but rather assuring their fair and equal availability to all parts of society. This is shown by giving vulnerable and marginalized populations financial possibilities, allowing them to access vital financial services such as bank accounts, loans, and electronic payment systems.

Central banks around the world have recognized the crucial role of contemporary technologies in increasing financial inclusion. As a result, the importance of central bank digital currencies (CBDCs) as a way of providing comprehensive and equitable financial services has expanded. This technology strives to remove barriers that hinder excluded populations from obtaining important financial services, promoting personal finance empowerment and allowing everyone to benefit from economic growth prospects.

**Research Questions:** There is one main question and five sub-questions

*What is the role that the Central Bank of Iraq can play to promote and support financial inclusion in Iraq?*

**Sub questions:**

- What is meant by financial inclusion and what are its objectives and dimensions?
- How can financial inclusion be measured?
- What are the obstacles to achieving financial inclusion in Iraq?
- What are the efforts of the Central Bank of Iraq in promoting financial inclusion through its strategy, and what are the most important obstacles it faces?
- What are the solutions to improve financial inclusion and overcome obstacles that hinder its achievement?

**The Significance of the Study:** The study's significance is highlighted by the role that the Central Bank of Iraq may play in boosting the financial inclusion policy. Regardless of the obstacles that the Central Bank of Iraq may face, it continues to play an important role in creating policies that foster financial and economic equilibrium.

**The Objectives of the Study:**

- To explain the concept of financial inclusion and the key elements for its promotion.
- To identify the reality of financial inclusion in Iraq
- To clarify the contribution of the national strategy to achieving financial inclusion
- To study and analyze the indicators of financial inclusion in Iraq
- To recognize the importance of the central bank and its role in enhancing levels of financial inclusion in Iraq.

## **Research Methodology**

The descriptive method is used to lay out the general characteristics of the topic of financial inclusion, such as its significance and more. The analytical approach is used to attain

the desired results of the inquiry. This technique is based on evaluating data and statistics about financial inclusion in Iraq in order to understand its current reality

## **Research Structure**

This study was divided into the following axes in order to answer the key issue of the subject of the study as well as associated sub-questions:

- The first axis: is financial inclusion: the theory's context.
- The second axis: is the central bank's policies toward financial inclusion.
- The third axis: the report on financial inclusion in the Republic of Iraq
- The fourth axis: Iraq's financial inclusion requirements.

### **1. Financial Inclusion: A Theoretical Background**

Financial inclusion is a basic concept in the world of economics and finance that aims to provide financial and banking services to all segments of society, including the lowest-income groups and those excluded from these services. By providing opportunities to participate in the financial and economic system.

#### **1.1. The Concept of Financial Inclusion.**

##### **1.1.1. The Birth of Financial Inclusion.**

The term "financial inclusion" emerged as the opposite of "financial exclusion," which is defined as "those processes that prevent certain social groups and individuals from accessing the financial system" (Guediri & Bousalem, 2023, p. 517). The concept of financial inclusion first appeared in 1993 in a study by "Leishon and Thirft" on financial services in southeastern England, addressing the impact of bank branch closures on the actual access of residents in the area to banking services. In 1999, the term "financial inclusion" was used more broadly for the first time to describe the determinants of individuals' access to available financial services (Khamili, 2022, p. 15). In 2011, the World Bank Group launched the Global Findex database, which provides a set of indicators that study individuals' behaviors worldwide related to key financial activities such as borrowing, saving, payments, and managing financial risks. In 2013, the World Bank Group launched an initiative to provide access to financial services for all members of society by 2020 (Gwani & Marmet, 2021, p. 274).

##### **1.1.2. Defining Financial Inclusion**

The International Monetary Fund defines financial inclusion as: "Planned and organized efforts aimed at making financial services available to everyone, especially the deprived and the poor" (Bouziane, Wafi, & Saeed, 2023, p.684). Sarma defines financial inclusion as: "Accessing financial and credit services promptly and sufficiently when needed, at a reasonable cost, for vulnerable groups and those with low income" (Bouguera, 2018, p.5). Meanwhile, the Organization for Economic Cooperation and Development (OECD) and the International Network on Financial Education (INFE) define financial inclusion as: "The process of enhancing access to a wide range of formal and regulated financial products and services at reasonable times and costs, expanding the use of these services and products by various segments of society, through innovative approaches, including financial awareness and education, with the aim of promoting financial well-being, social and economic integration" (Falaq, Hamidi, & Hafifi, 2019, p. 3). The Consultative Group to Assist the Poor

(CGAP) defines it as: "Households and businesses accessing appropriate financial services and using them effectively, provided responsibly and sustainably in a well-regulated environment" (Shanbi & Ben Lkhder, 2018, p.107). The conditions of financial inclusion are outlined in the following points: (Al-Saadi Ahmed & Saadawi Masoud, 2019, p.5)

- Countries defining objectives that can achieve and enhance the efficiency of financial inclusion;
- Conducting a new study of the banking market to assess the feasibility of existing products and their compatibility with different societal groups;
- Launching new services that cover all financial and banking needs for all segments of society;
- Providing advisory services to customers and assisting them in choosing the most suitable services that help manage their finances effectively.

### **1.1.3. The Significance of Financial Inclusion**

The significance of financial inclusion can be seen in a variety of points and axes, including the following: (Salaimiya and Tabibiyah, 2023, P. 197)

- Financial inclusion improves financial stability;
- Increases competition among financial institutions by diversifying their products and focusing on quality in order to attract the greatest number of clients and transactions;
- Aids in the legalization of informal channels;
- Reduces poverty by enabling disadvantaged groups to obtain financing that allows them to improve their living standards;
- Leads to the integration of low-income people.
- Shifting from cash to digital payments aids in the reduction of corruption and increases efficiency;
- Lowers the expenses of receiving payments, particularly with digital financial services;
- -It aids in financial risk management by making it easier to receive money from distant friends and family during difficult times and increase savings.

