

Platform

Central Bank of Iraq

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Bi-annual **Policy** Journal

Focus on policy sectors in **Iraq**

Published by the Platform Center for Sustainable Development

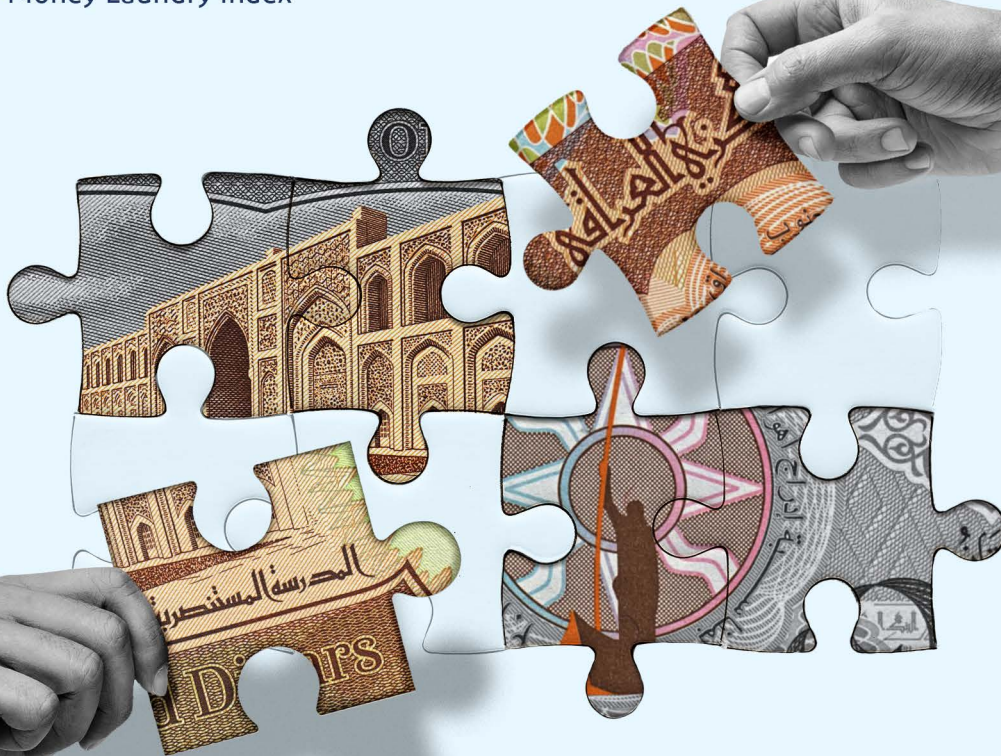
Issue 1 – Banking Sector File - August 2023

International Indicator

Iraq's Ranking in the Basel
Anti-Money Laundry Index

Policy Paper

The Role of Credit Facilities in
Financing Iraq's International Trade



Highlights

The Currency Depreciation Crisis
in Iraq

Platform Journal

A bi-annual policy journal that explores policy sectors in the aim of promoting policy understanding of these sectors via presenting in-depth insights based on data and evidence.



About the Center

Platform Center for Sustainable Development (PSDIraq) is a registered NGO at the Directorate of Non-governmental organisations in the General Secretariat of the Council of Ministers under the number (1S2106012). It is a space for thinking, discussing, and working towards positive change in Iraq.

Vision

We seek to establish a platform for dialogue and policies to contribute to achieving sustainable development goals in Iraq.

Mission

Bridging the gap between the state and society in a way that ensures the realization of the essence of democracy represented by the participation of citizens in the decision-making processes, through training, monitoring, analyzing, researching, awareness raising, and advocacy campaigns.

Strategic Goals

Preparing Youth to fulfill their societal obligations by analyzing root causes of problems, proposing feasible and desirable policy alternatives and advocating for their implementation

Presenting statistics and issues that occupy the political and societal scene to reflect a deeper understanding of Iraq's realities

Encouraging youth to work towards achieving sustainable development goals

Establishing a network of active, informed, and committed citizens towards Iraq's state-building project

Platform Journal

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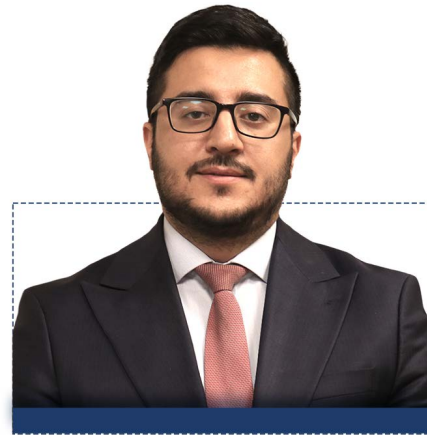
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Editorial: Policy as a substitute!

- Policies could contribute to the establishment of good governance in Iraq, as all Iraqis, regardless of their ethnic and religious identities, face the same challenges and addressing them require policies stem from reality and open up to all stakeholders and their diverse propositions, aiming to transfer resources into welfare that reaches most societal groups.
- The transition towards policies cannot be done automatically, rather require an awareness of the importance of policies, research of realities and feasible/desirable solutions, and advocacy efforts towards adopting effective public policy.
- The Platform Center seeks through the Platform journal to contribute to the transition towards policy as an alternative approach that promotes the democratic experience in Iraq away from identity politics. A single publication cannot attain such an ambitious objective, rather requires integrated efforts based on three pillars: awareness, research, and advocacy in every policy sector.
- This is important to promote understanding of the problems, actors, possible alternatives, and best international, regional, and domestic experiences in implementing these alternatives. Such an understanding might be an option for policymakers but it is a must to guarantee their success in addressing accumulating crises, as working without a vision only drives one far from the right trajectory. Also, this understanding is crucial for youth, as recent engagement of youth in political life demonstrated the ease of their fall into the trap of populism and identity politics.
- The banking sector constitutes the first step toward reform. Having a developed, regulated banking sector can limit corruption, financing of terrorism, and tax evasion to name a few of the crucial crises that the Iraqi political system is fighting. Therefore, the banking sector is the first issue of the Platform journal.



Hashim Al-Rikabi

Editor-in-Chief

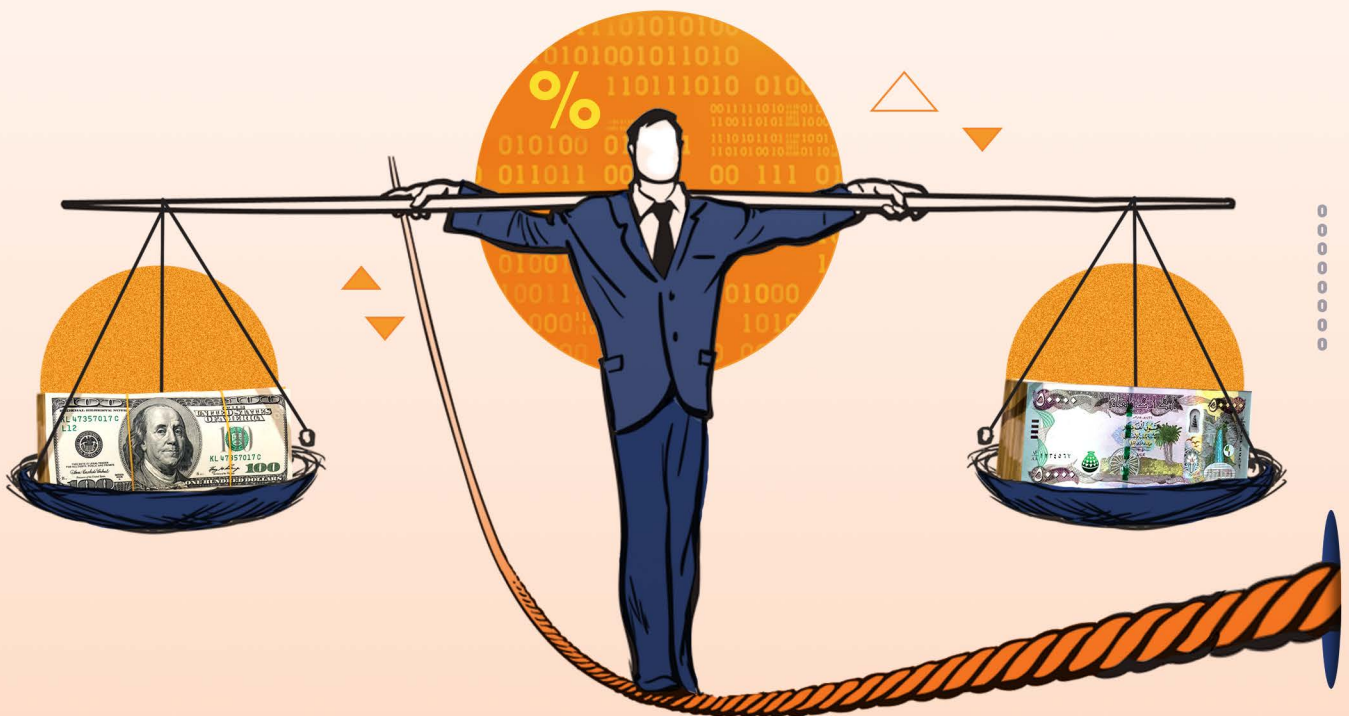
- The banking sector needs a review and assessment, including its legal framework to ensure transparency and accountability, providing loans for SMEs on guarantees of the project itself, enhancing banking infrastructure to ensure effective performance, promoting financial culture through educational programs and awareness campaigns to establish citizens and businessmen trust in the banking sector, and most importantly, encourage foreign investment in the banking sector as it helps in transferring expertise, capital, and technologies.
- A number of attempts were conducted to reform the banking sector both domestically and internationally, but the absence of political stability and economic crises did not allow an institutional effort to reform the sector.
- The current political and security stability is an opportunity to reform the banking sector in Iraq to deliver essential roles, starting with combating corruption and extending to achieving genuine economic growth resulting from expanded economic activities, not only the increase of Oil prices.

The Role of Credit Facilities in Financing Iraq's International Trade

Insights to Redress the Structural Imbalance in Iraq's Banking Sector

Akel Al-Ansari

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- Has 20 years of expertise Financial & Banking sector in the United Kingdom



Executive Summary:

- ▶ Over the past years, Iraq has been through various ostensibly economic crises. Nevertheless, after delving deeper into the root causes of these problems and the reasons behind them, one discovers that they are not only economic. Indeed, these crises are triggered by various other factors, including political and social.
- ▶ This paper reviews the latest crisis of the devaluation of the Iraqi Dinar vis-à-vis the United States Dollar (USD). The devaluation of Iraq's national currency has sparked a rise in commodity prices and weakened the purchasing power of citizens. The crisis prompted the government of Prime Minister Muhammad Shia' Al-Sudani to adopt three reform packages. Until this paper was written, the impact and outcomes of these packages had not been felt. However, it is fair to say that these packages halt the deterioration.
- ▶ This paper also presents a fundamental and structural solution proposal, which denotes the next step of the reform process aimed at redressing the banking sector. The proposed solution suggests that Iraqi banks and banks operating in Iraq provide services known as trade exchange facilities. These services represent a fold that entails numerous banking products and credit facilities. Such facilities would be beneficial to importers and suppliers, as well as banks, regulatory authorities, and citizens, and would also consider Iraq's particularity.
- ▶ This paper does not aim to dive into all details relevant to the financing process due to the lack of capacity to include them. Nonetheless, it aims to provide decision-makers and those concerned with a preliminary view.

Introduction

- ▶ Following long years of embargoes and wars, the year 2003 rolled around, and it was a year of economic, political, and social change. The Iraqi economy opened its doors to trade with different countries in a development that marked the beginning of the transition towards a market economy.
- ▶ The world was making significant strides and adopting the latest technologies during that time. Countries were also entering bilateral agreements and economic groups and establishing free markets. These advancements made the visions to develop the economies of some Gulf states, far Asian countries, and countries of the Indian subcontinent, as well as Turkey and others, much more straightforward than that of the Iraqi economy.
- ▶ Iraq was left behind these advancements and therefore lost much of what it previously had of human resources, access to expertise acquisition, and experience sharing with countries it could learn from. Due to the economic embargo imposed on Iraq, it was also unable to access any modern technologies. Accordingly, this necessitated that all of Iraq's dealings be carried out manually and on paper rather than in an automated or digital manner.
- ▶ After 2003, Iraq suffered immensely for all international sanctions, including Chapter VII, to be lifted. Ongoing wars on terrorism, sectarian fighting, and political instability marked the following years. The Iraqi economy's transition into a free economy was thus faced with mixed reactions from the local community due to the state's tight grip and dominance over the economy. As a result, the country was left captive to the centrally planned economy exclusively dependent on natural resources. The most prominent of those resources is oil which accounts for more than 93% of state revenues.



- ▶ Meanwhile, successive governments have left the doors of public hiring open and provided numerous facilitations for employees. Public sector jobs became more appealing while the private sector became further repellent and underdeveloped. Accordingly, this further exacerbated the difficulties of transitioning into a market economy. Against this backdrop, economists believe that public sector hiring is made in Iraq without an actual need. Thus, they regard such hiring as a governmental instrument to distribute wealth, enter and stimulate the local economy, and wheel forward an economic cycle (per the Keynesian model).

Nevertheless, this cycle was and still is incomplete due to the lack of active economic (agricultural, industrial) sectors. As a result, most goods in the markets are imported, and funds flow out of Iraq's economic cycle, negatively impacting the financial cycle.

Financing Trade in Iraq Post 2003



- Before 2003, international sanctions were imposed on Iraq in various sectors, the most prominent of which is the financial sector. This prompted decision-makers post-2003 to devise temporary and urgent solutions such as establishing the foreign currency sale window —initially called the currency auction — and the Trade Bank of Iraq (TBI). The US dollar was sold through the currency sale window to importers in cash or remittances. Until recent months, such cash and remittance sales did not undergo full audits and were not fully compliant with international legislation and regulations. Moreover, some of these sales transactions are destined for countries under sanctions and/or for money laundering and smuggling.
- The existing anomaly posed a significant challenge for decision-makers. This challenge is regulating the banking process and remittances with reliance on the local banking sector and the commitment to international legislation and regulations. The most prominent of these legislations is the anti-money laundering and anti-terrorism-financing laws. In addition to adherence to these laws, commitment and compliance to the sanctions imposed on several countries, including Iran and Syria —situated at Iraq's eastern and western borders, respectively— were also required. Following its cooperation with international agencies and organizations, Iraq began developing its systems and, in 2022, entered the electronic platform into effect. The platform was wholly connected to the SWIFT network without an intermediary and became responsible for auditing cash sales and remittance requests.



- During the same period, the Iraqi government in cooperation with the Central Bank of Iraq (CBI) adopted three packages of decisions and instructions to assist in the gradual shift and transition towards benefiting from the platform. The move aimed to divert import and trade operations financing from the parallel market to the banking sector.

This paper reviews the prevailing mechanisms, not to criticize or praise them. It instead suggests a proposal for the upcoming phase of the banking development and transition process. The proposal reference is based on the method of foreign trade financing adopted by many world countries.

Foreign Trade Financing

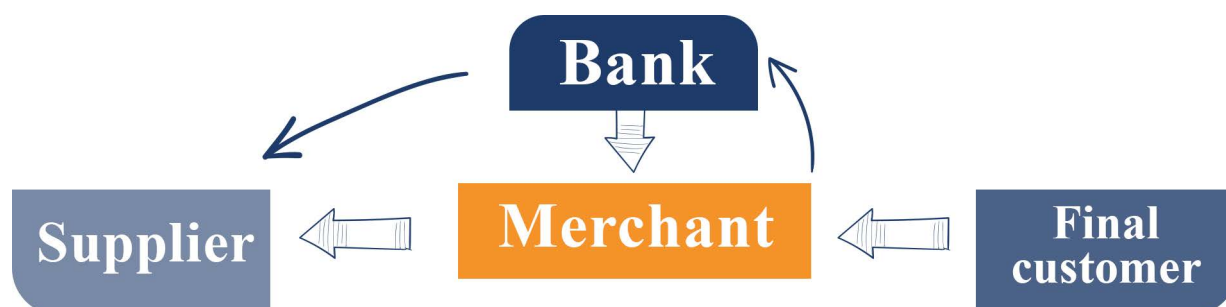
- Foreign Trade is based on the theory of absolute competitive advantage proposed by Scottish economist Adam Smith. The theory suggests that each country specializes in a particular type of products and services to barter with other countries. For example, Iraq exports oil products to China in exchange for various consumer goods.

In light of the advancements that ensued in the aftermath of the industrial revolution following 1840, world economies began diversifying their products and services. They also began expanding international trade and banking from just loans to guarantees. International banks, including the British Midland Bank, began providing some of these services to British merchants and importers from India and Japan, who had an increasing need for the provision of liquidity and guarantees, as well as for avoiding risks.

Moreover, trade in all its forms is prone to numerous risks. These risks threaten international trade more than local trade, considering the declining confidence factor in the former. Accordingly, importers are further searching for assurances to guarantee their money because they are unsure of the suppliers' ability to produce and deliver the goods. The importers also need to maintain cash flow, mainly since the import operations take a long time, which could exceed 180 days.

The suppliers also require financial liquidity and a guarantee that they will receive their payments and that the buyer will be obligated to buy the goods after their manufacture. Accordingly, the role of banks as an intermediary providing guarantees and reducing risks emerged and became a significant factor contributing to the banking sector. Shown in Figure (1) is the movement of cash.

Figure (1) The Movement of Cash and its Guarantees



Source: Prepared by author

■ This model has gone through many developments, the core of which was a contribution to international trade and responsiveness to participants’ evolving needs. After nearly a century and a half, British banks and banks in other countries are offering complementary products and services under the umbrella of Credit Facilities. The table below presents samples of the most commonly used banking products.

Credit Facility Products

- Letter of Credit
- Stand by Letter of Credit
- Import Loan
- Open Book Trade Loan
- Advance Trade Loan Payments
- On Shipment Loan
- On Receive Trade Loan
- Revolving Facility

Table (1) Credit Facility Products

Source: Prepared by the author

■ The significance of these banking products stems from their offering guarantees to all parties (bank, importer, exporter). However, in recent years they have shifted from being a trade financing instrument to an instrument for control, oversight, and the enforcement of laws and instructions, especially those relevant to money laundering and the financing of terrorism.

Mechanism for the Operation of Credit Facilities

■ Many small and medium-sized enterprises supply their finished goods, or the raw materials required in the production process from various countries. To reduce the formerly cited risks, these enterprises turn to the banks to benefit from Credit Facilities and other banking products, including those shown in Table (1). Meanwhile, the banks offer banking products according to the size of the enterprises defined by the European Union, in part the definition of small and medium-sized enterprises (SMEs), which considers many factors into which we will not go.

Annual Turnover (Euro)	Headcount: Annual Work Unit (AWU)	Enterprise Category
50M	<250	Medium
10M	<50	Small
2M	<10	Micro

Table (2) Classification of enterprises per the standards of the EU

Source: Prepared by author

After classifying the enterprise per the standards mentioned in the above table, the bank assigns an account manager for the enterprise (Portfolio Manager) whose role is to:

- ▶ Know the enterprise's mechanism of work and its needs, and provide banking facilities and services
- ▶ Provide guarantees to the client
- ▶ Allocate a well-considered specific amount after knowing the volume of annual imports
- ▶ Provide the account manager's office with the client's invoice to carry out the remaining procedures
- ▶ Facilitate the bank's payment of the required amount in the agreed-upon currency
- ▶ Receive goods at the warehouses
- ▶ Sell the goods to the client
- ▶ Receive the income
- ▶ Pay off the loan or facilities in local currency



Proposed Financing of International Trade in Iraq

- The only credit facilities that are common in Iraq are letters of guarantee, and that is due to several reasons, the most prominent of which are:
 - ▶ The lack of needed banking products to finance trade by the banks
 - ▶ The importer’s lack of confidence in the banking sector
- To overcome this, banks ought to adopt several steps starting with:
 - 1 Dividing corporate bank accounts and classifying them according to the size of the enterprises. The size of the enterprise ought to be determined according to its headcount and annual turnover and based on the enterprise classification set by the EU. Due to the specificities of the case of Iraq, we suggest the enterprises be classified per the following table:

Annual Turnover (USD)	Headcount: Annual Work Unit (AWU)	Enterprise Category
\$15M<	<500	Medium
\$5M<	<250	Small
\$500k<	<100	Micro

- 2 Banks’ establishing trading divisions to manage corporate accounts per their proposed classification in Table (3)

- 3 Setting up an account portfolio while considering the size of the enterprise and the sector in which it operates

- 4 Assigning a manager for each portfolio to manage the corporate account on the condition that the number of accounts in each portfolio does not exceed 25. Accordingly, each portfolio manager would be allowed to engage closely with enterprises and to be the person in charge of updating their information, assisting them in growing and facilitating their daily interactions with the bank. The portfolio manager would accordingly function as a liaison between the enterprise and the bank’s Payments Department, which acts as a link with the CBI’s platform.

The Role of the State in Financing International Trade

- Beyond the CBI and state-owned banks, no government institution has a direct role in financing international trade. That said, providing the needed infrastructure that assists and facilitates the work of banks and their provision of better services to customers is indeed the responsibility of the state. This infrastructure is invisible, and its role is to support trade financing operations by providing the needed information and organizing the legal conditions of companies and merchants. Moreover, government institutions function as an intermediary regulatory link that oversees the adherence to the instructions, laws, and regulations shown in Table (4) by the bank’s customers and the beneficiaries of the financing operations.

Invisible Infrastructure	Role
■ Electronic Identification	The Department of Nationality and Civil Status permits banks to verify individual details through the Electronic Registry without showing the customer credentials and the validity of their issuance.
■ Company Registrar	Permitting the banks to verify company registration
■ Tax Authority	Permitting the banks and the Tax Authority to verify that the corporates and individuals are not tax evaders
■ Land Registry	Permitting the banks to access the Land Registry to identify the owner and if the property is under attachment.
■ Credit Rating Authority	Connecting all institutions that provide credit for services — such as the departments of banks, electricity, mobile phones, water resources etc.—to inform the Authority about the creditworthiness of individuals or establishments.

Table (4) State infrastructure

Source: Akel Al-Ansari, report published on Baidar Center for Studies and Planning

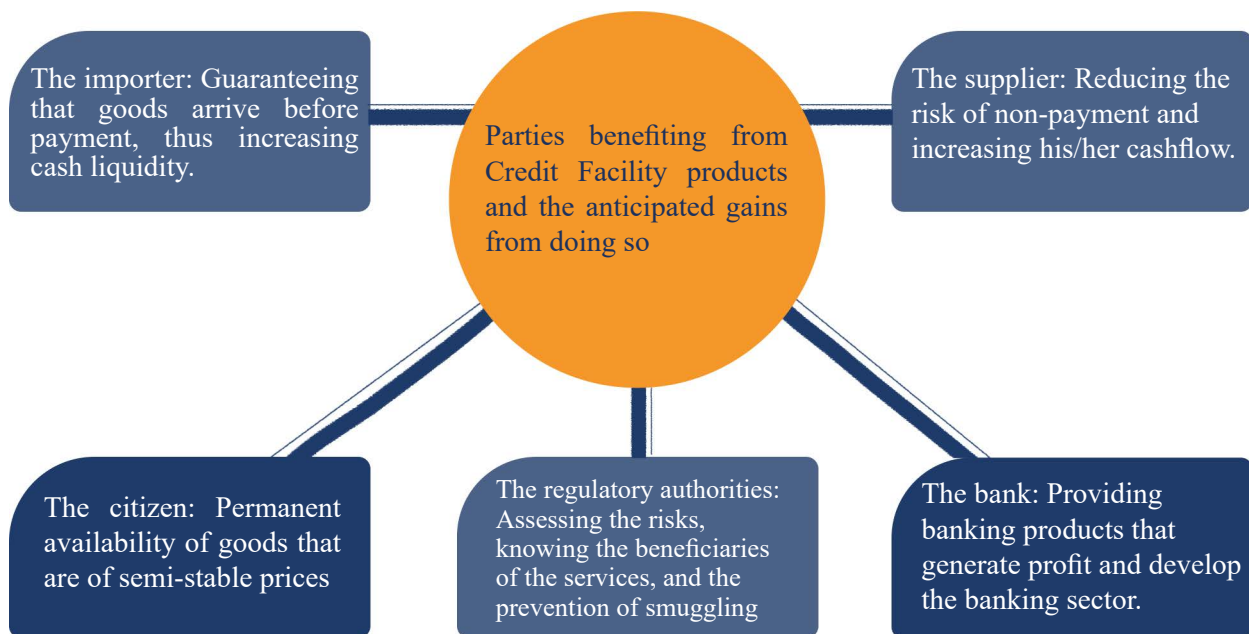
■ Providing these basic infrastructures —some of which are already in place but are not connected to the Iraqi banking system —will genuinely and effectively facilitate the work of the banking sector. It will also facilitate the transition towards financing without relying on the foreign currency sale window in its current problematic nature. Furthermore, the state has to facilitate the registration of businesses at the Company Registrar and further streamline and simplify relevant legislation.

■ Contrarily, this paper suggests there would be no need to establish a currency market if Credit Facilities and products were widely relied on. This is because the Credit Facilities and products are ultimately connected to the official rate of the CBI and the currency sale window. Accordingly, the new platform is expected to gradually replace the currency sale window.

■ On the other hand, many studies —the most prominent of which was a 2011 report by the World Bank— have highlighted Iraq’s need to establish a currency market that would substitute the currency sale window. The exchangers would also be connected to such a market, as many do not dispute the need to establish a currency market (FX Market).

