



International  
Labour  
Organization

PROSPECTS



Kingdom of the Netherlands



► **ILO's Financial  
Inclusion Strategy in Iraq**  
An entry for decent jobs

Based on outcomes of financial inclusion  
study conducted by the ILO



## ► 1. ILO PROSPECTS and Financial Inclusion in Iraq

Within the framework of the Partnership for improving prospects for forcibly displaced persons and host communities (PROSPECTS), a programme funded by the Government of the Netherlands, the ILO's focus in Iraq is on supporting thousands of forcibly displaced persons and host community members to access more and better livelihoods and decent job opportunities. It is doing so through an integrated approach supporting market-driven skills training; improving public employment services; implementing labour intensive infrastructure projects; promoting financial inclusion and entrepreneurship with focus on supporting business start-ups and small, and medium-sized enterprises (SMEs).

As part of its efforts to support private sector development with a focus on financial inclusion and entrepreneurship, particularly for young Iraqis and forcibly displaced persons, the ILO is collaborating with different partners to enhance financial sector functioning and engagement in Small and Medium (SME) lending while addressing barriers for access to decent self-employment for forcibly displaced persons.

In this context, the ILO and the Central Bank of Iraq (CBI) joined forces and signed a cooperation agreement at the end of 2019 to devise a new financial inclusion model for SMEs in Iraq. Following extensive discussions and consultations with CBI, the Iraqi Company for Banking Guarantees (ICBG) and partner banks, the ILO and CBI will launch their joint financial inclusion initiative in March 2021, developed under the framework of the PROSPECTS partnership and the one trillion initiative.

## ► 2. Background and Key Findings

Based on a mapping study of Iraq's financial sector conducted during PROSPECT's inception phase and in close discussions and consultation with CBI and ICBG, the ILO developed an innovative collaboration model in response to the identified challenges in access to finance and within entrepreneurship ecosystem in Iraq. Key study findings included:

**Formal financial inclusion in Iraq is low. The population displays a strong preference for cash, due in part to a general distrust in the banking sector following decades of financial sector instability. According to Findex, the percentage of Iraqis with bank accounts grew from 11% in 2014 to 23% in 2017 (see Table 1, no data exists specifically for the Kurdistan Region of Iraq), but only 19.5% for women<sup>1</sup>.**

While salary payments (for both civil servants and private sector employees) are still often made in cash, rather than through commercial banks, **the fact that 19.1% of the population received a digital transfer in 2017 is promising<sup>2</sup>.**

The financial sector in Iraq is relatively small and dominated by state-owned banks, which accounted for about 90% of all assets and deposits in 2017. **Credit provided to the private sector amounts to less than 7% of GDP (against 55% on average in other MENA countries)** and is largely non-existent at the micro level. Access to credit is a huge barrier, with fewer than 5% of Small and Medium Enterprises (SMEs) in the formal sector having received bank loans <sup>3</sup>. Banks seem to adopt a risk-averse stand, including high levels of physical collateral requirements to SMEs, especially SMEs owned by displaced Iraqis.

**Table 1: Financial Inclusion Data, Iraq (Findex 2017)**

Formal financial inclusion, %	22.7%
Borrowed any money in past year (+15)	63.4%
Of these, from FSPs	3.1%
Of these, from family or friends	52.1%
Saved in the past year (+15)	31%
Of these, saved with an FSP	1.6%
Of these, saved with slfa/jama'iat/non-family (2014)	16.9%
Made/received digital payment	19.1%
Mobile money account (+15)	4.2%

<sup>1</sup> [https://www.unsgsa.org/files/3815/2511/8893/LDB\\_Financial\\_Inclusion\\_2018.pdf](https://www.unsgsa.org/files/3815/2511/8893/LDB_Financial_Inclusion_2018.pdf), p. 77.

<sup>2</sup> World Bank: KRI - Assessing the Impact, op.cit

<sup>3</sup> [https://assets.publishing.service.gov.uk/media/5b6d747440f0b640b095e76f/Inclusive\\_and\\_sustained\\_growth\\_in\\_Iraq.pdf](https://assets.publishing.service.gov.uk/media/5b6d747440f0b640b095e76f/Inclusive_and_sustained_growth_in_Iraq.pdf)



Access to finance and financial literacy are cited as major constraints faced by Iraqi entrepreneurs who also lack the basic financial knowledge to understand financial services. According to the Standard and Poor's (S&P) Global Financial literacy survey of 2014, the level of financial literacy of the adult population in Iraq is low (27%)<sup>4</sup>.