While financial inclusion objectives can be recognized in the following points: (Ben Aini, 2022, p .193-194)

- Promoting and preserving the rights of financial service consumers by developing rules and procedures and informing current and prospective dealers about their rights and responsibilities;
- Spreading awareness and financial education in the most effective methods possible with the help of all parties involved in the strategy;
- Facilitating access to finance sources in order to improve inhabitants' living situations;
- Improving access and usage of financial services and products by combining the efforts of all participating parties to educate citizens about the value of financial services and how to obtain and profit from them.

## 1.2. The Aspects and Indicators of Financial Inclusion

### 1.2.1. Dimensions of Financial Inclusion

Financial inclusion, according to the Global Partnership for Financial Inclusion (GPFI), is measured across at least three dimensions:

- **Financial Service Use**

refers to how clients utilize financial services, such as the frequency and length of the financial product/service over time, and the number of electronic payments per account (Naimi and Ben Sassi, 2021, p. 374).

- **Access to Financial Services**

the customer is physically close enough to service access locations, such as branches, agencies, and ATMs, to conveniently choose and use various financial products and services; (Zaykh and Yonsi, 2022, p. 756).

- **Financial Service Quality and Safety**

The process of producing indicators conveys a measure that reflects the value of financial services to clients. Quality comprises clients' thoughts and attitudes toward the requested financial service. (2019, Behnmas, Rasool, and Bsis Belabbas).

### 1.2.2. Financial Inclusion Indicators

To quantify the level of financial inclusion, a set of internationally recognized and accepted indicators and measuring instruments are utilized, the most essential of which are as follows: (Naimi and Ben Sassi, pages 374-375, 2021)

- **By Gender:** the proportion of male beneficiaries of financial services against female beneficiaries of financial services;

- **By Age Group:** the proportion of beneficiaries of financial services aged **15** to **24** years compared to the proportion of beneficiaries aged **25** to **64** years;

- **By Location or Place of Residence:** the proportion of rural residents who receive financial services in comparison to the urban population. This category of indicators expands as data and information become available, allowing them to be used.

- **By Income Level:** the percentage of financial service beneficiaries from the highest income segment (**60%** of the adult population) vs the percentage of beneficiaries from the lowest income segment (**40%** of the adult population).

### 1.3. Financial Inclusion Caveats

Implementing financial inclusion may lead to high-risk consequences and undesired negative effects, some of which are outlined as follows: (Haj Yousef, 2020, p. 11)

- **At the Institutional Level**

Expanding credit excessively towards unsustainable growth could raise financial risks associated with repayment, especially in loans provided to the poorest groups lacking a financial history, without sufficient attention to their repayment capacity or relatively unregulated corporate governance.

- **At the Beneficiary Level:**

- **Savings Aspect:** Including excluded groups such as rural residents, the impoverished, the vulnerable, women, and small and micro projects into the official interest-based financial

realm by withdrawing their cash savings and subjecting them to lending might introduce a high-risk factor in case of refund default.

- **Loans Aspect:** Pushing the impoverished towards financial products, particularly when using this credit for non-productive consumer loans or small and micro projects, exposes them to risks due to limited experience in feasibility studies and management, and the unstable economic business environment. These deposits could be at high risk, such as wealth depletion and exceeding the debt ceiling set by governments or banks in these countries.

▪ **At the national level**

implementing financial inclusion might lead to further dominance of major capitalist systems over the wealth of developing nations, with international organizations and their funders from major powers intervening in all sources and uses of funds in these nations, and accessing financial data of their citizens. This is achieved by attracting unofficial cash savings into financial institutions under the supervision and control of local central banks.

## **2. The Central Bank's Policy to Achieve Financial Inclusion**

### **2.1. The Central Banks' Measures to Promote Financial Inclusion**

#### **2.1.1. Commercial Banks**

Commercial banks in general play the following roles in fostering financial inclusion: (Al-Haddad, Al-Bakl, 2022, p.163):

- Providing high-quality services to sustain their competitive edge and customer loyalty in the face of competition from other banks.

- Facilitating finance through coordination with the central bank (Haji, 2023 , p. 398)

- Avoiding client exploitation during financing and lending, and trying to reduce fees for financial services given.

- New and various financial services (payments, savings accounts, current accounts, transfers, savings, credit, lending, financing, insurance, and so on) are being developed.

- Attracting those who do not conduct banking activities. (Haji, 2023.p. 398)

#### **2.1.2. Central Banks**

Central banks play a significant role in promoting financial inclusion, and this role includes:

▪ Creating rules and regulations to facilitate all types of banking transactions while encouraging the private sector, particularly banks, to encourage financial literacy. (Ousghir,2002, p.56)

▪ Improving financial infrastructure through establishing credit information bureaus and developing payment, settlement, and financial intermediation technologies. (Ahmed, 2023,p.122)

▪ Increasing the availability of simplified financial services, such as electronic payments and other financial transactions via mobile phones. (Ousghir, 2022, p.56)

▪ Promoting and creating a financial education and awareness system through the development of a national plan aimed at increasing financial awareness and knowledge among various segments of society, particularly youth, women, small and medium-sized businesses, and micro-enterprises. (Arab Banks Union, 2017, p.9).