■ Moreover, it is worth noting that the banking sector’s offering and provision of credits and products to companies would be incomplete if not paired with efforts to boost confidence between the banking sector and the merchants. Indeed, the confidence factor is of utmost significance for all engaging parties.

Figure (2) The parties benefiting from the use of Credit Facility products and their



Source: Prepared by author

Conclusion

- This paper has provided a review of the reasons behind the underdevelopment and regress in the banking sector. The reason behind the elaboration stems from the author's belief that understanding the reasons and root causes of the problem defines the mindset and mode of crisis management needed to provide an opportunity for proposing the appropriate solutions. Moreover, this paper does not allege that the suggested proposal is the sole solution to tackle Iraq's prevailing banking and financial crisis. However, the proposed solution does indeed represent a solid basis to resolve the larger crisis, especially since Iraq is a country that imports the majority of its daily requirements, a reality that is felt by the broader segment of citizens.

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Performance Appraisal in the Public **Banking** System

Focusing on Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq

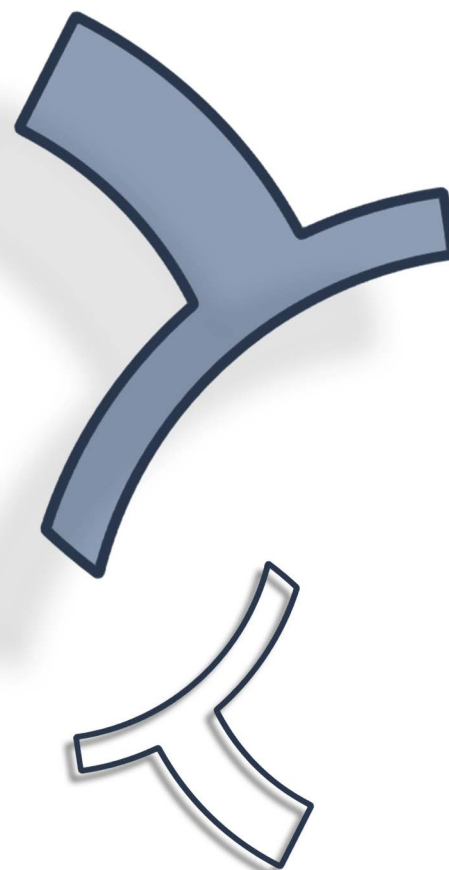
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Executive Summary:

- The public banking sector accounts for the largest share of assets, credits, deposits, and investments in the overall banking sector. As a result, an imbalance in the competition structure between the public and private banking sectors has emerged. Considering the importance of government banks and their significant banking activities, any measure to reform the banking sector and the economy ought to begin with carrying out structural reforms of these banks. One key measure of reform is conducting a performance appraisal for government banks based on a set of banking performance indicators.
- This paper discusses the reform of the public banking sector while focusing on Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq (TBI). These banks have been selected since the activities, assets, credits, deposits, and investments are most concentrated in them. Accordingly, the reality of the banking sector in the period extending from 2010 to 2022 has been analyzed based on four main indicators, which are banking profitability, the capital index, the employment of funds, and the return on investment (ROI). Moreover, this paper highlights the importance of structuring public banks, why it should be carried out, its grounds, and the anticipated results.
- This paper also provides a number of recommendations, the most prominent of which is the need to benefit from financial analysis in fighting administrative and financial corruption. Such analysis can be carried out while relying on several financial analysis tools that have been mentioned. These tools can uncover violations by balancing the performance costs of the examined economic unit with those of competitor economic units or by comparing them with other units within the same field, whether banking, industrial, or commercial. Afterward, deviations can be identified, and the reasons causing them can be uncovered.
- Such an approach would encourage participation and exchange among banking leaders within the public banking sector to boost general trust among bankers and strengthen their patriotic drive. It would also make clear how direly the Iraqi economy currently needs such an engagement among capable pioneers who represent the driving force in managing it.
- Moreover, this effort would contribute to equalizing opportunities for public banks and to pursuing the technological advancement of these banks in line with the development of financial markets and the intensity of the global competition between banks.



An Analysis of the Reality of Public Commercial Banks

- Analyzing the reality of public banks in Iraq requires looking at a set of measurable indicators. In the banking sector, there is a group of established indicators to measure the effectiveness of the bank, regardless of the nature of its work. These indicators include:

First: The Capital Index

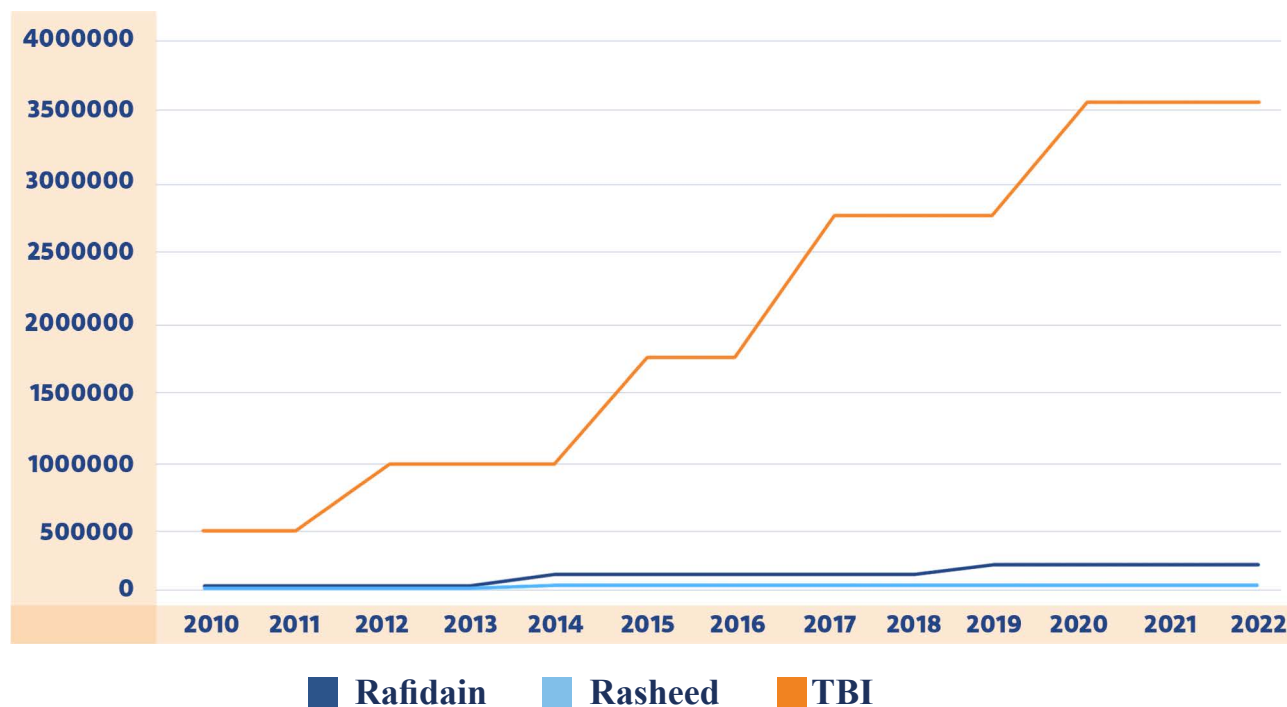
- The Capital Index measures the ability of the bank to finance its assets. A research sample was analyzed after deducing the total capital of each bank throughout the assigned period and calculating the mean and the standard deviation. Table (1) shows the existing disparities in the capitals of public banks. The TBI's capital was the largest, namely due to the expansive banking operations it carries out and its notable technological advancement. Starting with 500 million Iraqi dinars (IQD) in 2010, TBI's capital climbed to 3.5 trillion IQD in 2022. The TBI's mean stood at 2.02%, and its standard deviation was 1.17% compared to the Rafidain Bank and the Rasheed Bank. Therefore, it is safe to say that the TBI has a substantial capital that enables it to grant cash credit and credit commitments, and to attract deposits and invest in them. It is worth noting that the TBI has a good banking reputation and financial solidity and is regarded by customers as trustworthy. Meanwhile, the capitals of Rafidain Bank and Rasheed Bank in 2010 stood at 25 billion IQD and 2 billion IQD respectively, and in 2022 rose to 226 billion IQD and 50 billion IQD respectively. Considering their activity and number of branches, the capitals of the Rafidain Bank and the Rasheed Bank are low.

Table (1) The capital of the selected public banks (Million IQD)

TBI	Rasheed	Rafidain	Year/Bank
500000	2000	25000	2010
500000	2000	25000	2011
1000000	2000	25000	2012
1000000	2000	25000	2013
1000000	50000	126000	2014
1750000	50000	126000	2015
1750000	50000	126000	2016
2750000	50000	126000	2017
2750000	50000	126000	2018
2750000	50000	226000	2019
3546000	50000	226000	2020
3546000	50000	226000	2021
3546000	50000	226000	2022
26388000	458000	1634000	Total
2029846	35230.77	125692.3	Arithmetic Mean
1171583	23058.45	82058.3	Standard Deviation

Source: The Central Bank of Iraq (CBI), Statistics and Research Department, Annual Statistical Bulletin.

Graph (1) The capital of the selected public banks



Second: Banking Profitability Index

- This index is measured by looking at two variables:

1. Return on Assets (ROA):

- This ratio reflects the bank's ability and efficiency in generating profits by investing in each asset in different investment aspects. It also shows that there is a direct correlation between the net profit and the total assets. The higher the net profit is, the more assets there will be, and the higher investment returns yielded, and vice versa. This index also measures the profits earned per unit of cash (the IQD as a unit of cash in Iraq) or any other currency of the assets. Table (2) shows that the highest ratio scored by the Rafidain Bank was 0.98% in 2017, which can be attributed to the bank's increased revenues over its expenses. In 2017, the Rafidain Bank also scored a 10% investment return. Years prior, in 2010 and 2011, the Rafidain Bank faced losses due to its weakened credit and investment policies, especially in allocating cash assets to lucrative investment opportunities. Meanwhile, the Rasheed Bank saw a rise in investment return in 2010 when it stood at 0.40%; this increase can be attributed to the correct investment in this ratio.

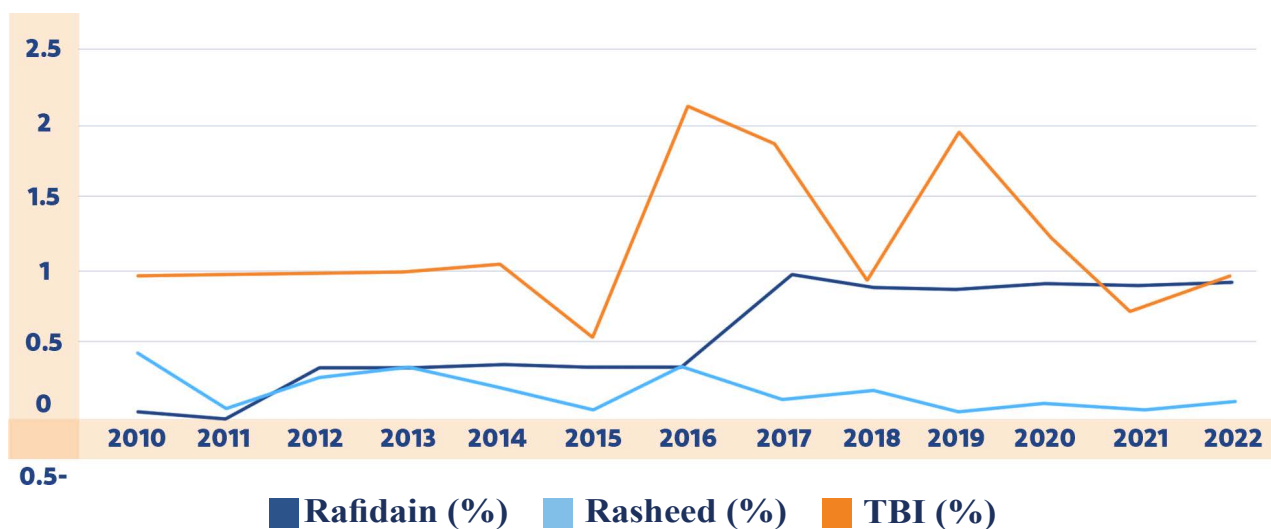
At the same time, we find that the TBI saw a significant increase in its ROA in 2016 when it reached 2.30%; this increase can be attributed to the increase in assets resulting from the net profit growth. That said, we find that this index was low throughout the entire period under study, which means that the research sample banks do not have a substantial capacity to generate profits from their real investment in their assets.

Table (2) The Return on Assets (ROA) of the selected banks

TBI (%)	Rasheed (%)	Rafidain (%)	Year/Bank
0.92	0.40	(0.005)	2010
0.96	0.03	(0.07)	2011
0.97	0.25	0.3	2012
0.99	0.29	0.29	2013
1.08	0.20	0.34	2014
0.53	0.07	0.32	2015
2.30	0.34	0.34	2016
1.88	0.19	0.98	2017
0.85	0.22	0.78	2018
1.93	0.04	0.76	2019
1.34	0.09	0.83	2020
0.75	0.07	0.78	2021
0.88	0.09	0.83	2022
15.38	2.28	6.63	Total
1.18	0.18	0.51	Arithmetic Mean
0.53	0.12	0.33	Standard Deviation

Source: The annual reports of the selected banks for the period 2010-2022.

Graph (2) The Return on Assets (ROA) of the selected banks



2. Return on Equity (ROE):

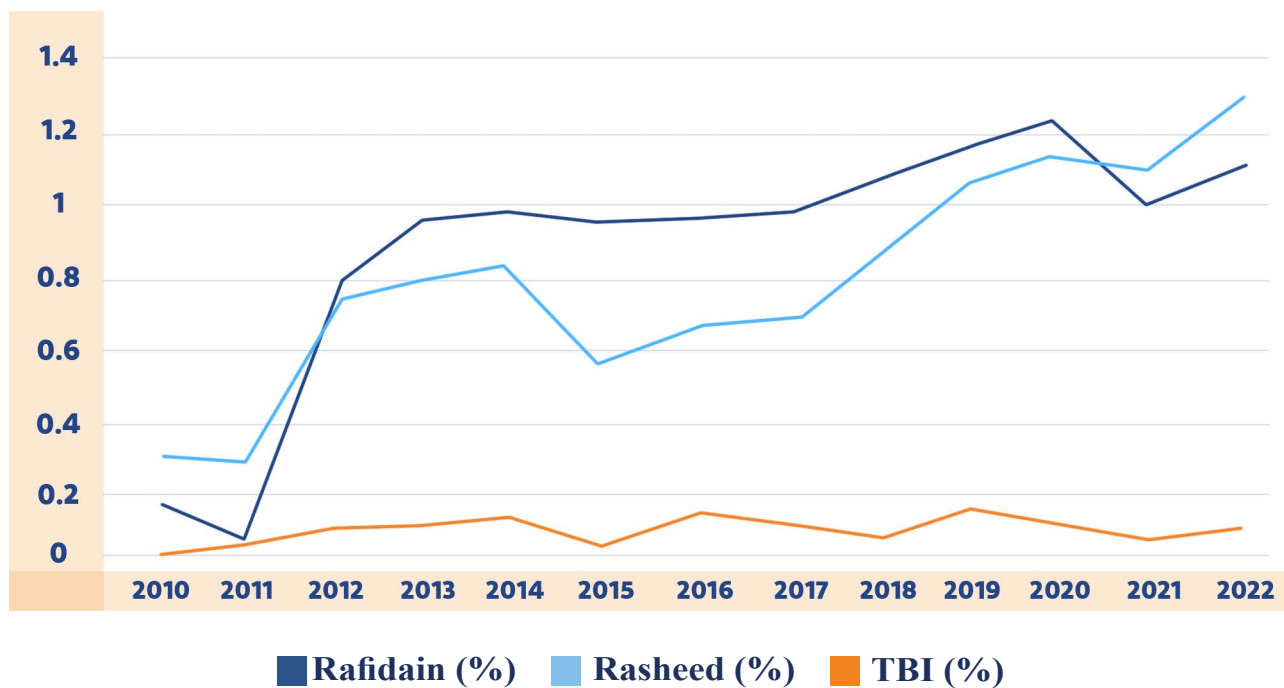
- This index receives utmost attention from bank management since it reflects the achievement of their goals. In addition to being an indicator of growth and development, the ROE is also a criterion for maximizing wealth. A high ROE denotes that the investment and operational decisions at the Bank are indeed efficient. In Table (3), we note that the ROE of the Rafidain Bank fluctuated at first and suffered a loss in 2010 and 2011 before profits gradually rose again up until 2022; this indicates that the Rafidain Bank efficiently managed to yield a return on equity which it abundantly has. On the other hand, the Rasheed Bank began to witness gradual growth and fluctuations in the ROE ratios; this can be attributed to the higher increase in net profit than in the ROE and the growth of the Bank's reserves.
- Meanwhile, the TBI's ROE saw a decrease and then a gradual increase which reached 0.09% in 2022; this can be attributed to the variance recorded in all of the net profit and the ROE since the increase in net profit is met with growth or stability in the ROE. Additionally, all of the TBI's transactions aimed to cover imports (credits, letters of guarantee), and its clients are fewer in number than those of the Rafidain Bank and the Rasheed Bank. Hence, regarding the progression of this index, the Rafidain Bank and the Rasheed Bank performed better than the TBI. However, the average percentage of this index for all the banks under study was low; this indicates that the efficiency of all three banks in making investment decisions concerning their funds to achieve the required return has not been the best.

Table (3) The Return on Equity (ROE) of the selected banks

TBI (%)	Rasheed (%)	Rafidain (%)	Year/Bank
0.01	0.31	0.16	2010
0.03	0.29	0.05	2011
0.09	0.72	0.80	2012
0.10	0.81	0.93	2013
0.12	0.83	0.97	2014
0.04	0.58	0.91	2015
0.14	0.67	0.94	2016
0.11	0.69	0.98	2017
0.05	0.88	1.12	2018
0.15	1.07	1.18	2019
0.11	1.14	1.23	2020
0.06	1.11	1.01	2021
0.09	1.29	1.13	2022
1.1	10.39	11.41	Total
0.08	0.79	0.87	Arithmetic Mean
0.04	0.30	0.36	Standard Deviation

Source: The annual reports of the selected banks for the period 2010-2022.

Graph (3) The Return on Equity (ROE) of the selected banks



Third: Return on Investment (ROI)

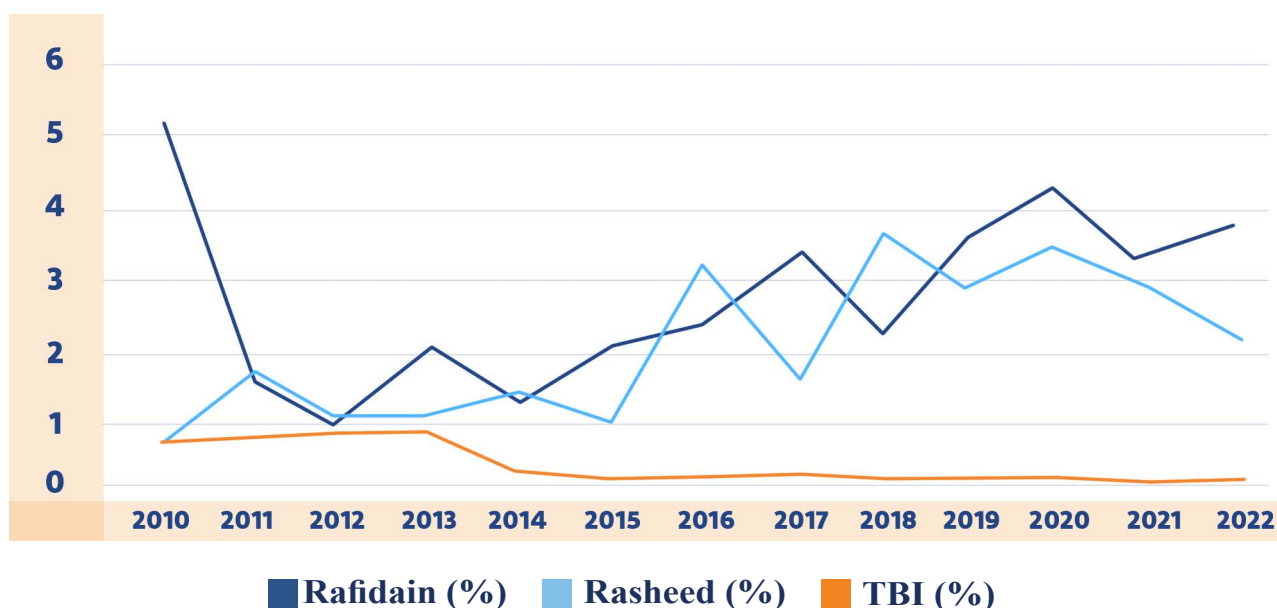
- This index clarifies the relation between the invested funds and the return ratio that results from them. The highest ROI was achieved by the Rafidain Bank in 2010 when it reached 5.1%, which is seen as acceptable considering the prevailing economic circumstances and their impact on investment banking. On its part, the Rasheed Bank recorded the highest ROI in 2018 when it reached 3.7%, following the drop it had witnessed in 2013; this can be attributed to the losses the Bank suffered as a result of borrowers' delay in fulfilling their obligations when due and their failure to make the payments per the agreed-upon terms. Accordingly, the Bank saw a shortfall in cash inflow.
- Afterward, the Rasheed Bank's ROI ratios began to rise gradually. As for the TBI, it recorded the highest ROI in 2013 when it reached 0.91%; this can be attributed to the returns recorded by the Bank from its internal and external investments, which achieve financial stability for the Bank. Additionally, we find a correlation between the ROI and the profitability indicators (ROA and ROE). As shown in the previous Tables, the increase in the ROI triggered an increase in the profitability indicators for the banks under study.

Table (4) The Return on Investment (ROI) of the selected banks

TBI (%)	Rasheed (%)	Rafidain (%)	Year/Bank
0.77	0.8	5.1	2010
0.84	1.7	1.6	2011
0.86	1.2	1.0	2012
0.91	1.2	2.1	2013
0.18	1.5	1.3	2014
0.12	1.0	2.1	2015
0.14	3.2	2.4	2016
0.18	1.7	3.4	2017
0.12	3.7	2.3	2018
0.13	2.9	3.7	2019
0.14	3.5	4.2	2020
0.08	2.9	3.3	2021
0.10	2.19	3.9	2022
4.57	27.49	36.4	Total
0.35	2.11	2.8	Arithmetic Mean
0.34	1.01	1.23	Standard Deviation

Source: The annual reports of the selected banks for the period 2010-2022.

Graph (4) The Return on Investment (ROI) of the selected banks



Fourth: Funds Employment Ratio (FER)

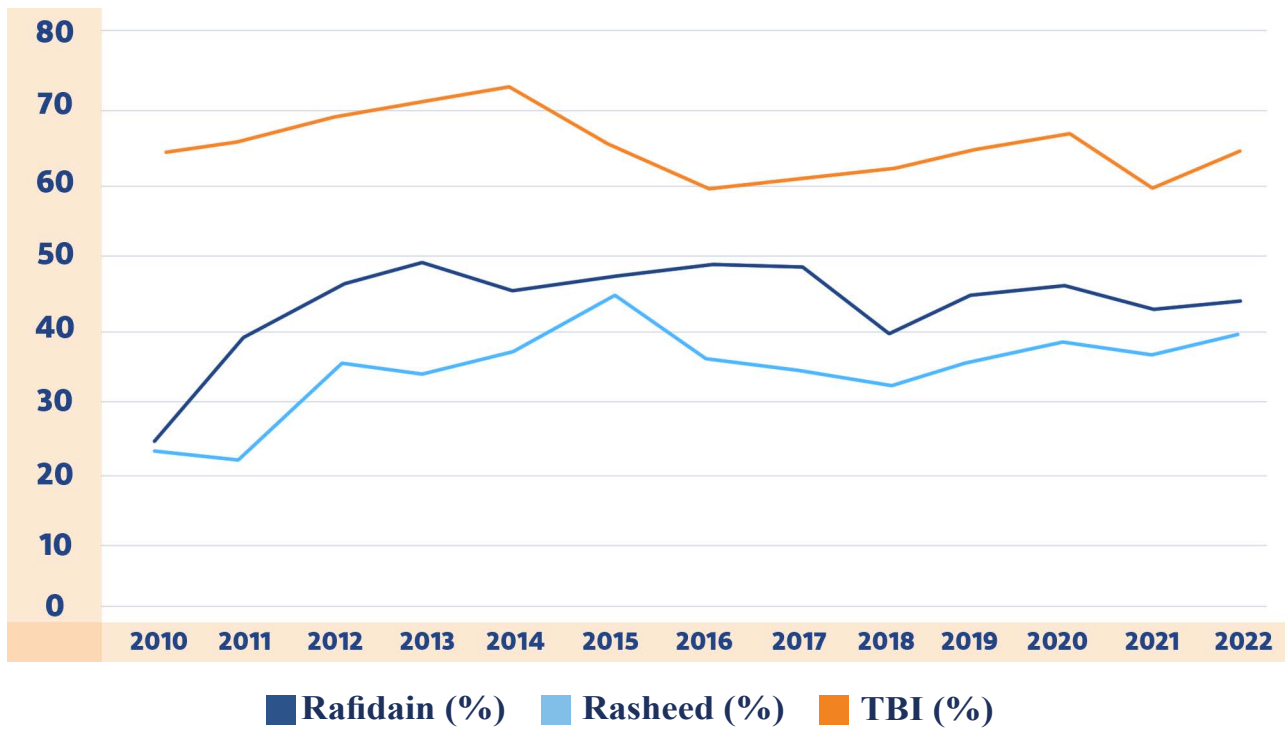
- This index reflects the relation between the advances and loans that are granted by the bank, considering the nature of its operations to the total deposits. Table (5) shows the FER of the banks under study during the period under study. The Rafidain Bank recorded the highest FER in 2013, when it reached 49.1%;
- As for the TBI, the highest FER recorded was in 2014, when it reached 73.4% due to the significant expansion in granting advances and loans held by the Bank. Additionally, we find that the TBI employed this index in a larger and better manner than the Rafidain Bank and the Rasheed Bank, which have much higher liquidity than the TBI.
- This can be attributed to the significant cash loans granted compared to the total amount allocated for advances and loans. Meanwhile, the highest FER recorded by the Rasheed Bank was in 2015, when it reached 44.9%; this can be attributed to the clients' commitment to repaying advances and loans to the Bank.
- Accordingly, this highlights the discrepancy in the activities of both the Rafidain Bank and the Rasheed Bank when it comes to granting advances and loans, especially considering the size of the deposits they have from their clients on the one hand and from the government on the other.

