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# Applying Financial Inclusion Requirements in Iraq

Nagham H. Al Nama'a

College of Business Economics, Al-Nahrain University

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## ABSTRACT

This study dealt with the theoretical framework basics of financial inclusion, then analyzing the most important indicators of financial inclusion in Iraq, which showed the reality of financial inclusion in order to determine the basic requirements for financial coverage. The study has reached a number of conclusions, the most important ones: The weakness of the levels of financial coverage in Iraq due to weak access and utilization of financial and banking services; the percentage of those who own a financial or bank account for the adult population (11%); the ratio of the number of borrowing accounts (4.2%), while the global average of those who have a financial and bank account is (70%). Also the weakness of the bank density index, where every (35000) people have one bank branch in Iraq, while globally a thousand people have one branch bank, these proved the weak situation of financial inclusion level.

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## Introduction

Financial inclusion considered as the most important matters that appeared lately after the global financial crisis 2008, and it becomes as agenda that should be discussed in each financial political global meetings according to its role in achieving the sustainable development for the societies.

Financial inclusion is a process of empowerment both the individuals and companies for having a package of good financial services, with reasonable costs and within a required date that serve the achievement of prosperity in any society.

Still, many thoughts are under discussion concerning this matter; for example the Global financial inclusion Bank defined it; as this percentage of financial services users/ of common population. This, definition led bankers and other financial writers to look for this modern idiom.

Arabian Union Banks (2015: 24), defined financial inclusion as the use of banking services commonly especially those who have lower wages not like in case of financial exclusion. In the same path, another definition said that the applied process of having financial inclusion should supported by many training programs as well as such seminars to convince the future users of financial inclusion importance (Khalil, 2016: 44); and the Reserve Bank of India defined it as "submitting the banking services with a reasonable costs to those who have lowest wages or none, for having unlimited goods as well as services to achieve an efficient society, without any differentiation between people" (Abo Jama'a, Abo Wedya, 2016: 10).

The Group of Twenty and AFI defined the financial inclusion as "supplying the financial services to all society levels according to their needs in a reasonable cost and fair." In addition, OECD and INFE defined it as "the process of supplying the goods and services to all people under the control of banks through many training courses that trained people the advantages of having financial inclusion and improving the financial prosperity" (Arab Monetary Fund, 2015: 2).

The importance of having financial inclusion has a positive reflection upon any economic political society, and it will decrease the risk that could be in any financial institutions or even in the financial global system (Edhat Magazine, 2016: 2); having financial inclusion supports the efforts of economic developments; balancing the financial system, improving the individual abilities to involve and participate in developing their societies, and moreover, computerized the financial system among users, financial institutes through paying fees, costs, taxes ..etc; which also rescue users from any kind of financing of Terrorism as well as money laundering because all these devices are controlled and monitored.

Under this global consideration through created unions or global institutes to work together under certain united processes to reach all lowest or none wages and it is a mean of improving women in their societies, having equal chances to fund the mini or more projects. Thus, as Al Shameri (2015: 9) said that it is a way of reducing the poverty levels, and achieving a sustainable economic development. Ajwar in (2017: 20) illustrated many objectives to have financial inclusion as others said before. Financial inclusion helps a bank to submit many strategic projects depending on its wide data that has been created before which could be analyzed and translated into needs then objectives to be achieved (Khalil, 2016: 45).

Never the less, having financial inclusion faced many boundaries; such as the wages limitation, personal cultural of the cause of having financial account if the wages are not high especially if this account needs such required document to activate, social or even religion considerations which needs high level of efforts toward cultured people with the importance of using financial services under the limitations of Islamic limitations.

Recently, financial inclusion becomes an essential condition to decrease the poverty, and achieving the economic development through (financial balance, financial safety, and consumer's financial protection), in this sense,

many global companies appeared after 2012 to help the poor people in such state in South Africa (BFA, and RMC, 2016: 6). Moreover, the SASANA KEGYANG announced that the financial inclusion indicators refer to its positive effect on the economic development, the sustainability of employee as well as on financial stability,  
[http://www.bnm.gov.my/documents/2012/Sasana\\_Statement\\_061112.pdf](http://www.bnm.gov.my/documents/2012/Sasana_Statement_061112.pdf).

By reviewing the theoretical studies in last decade, there is a strong relationship between the financial inclusion and the way of managing this system that highly depends on a financial transparency and on the other hand on, consumer's protection (CGAP, 2012:1). Others go far by illustrating the elements of having financial inclusion (stability, integrity, and consumer protection) (Khalil, 2015: 8).

The Group of Twenty, adopted a set of principles or recommendations to empower the financial inclusion and reach around (2 trillion of world population) to have the financial services especially those poor people (Arabian united economic report, 2012: 214), and these principles are (leadership, diversity, development, protection, empowerment, cooperation, knowledge, alignment, and system framework).

Therefore, financial inclusion can be defined as a long term strategic plan to transport the financial as well as banking services to all society with reasonable cost to achieve the developing financial sustainability in that society.