▪ Supervising and directing the financial inclusion strategy, specifically through data collection and analysis of the state of financial inclusion, both on the supply side (the spread

of financial institutions and service provision) and on the demand side (individual and institutional needs and types of required services) (Haji, 2023,p. 396)

▪ Taking the necessary precautions to reduce the risks connected with electronic financial services and putting in place regulatory controls (Al-Haddad, Al-Bakl, 2002, p.163).

## **2.2. National Financial Inclusion Strategy**

### **2.2.1. National Financial Inclusion Strategy Objectives**

Among the primary objectives of every country's national financial inclusion policy are: (Shanbi, Ben Lakhder, 2018, p.121)

- Disseminating financial awareness and education through appropriate approaches while encouraging collaboration among all strategy participants.

- Enhancing and protecting the rights of financial service customers through developing regulations and guidelines, as well as informing present and prospective users of financial institutions about their rights and duties.

- Facilitating access to finance sources in order to improve citizens' living standards.

- Promoting and ensuring all segments of society's access to and consumption of financial services and communities. This is accomplished by coordinating the efforts of participating institutions to promote individuals' understanding of the importance of financial services, how to obtain them, and how to use them to improve their social and economic conditions, resulting in financial and social stability.

### **2.2.2. Content The Pillars of the National Financial Inclusion Strategy**

Building a national strategy for financial inclusion requires five basic pillars, which are: (Union of Arab Banks, 2017, p. 9)

▪ Investigating the supply-demand mismatch as a starting point for developing future goals and developing a national strategy for financial inclusion.

▪ Developing financial services and products to fulfill the demands of all parts of society, as well as innovating new financial products, to enable the provision of financial services and goods.

▪ Protecting consumers through establishing regulatory rules for treating customers fairly and honestly, as well as developing a framework to resolve their complaints and providing them with enough information and advice services.

▪ By creating a national strategy for financial education and literacy, we can enhance financial awareness and knowledge across many segments of society, particularly youth, women, small and medium-sized businesses, and micro-enterprises.

▪ Building a strong financial infrastructure by encouraging financial institutions to expand geographically, building payment and settlement systems, and establishing comprehensive databases through the active participation of credit information firms.

### **2.2.2 Indicators of the National Strategy for Financial Inclusion**

Strategic indicators are represented in the following points: (Iftikhar and Al-Rafi'i, 2020, p 42-44)

▪ Enhancing SMEs' access to finance;

▪ Enhancing and developing the system of financial education and education for the human element (development of the human element);

- enhancing consumer financial protection;
- development of infrastructure;
- Examine the gap between supply and demand.
- Developing digital financial products and services and making them available to the widest audience and institutions.

### 3. Report of financial inclusion in the Republic of Iraq

The Republic of Iraq is working to enhance financial inclusion by developing the banking infrastructure and providing innovative financial services commensurate with the needs and aspirations of society. This comes as part of broader efforts to enhance economic stability and stimulate sustainable growth in the country.

#### 3.1. Indicators for Measuring Financial Inclusion in Iraq

##### 3.1.1. The Level of Access to Financial Services Index

This metric is based on numerous factors, including the banking density and spread indicator. The banking density statistic measures the number of bank branches in an economy. Banking dispersion and density in Iraq remain below the intended level, according to data. Despite the Central Bank of Iraq's encouragement for banks to open branches around the country, the number of bank branches has not increased much.

The number of bank branches increased somewhat in **2021**, hitting **905** branches compared to **891** branches in **2020**. This increase resulted in a modest increase in the banking density indicator, which rose to **45.51** in 2021 from **45.06** in 2020. However, this resulted in a decline in banking spread, which fell to **2.19** in 2021 from **2.21** in **2020**. This is because the rate of population increase in Iraq outpaces the rate of growth in bank branch numbers. (Central Bank of Iraq, Monetary and Financial Stability Department, 2022, p.145).

**Table (1): Banking prevalence and banking density in Iraq**

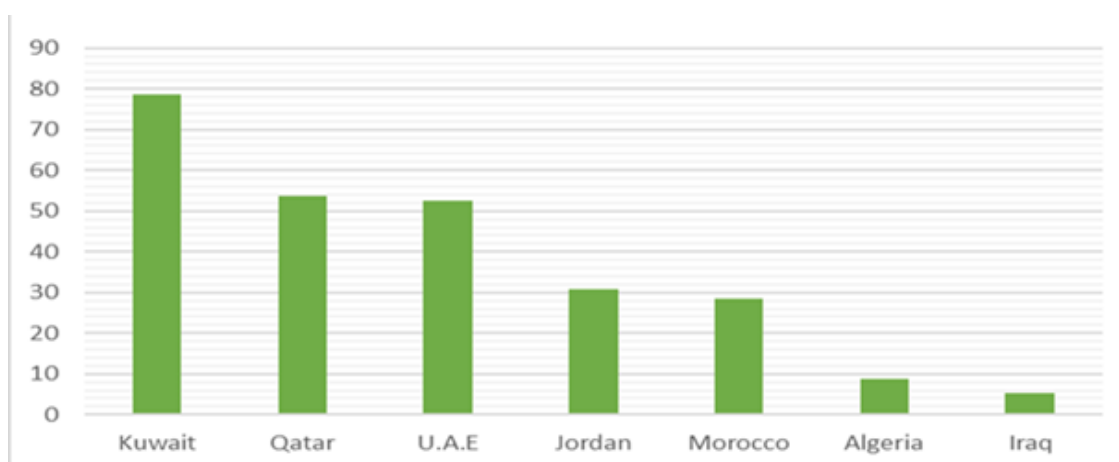
Year	Population (Thousand)	Number of Branches	Banking Density	Banking Spread
2017	37.140	843	44.05	2.27
2018	38.200	865	44.16	2.26
2019	39.300	888	44.25	2.25
2020	40.150	891	45.06	2.21
2021	41.190	905	45.51	2.2