Table (5) The Funds Employment Ratio (FER) of the selected banks

TBI (%)	Rasheed (%)	Rafidain (%)	Year/Bank
65.3	23.2	24.9	2010
66.1	22.0	39.3	2011
69.4	36.3	47.3	2012
71.3	34.2	49.1	2013
73.4	37.9	46.7	2014
66.0	44.9	47.7	2015
59.3	37.4	48.8	2016
61.4	35.4	48.5	2017
63.2	32.0	39.8	2018
65.9	36.3	44.8	2019
67.1	39.1	46.2	2020
60.2	37.5	42.8	2021
65.2	39.7	44.1	2022
853.8	455.9	570	Total
65.68	35.1	43.8	Arithmetic Mean
4.11	6.32	6.53	Standard Deviation

Source: The annual reports of the selected banks for the period 2010-2022.

Graph (5) The Funds Employment Ratio (FER) of the selected banks



Restructuring of Public Commercial Banks

Bank restructuring is the reorganization of business operations, communication channels, and organizational structures within banks. It aims to improve the efficiency of banks, reduce their costs, or change and enhance their activities, structures, and technology to achieve the bank's objectives of improving the quality of the banking service, maximizing efficiency and effectiveness, and reducing costs. Accordingly, bank restructuring is described as:

- 1- An organized, purposeful, and well-studied change process
- 2- Inclusive of all financial, organizational, administrative, and technical fields
- 3- Having extents and inclusions that differ from one bank to the other and from one country to the other
- 4- Aiming to reduce costs or to boost the efficiency of operations and improve the quality
- 5- An ongoing process that may persist with the persistence of the bank and that depends on the requirements of the environmental changes and the global competition

The Reasons for Restructuring Public Banks

Undoubtedly, the banking sector, in its current nature, needs reform; however, this reform requires infrastructural and structural changes, the use of modern banking methods and techniques, and the need to develop competencies and skills. Accordingly, there are motives and reasons for banking reforms in Iraq and an urgent need to restore the bank's financial intermediation function to achieve economic and social development. The most significant features of the banking sector in Iraq are as follows:

- 1 The Iraqi government owns two commercial banks (Rafidain Bank and Rasheed Bank) that are considered among the largest and most important banks in Iraq in terms of assets and deposits. Moreover, the public sector accounts for up to 90% of the banking activities and 75% of the local banks' network. The banking sector's total assets are estimated at around 2 billion United States Dollars (USD). The Rafidain Bank, the Rasheed Bank, and the TBI control up to 90% of the Iraqi banking system's assets, while only 10% is controlled by the private sector. Treasury transfers represent the more significant portion of the assets controlled by the public commercial banks mentioned above.
- 2 These banks' contribution to the Gross Domestic Product (GDP) stands at 2%, a meager percentage. The minimal contribution to the GDP highlights this sector's limited role in performing its traditional functions as an intermediary between savers and investors and financing capital accumulation, especially in the private sector.
- 3 The Rafidain Bank has external debts that represent a part of the burden of Iraq's debts. Along with their interests, the Rafidain Bank's debts have risen to 23 billion USD; this exposes the government's performance to many problems. Of note, 66% of the Rafidain Bank's assets and 50% of the Rasheed Bank's assets consist of treasury transfers issued by the Iraqi government to cover the losses, finance, and provide subsidies and support.
- 4 The banking market is heterogenous since public banks attract up to 90% of capital and deposits, while private banks only attract the remaining 10%. Furthermore, public banks control 85 to 90% of the banking sector's assets, leaving only 10 to 15% of these assets for the remaining banks, including some fifty Arab and international banks and branches
- 5 The services offered by Iraqi banks in number and type, as well as in means, measures, and speed, are not commensurate with the requirements of the development and expansion of banking and the advancement of the Iraqi economy. The requirements for moving ahead with the economy rely on the "Market Mechanism" system. Considering that the public deposits only account for 4% of Iraq's GDP, this means that the desired financial advance is still in the early and simple stages of building a domestic financial sector that is solid, strong, and has a significant impact on the GDP makeup.
- 6 The technical means and electronic technology (e-technology) methods used by banks are weak and are met with a lack of the rapid means of communication that modern banking requires. Moreover, software that is suitable for developing, expanding, and improving banking operations and services is absent. Such software would enable banks to maintain oversight and control and to develop the needed policies to avoid risks, expand banking services and improve performance.
- 7 The prevalence of prolonged problems that render the functional structure sagging, including the increased volume of outstanding loans and limited financial allocations to address them. Another chronic issue is the banks' performance and provision of secondary services that are not among their primary tasks, including the distribution of retiree pensions.
- 8 There are diverse reasons for adopting (economic, financial, organizational, and technical) reforms; these reasons are also significant to banking institutions as they would help create the required credit money for seekers looking to contribute to the advance of society and its prosperity.



The Anticipated Outcomes of Restructuring Public Banks

- 1- More efficient and flexible banks that employ expertise and make use of modern banking techniques through the quality of offered banking services
- 2- Significant reduction in administrative and operational costs and elimination of bureaucracy within the branches and management of public commercial banks in Iraq
- 3- Increasing the internal and external banking investments to keep abreast of the developments through the branches present in different countries
- 4- Creation of competition with private banks, which would lead to the development of the public banking sector in Iraq
- 5- Effective implementation of the principle of governance through the separation of the management from ownership and of disclosure and transparency in the financial statements through the balance sheets of banks
- 6- Development of human resources and improvement of customer service through training and recruitment that is based on qualifications and skills

The Measures of International Financial Institutions to Reform the Public Banking Sector

- The government has exerted efforts to enhance oversight of the larger banks (Rafidain Bank and Rasheed Bank), which still suffer from capital shortfall. Public commercial banks account for over 90% of the total assets and deposits. However, the large scale of the assets, the granted loans, and political interference have left these banks with heavy financial losses that were hard to assess, chiefly due to the lack of core banking systems, large branch networks, and poor accounting practices.
- As a result, the CBI and the Ministry of Finance were prompted to develop a plan of action to improve the lending process. They presented requirements for the approval of loans exceeding 1 billion IQD as well as new internal controls. Consequently, non-performing loans in government banks increased from 10% to 17.2% between 2019 and 2022. Moreover, several options relevant to restructuring public commercial banks were presented. These options relied on the outcomes of the financial analysis of the financial data present in the balance sheets of Rafidain Bank and Rasheed Bank, which are plagued with lingering past problems with their final accounts that were not adequately prepared.
- While talks were held with many auditing firms to address this conundrum, no agreement was ever reached because of the vagueness of the data. Moreover, some options and proposals suggested that the two banks —Rafidain Bank and Rasheed Bank— merge or that one of them acquire the other, or any other framework that would be agreed upon with the International Monetary Fund (IMF) or the World Bank and would serve the interest of the two banks.
- Additionally, there is a long history between these Banks and the clients who believe in and trust them. Hence, making the decision to truly reform the Rafidain Bank and the Rasheed Bank should be prioritized as it would translate into reforming a substantial part of the banking sector. Alongside other banks —such as the Islamic and specialized banks— the Rafidain Bank and the Rasheed Bank have a high impact on the enhancement of banking activities in Iraq; thus, adopting administrative and technical reforms to better their performance will serve as a starting point to get other banks on track as well.

Conclusions

- 1 The banking and finance performance appraisal indices for public banks have reflected a discrepancy in the performance of the banks selected as a research sample.
- 2 Regarding capital adequacy, capital liquidity, and the employment of funds indices, the financial analysis results show that the TBI, which is selected as part of the research sample, ranked first ahead of other public banks. Accordingly, this reflects the success of the TBI's management in planning and organization to reach the desired strength.
- 3 The ROI ratios scored by the Rafidain Bank and the Rasheed Bank are weak; this can be attributed to the weak internal and external banking investments.
- 4 The (financial transactions) climate between public commercial banks and the CBI is weak; this can be attributed to the inherent policy of these public banks, which are affiliated with the Ministry of Finance.



Recommendations

- 1 Financial analysis ought to be benefited from in fighting administrative and financial corruption, primarily through performance appraisal based on several financial analysis tools that have been mentioned. These tools can uncover violations by balancing the performance costs of the examined economic unit with those of competitor economic units or by comparing them with other units within the same field, whether banking, industrial, or trade. Afterward, deviations can be identified, and the reasons causing them can be uncovered.
- 2 The encouragement of engagement and exchange of banking leaders within the public banking sector to boost general trust among bankers and strengthen their patriotic drive, clarifying how direly the Iraqi economy currently needs such an engagement among capable pioneers who represent the driving force in managing it, and working towards equalizing opportunities among public banks.
- 3 Activating and supporting the banking integration process to establish large-scale banking units capable of competing internally and externally, as is the case with the integration of exchange companies.
- 4 Developing a tangible and time-bound strategy for the operation of public banks that can be implemented step by step under the supervision of the CBI
- 5 Conducting intense auditing and tightening oversight and supervision over the activities of public and private banks and all their operations
- 6 Developing human resources and improving customer service by training and recruiting staff according to their qualifications and knowledge of banking activity

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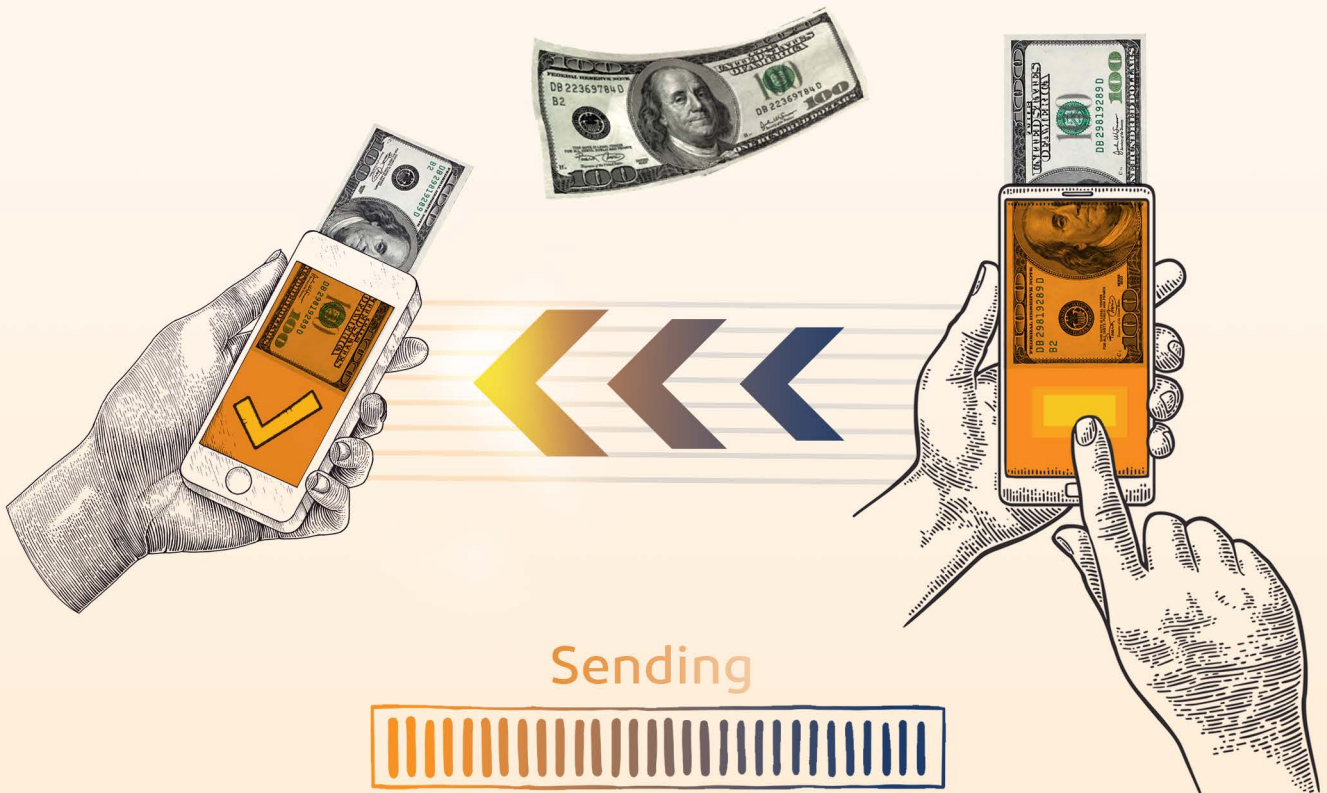
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The Organizational **Challenges** and Constraints Facing Digital Payment Services in Iraq

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The process of attaining a license to establish a company in Iraq may be difficult because of the many regulatory requirements. Despite this, these challenges and constraints should not discourage creativity and innovation in the financial technology (fintech) sector, especially digital payment services. There is a hierarchical structure in place for companies in every business area. These companies offer services to the different sectors of this hierarchical structure; this offers an opportunity for some smaller companies to invest in part of the larger companies' activities. Accordingly, the larger companies benefit from delegating some of their work to the smaller companies, while the latter continue to work and grow under the umbrella of the larger companies. The aforementioned applies to the fintech sector and digital payment services. Therefore, a new way of thinking about the fintech sector that is similar to those adopted in regional countries and commensurate with global fintech trends should be developed in Iraq.

- By 2027, digital payments in Iraq are expected to see a 70% growth with a market value of 15 billion United States Dollars (USD).
- Despite all challenges, the current Iraqi market has thousands of businessmen and experts in various fields, who are trying to sell their expertise and products inside and outside Iraq electronically. Although the Central Bank of Iraq (CBI) prohibited trading cryptocurrencies within Iraq, it is known that Iraq is the fourth-largest user of cryptocurrencies in the Arab world.
- Therefore, the increased cooperation between licensed payment companies, innovative businessmen, and the government has a significant positive impact on electronic payment (e-payment) systems in Iraq. Moreover, this cooperation also benefits multiple actors, including licensed companies, by enabling them to expand their shares in the market without any major additional investments and, accordingly, generate new revenue streams. Additionally, the increased cooperation will enable the government to organize the fintech sector more efficiently, generate more revenue from taxation, and boost financial inclusiveness and citizen participation in the economy.

Table (1) Growth of Digital Payments Services in Iraq

Year	No. of E-Cards	No. of POS	No. of E-Wallets
2017	6,377,305	918	222,442
2018	8,810,030	2200	271,906
2019	10,506,725	2226	403,797
2020	11,749,408	7540	1,226,235
2021	14,906,294	8329	2,107,265
2022	16,202,771	10718	2,970,390

Source: Central Bank of Iraq, Economic and Statistic Data.

- CBI-licensed companies —such as Areeba, Arab Payment Services, Iraq Electronic Gate for Financial Services, and others— that offer various financial services ought to provide entrepreneurs with a foundation to establish new services in line with their licenses. By capitalizing on these authorizations, businessmen become capable of developing innovative solutions that meet the needs of the Iraqi market and contribute to the growth of e-payment services in Iraq. Those mentioned above can be made possible, especially if entrepreneurs possess a solid feasibility study and have undergone a technical audit that ensures their compliance with the local and international standards of the financial sector.
- Moreover, a package of operations should be provided and implemented in stages or layers to make available the e-payment service for funds. These layers include a group of actors, such as the bank, the collector, the exporter, the facilitator, the processor and the trader. Of note, a license from the CBI is required to authorize the work of a bank, a collector, an exporter, or a processor. Additionally, the requirements for authorizing a bank to perform such work include a 10 billion Iraqi dinar (IQD) capital investment that can be used as a guarantee and withdrawn once a certain level of progress in the company business is achieved. While obtaining legal permission to engage in such work is common, working as a facilitator is allowed without CBI licensing. Accordingly, the facilitator is the missing and most significant element in the Iraqi payments package.



■ The payment facilitator, also known as a payment collector or traders' collector, is a payment intermediary enabling companies to accept payments from clients without needing their trading account. Primarily, the payment facilitator works as an intermediary between the trader and the payment processor, enabling companies to accept payments through a joint trader account set up and maintained by the payment facilitator; this allows small and medium-sized enterprises (SMEs) to start accepting payments in a faster and easier manner, without needing to establish a trader's account at their bank.

■ Licensed payment companies can rely on facilitators to expand their market share by adopting the platform operations model. Such a model would include the development of clear instructions to individuals who have innovative ideas and can develop services per the current licensing without needing to attain further licensing or establish new financial companies and entities. By implementing the platform operations model, companies authorized to work in the field of e-payments can expand their access to the public and their market shares and generate new revenue without any substantial financial investments.

■ Consequently, any bank or company that is licensed for payment can enable developers to use their technology through the Application Programming Interface (API). These banks or companies can additionally set the terms and conditions for creating applications on this platform. Functioning as a platform instead of a service provider could create reliability for the payment company in the market. Such a role could protect and safeguard the payment company from any failure that could harm the market in general as well as other companies; it is for this reason that companies that rely on Apple and Google platforms are seen as "too big to fail" and face significant competition in their markets.

Trader

Facilitator Collector

Facilitator + Bank

E-card network

Facilitator

Source

Bank

Buyer

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The Implications of the Banking Sector's Crisis of Confidence

Financial Hoarding as a Model

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Although there are more than 70 public and private banks in Iraq, financial hoarding is still persistent. People continue to retain their cash funds outside the banking system, whether at home or elsewhere. The prevalence of this phenomenon can be attributed to an array of reasons, including the lack of confidence in the banking sector and the low level of banking culture among citizens. Another key contributing reason is the near-absence of an investment climate in Iraq. This adversely impacted the banking sector and the level of economic stability.

Accordingly, private and public banks should promote their services and disseminate banking culture, especially ideas relevant to protecting depositors' funds, extending banking facilities to depositors, and providing various services to depositors, companies and individuals alike. Moreover, public and private banks ought to up their spread and deployment in more regions, to achieve financial inclusion that would allow the provision of banking services to the farthest geographies possible.

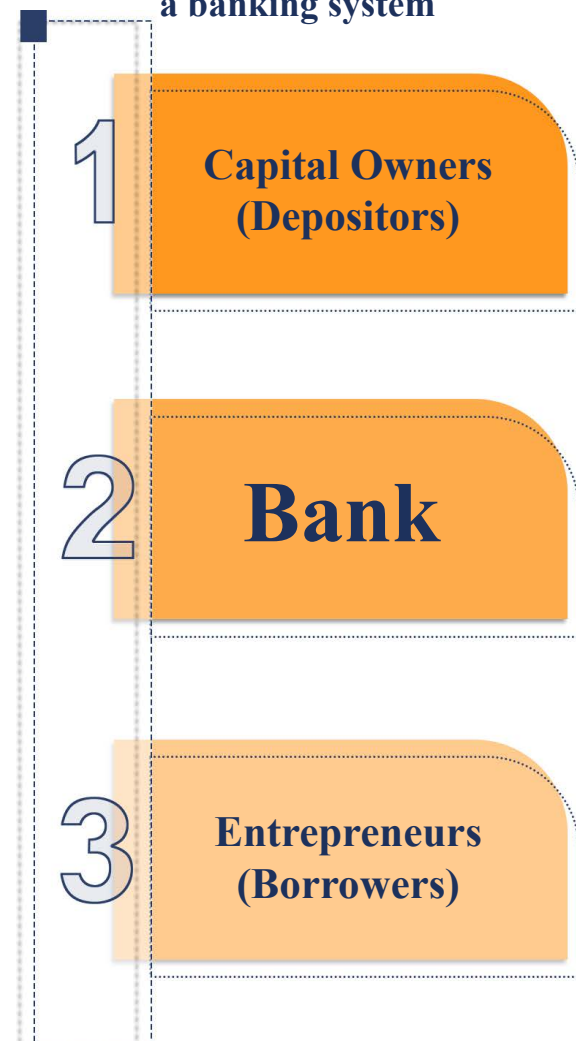
Furthermore, financial hoarding directly impacts the work of banks. It disrupts investments and the economic cycle, which naturally begins with depositing funds in the banking system and then investing in different fields and projects. As a result, banks lose their role as an indirect intermediary between capital owners on one hand and entrepreneurs on the other.



Why is low financial hoarding seen as a positive sign?

When companies and individuals deposit their excess funds in banks, this will generate liquidity for the banks. Such liquidity would thus motivate banks to invest these surplus funds in establishing projects in different fields, which would contribute to reducing unemployment rates by hiring a new workforce to implement or develop new projects and sustain them following their inception. Moreover, the new projects will contribute to promoting domestic investment in general. Like so, the economic cycle begins with depositing funds in banks and ends with implementing and developing projects.

Graph (1) The life cycle of funds in a banking system



Source: Prepared by the author

■ The Central Bank of Iraq (CBI) has been working with the direct support of the Council of Ministers, which issued decision No. 313/206 that ordered the transfer of the civil servant salaries payment system to an electronic payment (e-payment) system. After adopting decision No. 313/2016, the Council of Ministers passed several decisions that ultimately led to the localization of the salaries of all employees to banks. These decisions facilitated borrowing, led to a relative boost in confidence in the banking system, and promoted financial inclusion.

■ Despite this, the public and private banks still require continued support from the state and the CBI since they must grant various facilities and services to anyone who opens a bank account. The services offered by banks include discounts on purchases made with an electronic card (e-card), discounts on booking flight tickets and online purchases, and other offerings provided by similar institutions in advanced countries. Such measures further contribute to financial inclusion, promote electronic transactions and reduce cash transactions. Consequently, this strengthens money circulation within the banking sector, making it more significant.

■ More recently, the Council of Ministers adopted a decision to deploy Points of Sale (POS) that exempts banks and companies from the import tax on payment and collection machines, i.e., POS and Automated Teller Machines (ATM).

■ The Council of Ministers also exempted from taxation all e-payment transactions. Therefore, it is anticipated that all of the facilities and measures mentioned above will contribute to reducing financial hoarding outside the banking system, especially since the implementation of these decisions is bound by a deadline that ended on June 01, 2023.

Table (1) Growth of Banking Services upon the Salaries' Localisation Decision

No. of ATMs	No. of POS	No. of e-cards	No. of Bank Accounts	Details/Year
656	918	6,377,305	1,361,034	2017
865	2200	8,810,030	1,630,677	2018
1014	2226	10,506,725	3,039,522	2019
1340	7540	11,749,408	6,126,976	2020
1566	8329	14,906,294	6,696,657	2021
2223	10718	16,202,771	8,795,891	2022
%239	%1068	%154	%546	% of development 2017-2022

Source: CBI/Statistical Website

Financial Hoarding in Numbers

The amount of funds hoarded outside the banking system can be determined by subtracting the total currency present within the banking system from the total currency issued by the CBI, as shown in Table (2) below:

Table (2) The issued currency in and outside the banking system until June 2023

% of total currency circulated outside the banking system	% of total currency circulated within the banking system	Total currency outside the banking system (in trillions of IQD)	Total currency within the banking system (in trillions of IQD)	Total currency issued (in trillions of Iraqi Dinars (IQD))
%92	%8	89 Trillion IQD	8 Trillion IQD	97 Trillion IQD

Source: CBI/Statistical Website

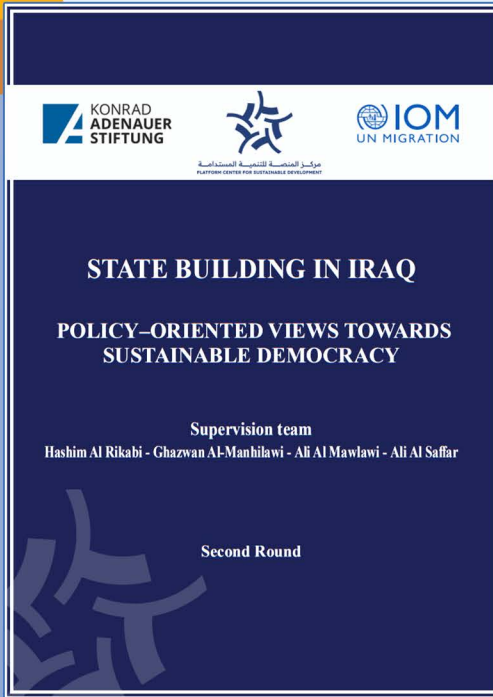


- ||| The numbers above show that some 89 trillion IQD are being circulated outside the banking system; this clearly indicates a crisis of confidence as well as weakened marketing by the banks of their products and services. Accordingly, this highlights the need for banks to implement marketing strategies that attract customers, such as expanding borrowing, facilitating e-payment operations, granting discounts and facilities, providing suitable infrastructure and advanced electronic systems, etc. Moreover, there is a need for economic and political stability, and financial and organizational restructuring of some public and private banks, with what these entail of guaranteeing the protection and security of the banking sector.
- ||| Considering that the Iraqi banking sector is indeed the primary driver of the economy, this paper concludes that the government and the CBI's efforts to support this sector should be boosted even further. Additionally, the forthcoming strategic objective ought to be returning all or part of the 89 trillion IQD that are being hoarded outside the banking system for circulation within this system, and to reduce the percentage of funds hoarded by individuals in part.
- ||| The objectives mentioned above can be achieved by developing plans for the upcoming five years and through joint efforts to effectively implement financial inclusion exerted by the government, the CBI, and the banks. Moreover, banks ought to activate the role of their awareness departments in disseminating banking culture among people. They should also give a more substantial role to the Iraqi Company for Deposits Insurance (ICDI) and clarify the extent of its prominence and its economic role to ensure an enhanced sense of trust and the safeguarding of funds belonging to the people and the bank customers.