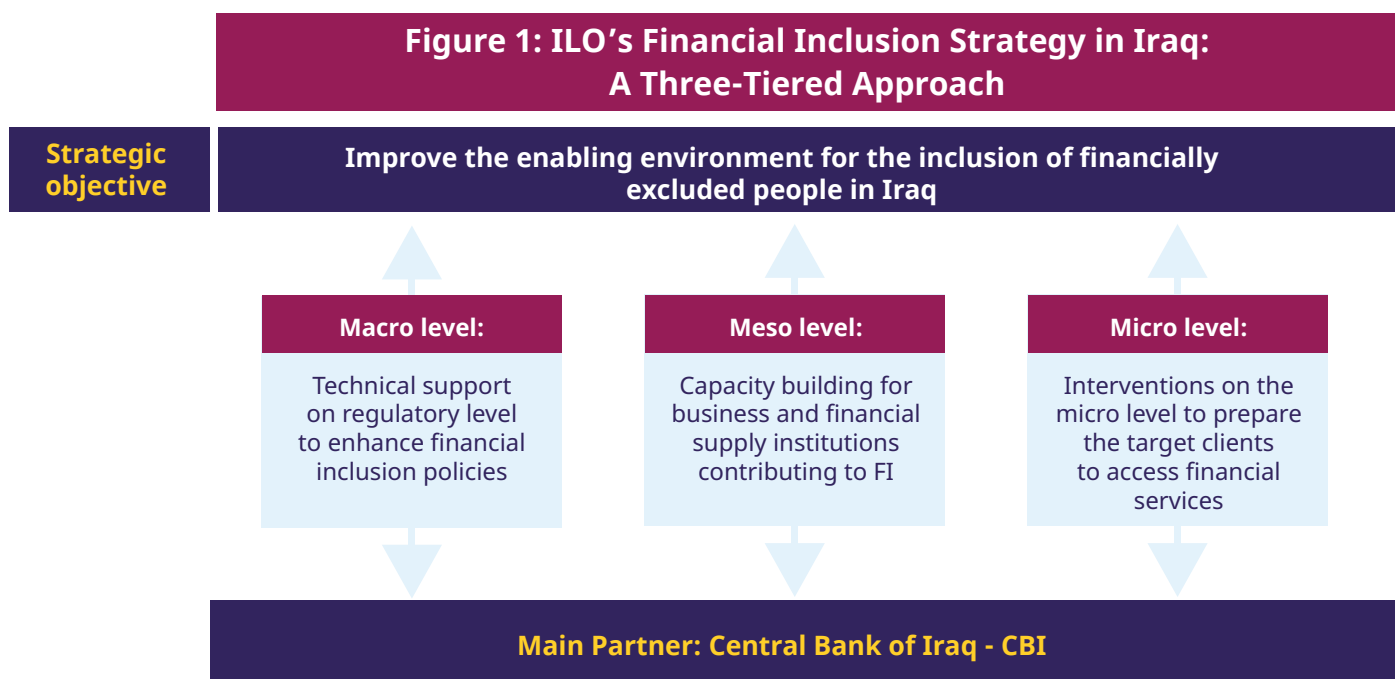
Meanwhile, the Iraqi microfinance industry comprises of 12 microfinance institutions (MFIs) that operated in all 18 provinces of Iraq until 2014, of which 8 remained operational after the conflict in 2015. **As of the end of August 2019, the six MFIs reporting to the Iraqi Microfinance Network (IMRI) served 80,211 active clients across Federal Iraq and the Kurdistan Region of Iraq, 30% of whom were women, and had an overall outstanding loan portfolio of USD 165.1 million** at an average outstanding loan balance of USD 2,059<sup>5</sup>. Impact of COVID on the operations of these MFIs is yet to be ascertained.

The Central Bank of Iraq (CBI) has launched a Strategic Plan for the period 2016-2020. Reflecting the National Development Plan, the CBI Plan includes a strategic objective on promotion of financial inclusion, with major focus pillars including financial education/literacy and support to the Microfinance sector in addition to digitization of financial services and development of related infrastructure. In line with this strategy, the CBI has established a unit for microfinance within the payment department<sup>6</sup>. In addition, the **CBI has established a Financial Inclusion Committee**, in which the President of the Iraqi Private Banks' Association and a representative of IMFI are members, **and which aims to address bottlenecks in the inclusive finance industry**.

In parallel, the study researched refugee's financial inclusion status and related laws and concluded **"Foreign investors including refugees are not banned legally from access to credit, bank accounts, opening a business, rather this is a widespread wrong perception"**. With the amended Investment Laws in 2016<sup>7</sup>, Foreign Born Residents (FBRs), including refugees, would also in principle have equal access to government credit schemes for SMEs, but this is not widely known or acknowledged.

### ► 3. ILO's Financial Inclusion Strategy: A Three-Tiered Approach

The strategy, which was developed in close collaboration with CBI, works on different levels of intervention indicated in Figure 1 below:



4 <https://gflec.org/wp-content/uploads/2016/02/Gallup-country-list-with-score.pdf>

5 Data made available from Iraq Microfinance Network to an ILO study on financial inclusion in Iraq, December 2019.

6 <https://rawabetcenter.com/en/?p=3150>

7 <http://investpromo.gov.iq/a-legal-guide-to-investing-in-iraq/>



The devised partnership model in Figure 2 works on three main levels: with the **demand** for, the **supply** of financial services as well as with the **regulatory** level with the aim to improve decent work outcomes:

1. At the **Micro level** (*demand side*): the ILO will train the targeted youth and businesses looking to grow or develop their businesses in business management; educate them on financial literacy topics to allow them to better handle their finances and relation with banks/financial institutions; then refer them to the nearest partner bank branch in their locality to access the needed financial services through the one trillion initiative, or in the case of refugees they will be referred to financial institutions to start and/or grow their businesses.
2. At the **Meso level** (*supply side*): the ILO will be providing capacity building and trainings to help banks, Microfinance Institutions to design products and services that fit sustainably the needs of this clients' segment. As well, the ILO is training business supply institutions, including partners of United Nations Children's Fund (UNICEF) to train their staff to sustainably continue to provide the needed skills development for the target clients, who will be then referred to access financial services.
3. At the **Macro/policy level** (*regulatory level*): the collaboration with the **regulator (CBI)** and the Iraqi Company for Banking Guarantees (ICBG), aims at leveraging the CBI's trillion initiative with ICBG's guarantees and PROSPECTS funded savings accounts for entrepreneurs to reduce the perceived financial risk and quick start a sustainable financial history between banks and entrepreneurs. In addition, the ILO will be working to provide CBI's financial inclusion committee with the technical support needed to enact/amend new and existing policies that enhance the financial inclusion in Iraq.