**Source: Central Bank of Iraq, Financial Stability Report for the year 2021, Monetary and Financial Stability Department, 2022, p.145**

When comparing Iraq to some other Arab countries, it becomes evident that Iraq ranks lower in terms of the spread of bank branches. This is illustrated by Figure **01**, where the percentage of Iraq in the indicator of the number of bank branches per **100,000** adults was **(3.9%)** in **2020**. This is the lowest among the compared countries, indicating a lower level of banking spread in Iraq



Figure (1): Number Of ATM's Per 100000 Adults In 2020



Source: Central Bank of Iraq, Financial Stability Report for the year 2021, Monetary and Financial Stability Department, 2022, p. 148

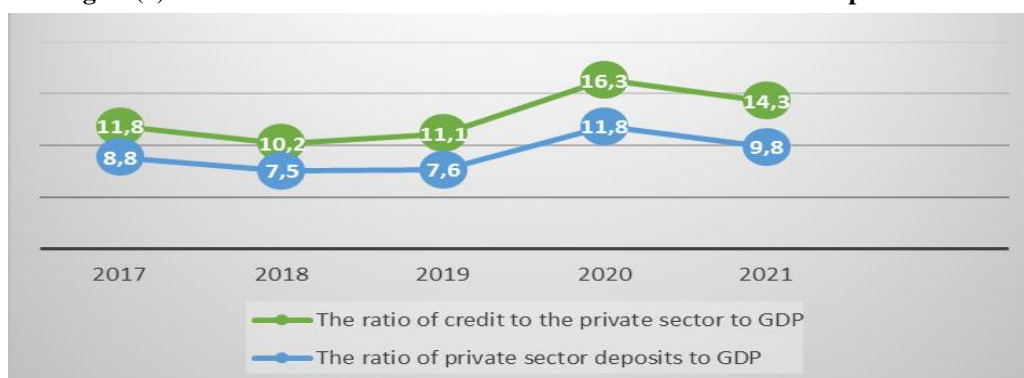
### 3.1.2. Banking Depth Index

Banking Depth Index: This index is measured using two variables:

- The Ratio of Private Sector Credit to GDP ;
- The ratio of credit to the private sector to GDP.

The *Banking Depth* Index illustrates the level of development in banking intermediation through ease of access to banking services, cost-effectiveness, and expansion of different banking institutions and instruments. These factors contribute to supporting investment and economic development. The following figure illustrates these two ratios. (Central Bank of Iraq, Annual Report of the Second Strategic Plan 2021-2023, 2023)

Figure(2): Ratio of Credit to the Private Sector and Private Sector Deposits to GDP



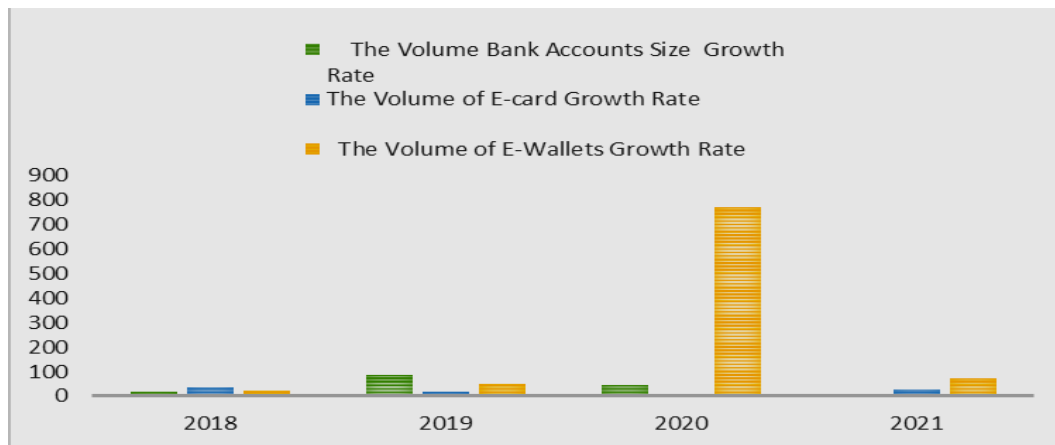
Source: Central Bank of Iraq, Financial Stability Report for the year 2021, Department of Monetary and Financial Stability, 2022, p. 151.

Figure 2 shows that the credit granted to the private sector as a percentage of GDP increased from 8.8% in 2017 to 9.8% in 2021. This rise is due to a 52% increase in the volume of loans supplied to the private sector between 2017 and 2021. Furthermore, the private sector deposit-to-GDP ratio increased from 11.8% in 2017 to 14.3% in 2021, with deposit volume increasing by 65% during the period (2017-2021).

### 3.1.3. Electronic cards, bank Accounts, and Electronic Wallets

An increase in the number of electronic cards, bank accounts, or electronic wallets is considered a development and expansion in the size of financial inclusion, because when an individual obtains any of them, he enters the financial system, as shown in the following figure (Central Bank of Iraq, Financial Stability Report 2021-Monetary and Financial Stability Section, 2022, p. 151).

**Figure (3): The Percentage of Growth in Wallets, Accounts, and Electronic Cards**



**Source: Central Bank of Iraq, Financial Stability Report for the year 2021, Department of Monetary and Financial Stability, 2022, p. 152.**

According to Figure 03, the growth rate in the volume of electronic wallets is **71%** in **2021** compared to **2020**, while the growth rate of electronic cards is **26%** in 2021 compared to **2020**, and the same is true for the increase in bank accounts. It climbed by **9.3%** in 2021 compared to **2020**, implying a rise in financial inclusion and a larger demand from individuals to enter the financial system.