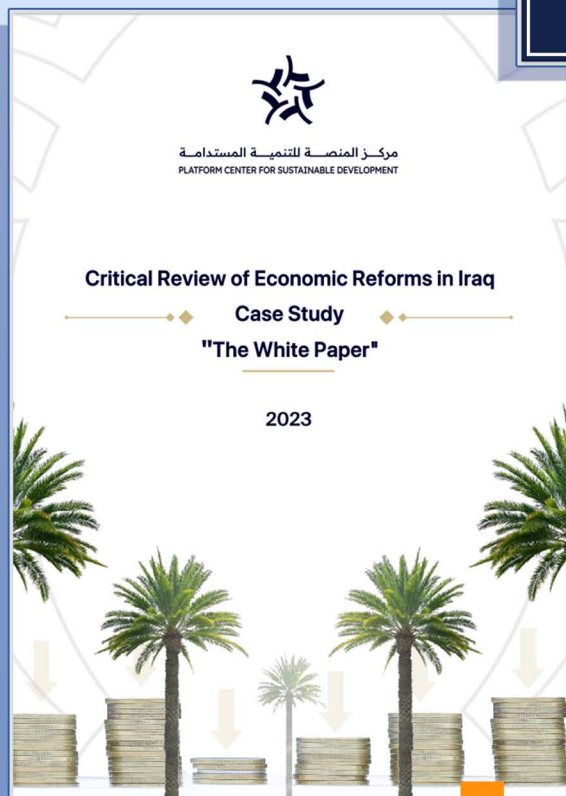
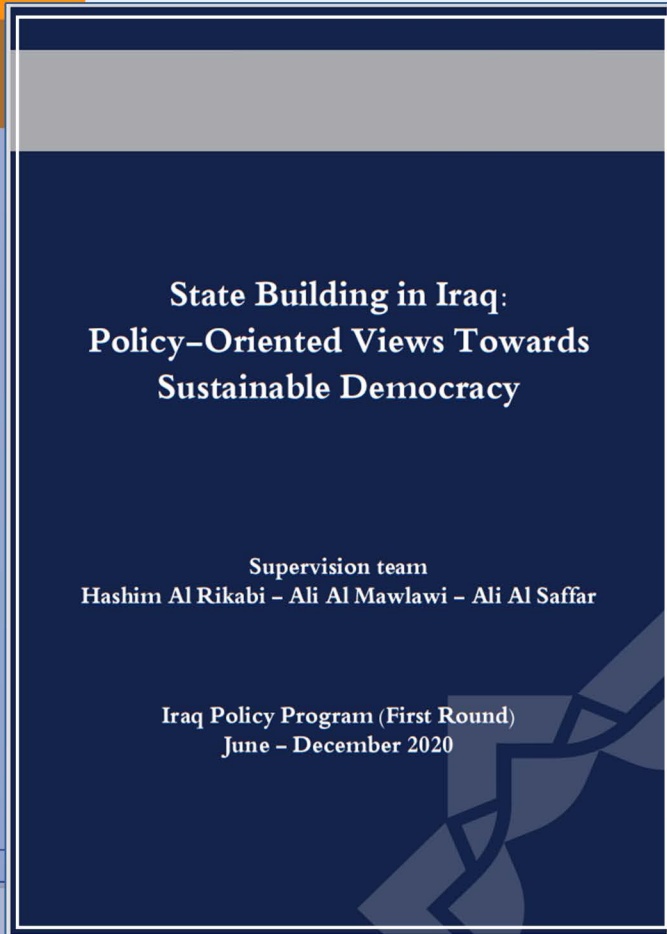


Publication of Platform Center

Book of the Second Round
of the Iraq Policy Program



Book of the First Round of the Iraq Policy Program



Book of the First Round of Monitoring
Economic Reforms Program

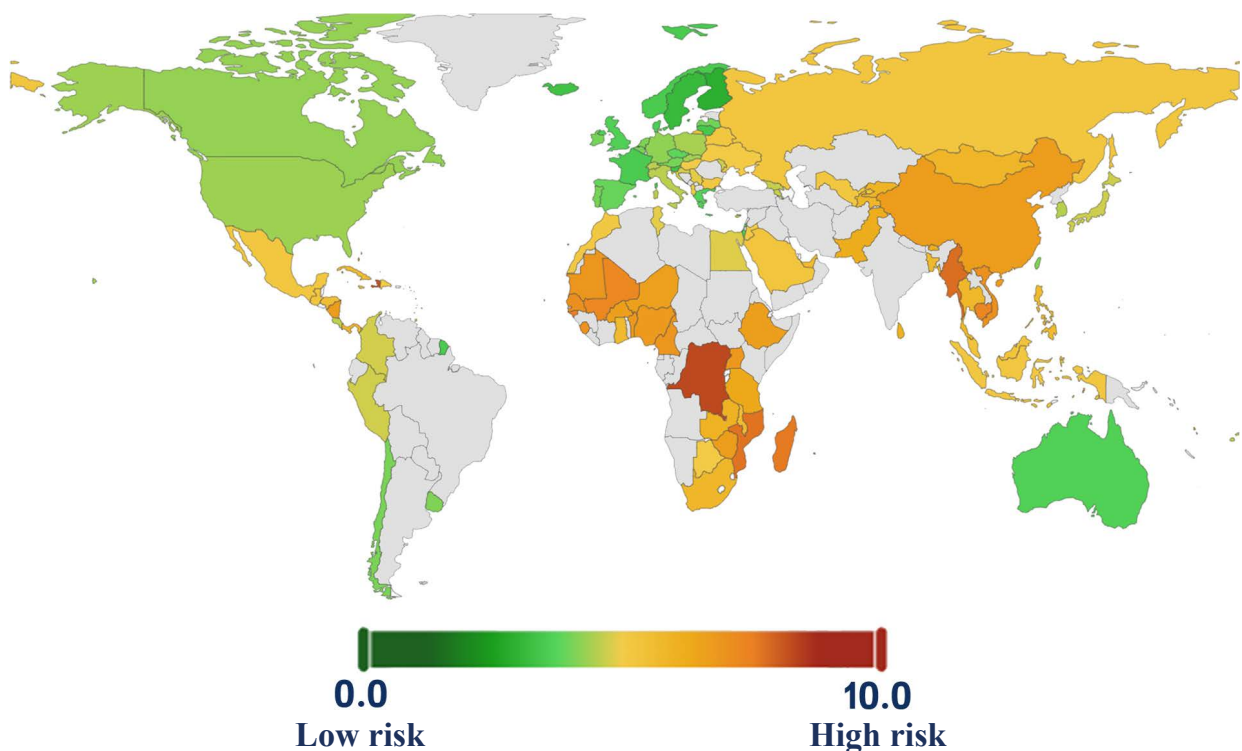
Iraq's Ranking in the **Basel** Anti-Money Laundering Index

- The Basel Institute on Governance has been issuing an annual index since 2012 that ranks countries according to the spread of money laundering and terrorist financing (ML/TF). The index is designed to highlight the level of risk (ML/TF weaknesses) and does not measure the actual ML/TF activity. Instead, the Basel Index provides a comprehensive view of the level of risks in the states covered; it is also the only index that ranks countries per the risks of ML/TF globally.



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The Basel Institute for Governance is a non-profit organization which is based in the Swiss city of Basel. The Institute specializes in fighting corruption and financial crimes and in promoting good governance on an international level. The Basel Institute's multi-national team works with public and private sector and civil society partners worldwide to achieve its objectives.

The Basel AML Index Methodology

The Basel Anti-Money Laundering Index is an annual index that takes into account 81 sub-indicators divided into 5 fields (main categories). The Basel Institute does not generate data that is specific to the index; instead, it relies on data from a group of international indices which are released by other independent institutions (such as the Financial Action Task Force, Freedom House, Transparency International, the World Bank, the World Economic Forum, and others). The Basel Index for AML is calculated by following the steps below:

Data Selection



The sub-indicators that are relevant to ML/TF and the indicators which denote to financial risks in countries are selected per the following criteria:

- Relevance to the risks of ML/TF

- Sources methodology “Where does data come from and which sources have been used.”

- Data history: The maximum range of data is 3 years except for FATF “mutual evaluation reports,” country coverage, indicators availability to the public Limited overlapping with other indicators

Unification of Data Sources

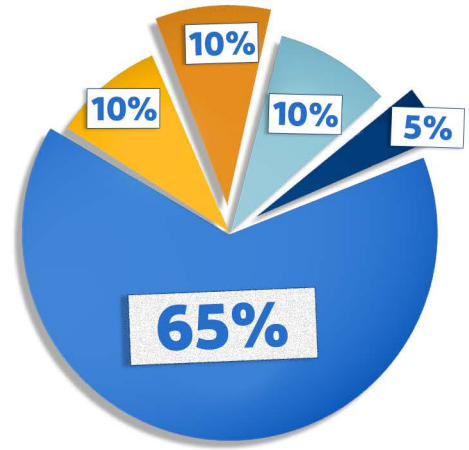


Standardization of all sub-indicators per a (0-10) scale where (0) denotes the lowest level of ML risks (i.e., the country’s efficiency in fighting ML), whereas a score of (10) denotes the highest level of ML risks (i.e., the country’s inefficiency in fighting ML). The (MIN-MAX) scaling method is used to standardize the sub-indicators. The (MIN-MAX) scaling is a statistical method that relies on determining the normalized value for each sub-indicator by subtracting the lower value of the indicator from the value of the indicator and dividing the output over the index range

Determining the Weight of Sub-Indicators

The weight of the assigned sub-indicators is determined based on a number of studies and expert takes. The total weight is divided into 5 main categories or fields per the following breakdown:

- Quality of the anti-ML/TF framework
- Risk of bribery and corruption
- Weakness in financial transparency standards
- Weakness in public transparency and accountability
- Legal and political risks



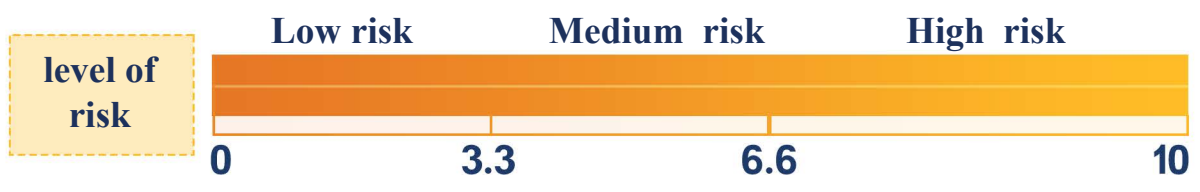
Calculating Country Scores

All sub-indicators are collected to determine the final score of each country. To be added to the Basel Anti-Money Laundering Index (Public Edition), all sub-indicators of the (ML/TF risks) category ought to be available; otherwise, the country in reference would be excluded from the Public Edition and added to the Experts Edition, which includes 203 country/jurisdiction.



Country Ranking

After determining country scores on a scale of 0 to 10, countries are classified into three categories to indicate the level of risk per the following breakdown:



“The index methodology is constantly updated. The previous index was based on (14) sub-indicators. The Public Edition required that a country be evaluated per all of the ML/TF risks index categories. Additionally, only five indicators from the remaining four categories were available to be included in the index.

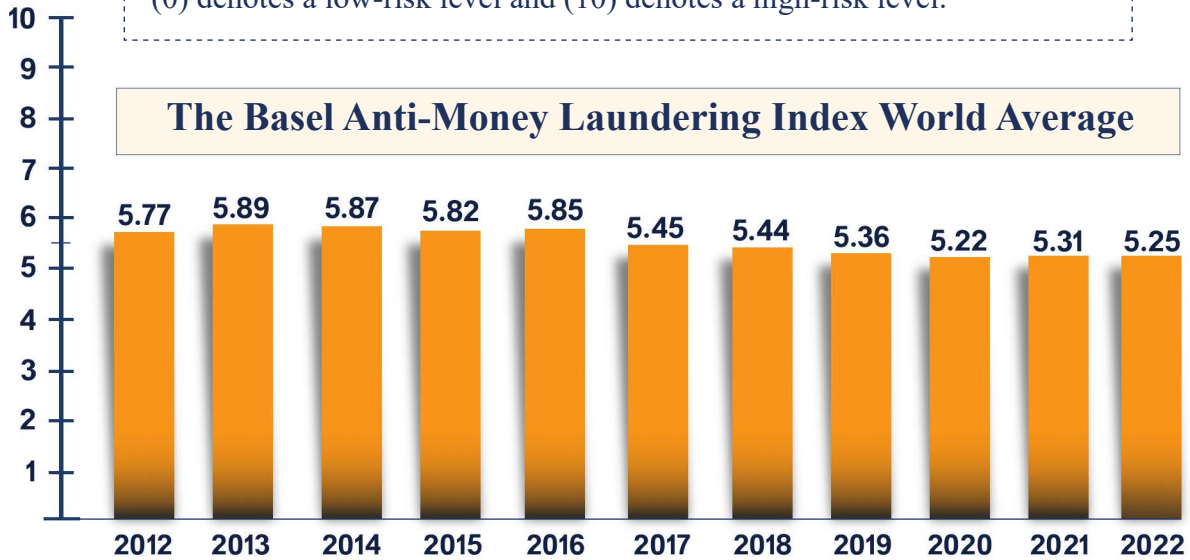
Meanwhile, per the updated methodology, countries evaluated per the FATF fourth round methodology are included in the Public Edition; this as the Experts Edition includes all countries regardless [of whether or not they had been evaluated per the FATF fourth round methodology].”



Index results

for countries of the world between (2012-2022)

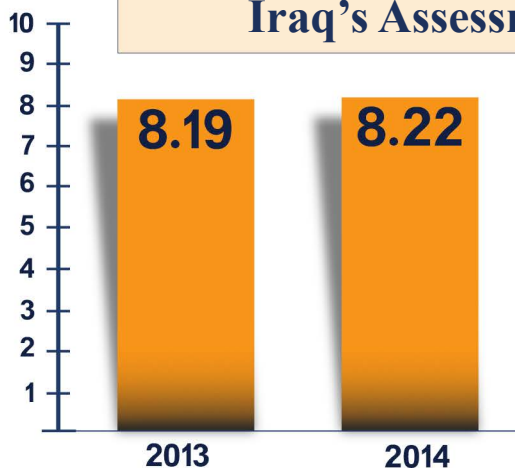
The level of money-laundering risks worldwide on a scale of (0-10), where (0) denotes a low-risk level and (10) denotes a high-risk level.



Analysis of Iraq's Assessment in the Basel Anti-Money Laundering Index



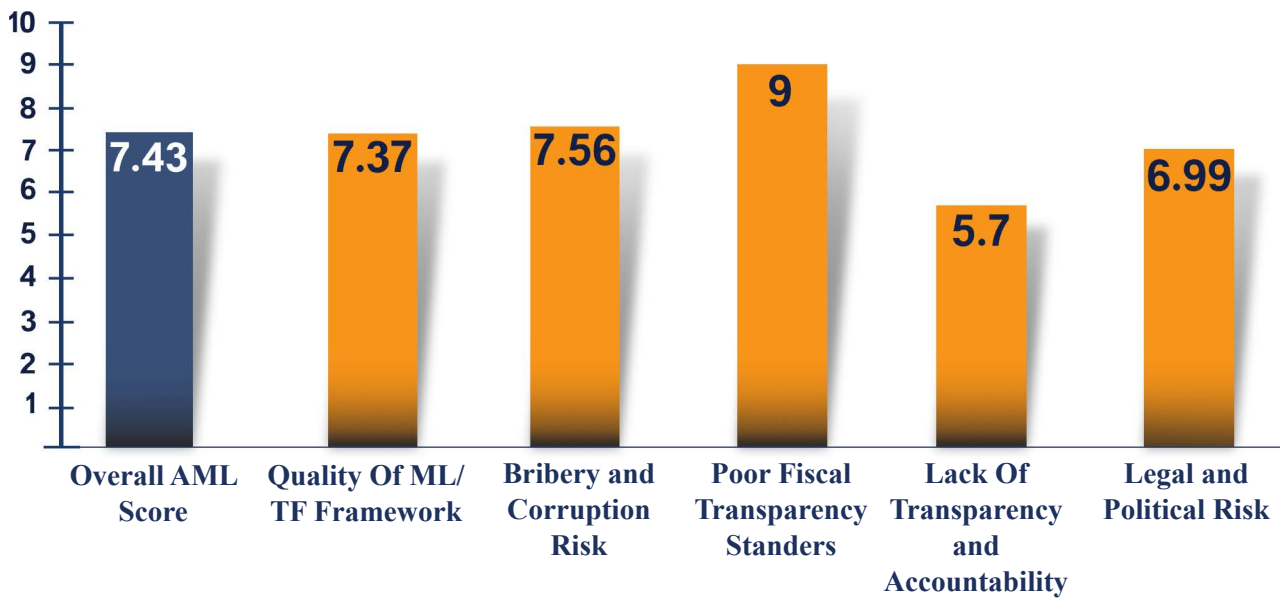
Iraq's Assessment in the Public Edition:



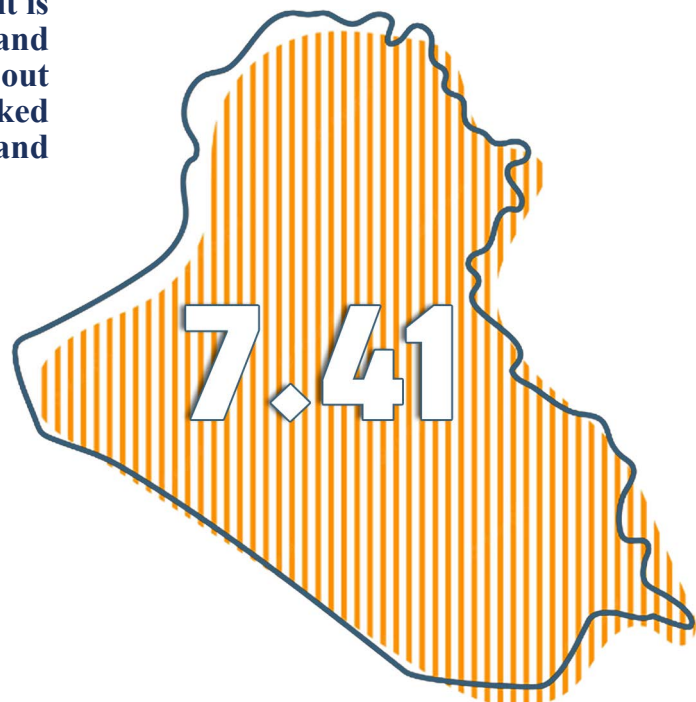
Iraq was only included in the Public Edition in 2013 and 2014 and was not included in the remaining years due to the incompleteness of the sub-indicators required for the ranking. Moreover, Iraq's assessment showed a high-risk [ML] level in the years it was included.

Iraq's Assessment in the Experts Edition


The assessment of Iraq in the 2022 Experts Edition showed a high-risk level in overall score and sub-fields. Iraq was evaluated based on 10 out of 18 total sub-indicators used by the Basel Anti-Money Laundering Index. In any case, the results of the five categories (fields or sub-indicators which constitute the Basel Index) are calculated per the available indicators. Subsequently, Iraq's results are shown below (mindful that for each sub-indicator, a score of 0 indicates a low-risk level, and 10 indicates a high-risk level).













Iraq's assessment showed that it is among the high-risk countries and has an overall score of (7.41 out of 10). Accordingly, Iraq ranked 189 out of the 203 countries and regions included in the index.



Inclusion in sanctions related to Money-Laundering and Terrorism Financing

 The Experts Edition includes a list of all the countries under international sanctions executed by international institutions that are influential in imposing sanctions.

International institutions that are influential in imposing sanctions	Is Iraq designated for sanctions?
The US Office of Foreign Assets Control (OFAC)	 Yes
United Nations Security Council	 Yes
European Union restrictive measures	 No
The EU list of non-cooperative jurisdictions for tax purposes	 No
EU list of high-risk countries	 No
High-risk third countries in the UK	 No
British financial sanctions	 Yes
FATF Increased Monitoring (Grey list)	 No
FATF Call for Action (Blacklist)	 No
Australian sanctions	 No

Due to its exceptional diplomatic efforts, Iraq was removed from the European Union's 2022 list of high-risk countries for money laundering.

Analytical Insights

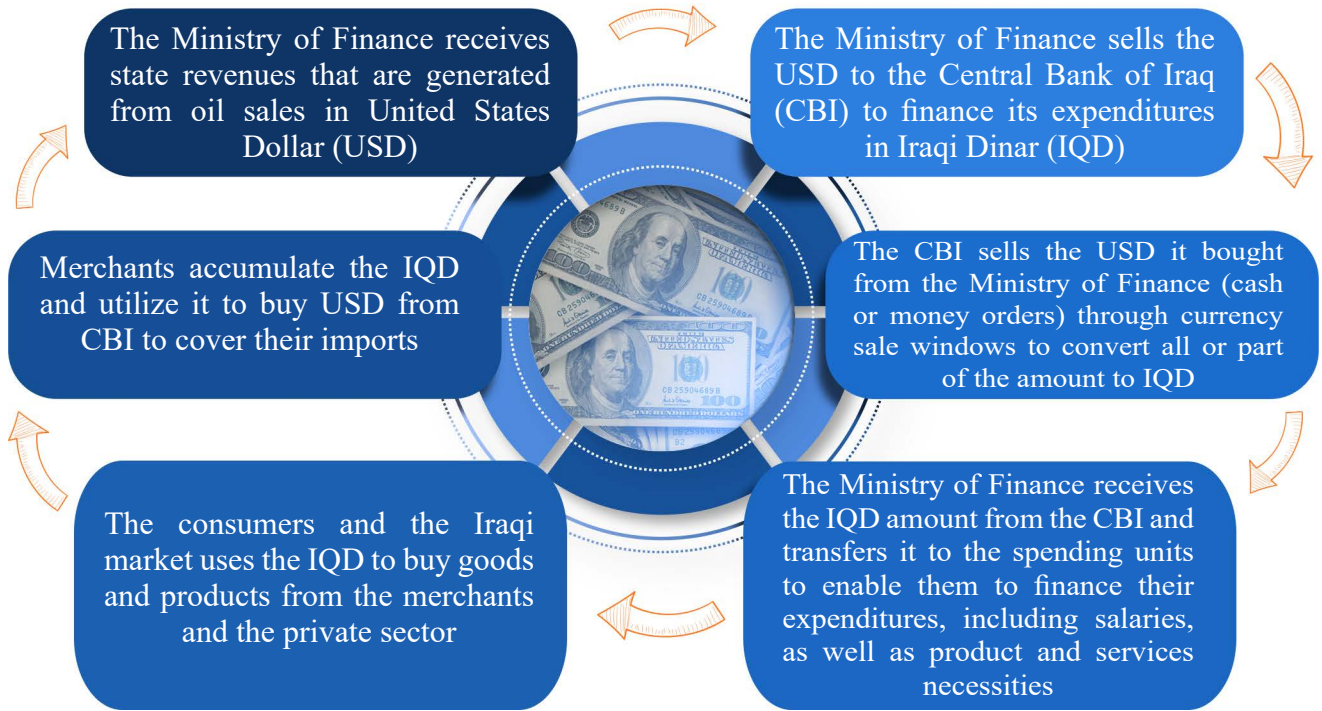
The Currency Depreciation Crisis in Iraq

■ **Nabil Jabbar Al-Ali Al-Tamimi**

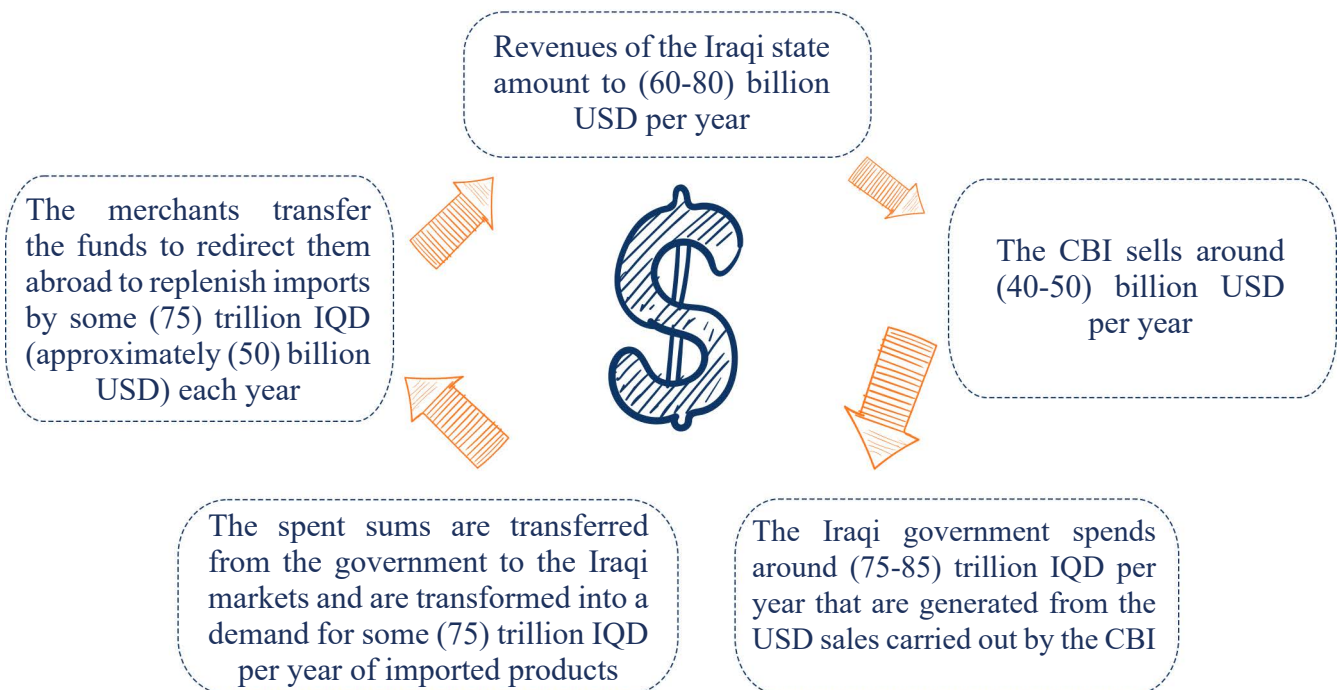
• Economic Analyst



Analysis of the US Dollar Life-cycle in Iraq



US Dollar Life-cycle in Numbers (Approximate figures)