#### **Financial inclusion in Iraq and some Arabian Countries**

The situation of financial inclusion in Arabian countries is completely different than others in the world according to the different levels of economic or political development situations, and then the different situation in banking sector as well (Al Shemeri, 2016: 297). International Monetary Fund reported in 2014 that still Arabian region registered the lowest level of financial inclusion around the world, according to those adults who have accounts are only (18%) of Arabian region population have accounts in banking institutes and in particular this ratio is lowered again with women which is around only (13%), this report also referred to notable increase between 2011-2014 in most Arabian Countries while still in Iraq the situation is different because still the ratio of population accounts around (11%); while increased in UAE, Bahrain and Kuwait to reach 83%, 82%, and 73% accordingly. The worst situation is in Yemen; the ratio is around (6%) and in Egypt is around (14%), another indicator is the gender in which males account are high while in verse for females, and the essential gap is in Iraq, Yemen, Sudan, as well as Egypt accordingly (Arabian Banks Union, 2016: 8).

Another problem is that the ratio of borrowing from banks is very limited, in which there is no equality between the poor people who need money for education, hospitality, or even consuming, while borrowing is more than 60% of rich people on the other side, which reflect the risks that developed according to this inequality. Moreover, the system of borrowing in such cases happened under the condition of corruption or in non-formal relations especially in Iraq, Yemen, Morocco as a high level; while lesser in Algeria, Tunis. Another type of private borrowing non- formal is highly noted in Iraq, KSA, and Syria; then in Jordan, Algeria, and Egypt in lower level. While in Bahrain and UAE the matter is different, in which the borrowing happened through formal financial institutes, and then stands Iraq, Yemen, Algeria as the lowest countries which borrowing from formal financial institutes, which reflect the lack of infrastructure of financing sector.

In Iraq, the financial stability report in 2016, announced that the Iraqi banking sector includes only (64) banks, in which (7) of them are public banks, while (57) are private banks either global banks or local ones; this number also reflects that the commercial banks are (43) then Islamic ones (18), then the specific ones are only (3) banks; this fact indicates that still there is a lack in banking distribution according to the population as well as the banking intensity. Moreover, the ATM widows are still less that expectation according to the report of United Arabian Economic Report, which mentioned that Iraq had only (467) ATM in 2011 then increased to (660) in 2016 that are placed only in commercial complexes or in some braches of banks, which means that only (4) ATM widows to (100,000) from 2011-2016; while ATM windows in KSA, Qatar, and Kuwait were (76%, 68%, and 56%); and with reference to sales points, in Iraq it is (755 person per/1 sales point), while in in UAE, Morocco, and Kuwait it is more that (100,000 person per/ 700 sales point) (United Arabian Economic Report, 2014: 152).

Although, the credit cards and debit cards have a great role in banking sector that simplified the way of paying but again the situation in Iraq is different in contrast with other Arabian countries such as Kuwait in which it has the highly level of using these cards (58%) of its populations, then Qatar round (31%), then UAE and Oman, while in Jordan, Algeria, Iraq, Syria and Egypt is less than (3%) and the lowest one is Yemen less than (1%) (Bernya, 2012: 16).

Another challenge in Iraq in particular, is the way of having funds for small and medium sizes projects, in which around (63%) of those projects have no fund according to IFC report that announced around (160-180 Trillion \$) reflects the fund gap for those small, medium sizes projects. Another cooperated study between Arabian Union of Banks and the International Bank assured that only (8%) of funds were submitted to those projects in 2011, and the ratio was (24% in Algeria), (20% in Yemen), (16% in Lebanon), while lower in Egypt (5%), and Golf region was (2%), <https://www.microfinancegateway.org/ar/library>, while in Iraq it is around (9.9%) which ,means that the Iraqi banks must be expanded through loaning the small and medium size projects in order to expanse the ground of financial inclusion; this needs a strong infrastructure that could the banks depend on and the financial savings should be framed in a legal way especially for those who have low rate of wages (Shahatha, 2017: 4). Moreover, both private sector as well as public one should work side by side to provide the financial inclusion through such requirements which can be illustrated as; considering financial inclusion as the essential matter to draw the economic policies (Brnya, 2012: 32); supporting the financial institutes by having legal coverage for every financial treatments to serve the whole levels of society especially the low level with reasonable costs <http://blogs.worldbank.org/psd/8keye> financial inclusion,(RANDALL, CHIEN, 2017); supporting the financial infrastructure (Al Manzahee, 2013: 4) by supporting the (legislation, expansion, developing the payment systems, providing comprehensive data bases) (Al Haj, 2016: 4-25), in addition to financing consumer's protection through working with high level of transparency and trust with costumers by supplying the consultant services and trying to role as a positive guide to costumers (<http://www.ealb.ps/index.php>-Arabian Egyptian Construction Bank). Then working on supporting consumers with many kinds of services that have reasonable costs

especially for society and in specific those poor ones (Kuwait International Bank, 2015: 19).

## Conclusions & Recommendations

### Conclusion

Unfortunately, according the hypothesis, still Iraq suffered from many negative indicators to have the financial inclusion. In which, the adults are less than (11%) accounts and the ratio of loaning is only around (4.2%), while the global medium of having financial or banking accounts is (70%). On the other hand, the banking destiny is around (35,000)/ per one branch, while global standard is around (1000)/ per one branch; more over the luck of ATM in which in Iraq it is (2.9%) while globally it is (70%). Another conclusion is the gap of having accounts among male/ female, and among governorates, then the luck of knowledge concerning the important of having financial inclusion.

### Recommendations

Adopting a national strategic plan for training the Iraqi population on financial inclusion and examining the experiences of other countries, then supporting people to have banking account with low fees and supporting the process of submitting loans especially for those poor people to achieve the purpose of financial inclusion. Expanding the branches through around the country and expanding the points of ATM to facilitate the use of banking services.

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