## 3.2. Initiatives of the Central Bank of Iraq to Promoting Financial Inclusion

### 3.2.1. Content of the National Financial Inclusion Strategy

As part of its priorities in building the strategic plan for the years 2021-2023 to support financial inclusion (financial and digital banking services) (Ghalef Khafif, 2022, p.11-12), the central bank focuses on: (Mohammed Ameen Al-Imam, 2021, p 472)

- Preparation for the "**Know Your Customer Electronically**" project, which involves adopting electronic identification for opening bank accounts and digitally integrating customers. This is achieved through a unified and comprehensive database accessible electronically, linked to a feasible Know Your Customer (**eKYC**) process system. The main objectives include:

- Facilitating financial transactions for expatriates in host countries who send money back to their home country.
- Activating financial and technological inclusion to reach individuals who do not engage with banks.
- Ensuring accountability and governance.

- Commitment to the "*Know Your Customer*" principle and compliance with anti-money laundering laws.

- Enhancing the knowledge-based economy based on social and political stability and growth.

▪ Mandating the banking sector to use digital applications, such as mobile phone apps and online banking services, in accordance with international best practices.

▪ Establishing a Threat Intelligence Platform (TIP) to develop early warning techniques for cyber threats in the financial and banking sectors.

▪ Implementing open banking services and electronic platforms to increase efficiency and transparency of banking services.

▪ Issuing guidelines for providing digital inclusion services to banks interested in offering digital financial services.

▪ Supporting the banking sector by enhancing its services through expanding digital offerings and regulating the entry of digital banks into the market.

In view of the importance of financial inclusion in achieving economic stability and in recognition of the risks of financial exclusion, the Bank's management worked to achieve the following basic requirements: (Central Bank of Iraq, Annual Report of the Second Strategic Plan 2021-2023, 2023, p. 6)

-Iraq joining the Arab regional financial inclusion team;

-Proceeding from the promotion of financial inclusion in Iraq, which includes generalization of banking services to all segments of society, and to protect the rights of consumers of financial services and encourage them to manage their money and savings properly. provide them fairly, transparently, and at reasonable costs;

-The Central Bank of Iraq was keen to meet all the requirements for implementing the process of settling salaries in banks and applying the electronic collection system in the implementation of the directives of the General Secretariat of the Council of Ministers under Resolution (313) of 2016 and (281) of 2017 towards the shift from cash to electronic payment with all its tools, where salaries were settling 2,076 spending units (self-financed and centrally) and an accounting unit branching out of it in accordance with the instructions and controls issued.

The Central Bank of Iraq has taken various measures to support its financial inclusion strategy, including:

▪ Joining the Arab Regional Financial Inclusion Working Group to enhance financial inclusion efforts in Arab countries, with the support of the International Monetary Fund.

▪ Becoming a key member of the Global Alliance for Financial Inclusion, which contributes to the development of Iraq's national financial inclusion strategy by leveraging the organization's services to enhance access and usage of financial services.

▪ Establishing the High Committee for Financial Inclusion on May 30, 2018, chaired by the Governor of the Central Bank. This committee includes representatives from various sectors, both public and private, responsible for developing a long-term national financial inclusion strategy. Subcommittees have also been formed under the High Committee's guidance to further this mission.

### **3.2.2. The Central Bank's partnership with the International Labor Organization to Support Financial Inclusion**

The Central Bank's partnership with the International Labor Organization (ILO) to support financial inclusion encompasses a joint strategy for the years 2020-2023. This strategy focuses on several aspects: (the International Labor Organization, 2023, P. 4).

#### **▪ Demand Side (Partial Level)**

The ILO will provide training to targeted groups such as youth and aspiring entrepreneurs interested in starting or developing their businesses. The training covers topics related to business management and imparts the necessary financial literacy to manage their financial affairs better and enhance their relationships with banks or financial institutions. Participants will then be referred to the nearest branch of a partner bank to access the financial services they need through the "One Trillion" initiative. For refugees, they will be referred to microfinance institutions to launch or enhance their businesses.

#### **▪ Supply Side (Intermediate Level)**

The ILO builds capacity through training aimed at assisting banks and financial institutions in designing financial products and services that cater to customer needs. The organization also trains service providers, including the United Nations Children's Fund (UNICEF), to develop the necessary skills for serving their target clientele. After training, these service providers will guide their beneficiaries to access the offered financial services.

#### **▪ Organizational Level (Overall Level)**

Collaboration between the Central Bank and the Iraqi Company for Bank Guarantees (ICBG) is used to leverage the "One Trillion Dinar" initiative. The ICBG provides sufficient guarantees, along with the Avicenna project, to reduce the financial risks that entrepreneurs might face. This approach establishes a strong and sustainable foundation for the relationship between banks and clients, enabling them to build a healthy credit history. Furthermore, the ILO offers technical and advisory support to the Financial Inclusion Committee at the Central Bank. This support aims to draft or amend necessary legislation and policies to promote financial inclusion and integration in Iraq.

### **3.2.3. The Central Bank of Iraq's Strategy to Promote Financial Inclusion**

#### **▪ The Nationalization of the State Employees' Salaries**

The project of localizing the salaries of state employees was initiated based on a decision issued by the General Secretariat of the Council of Ministers in 2016. The main goal of the project was to disburse salaries to state employees through cards issued by banks operating in Iraq, in collaboration with financial payment companies that supply these cards to the banks. (Central Bank of Iraq, Annual Report of the Second Strategic Plan 2021-2023, 2023, P. 143). The Central Bank of Iraq played a pivotal role in this project, undertaking the following actions (Central Bank of Iraq, Annual Report of Strategic Plan 2016-2020, 2022, P. 5).