(Past Practice) Money Transfer Operations between Merchants and the CBI

Intermediation
Number

1

Merchants make remittances through money transfer companies

2

Money transfer companies introduce private banks as intermediaries to pay their remittances abroad

3

The banks submit (enhancement) requests for their assets abroad to pay the remittances, provided that these banks later present the (documents) required for import to the CBI

4

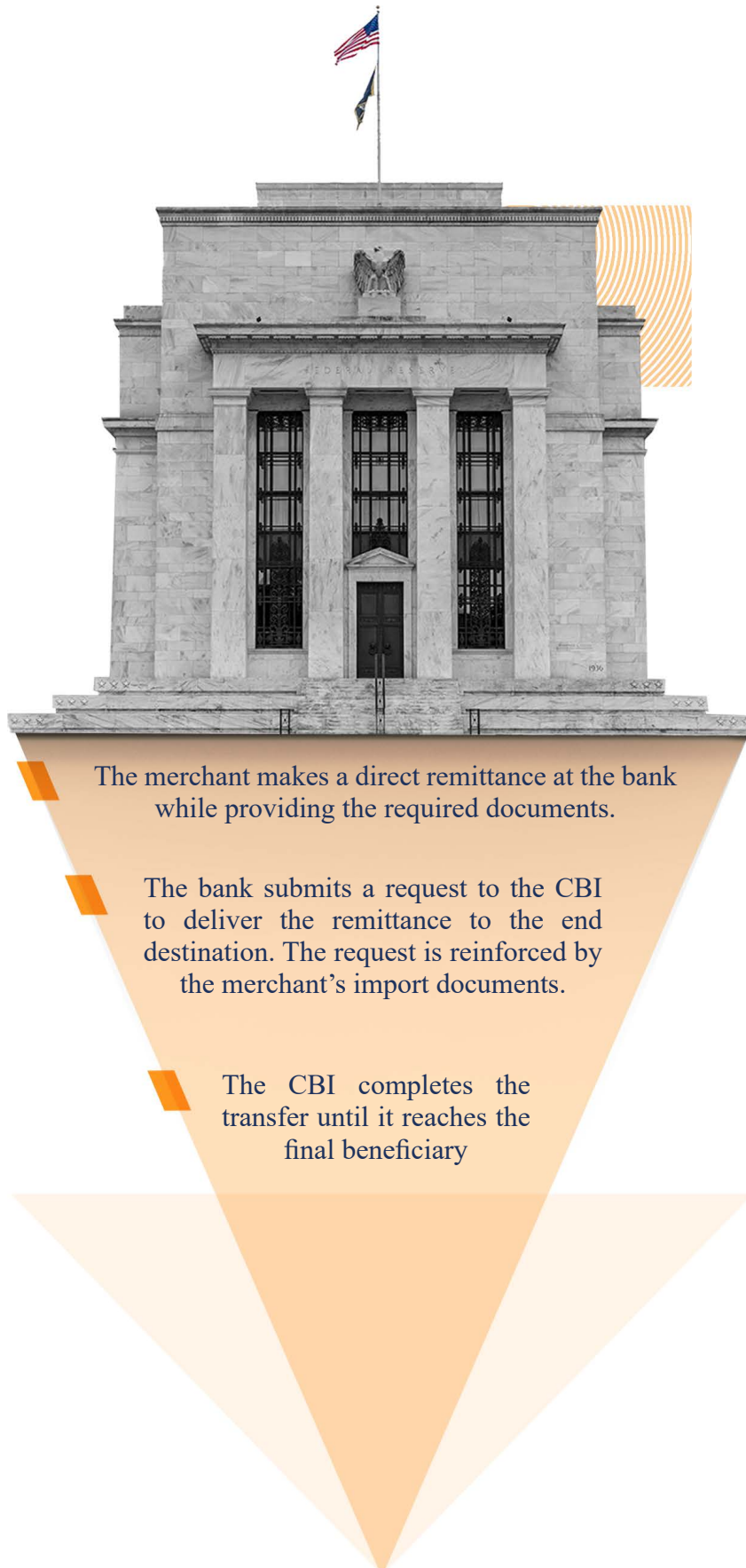
The CBI (enhances) the requests made by the banks

What are the flaws of the previous process?

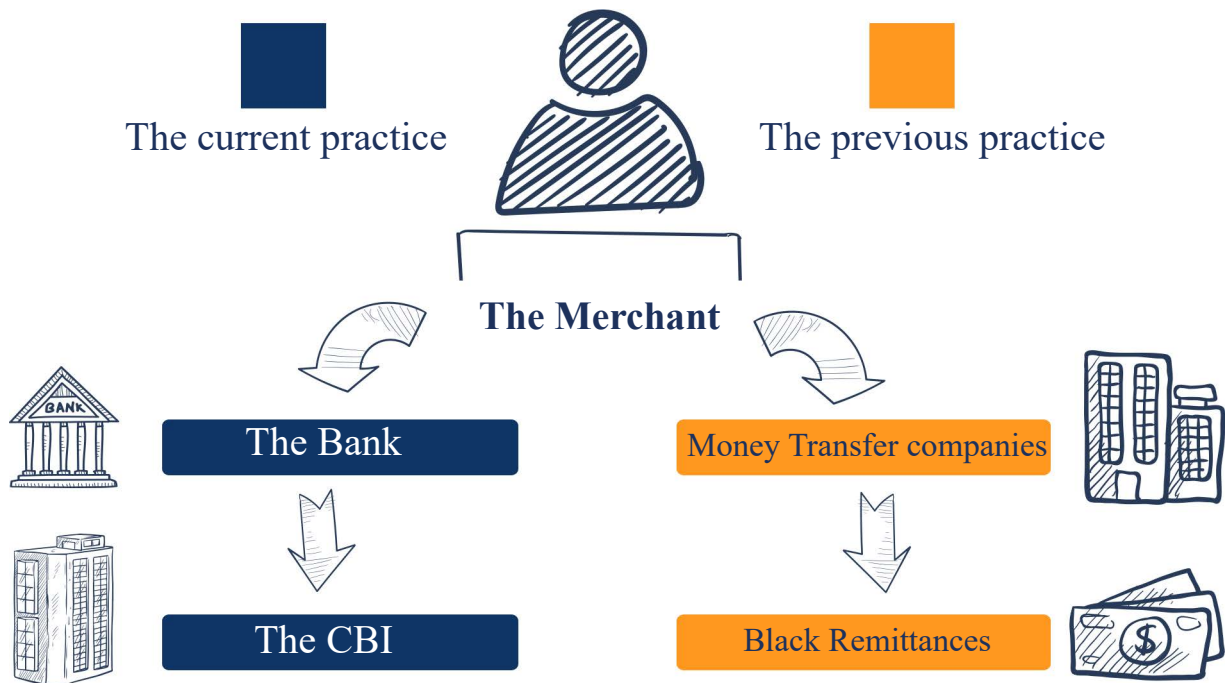


- ▶ Large number of intermediaries
- ▶ The dominance of some banks over the external transfer operations and their monopolization of the benefits resulting from currency exchange and its variances.
- ▶ A primitive trade in which merchants make remittances that lacks precise data
- ▶ May result in the leakage of many funds (corruption money and money laundering, financing of terrorism etc.)

What does the US Federal Reserve request as rule to carry out remittances



What happens in practice



What are the reasons that leave merchants and transfer companies reluctant to adopt a new mechanism for remittances ?

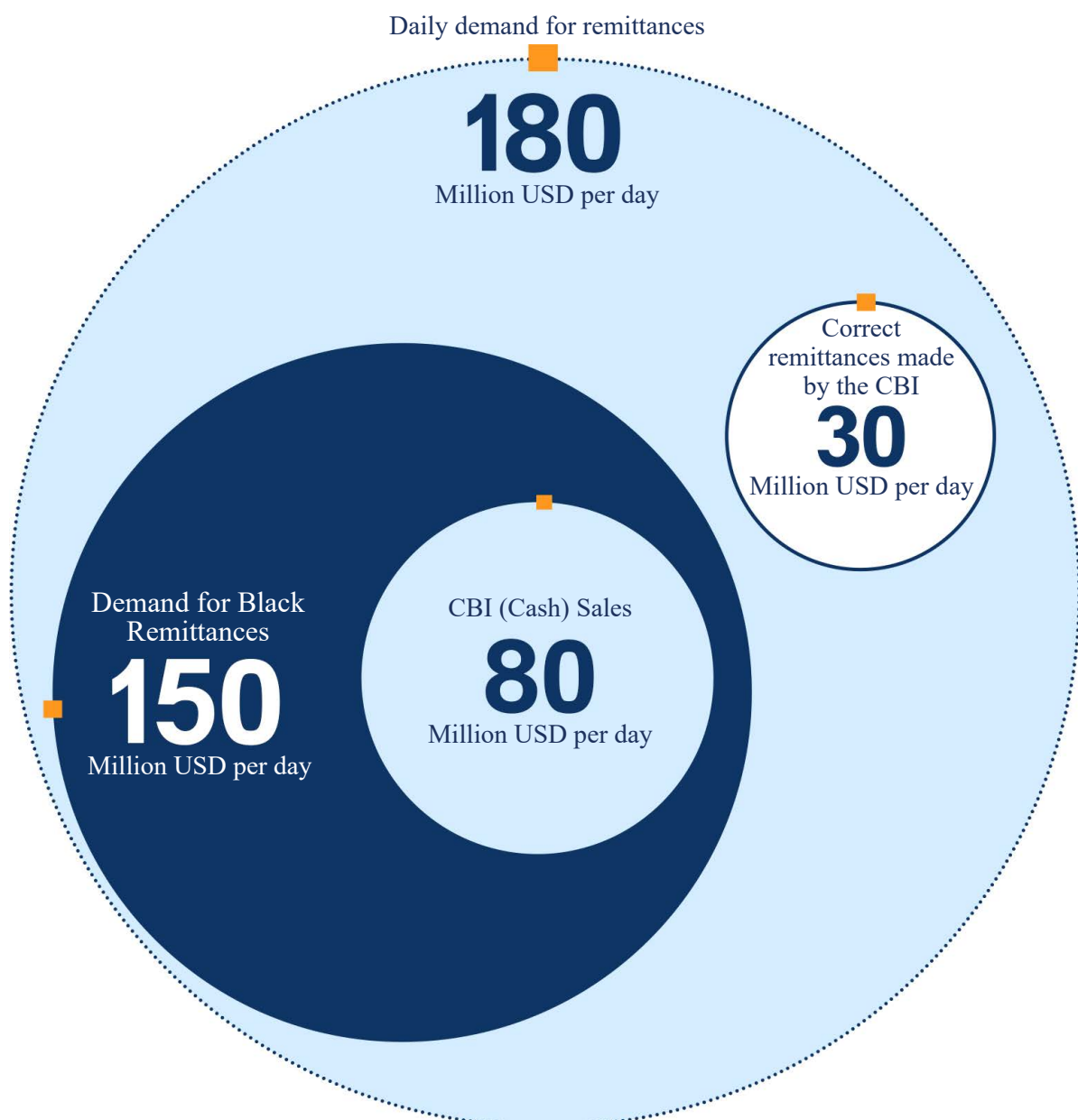
- ▶ The primitiveness of trade in Iraq
- ▶ The facility of engagement between merchants and transfer companies in comparison with engagement with banks
- ▶ The merchants are fearful of entering complex processes with state institutions, namely those relevant to customs and taxation.

What are “Black Remittances”

- ▶ Black remittances refer to transfers that might be made outside the Iraqi banking system (that is overseen by the CBI)
- ▶ Black remittances are made in a primitive manner through cross-border land transfers into neighboring states
- ▶ After their transfer, the funds are deposited in banks outside Iraq and reenter the banking system. Remittances are then made to various cities all over the world.

The Demand-Supply Gap for Remittance Purposes

(Approximate figures , April 2023)



Stakeholders Mapping

Entities Most Involved in The Iraqi Banking Sector



The Central Bank of Iraq (CBI) →

Regulates the works of the banking sector through direction, licensing, and supervision. The CBI is headquartered in Baghdad and has three branches in Basra, Erbil, and Nineveh governorates. It has 11 public directorates, including the Banking Monitoring Directorate, the Financial Operations and Debt Management Directorate, the Issuance and Safes Directorate, and the Payments Directorate. The CBI also has an Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) office and a Centre for Banking Studies. Additionally, the CBI also manages the Window, which sells foreign currency to banks and exchange and money transfer companies. The CBI has a board of directors that is chaired by a governor and 7 members who specialize in financial and economic affairs.



Public banks

They are state-owned banks that are supervised by the CBI and work per its directives. Apart from the Trade Bank of Iraq (TBI), the public banks are attached to the Ministry of Finance and operate per the State-Owned Enterprises Law No. 22 of 1997 and other laws and instructions which regulate the works of the banking sector. They are 7 banks, including 3 commercial, 3 specialized, and one Islamic.



Private Banks

A group of commercial and Islamic banks licensed to work by the CBI. They include 67 banks, 53 local and 14 foreign banks. They operate per the Coalition Provisional Authority (CPA) Order No. 94 of 2004 and other laws and instructions which regulate the work of the banking sector. The capital of each private bank is no less than 250 billion IQD.



Registrar of Companies



A department at the Ministry of Trade responsible for legalizing banks and other financial institutions, such as public or private companies established per applicable laws. The Registrar of Companies is also responsible for granting permits for opening branches for banks and foreign financial institutions.

The Trade Bank of Iraq (TBI)



Is an independent public bank. The TBI was established in 2003 to facilitate the import and export of products and services from and to Iraq after the completion of the work of the United Nations Oil for Food Programme. It accounts for around 80% of the trade finance business in Iraq. It has a capital of 3.5 trillion Iraqi dinars (IQD) and around 26 branches in Iraq, one branch in the Kingdom of Saudi Arabia, and a representative office in Abu Dhabi.

Ministry of Finance



Is the director and owner of public banks and responsible for appointing their directors and approving their plans, planning budgets, and the decisions of their boards of directors.



1935 ■ Agricultural Cooperative Bank

it has a capital of 120 billion IQD and 47 branches distributed across Iraqi governorates.

1941 ■ Rafidain Bank

it has a capital of 226 billion IQD and 164 branches inside Iraq and 7 abroad.

1946 ■ Industrial Bank

it has a capital of 349 billion IQD and 11 branches distributed in some Iraqi governorates.

1948 ■ Real Estate Bank

it has a capital of 50 billion IQD and 16 branches spread across Iraqi governorates.

1988 ■ Rasheed Bank

it has a capital of 50 billion IQD and 121 branches spread across the Iraqi governorates.

2012 ■ Al-Nahrain Islamic Bank

commenced its business operations in 2015. It has a capital of 150 billion IQD and 4 branches

Non-bank Financial Institutions

A group of institutions relevant to the banking sector and complementary to it in terms of providing banking services. They are institutions that are not permitted to carry out banking operations but engage in activities that facilitate such operations.



exchange companies under category (A), they are 77 companies and have a 5 billion IQD capital each.

exchange companies under category (B), they are 47 companies with a 5 billion IQD capital each

Exchange Companies that buy and sell foreign currency, they are 1087 firms with a 500 million IQD capital each

Electronic payment (e-payment) service provider companies, 17 companies

Money transfer companies, 10 companies

Financial investment companies, 10 companies

Deposit Insurance company, 1 company

Small and medium-sized enterprise financing companies, 1 company





Bank Information

- _____
- _____
- _____

1 Commercial Bank

A financial institution that accepts deposits, grants commercial and personal loans, and performs core banking activities, including offering current and savings accounts to individuals, companies, and other institutions. A Commercial Bank also facilitates transfers, letters of credit, letters of guarantee, etc..

2 Islamic Bank

A financial institution that operates in accordance with the rulings of Islamic Law, performs banking and financial services, and engages in finance and investment activities in various sectors per Islamic jurisprudence. The key distinction that sets apart an Islamic Bank from a Commercial Bank is that the former does not pay or receive interest fees.



3 Current Account

An account in which funds are deposited and withdrawn directly from the branch or through bonds or an Automated Teller Machine (ATM) card. This account is described as current because of its dynamic nature. Banks do not pay interest on the available balance in a Current Account.

4 Savings Account

An account that takes the form of a deposit and is characterized by saving; funds can be deposited or withdrawn from this account directly at the branch or through an ATM card. Banks pay annual interest to the savings account holder. This interest is determined according to the balance available in the account.

5 Fixed Deposit

A sum of money deposited for a specific period (typically six months, a year, or two years). The customer cannot withdraw the amount before the end of the agreed-upon period between him/herself and the bank. In return, the depositor receives the agreed-upon interest rate. If the deposited amount is prematurely withdrawn in part or in full, the interest is thereby canceled per what is known as breaking the fixed deposit.



6 International Bank Account Number (IBAN)

a set of numbers and symbols to enhance international payments' accuracy, reliability, and speed. It composes of two-letter country codes plus the account number.

7 Credit Information System

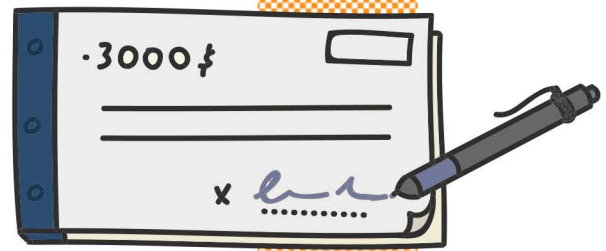
A database in which borrowers' and their sponsors' financial and personal information is accumulated and provided to users from banks and relevant institutions. The Central Bank administers the Credit Information System and aims to facilitate loan terms and reduce credit risk.



8

Bank Check

A page within a checkbook that is issued by the bank at the request of the customer and per the conditions referred to by the laws and regulations.



9

Point of Sale (POS)

a service that enables buyers to purchase at commercial markets and shops that offer POS services through ATMs and credit cards. The institution responsible for the service transfers the amount requested from the buyer's account to the seller's. The transaction is made regardless of whether or not the same or different banks maintain both accounts.



10

Banking Secrecy

the practice by which all bank employees maintain the complete confidentiality of all documents and information belonging to the bank's customers.

11

Social Responsibility of Banks

the commitment of bank shareholders to the allocation of a percentage of their annual profits to advance community progress, improve the livelihood of citizens, and contribute to sustainable development through the development and support of various sectors, such as the arts, culture, education, environment, health, sports, and others.



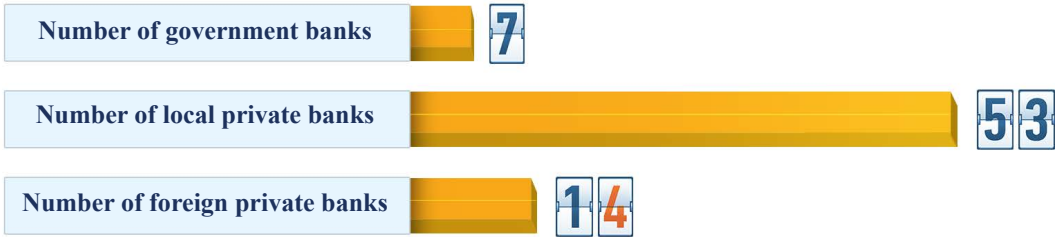
Numeric Report

Banking Sector In Numbers

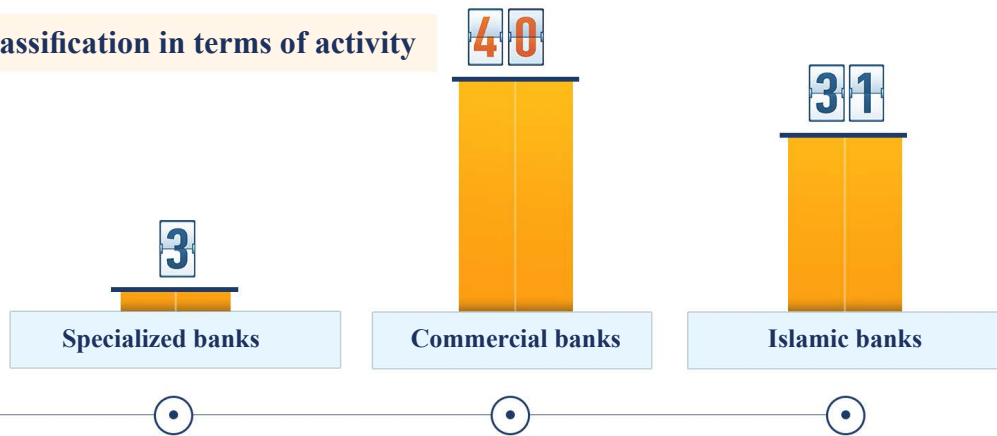




Classification in terms of Property



Classification in terms of activity

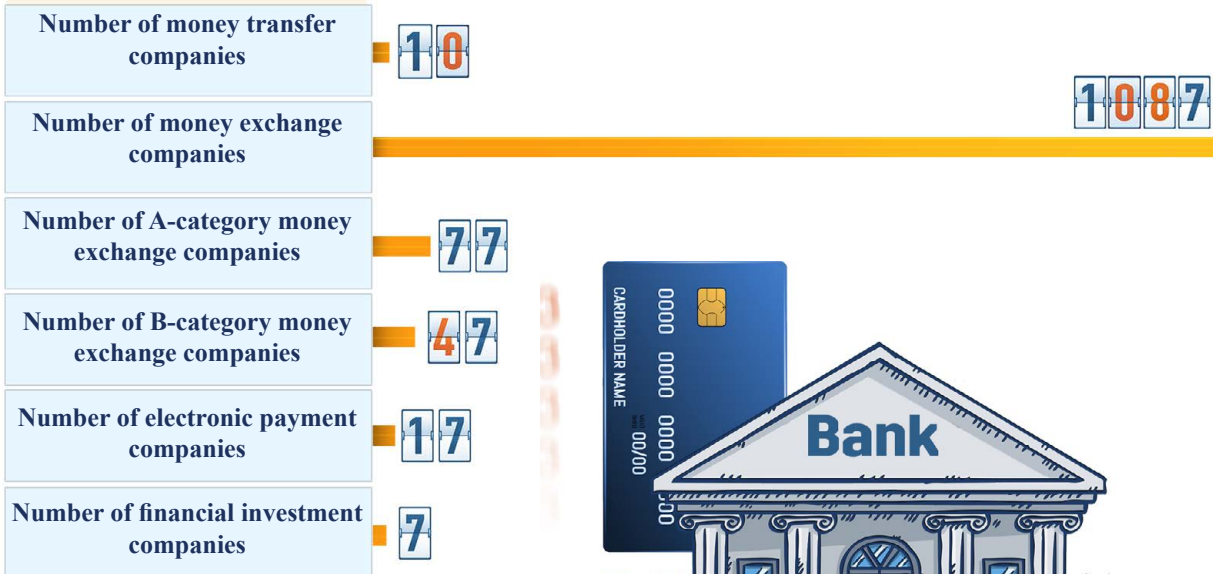


Total number of branches

904



Financial Institutions





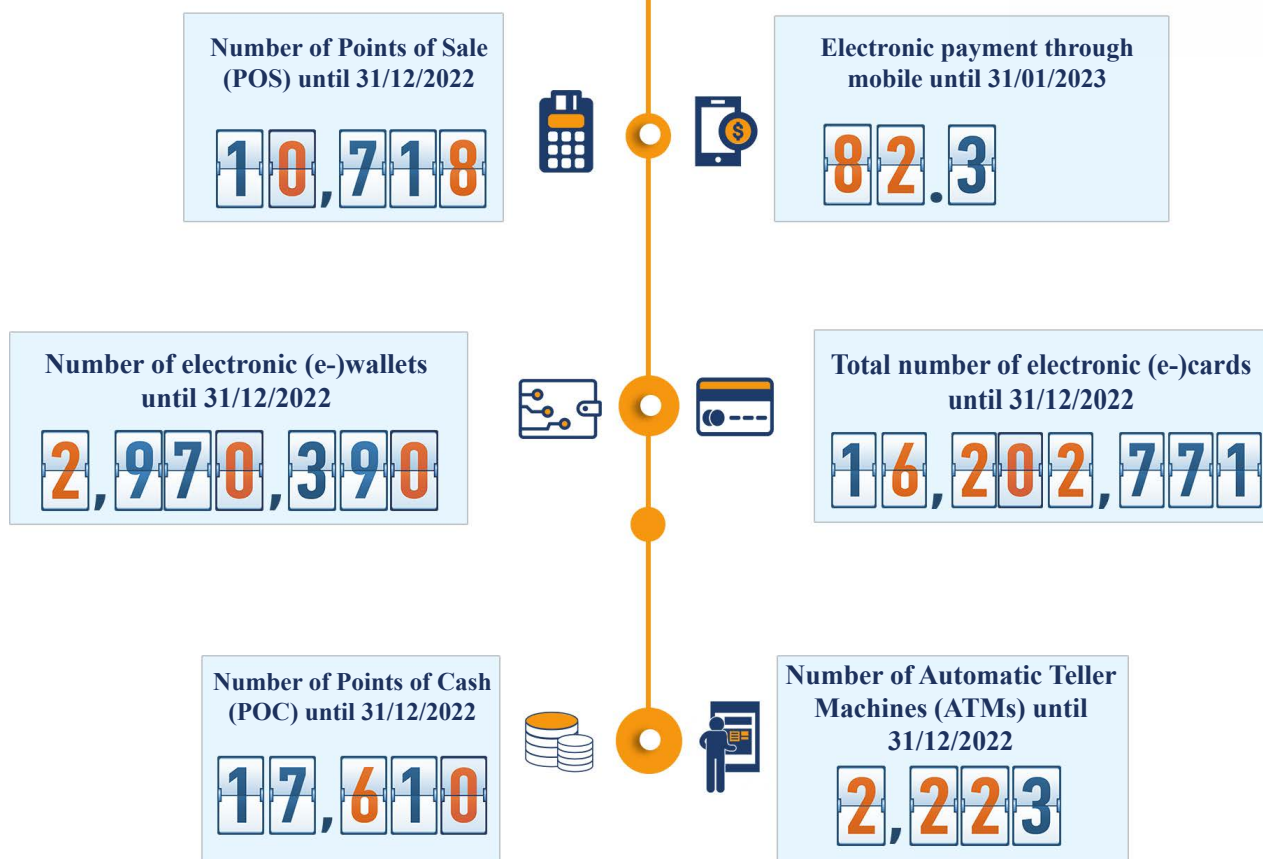
Capital of Banking Sector



The minimum capital of private banks	No less than	192.3	Million USD
The minimum capital of money transfer companies	No less than	30.7	Million USD
The minimum capital of merger exchange companies	No less than	3.8	Million USD
The minimum capital for money exchange companies	No less than	384.6	thousand USD