- Preparation and addition of **4** banks to the list of banks approved by the Central Bank in the salary localization project, bringing the total number of approved banks to **32**. This includes **6** government banks, **22** private banks, and 4 branches of foreign banks.

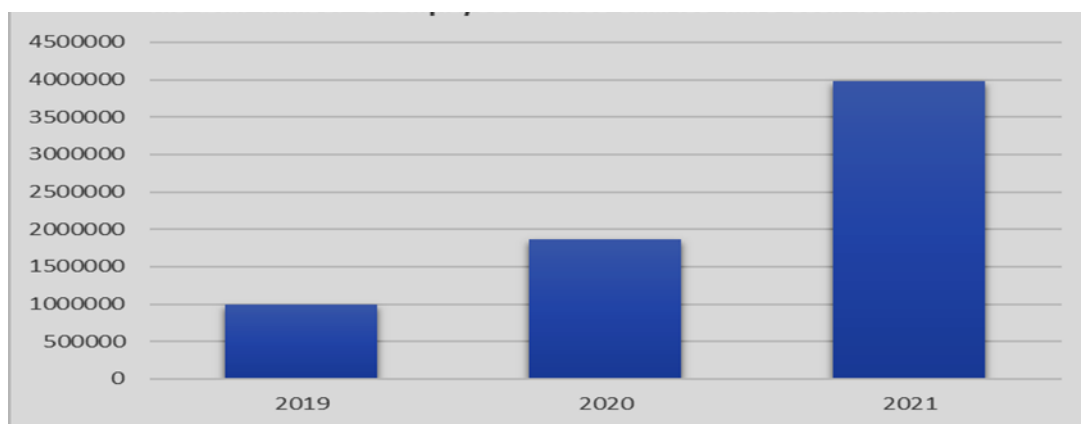
- Localizing the salaries of **(2076)** spending units (self-funded and centralized), along with a subsidiary accounting unit, following the instructions and regulations issued.

- Entering agreements with the National Pension Authority to maintain the same bank account for employees upon retirement. Any financial obligations on them are transferred to their retirement salary based on Memorandums. **(770/23)** and **(515/23)** dated **(19/05/2020)** and **10/03/2020)** for the participating banks in the salary localization project.

- Localizing the salaries of **(867.589)** government employees in **2020**, reaching a total of **(1.861.129)** by the end of December 2020. Additionally, the project localized entitlements for **(608.955)** beneficiaries of the National Pension Authority based on Decision No. **(270)** issued by the General Secretariat of the Council of Ministers.

The process of localizing salaries has significantly contributed to enhancing financial inclusion within the country. This is achieved by increasing the number of bank accounts created for employees, distributing electronic cards to them, expanding financial services offered by banks to attract employees, and raising public financial awareness. As a result, the project has led to a substantial increase in the utilization of banking services and a rise in public understanding of financial matters

**Figure (4): The Total Number of Employees Whose Salaries Have Been Localized**

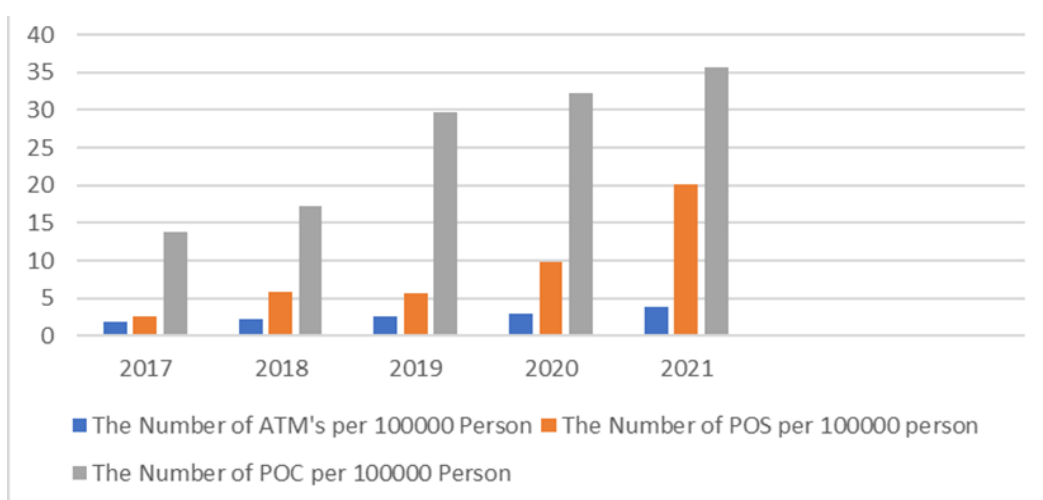


Source: Central Bank, Monetary and Financial Stability Report, 2021, p. 144.

#### ▪ The Expansion of Electronic Payment Services

In order to attract a larger audience into the banking system, increase transactions within the financial system, and promote the use of electronic payment tools, as well as gradually reduce reliance on cash transactions, it is essential to enhance electronic payment services. This is one of the central objectives pursued by the Central Bank of Iraq. The following chart illustrates the number of **(POS)** and **(POC)** devices and **ATMs** per **100.000** individuals.