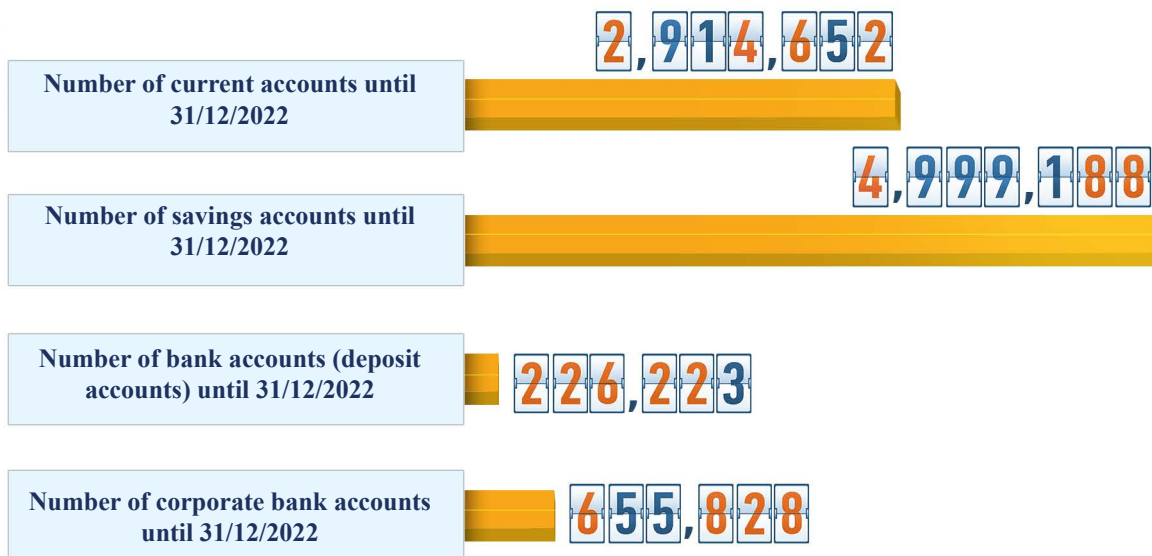


Online payment

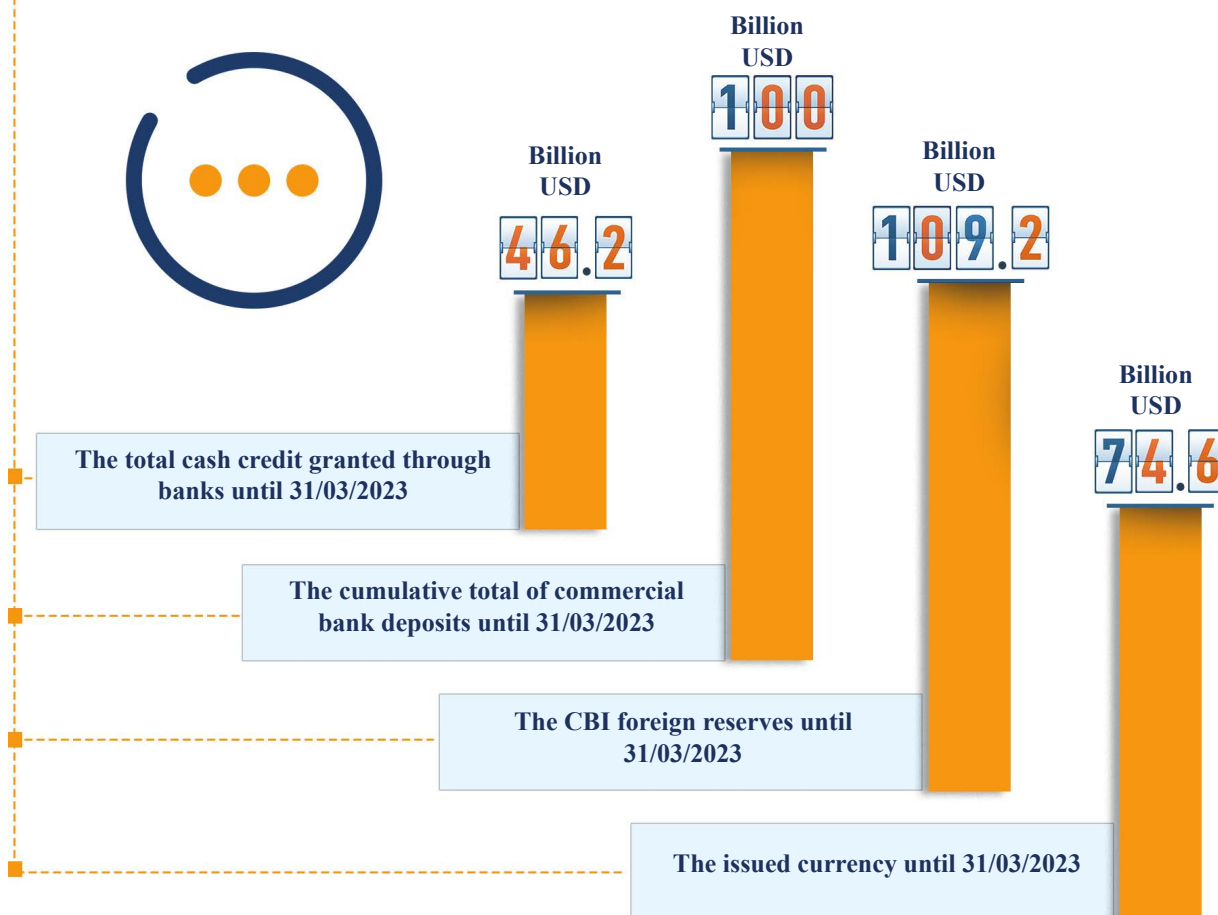




Bank Accounts



Other



Summaries

The **foreign currency** sale window and its impact on the banking performance

(applied research in a sample of Iraqi banks that are listed in the Iraq Stock Exchange)

A master's thesis by researcher **Sara Haidar Latif** was submitted to the Higher Institute of Accounting and Financial Studies at the University of Baghdad.



Summary

■ The Central Bank of Iraq (CBI) sells United States Dollars (USD) through the foreign currency sale window. The sales aim to facilitate cash, credits, and remittances. The researcher believes that such CBI sales positively impact banks' liquidity and profitability indices. However, it negatively impacts the banking sector's performance. Banks rely on the foreign currency sale window as a source of income from which they generate substantial revenues without risks. Subsequently, this weakens the performance of the banking sector as it decreases commercial activities, such as the provision of loans, granting of credits, holding deposits, etc.

The Problem

■ The research problem is the reliance of the majority of Iraqi banks on the foreign currency sale window. Such reliance is met with weak performance in other banking activities. The bulk of the banks' liquidity is allocated to buyi granting credit, providing loans, and further credit facilities.



The Goal

■ The research aimed to measure the performance of Iraqi private banks and explain to what extent the CBI's foreign currency sale window impacts the banking performance of these banks. The research also sought to clarify the negative impact of the CBI's foreign currency sales on the banking sector; this impact is notably represented in the reliance of most private banks on the foreign currency sale window in their performance.

Research method

The researcher used the financial analysis of the annual financial statements of 13 private banks selected as a research sample, published in the Iraq Stock Exchange companies guide. She also used the data of the foreign currency sale window that was published on the CBI's website daily between 2015 and 2018.

Moreover, the researcher took into consideration the parallel exchange rate in the domestic market mentioned in the CBI's annual statistical bulletins during the same period (2015-2018). She also relied on a set of indicators in the analysis (such as the Cash Deposit Ratio (CDR), the Cash Asset Ratio, the Loan to Asset Ratio (LAR), the Loan to Deposit Ratio (LDR), the Return on Assets (ROA), and the Return on Equity (ROE). Additionally, the researcher used statistical analysis relying on several analytical and descriptive statistical methods to analyze and process data.



Data Analysis Results:

- The overall average of the CBI's sales to the banks selected as the research sample reached 1,6 Billion USD during the period of study. The Iraqi Middle East Investment Bank (IMEIB) recorded the highest average of USD purchases, reaching 2,6 Billion USD. Meanwhile, the National Bank of Iraq (NBI) recorded the lowest average at 611 million USD.
- The overall average profit recorded in the official currency rate for the banks reached 14 Billion Iraqi Dinars (IQD). The IMEIB recorded the highest average profit, which reached 22,5 Billion IQD. Meanwhile, the NBI recorded the lowest average profit at 6,1 Billion IQD.
- The overall average profit recorded by the banks selected as a research sample in the parallel exchange rate reached 55,5 Billion IQD. The IMEIB recorded the highest average profit, which reached 89 Billion IQD and the Mosul Bank for Development and Investment recorded the lowest average profit at 22,9 Billion IQD.

Banking Performance Indicators

Cash Deposit Ratio (CDR):

- ▶ The volume of liquid funds is twice the total amount of customers' deposits. This reflects a lack of investment and employment of funds on these banks on activities that generate financial returns, enhance banking activity, and contribute to the development of the national economy.

Cash Asset Ratio:

- ▶ The cash asset ratio is more than half, indicating idle funds that the banks are not utilizing.

Loan to Deposit Ratio (LDR):

- ▶ The overall LDR for the banks is 91.89%. The increase in the LDR indicates the increase in the banks' profits resulting from the high interest in the loan-granting process. The increased LDR beyond the limit further reflects an increase in credit risk. Moreover, we find that the latter is low when comparing the LDR to the Loan Asset Ratio (LAR). The difference between the two ratios can be attributed to the decrease in deposits compared to assets.

Authorized Profits:

- ▶ The overall average of the Return on Assets (ROA) ratio of the banks selected as a research sample reached 1.42%; this indicates a decrease in authorized profits.

Return on Equity (ROE):

- ▶ The ratio of the overall average of the Return on Equity (ROE) –per the profits in the exchange rate that is parallel to the official rate adopted by the banks reached 958%. Accordingly, this indicates that the overall ROE in the parallel market rate surpassed nine times the ROE in the official rate disclosed in the financial statements of the banks

Key Takeaways

- ▶ Most private banks rely on the foreign currency sale window in their performance as the bulk of their liquidity is allocated to buying and selling the USD at the expense of the other banking activities.
- ▶ Most banks withhold information regarding profits as they are not made clear in the data provided in the statements. Moreover, there are discrepancies between the profits banks earn from selling at the official rate and buying at the parallel rate. The aforementioned indicates that the regulations of the CBI and those of the foreign currency sale window, which necessitate the adherence to a profit margin that does not exceed 10 IQD per USD, are being violated.
- ▶ The analysis of the practical aspect results reflects a weakened banking performance by these banks; this is since the profits earned from the foreign currency sale window represent a high percentage of the net profits disclosed in the banks' financial statements. Subsequently, this reflects a weakness in other banking activities.

Recommendations

- ▶ Banks must engage in banking activities beyond the foreign currency sale window, which are crucial to their performance. Such activities notably include the utilization of liquidity to develop and enhance the banking performance and ameliorate the results of the banking performance indices.
- ▶ The CBI ought to adopt mechanisms to follow up with the banks which access the foreign currency sale window. The CBI should also clarify the buyers of the USD and verify the information to identify the banks violating its regulations.

Summary

The National Strategy to Combat Money-Laundering and Terrorism Financing in Iraq (2021-2023)

- ▶ The (2021-2023) strategy to combat money laundering and terrorism financing (ML/TF) is generally based on the extent to which the Republic of Iraq achieves the objectives of combating ML/TF. These objectives can be achieved through developing primary and secondary policies and plans and directing economic and human resources. The national strategy (2021-2023) is complementary to the first national strategy to combat ML/TF that was put forth between (2017-2020).



The strategy focuses on launching the national risk assessment process and identifying the strengths and weaknesses of the policies and measures adopted by the government between (2021-2023). The policies and measures entail what was achieved by the previous strategy and what will be completed in the upcoming phase per the requirements of the international community and the Financial Action Task Force (FATF) standards, and through examining the internal and external environment surrounding the action and tracking the capabilities, roles, and responsibilities.

Additionally, the necessary measures include implementing policies in the form of programs with a planned timeframe while also considering the development of a strategic plan with specified future measures and steps for the government to adopt to counter the risks resulting from money laundry operations.

Moreover, the strategy includes 13 objectives to combat ML/TF. These objectives include developing and enacting national legislations relevant to combating financial crimes and operations relating to ML/TF. The strategy objectives also entail completing a mechanism to combat ML/TF in Iraq, which includes dividing authorities and roles among its bodies.

Furthermore, the strategy's 13 objectives include enhancing the information exchange mechanisms between internal and external entities relevant to combating ML/TF while maintaining the confidentiality of the information exchanged between involved parties (i.e., consolidation of intelligence efforts). Additionally, efforts should also be exerted to ensure that Iraqi laws and regulations best comply with the 40 recommendations put forth by the FATF.

International actors concerned with combating ML/TF

Financial Action Task Force (FATF)

International Monetary Fund (IMF)

Middle East and North Africa Financial Action Task Force (MENAFATF)

World Bank

European Commission

United Nations (UN)

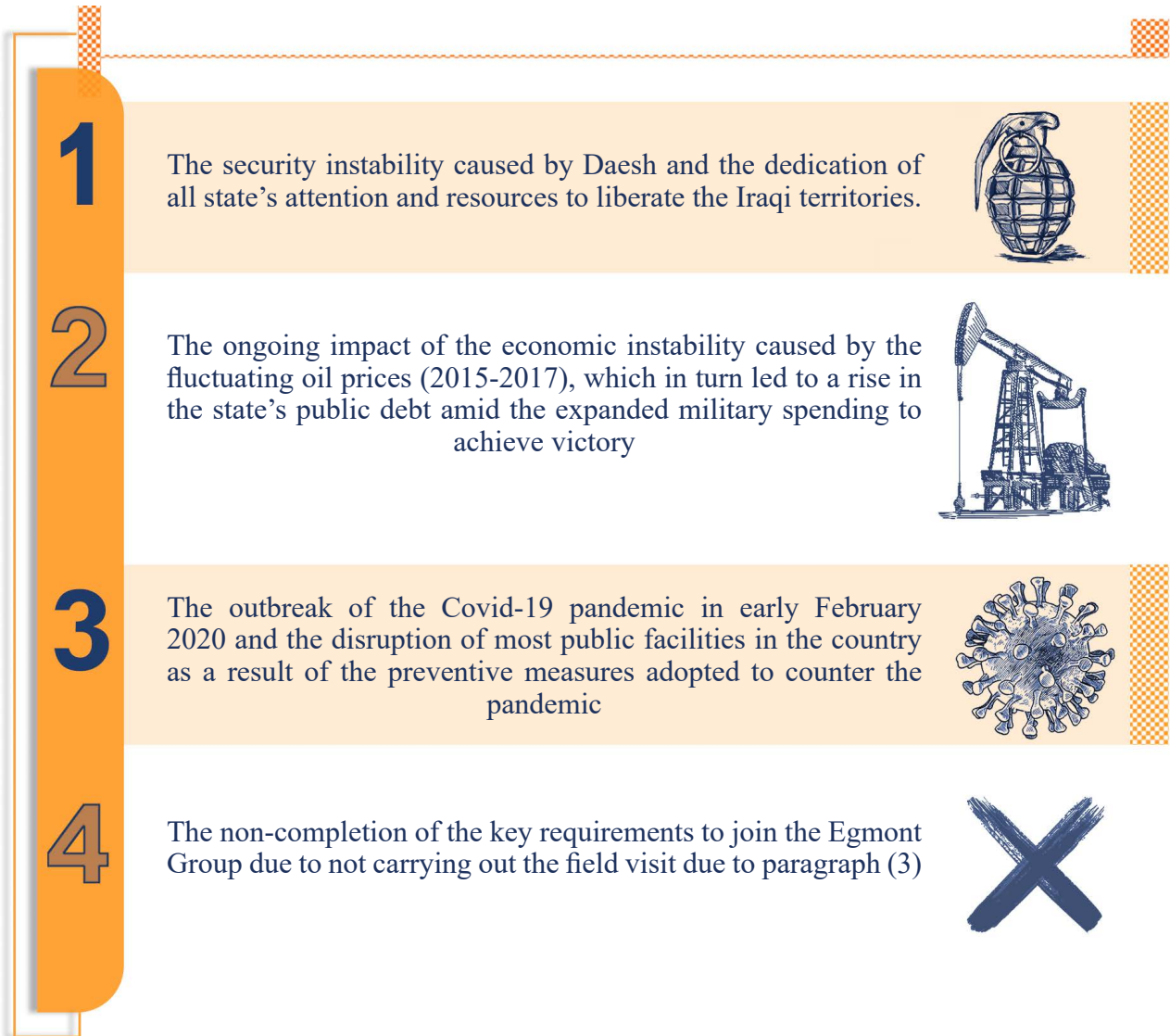


The Most Significant Achievements of the First National Strategy to Combat Money Laundering and Terrorism Financing (2017-2020)

- 1** Revocation of the regular follow-up status by the Middle East and North Africa Financial Action Task Force (MENAFATF) and acquiring the biennial update status.
- 2** Keeping pace with the technological advancements in the field of combating ML/TF through applying modifications and optimizations for the information and communications infrastructure and the security features. The development process entailed the establishment of a database that included information relevant to the financial and non-financial institutions involved. Moreover, the transactions follow-up system has been implemented for the purpose of archiving and following up on all correspondences exchanged by the ML/TF office. Additionally, the I2N system was introduced to exchange information with the Ministry of Interior/Directorate-General of Combatting Terrorism and Organized Crime, and an agreement was reached with the United Nations Office on Drugs and Crime (UNODC) to acquire the goAML (Anti-Money-Laundering) system.
- 3** Capacity building and upskilling of persons involved in the field of combating ML/TF through training and workshops in and outside Iraq. The training sessions and workshops were held in cooperation with their organizers, especially international organizations, including the International Monetary Fund (IMF) and the World Bank, as well as teams affiliated with MENAFATF and the UNODC.
- 4** Modernizing the combating ML/TF mechanism structure. The organizational structure of the office has been adapted to the international requirements and the requirements of the office's legally-assigned works and tasks. Divisions have been created in each of the office's departments.
- 5** Establishing cooperation agreements with different stakeholders within Iraq and concluding memorandums of understanding with corresponding units; 5 memorandums of understanding have been concluded, and 12 agreements have been struck with various local and international entities.
- 6** Disseminating and implementing the decisions made by the Terrorist Funds Freezing Committee concerned with implementing recommendations (6-Targeted financial sanctions linked to terrorism and the financing of terrorism). The Anti-Money-Laundering and Countering Financing of Terrorism (AML/CFT) Office has worked to oblige banks as well as exchange, insurance, money transfer companies, and companies that mediate the sale and purchase of foreign currencies and all their branches to review the AML/CFT office's website daily and work to implement those decisions promptly.

The Axes of the Strategy to Combat Money-Laundering and Terrorism Financing in Iraq (2021-2023)

The strategy to combat money laundering and terrorism financing included 6 axes, each divided into objectives, performance indicators, and deliverables to facilitate the implementation and follow-up processes.



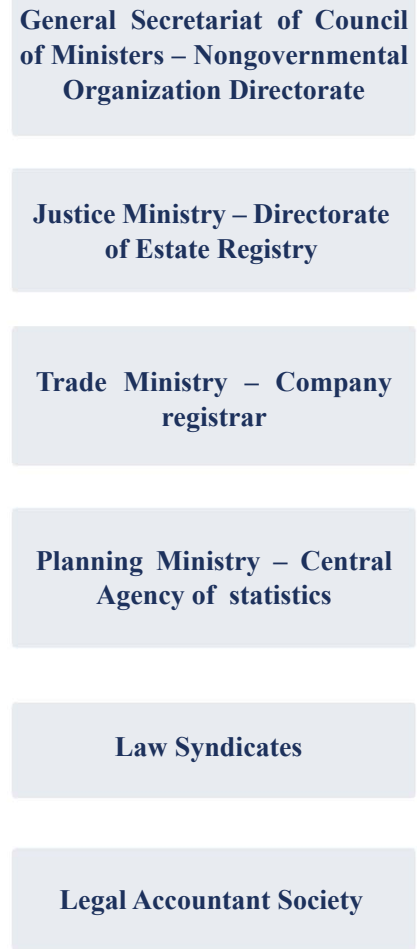
Institutional Framework for Combating Money Laundering and Financing of Terrorism

Committee of freezing assets of terrorism



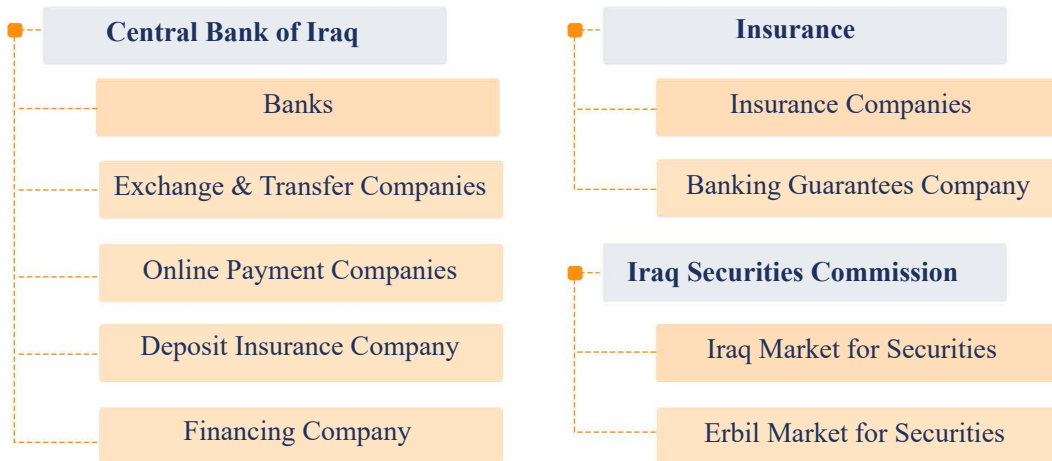
▲ Judiciary and law enforcement

Office of Combating Money Laundry and Financing of Terrorism



▲ Non-financial entities

Council of Combating Money Laundry and Financing of Terrorism



▲ Financial institutions

Experts Assessment

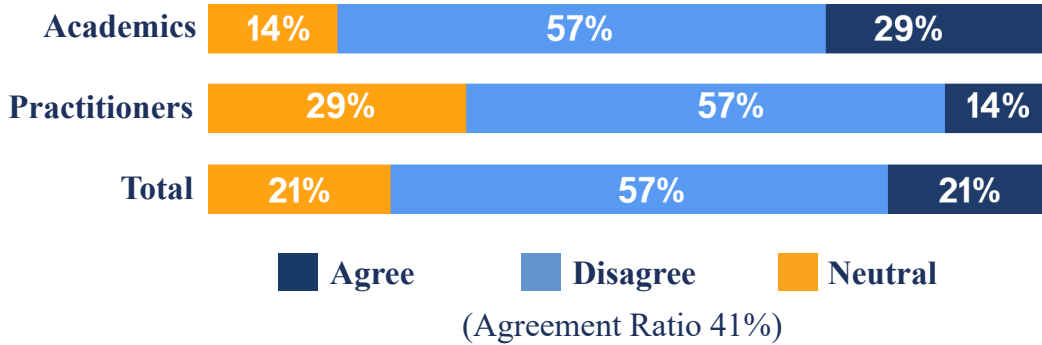
This assessment aims to survey the views of academics and practitioners towards the banking sector and the role of the Central Bank of Iraq (CBI) through several indicators. The assessment is based on **7 sections** that cover the following aspects: institutional stability, governance, responsiveness to measures of CBI, meeting international financial standards, oversight, developmental role, and independence.

A sample of 14 experts responded to the questionnaire, including 7 academics and 7 practitioners, for the period from 7 April to 10 May 2023. The assessment is based on a 5-point Likert scale: Strongly disagree, disagree, neutral, agree, and strongly agree. If a rating value is not selected by any respondent, it does not appear in the charts.

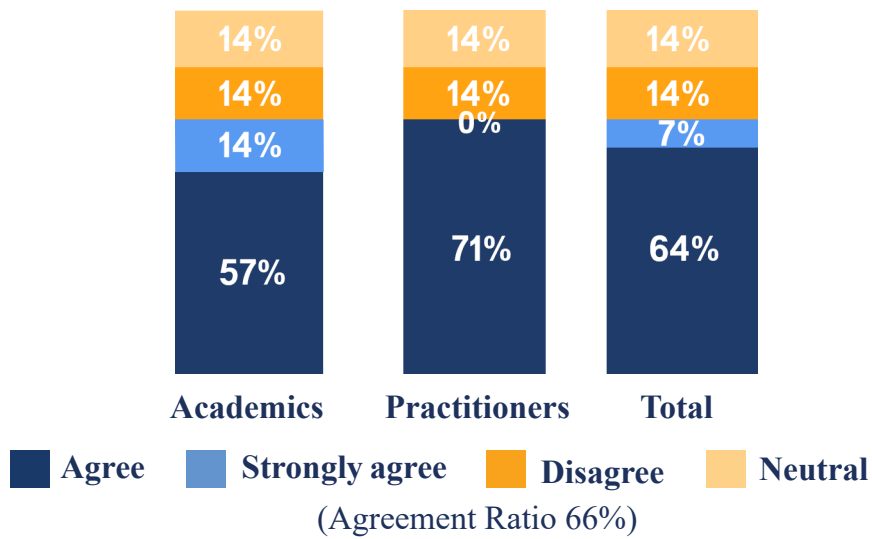


First Aspect: Institutional Stability

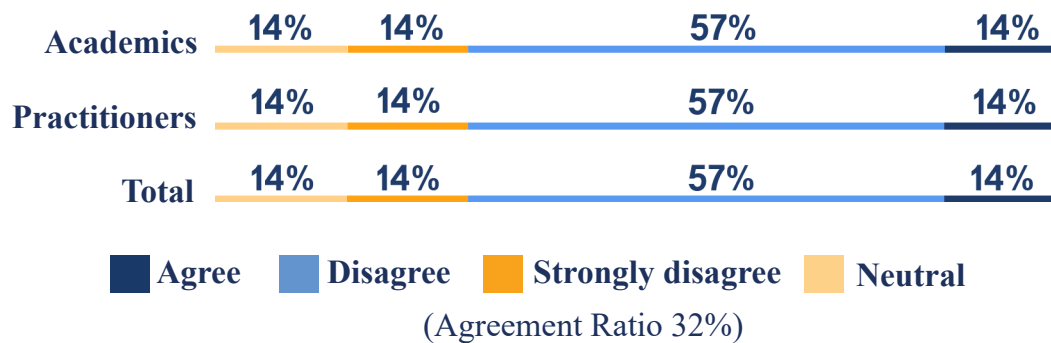
The banking sector enjoys institutional stability



CBI measures have a clear role in stabilizing the banking sector

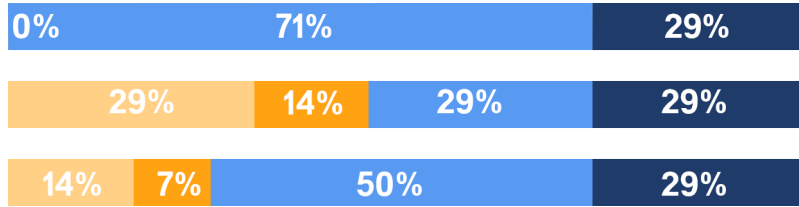


State-owned banks' dominance of banking activities positively contributes to a stable banking sector



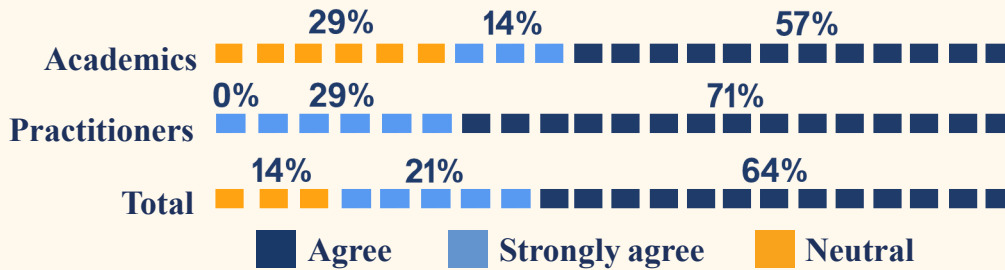
Second Aspect: Governance

State-owned banks adhere to principles and practices of good governance



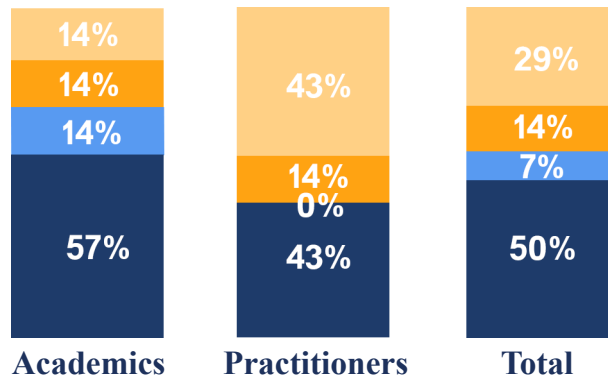
■ Agree
 ■ Disagree
 ■ Strongly disagree
 ■ Neutral
 (Agreement Ratio 41%)

CBI incentivizes banks to implement principles and practices of good governance



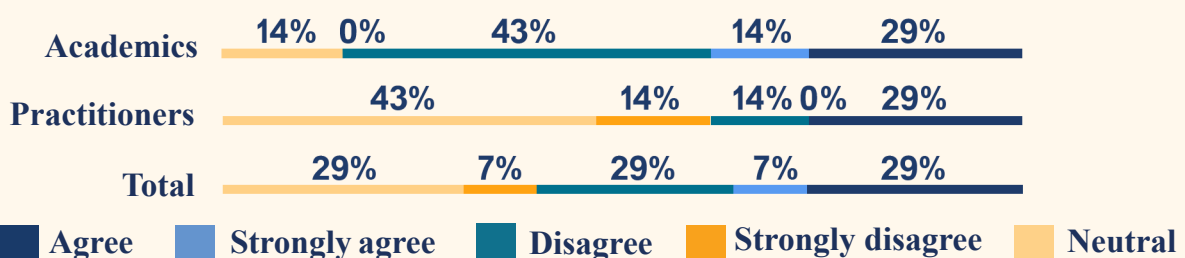
■ Agree
 ■ Strongly agree
 ■ Neutral
 (Agreement Ratio 77%)

Private banks adhere to principles and practices of good governance



■ Agree
 ■ Strongly agree
 ■ Disagree
 ■ Neutral
 (Agreement Ratio 63%)

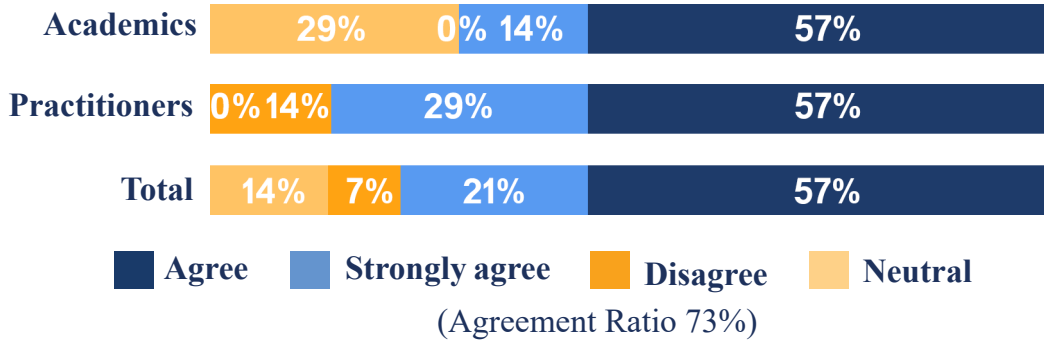
Banking governance achieves a degree transparency and accountability



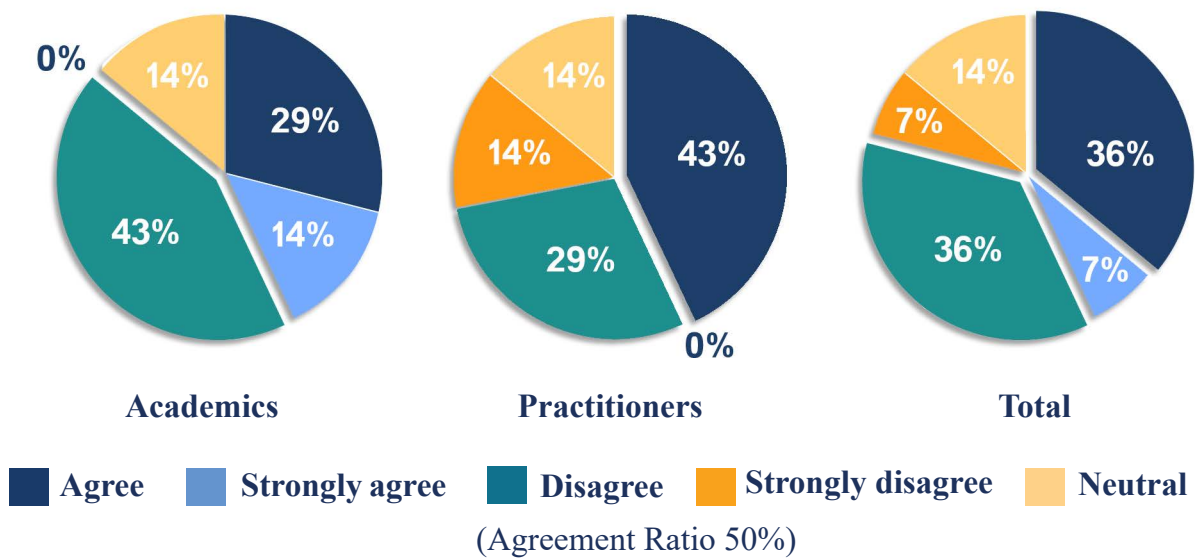
■ Agree
 ■ Strongly agree
 ■ Disagree
 ■ Strongly disagree
 ■ Neutral
 (Agreement Ratio 50%)

Third Aspect: Responsiveness to CBI Measures

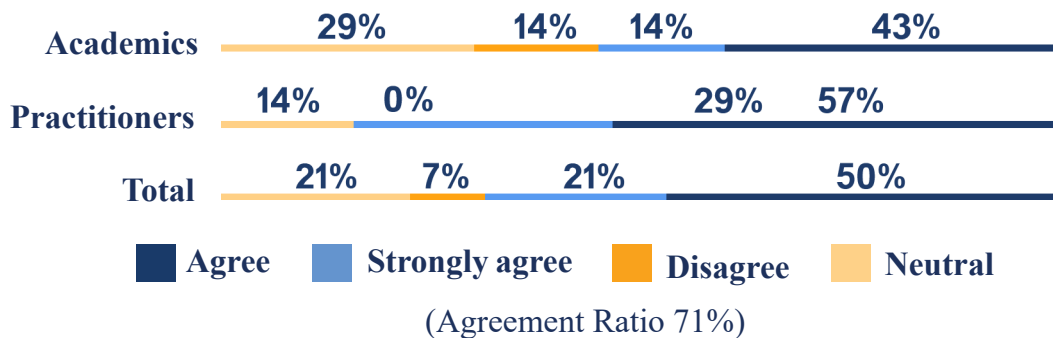
CBI issues instructions that cover all activities of the banking sector



Banking institutions adhere to CBI measures

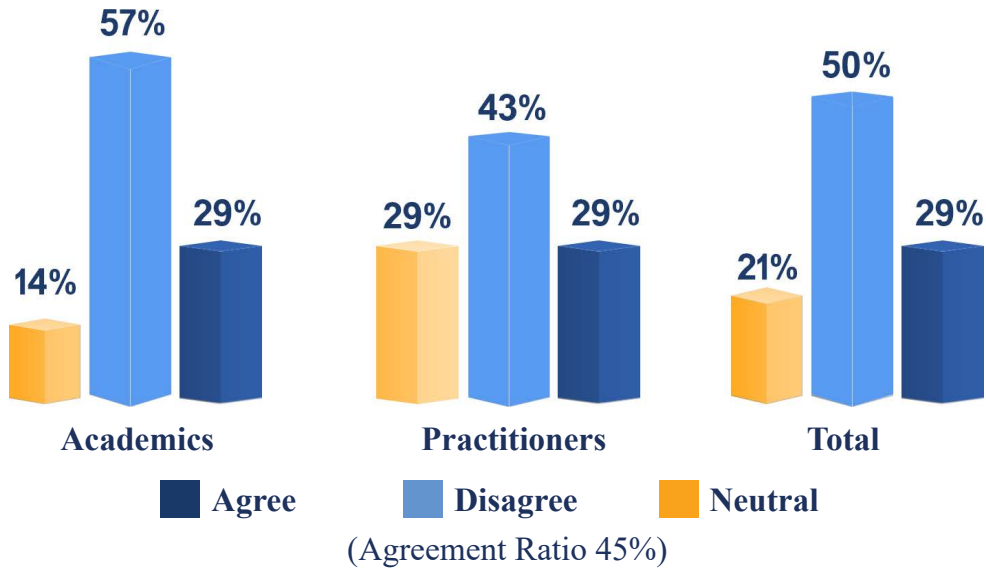


CBI monitors the adherence of banking institutions to its instructions

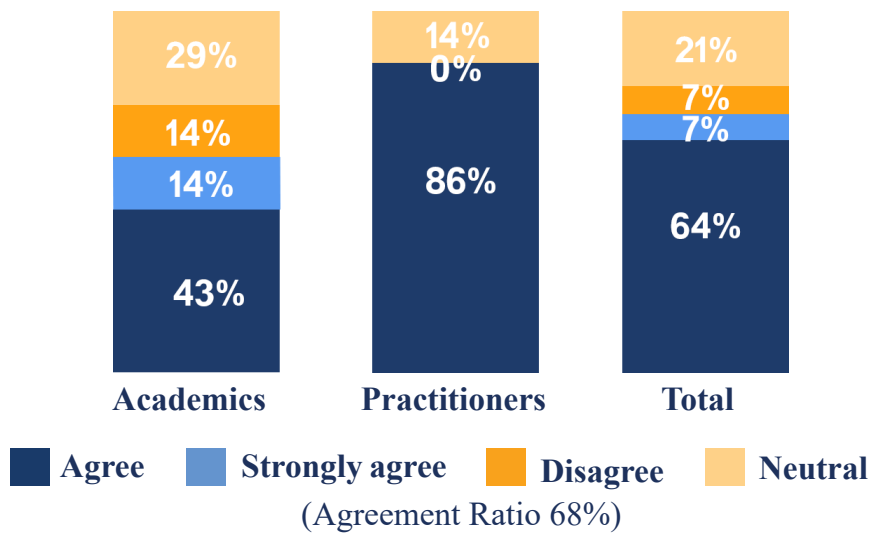


Fourth Aspect: International Financial Standards

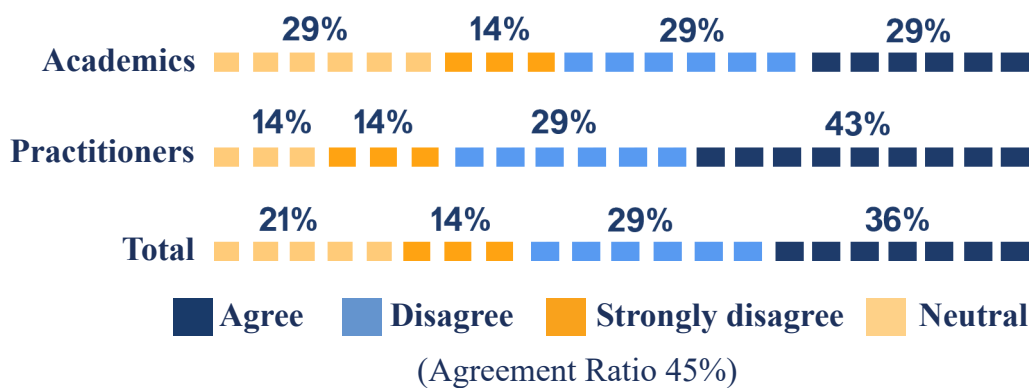
Banks adhere to the international financial standards



CBI monitors the adherence of banking institutions to International Financial Standards

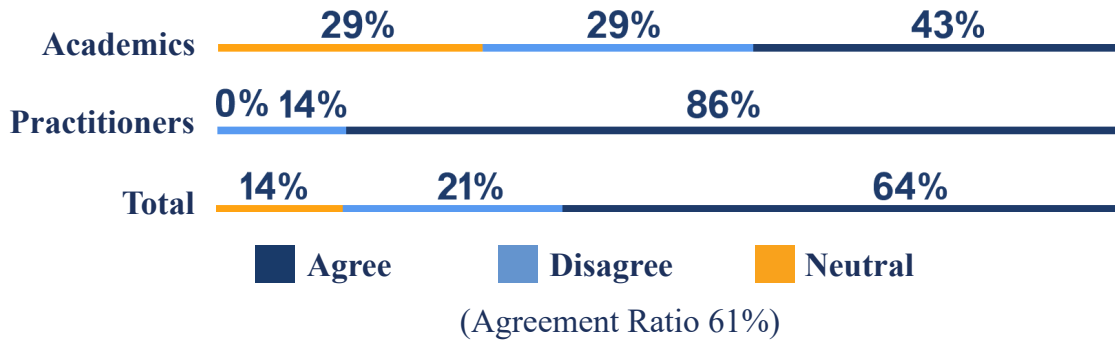


Banks have digitalized their services to a level comparable to regional countries

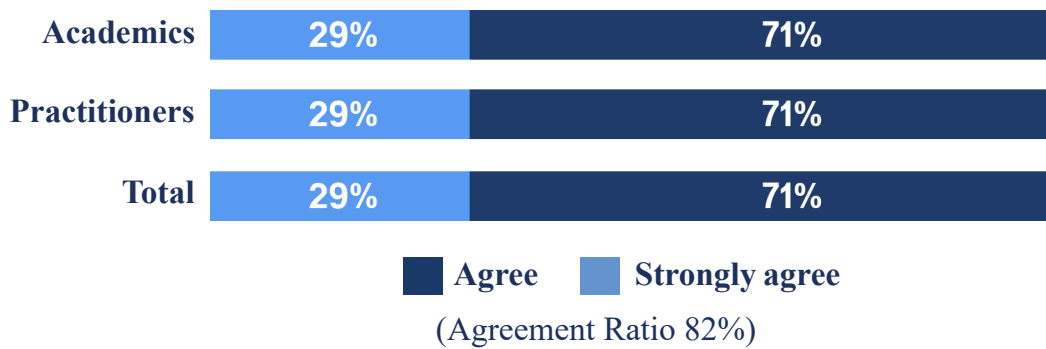


Fifth Aspect: Banking Oversight

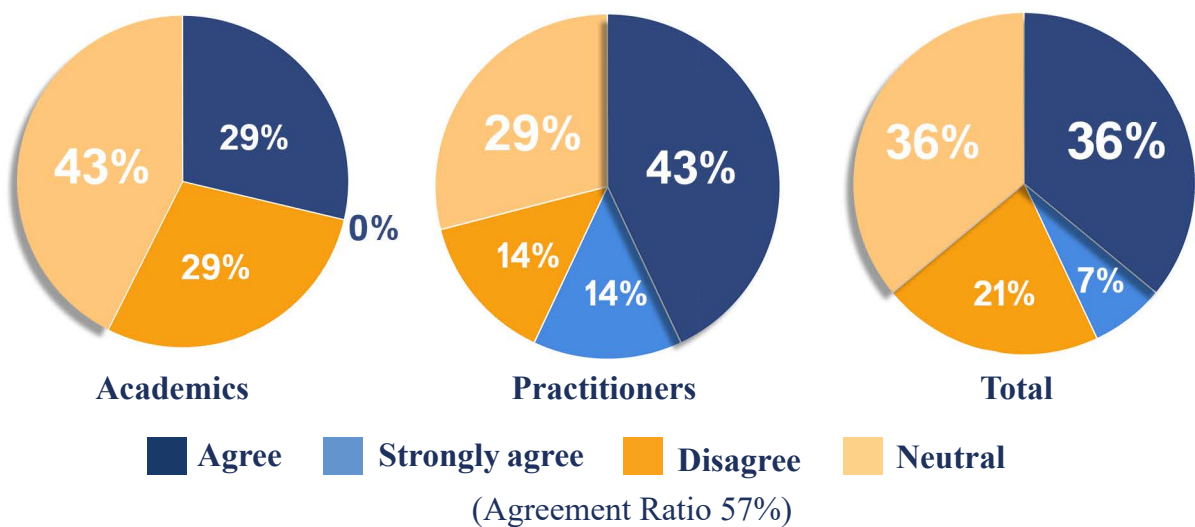
CBI oversight on banks achieves integrity and transparency

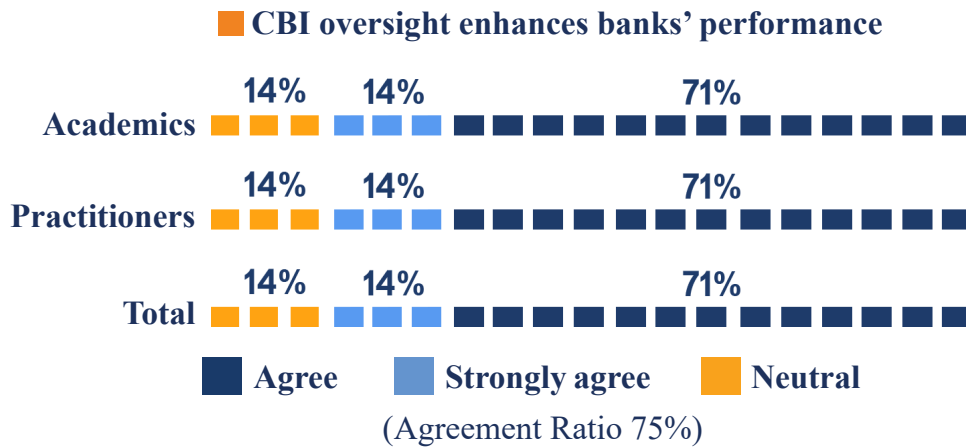


State-owned banks must be under the same level of oversight of private banks



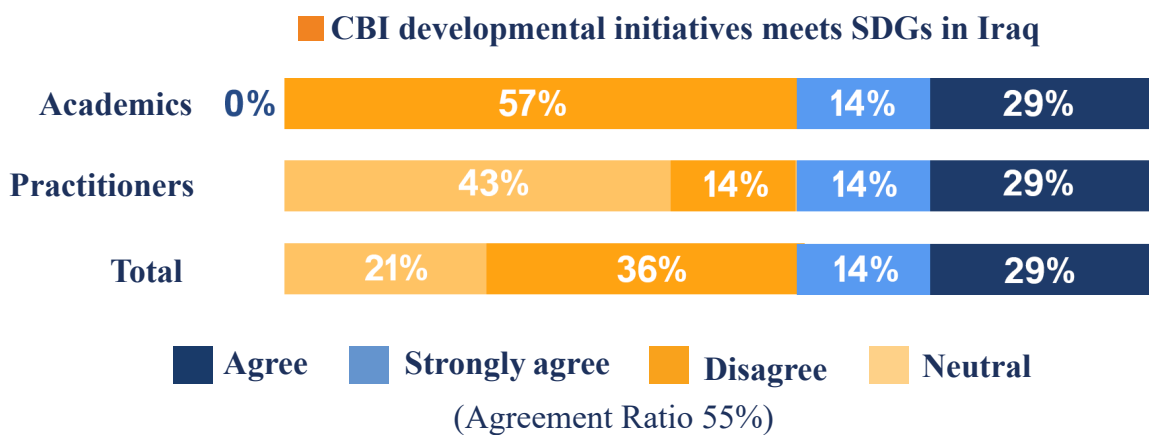
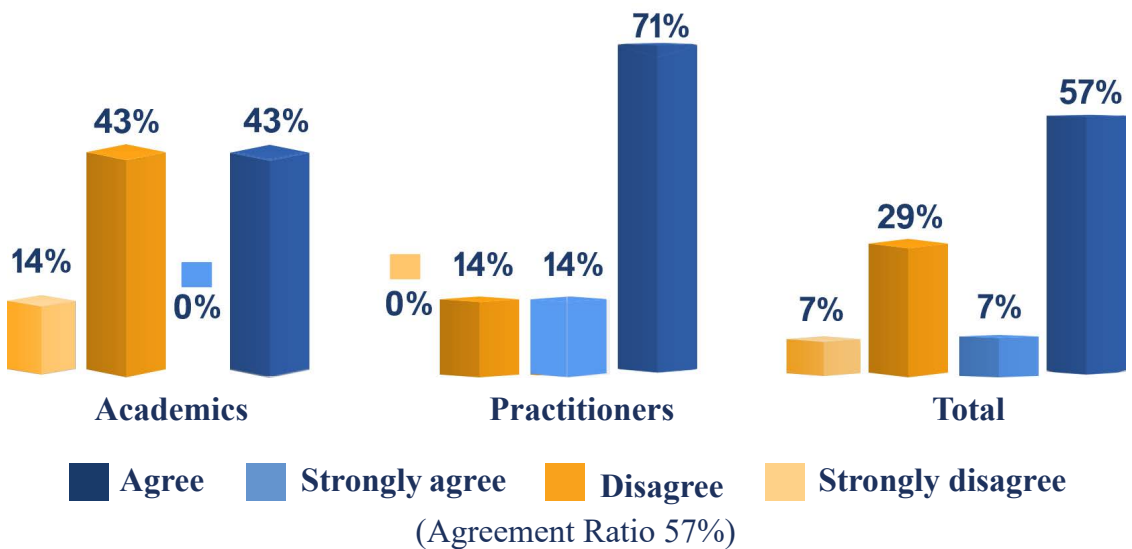
Oversight mechanisms meet international standards