**Figure (5): The Rate the prevalence of electronic payment services to the population of Iraq**

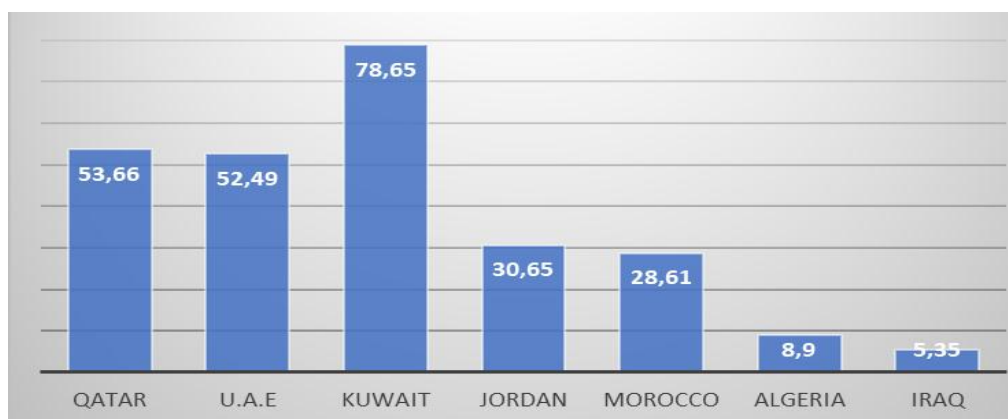


**Source: Central Bank, Monetary and Financial Stability Report, 2021, p. 147.**

According to Figure 05, there is a reduction in the use of electronic payment methods. This is due to the continuous use of cash transactions and manual financial transactions by people and merchants. The continuance of cash-based transactions, particularly in local marketplaces, has been attributed to a lack of widespread awareness and understanding of electronic payment systems, particularly in distant areas. Furthermore, ATM deployment is predominantly centered in malls, commercial centers, and government buildings.

It is worth noting that Iraq has the lowest ratio of ATMs per 100.000 adults of the countries studied. In 2020, the average number of ATMs per 100.000 adults in the Middle East and North Africa area was 26.1. This suggests that banks should increase the number of ATMs in order to give better services to the people. This expansion has the potential to increase the number of people accessing the financial system and improve financial inclusion, which is a core goal of the Central Bank. (Central Bank of Iraq, Annual Report of the Second Strategic Plan 2021-2023,2023, P. 147).

**Figure (6): Number if ATM's Per 100.000 Adult Person**



**Source: Central Bank, Monetary and Financial Stability Report, 2021, p. 148.**

### • **The Spread of Electronic Payment Services**

The available statistical data pertaining to Iraq underscores that the proportion of adults availing themselves of banking credit has attained a rate of **11%**. Conversely, proprietors of small and micro-scale enterprises secure a mere **5%** of their requisite financing. This ratio assumes a negative connotation, thus necessitating the intervention of the Central Bank of Iraq through an initiative encompassing a substantial allocation of **6 trillion Iraqi dinars**, intended to finance undertakings spanning the small, medium, and large enterprise spectrum. The disbursements allocated until the culmination of the year **2020** are as follows:

#### - **Small and Medium Enterprises Financing Initiative**

The Central Bank of Iraq has undertaken the responsibility of invigorating local economic activity and expediting its growth trajectory through a suite of initiatives it promulgates. Of these initiatives, the Small and Medium Enterprise Financing Initiative, inaugurated in the year **2015** with an endowment of **1 trillion Iraqi dinars**, : (Central Bank of Iraq, Annual Report of the Strategic Plan for the Years 2016-2020, 2022, P. 5)

- An aggregate sum of **205.672.773.235** dinars distributed among **33** banking institutions.
- The adjustment of interest rates applies to banks and the co-guarantor, culminating in a proposed aggregate interest rate of **3.5%** for financing sums ranging from 1 to **20** million dinars, and correspondingly, a proposed aggregate interest rate of **4%** for financing sums between **21** million and 1 billion dinars. An augmentation in the quantum of the initial tier of financing, ascending from **15** million dinars to **20** million dinars, and the concurrent reduction of the Central Bank's administrative fee from **7.000** to **5.000** dinars. These modifications are outlined in communication number **(6/5/1036)** dated June 29, 2020.
- The authorization of augmenting liquidity for projects hitherto funded through the "One Trillion" initiative, within a threshold not surpassing **5** million dinars, is granted, as delineated in communication number **1036** dated June 29, 2020. This authorization refrains from engaging additional loan collateralization, contingent upon the underlying project's collateral, and consequently permit the restructuring of loan installments for a new fiscal year devoid of interest or in conjunction with administrative charges.

#### - **Large Project Finance Initiative**

The Central Bank of Iraq has diligently pursued a spectrum of objectives, including the enhancement of economic growth and development. In pursuit of this overarching goal, most earnest endeavors have been undertaken through the Large Projects Financing Initiative, which plays a pivotal role in augmenting production, backed by a substantial endowment of **5 trillion Iraqi dinars**. The allocation of funding has transpired as follows: (Central Bank of Iraq, Annual Report of the Strategic Plan for the Years 2016-2020, 2022, P. 6)

- Financing of the Agricultural Bank with a sum of **2.397.280.000** dinars.
- Financing of the Real Estate Bank with a sum of **35.000.000.000** dinars.
- Financing of the Industrial Bank with a sum of **17.4700,000.000** dinars.
- Financing of the Housing Fund with a sum of **200.000.000 000** dinars.

In conjunction with these disbursements, the tenure of the loan for the Housing Fund has been extended to **15** years, pursuant to Board of Directors Resolution No. **150** for the year

**2020.** Likewise, the duration of the loan for the Real Estate Bank has been extended to **15** years, based on approval from the senior management.

The injected funds substantively contribute to the development of the underlying infrastructure and the amplification of economic growth within the nation. Furthermore, they substantially alleviate the severity of housing crises and foster augmented production rates within pivotal sectors of the economy.

#### ▪ **Activating E-payment Tools Between Institutions and Ministries**

The Central Bank endeavored to enhance payment and settlement systems through the automation of the Central Bank's operations and those of government ministries and institutions (activating electronic payment tools). This endeavor encompasses the automation of all financial transfers between state departments and institutions, as well as the collection of dues through the Iraqi Payment System, utilizing the **C-ACH** electronic clearinghouse system with CT-based electronic payment, replacing traditional instruments. The initiation of this initiative commenced within select ministries, such as the Ministry of Oil and the General Tax Authority. It is notable that the system has been integrated with the core operative systems within the Central Bank, aimed at reducing human intervention steps, expediting transaction processing, and facilitating reconciliation processes (Mohamed Amin Al-Imam, 2021, P. 471).

#### ▪ **Providing Guarantees for Transfers Through the Payment System**

The Central Bank has taken measures to require both local and foreign banks operating in Iraq to provide necessary safeguards to ensure liquidity availability for use in cases where a bank fails to fulfill its obligations within the electronic payment systems. This action aims to uphold the stability of the banking environment and safeguard confidence in the Iraqi payment system. These safeguards encompass the following measures: (Al-Imam, 2021, P.472)

- Investments in bonds available within the Central Securities Depository system (Central Bank bonds, Ministry of Finance bonds).
- The initiation of a project to provide safeguards through the payment system in **2016**, with approval obtained from the Central Bank's Board of Directors in the year **2018**.

## **4. Financial Inclusion Requirements in Iraq**

### **4.1. Mechanisms for Enhancing Financial Inclusion**

The Arab Monetary Fund asserts that bolstering financial infrastructure in economies necessitates the following steps: (Khamili, 2022, P. 23)

#### ▪ **Regulatory Environment**

Establishment of a conducive legal framework that supports the principle of financial inclusion, achieved through the issuance and amendment of regulations, directives, and guidelines;



#### ▪ **Wider Coverage**

Expansion of the network of financial service providers' branches, with a focus on establishing branches or small offices for service providers, particularly for microfinance. Additionally, the creation of access points for financial services;

#### ▪ **The Development of Payment and Settlement System**

Facilitation of timely execution and settlement of financial transactions among transacting parties, ensuring the continuity of financial services;

#### ▪ **Leveraging Technological Advancements**

Development and enhancement of communication and information exchange by expanding digital financial services delivery, as well as mobile phone-based payments. This aims to facilitate access to financial services at a lower cost and with increased efficiency.

### **4.2. Barriers to Promoting Financial Inclusion in Iraq**

The factors contributing to the low rates of financial inclusion in several Arab countries, including Iraq specifically, can be summarized as follows: (Mesjat, 2022, P.216-217)

- Limited Use of Electronic Payment Systems: In numerous Arab countries, the limited adoption of electronic payment systems contributes to the stagnation within the financial system. This results in slow transaction execution, financial service delivery, and an inability to keep pace with current developments. (Ben Kida and Bouafia, 2018, P.102)

- High Costs Associated with Opening Bank Accounts and ATM Transactions.

- Widespread Illiteracy: The prevalence of illiteracy, particularly in recent years, coupled with a lack of financial awareness and education, leads to a segment of society unaware of the available banking services.

- Iraq has witnessed a significant decrease in banking transactions, primarily due to the inadequate availability of ATMs. Additionally, limited usage of electronic cards has substantially impacted savings rates within the banking sector.

- Economic Imbalance and Instability in Iraq: Political instability and security disturbances have disrupted the financial and banking sectors' development, resulting in higher levels of financial risk.

### **Conclusion**

This study addressed the role of the central bank in supporting the pace of financial inclusion, initiatives, and developments in Iraq. **The study reached the following results:**

- The national strategy aims to achieve financial inclusion by providing financial services to all segments of society, with the goal of improving financial conditions and raising the living standards of individuals with limited income.

- Financial inclusion is not achieved in an unstable financial system.

- Financial inclusion ensures the provision of advanced financial services and products at a reasonable cost to all segments of society.

- Achieving financial inclusion is based on a set of fundamental foundations.

- Despite the support of the Iraqi Central Bank for its financial inclusion strategy, educational and awareness programs remained limited in achieving a financial inclusion rate that exceeded **70%**. To ensure the continued flow of information among citizens, an interactive digital platform must be developed to enhance financial inclusion.

- Central banks attach significant importance to leading national efforts to enhance the financial inclusion agenda in Iraq and encourage it.

-The measures taken by the Iraqi Central Bank to enhance financial inclusion are pioneering steps that reflect a distinguished understanding of the state of financial inclusion in Iraq. These steps highlight a clear strategic vision aimed at unifying efforts among partners and stakeholders in the financial and banking sector, within a comprehensive national framework.

-Central banks play a critical role in leading and coordinating efforts to enhance financial inclusion, which contributes fundamentally to the development of the banking sector. This positively reflects on the growth and increased depth of public deposits, thus enhancing the assets of banking institutions and their ability to finance various economic sectors.

Based on the findings, **this study recommends the following:**

- Focus on qualifying human resources in a way that enables them to simplify transactions for the success of the inclusion process.

- Provide educational curricula and programs with financial education materials that work to increase awareness and financial literacy.-

- The Iraqi banking sector, led by the Central Bank of Iraq, should incorporate international experiences and seek benefit from them.

- Iraqi commercial banks should provide mobile applications that enable customers to meet their obligations.

- Adopt a national strategy to enhance financial inclusion that addresses the obstacles to its achievement and involves the central bank and all relevant entities in its implementation. Therefore, it is important to draw on the experiences of other countries in developing and formulating this strategy.

- The Iraqi Central Bank should require card-issuing banks to expand the deployment of ATMs and point-of-sale terminals based on the volume of cards they issue. The costs of payment through ATMs for citizens should be reduced, in addition to providing protection by the central bank.

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