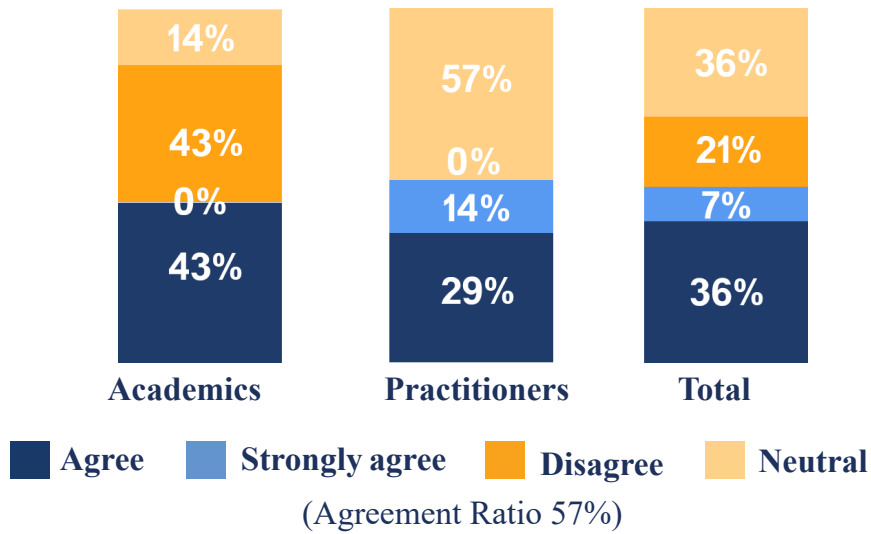


Six Aspect: Banking Developmental Role

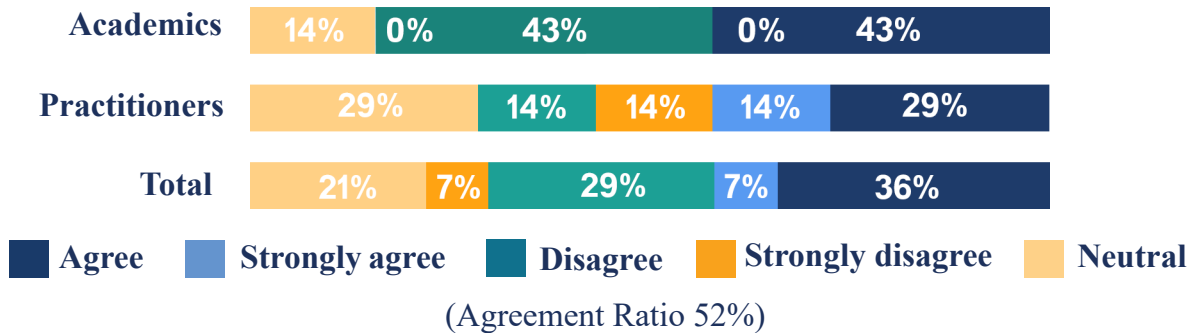
CBI developmental initiatives contributed to achieve economic development



CBI monetary policies established sustainable financing policies

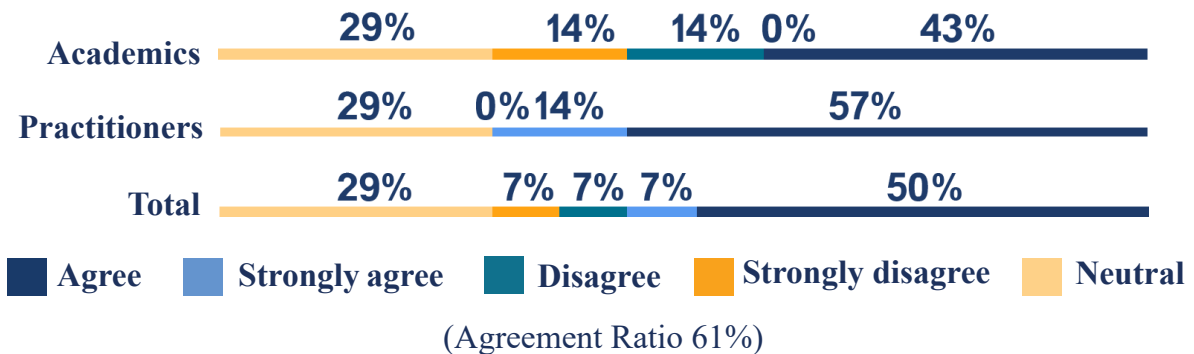


CBI monetary policies incentivize investment

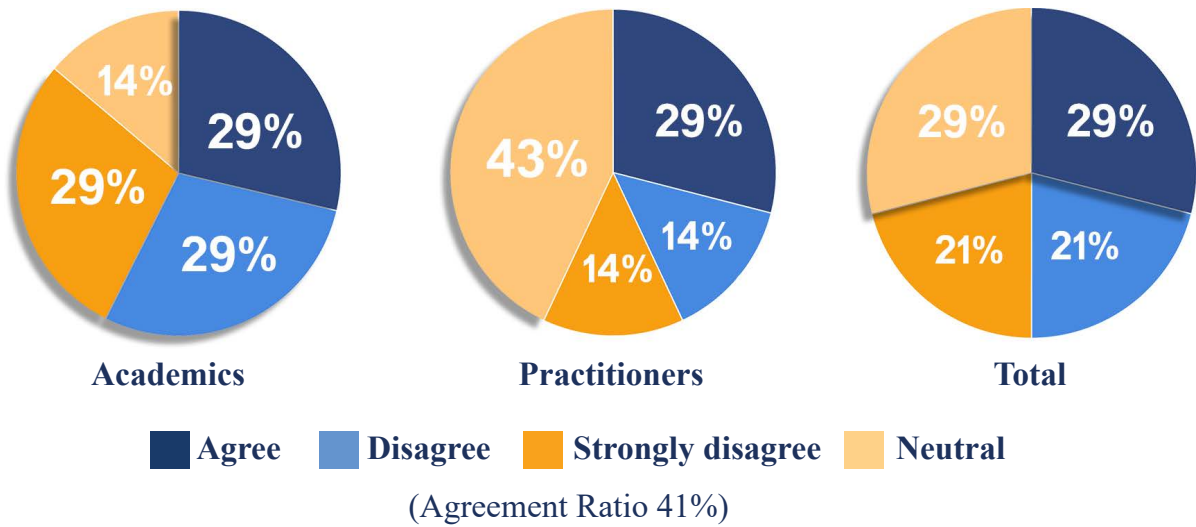


Seven Aspect: Independence

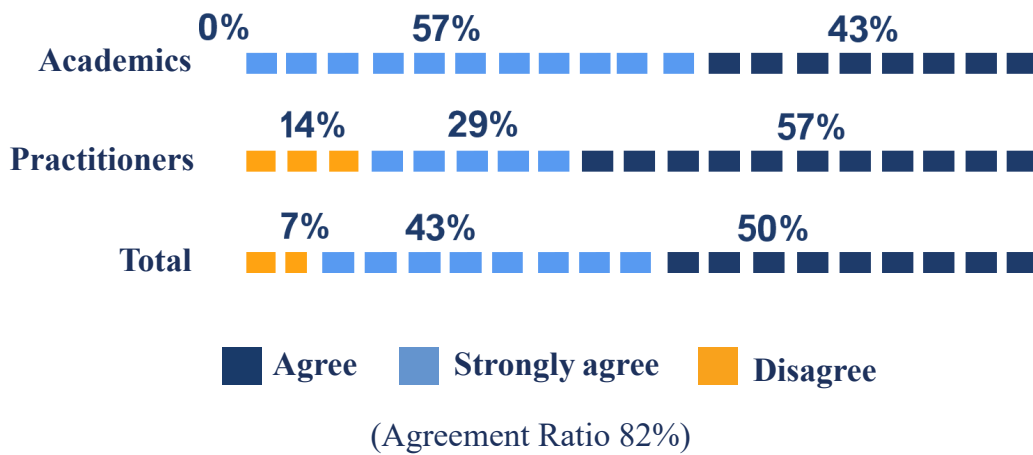
CBI law no. 65 of 2004 ensures its independence



CBI independence in appointing its governor is achieved in practice



CBI should have more independence in loaning the government



Names of Experts & Practitioner in the Assessment

Experts

- 1 ■ Dr. Maithem Laiby Ismael
- 2 ■ Dr. Ahmad Hamdi Alhussainy
- 3 ■ Dr. Salwan Hafud Hameed
- 4 ■ Dr. Sadiq Tuama Khalaf
- 5 ■ Dr. Ahmad Hamid Alhathal
- 6 ■ Mr. Mustafa Akram Hantoosh
- 7 ■ Mrs. Zahida Taha Ahmad

Practitioner

- Dr. Furart Lafta Majeed
- Dr. Mustafa Mohammed Ibraheem
- Mr. Aqeel Alansari
- Mr. Mustafa Qais Mahmood
- Mr. Yousif Farhan Abd Alhussain
- Mr. Saif Haider Abd Alzahra
- Banking sector practitioner, preferred to remain anonymous

Reforming the Banking Sector

Roundtable Discussion



- The Platform Center for Sustainable Development held a roundtable discussion to deliberate on reforming the banking sector in Iraq. The President of the Platform Center, Mr. Hashim Al-Rikabi, opened the session by welcoming the esteemed attendees and giving an overview of the center's most prominent activities and projects. Mr. Rikabi also touched on the efforts exerted by the Platform Center to realize its vision through various means that chiefly comprise holding sessions and dialogue with decision-makers and specialists to locate the anomalies in different sectors and provide the appropriate options and solutions accordingly.
- The session was moderated by the Director of Policy at the Platform Center, Mr. Raafat Al-Baldawi, who highlighted that the session draws its prominence from the prominence of the banking sector and its vital role in the economy. Mr. Baldawi outlined the rules and topics under discussion, including several dossiers such as banking supervisory, electronic payment (e-payment), encouraging private banks to invest, and restructuring the banking sector. The moderator then gave the floor to the specialists to speak.

Dr. Sattar Al-Bayati



Professor at the College of Business Economics/ Al-Nahrain University

Dr. Al-Bayati pointed out three topics that he views as critical to the reform of the banking and economic sector:



- **1- The Reality of the banking sector:** The (private) banking sector is predominantly family-owned; some families manage the banks and simultaneously hold the stocks. This issue poses a challenge for institutional governance, where the separation of management from ownership is seen as a key pillar. Moreover, the existing infrastructure also serves as a hindrance to the development of the banking sector. Although the localization of salaries had contributed to boosting financial inclusion in Iraq, it was also coupled with many technical issues, the most notable of which were the lack of Automatic Teller Machines (ATMs) and the inexperience of the personnel managing this transition.
- **2- Banking reform as a prelude to economic reform:** Reforming the banking sector is considered an overture to economic reform in prominent and vital sectors, such as the real estate sector, that will positively impact the development path.
- **3- The most important remedies for the banking sector reforms:** The topmost essential remedies to reform the banking sector include restructuring and downsizing public banks, as well as merging private banks to establish largescale banking entities that can address challenges in what is considered vital for a healthy banking sector.



Ahmed Al-Khazraji



Banking Expert

Mr. Ahmed Al-Khazraji believes that the entry of international banks into the Iraqi banking sector will contribute to the transfer of modern technology and improve the efficiency and performance of banking sector workers. Mr. Khazraji notes that foreign banks in Iraq are limited to Iranian, Lebanese, and Turkish banks, which have not contributed to developing the banking sector's performance since they are not further ahead in terms of experience and efficiency.

Ahmad Rafe



Researcher

Mr. Rafe' began by highlighting the following:

1. Specifying the identity of the Iraqi economy: is considered a priority for reforming the banking sector. It is widely believed that initiating a comprehensive reform process is not possible without clearly specifying the identity of the economy.
2. Reducing the role of the government in the banking sector: The Ministry of Finance manages the banks which account for the majority of the banking activity in Iraq, which is at variance with the principle of separation between the financial and monetary policies. Moreover, reducing the government's role in the banking sector could contribute to increasing the latter's activity and development.
3. Bank profits: should be generated from banking activities such as credit rather than through prompt returns from the foreign currency sale window, which has contributed to the establishment of a parallel banking activity that squandered the actual banking activity.

Dr. Sadiq Al-Bahadli



Professor at the College of Administration and Economics/ Mustansiriyah University

Banking Supervision: is a key pillar in reforming the banking sector. Such supervision of both public and private banks ought to be intensified. Additionally, the role of banks ought not to be limited to the distribution of salaries and foreign currency exchange. Instead, it should include financial intermediation between capital owners and investors to bring forth real development.

Dr. Mustafa Mohammad Ibrahim



Economic Researcher and Banker

Dr. Mustafa Mohammad Ibrahim highlighted a number of issues, including:

1. **The role of the Central Bank of Iraq (CBI):** is crucial to achieving banking reform since the CBI works on developing a mechanism to reform public banks. However, it is evident that the electronic services offered by public banks do not rise to the standard of the same services that private banks offer.
2. **The electronic platform (e-platform):** has no substitute at the moment since clients have begun to grow accustomed and responsive to it. Therefore, a substitute for the e-platform cannot be offered in the meantime, mindful that it is ad hoc and not permanent.
3. **Stimulating investment:** In the coming days, the CBI is expected to present a reform package to activate the role of private banks.

Dr. Abdul Rahman Al-Mashhadani



Professor at College of Administration and Economy/Al-Iraqia University

Dr. Abdul Rahman Al-Mashhadani highlighted a number of issues that are crucial

1. **Bank Restructuring:** ought not to be a gateway to phase-out the public banking sector and transform it into a private banking sector, especially since some of the institutions included in such a process constitute a vital part of the symbolism of the state and therefore cannot be discarded easily.
2. **The Reaction Policy:** is not suitable and cannot pave the way for reform, especially at the levels of financial and monetary policies, which are among the most sensitive policies. Accordingly, such policies should be dealt with in a strategic manner that takes into consideration all surrounding circumstances.
3. **The Legal Impediments Posed Ahead of Encouraging Banks to Invest:** The Banking Law No. 94 of 2004 –namely Article 28 of the Law, which prohibits banks from engaging in some aspects of investment and commercial activity– ought to be amended. In its current form, the Law represents a hindrance to activating the role of banks.
4. **Foreign Banks:** do not finance investment operations, nor do they contribute to development. However, these banks have been able to engage in less complicated activities, including financing the CBI's initiatives and engaging in currency exchange.

Dr. Salam Jabbar



Political Economy Consultant

Dr. Salam Jabbar highlighted a number of issues including:

1. **Banking Culture:** is an institutional and societal culture that cannot be created overnight; instead, it is the result of an accumulation of longstanding efforts and work.
2. **Banking Data and Digital Transition:** are negligible in most banks which represents the most noteworthy impediment to reform. The paper-based nature of data does not go in line with the ongoing worldwide development of the banking sector.
3. **The Absence of the Supervisory Role over Banks:** has prompted them to turn to activities that offer quick profit regardless of whether or not these activities contribute to the development process.
4. **Automation and Electronic Payment (E-payment):** Automation is crucial since providing access to banking services is the most significant step in reforming the banking sector. Nonetheless, the number of Automated Teller Machines (ATMs) is one for every 100 thousand citizens. Meanwhile, in neighboring countries, the number of ATMs is one for every 7 thousand citizens. It is pivotal that efforts are exerted to reduce this disparity.

Ahmed Sabeeh

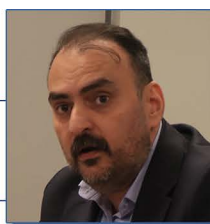


Professor at the College of Administration and Economics/ Mustansiriyah University

Dr. Ahmed Sabeeh shed light on three core issues that are crucial for reform:

1. **Quality of the Banking Performance:** The quality of the Banking Performance is much more significant than its quantity. When comparing the number of banks in Iraq to those in most countries, we notice that the former is much higher. However, when comparing the efficiency of the banks operating in Iraq to those in other countries, the underperformance of banking activities in Iraq becomes evident.
2. **Fundamental Banking Functions:** The basis of Banking Functions and the most significant among them is the acceptance of deposits and the granting of credit. The further away the banks are from these functions, the more problems they will face, and these problems are likely to cast shadows on the different sectors as well as the economy as a whole.
3. **Banking Integration:** is a cornerstone of the reform of the banking sector. It leads to the establishment of large-scale banking entities that can better perform tasks. Moreover, the presence of Al-Rafidain Bank and Al-Rasheed Bank in Iraq is very significant since they represent the sole recourse for the government to provide liquidity for various activities.
4. **The Business Sector:** represents a measure of the extent to which the banking sector is thriving. The more active and developing the Business Sector is, the more active the Banking Sector is as a result.

Mr. Manar Al-Obaidi



Banking Expert and Business Manager of Small Enterprises

Mr. Obaidi discussed a number of key indicators and issues:

- ”
- **1. Positive Indicators in the Works of the Private Banking Sector:** The deposits of the private banking sector saw a 48% increase between 2020 and 2022. Moreover, the size of assets in the possession of banks increased by 47% compared to last year. Although these are positive indicators, they are in no way a measure of good banking performance. In fact, banking activity ought to be compared to domestic production and its contribution to the latter. When comparing the size of assets to domestic production, we find that it only represents 32%, while in some Arab countries, it surpasses 91%.
 - **2. Oversight of the Works of Exchange Companies:** The banking sector has for years been functioning outside the systems controlled by the CBI. Some Exchange Companies engage in banking, namely offering financing and loans. Controlling this parallel sector will enhance banking. Of note, the CBI's new electronic platform has undermined the engagement of Exchange Companies in banking activities.
 - **3. The Need to Conduct Evaluations** of banks by the CBI to identify which of them are excelling and stand out from the others. Moreover, not all banks are performing poorly. Indeed, the performance of some banks is a match to that of international banks.
- ”

Mr. Nabil Al-Tamimi



Economic Researcher

- ”
- **The Electronic Platform** should be perceived as a significant asset that ought to be capitalized on to carry out fundamental reforms in banking rather than a barrier. Some consider that the banks were forced to look into expanding their activities in sectors beyond the foreign currency auction, which offers a guaranteed profitability environment that is solid and devoid of commercial activity risks.
- ”

Mr. Abdul-Hussain Al-Montheri



Banking Expert and Board Member of Al-Mashreq Al-Arabi Islamic Bank

Restructuring Public Banks: Mr. Al-Montheri explained that attempts to restructure public banks have been on the table since 2004. He added, the restructuring was anticipated to take place at three levels: The first level is restructuring finances, which entails relieving the banks from the international debts that are incurred by them as a result of international sanctions. The second level entails merging bank branches, departments and divisions, and introducing new units and branches. Finally, the third level is a strategic restructuring which comprises all of the operations which would lead to commercial works and reduce the reliance on the regular works of banks. Al-Montheri further elaborated that the reasons this restructuring has not been carried out include the lack of separation of the banks from the finance ministry. The Ministry of Finance and the public bank have control over the board of directors since 5 of its members are affiliates of the ministry and the bank, and only 2 members are not. The aforementioned weakens the internal governance of the bank. Therefore, amending the mechanism through which board members in public banks are selected would represent a major boost to their institutional governance.

Dr. Salaheddin Al-Imam



Professor at the Technical College of Management/ Middle Technical University

Comprehensive Banking



Dr. Salaheddin Al-Imam highlighted the need for a Comprehensive Banking process. He underscored that the banking sector ought to advance towards such a process, as in some countries such as Germany and Malaysia. Banks in these countries establish specialized companies and factories and sponsor them until maturity, after which the banks offer them for underwriting. Accordingly, the role of the banking sector would turn into an economic development and pioneering role. However, the Iraqi banking sector currently lacks such a role since the Banking Law prohibits such investments.

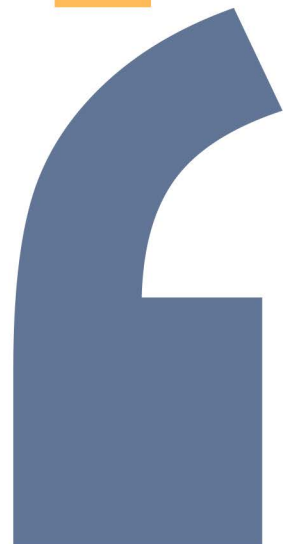
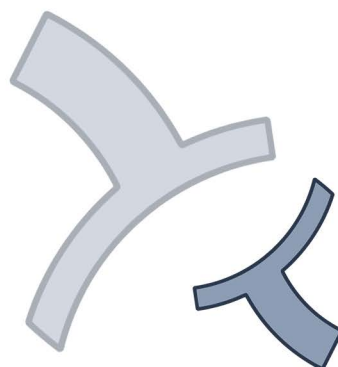


Dr. Falah Thwini

Professor at the College of Administration and Economics/ Mustansiriyah University & Head of the Economic Studies Department at the Bayt Al-Hikmah [House of Wisdom]

Dr. Falah Thwini highlighted two issues he believes are significant:

- 
- **1. Conflict between Fiscal and Economic Policies:** Dr. Falah Thwini believes that the financial aspect is the end result of economic activity. The outcome of agriculture, industry, and trade is money. Therefore, fiscal policies can neither be separated from nor conflicting with economic policies.
 - **2. Financing Development:** Dr. Falah Thwini asserted that Financing Development is one of
- 



Conclusions

- **1.Lack of Strategy**, there is no strategic document for reforming the banking sector; rather, reactive efforts, not planned, dominate the reform of the banking sector.
- **2.Weak Institutional Governance** resulting from the presence of family-owned banks and the finance ministry's control over the public banking sector.
- **3.Legal Challenges** which weaken the banking performance and undermine its activity in the market. Article 28 of Law No. 94 of 2004 hinders the banking sector's engagement in many aspects of investment.
- **4.Weakened Activity of Private Banks**; despite its advancement in comparison with previous years, the development of the activity of private banks is still weak and does not contribute to the development process.
- **5.Lack of Assessment**; the CBI has not carried out a recent comprehensive assessment for the banks operating in Iraq; this leads to a lack of clarity for the public and the clients of these banks. Moreover, it particularly weakens confidence in the private banking sector.
- **6.Inefficiency of Human Resources**; the human resources in the banking sector still lack efficiency –especially in the public banking sector– and require continuous upskilling and development that is in line with modern technological developments.
- **7.Need to Reform Public Banks**; a strong public banking sector is seen as a necessity, calling for solving problems facing them instead of considering their privatization, which is not a sound approach.
- **8.The Iraqi Banking Environment is Unattractive**, deterring international banks from entering it.
- **9.Weak Electronic Payment and Sales Methods**; despite the efforts exerted by both the government and the CBI to expand the electronic payment's scope of work, their prevalence and use remain limited compared to the country's population.

Recommendations

- **1.Devising a strategy** that is designed explicitly for reforming the banking sector. Such a strategy should include clear timelines, targets, and mechanisms.
- **2.Amending legal articles** relevant to forming the board of directors contained in the Private Companies Law No. 21 of 1997 and the Public Companies Law No. 22 of 1997 to enhance institutional governance.
- **3.Amending Banking Law No. 94 of 2004**, especially Article 28 of the Law, which prohibits banks from engaging in some aspects of investment.
- **4.Encouraging private banks to invest** by linking access to the foreign currency sale window to financing the economic sectors; this means that the extent of a bank's accessibility to the foreign currency sale window would be linked to its contribution to the financing of the economic sectors. The state should also enhance the lending banks' guarantee, especially in strategic projects which contribute to the development process.
- **5.Carrying out a periodic evaluation** of private and public banks and announcing its results to the public to boost confidence and transparency in the banking sector.
- **6.Allowing public banks to contract** with international staff who are professionals in electronic banking and technologies while continuing to focus on developing the existing human resources.
- **7.Expediting the administrative, financial, and strategic restructuring processes**, which ought to be sponsored by binding government decisions from the Council of Ministers
- **8.Establishing a banking and finance center** and creating an attractive organizational environment for banks. Additionally, cooperation agreements with some international banks should be inked while providing these banks with the facilitations they need.
- **9.Intensifying the marketing and awareness-raising efforts** relevant to electronic payment and sales services and providing the users of such services with additional benefits, including discounts on purchases and other marketing schemes adopted worldwide.



Statistics on PSDIraq

for the period 1/6/2020 – 1/6/2023

Items	Number
Programs	4
Activities	154
Beneficiaries	693
Training Days	55
Training Hours	311
Experts Sessions	24
Discussion Sessions	8
Papers Assessment Sessions	10
Decision Makers Sessions	15
Mentorship Session	48
Published Policy Briefs	41
Published Books	3
Trainers	8
Experts	27
Policymakers hosted	15

Platform Journal

Central Bank of Iraq

Stay tuned
for the upcoming issue on

Elections



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