

ANALYSIS OF THE INITIATIVES UNDERTAKEN BY THE CENTRAL BANK OF IRAQ TO ENHANCE FINANCIAL INCLUSION IN THE ECONOMY

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Abstract

Financial inclusion is a critical pillar for sustainable economic development, particularly in emerging and post-conflict economies such as Iraq. This study analyzes the initiatives undertaken by the Central Bank of Iraq (CBI) to enhance financial inclusion across diverse demographic groups and geographic regions. The research examines policy frameworks, regulatory reforms, digital financial services, financial literacy programs, and targeted interventions aimed at underserved populations, including women, youth, small and medium-sized enterprises (SMEs), and residents of rural and remote areas. Special emphasis is placed on the National Financial Inclusion Strategy (2025–2029) as a guiding framework for coordinated action. Using a qualitative analytical approach based on official reports, international partner assessments, and sector data, the study evaluates the effectiveness of CBI initiatives in expanding access to formal financial services, promoting digital payments, and strengthening consumer trust in the banking system. The findings indicate notable progress in account ownership, electronic payment adoption, and institutional capacity building, while also highlighting persistent challenges related to infrastructure gaps, financial literacy, and regional disparities. The study concludes that sustained regulatory reform, digital innovation, and inclusive policy implementation are essential for achieving comprehensive and equitable financial inclusion in Iraq.

Keywords: Financial Inclusion; Digital Financial Services; National Financial Inclusion Strategy; Banking Sector Reform; Economic Development;

INTRODUCTION:

Financial inclusion in the modern era is considered a cornerstone of building advanced economic systems. It is no longer merely a technical concept limited to opening bank accounts; rather, it has become a strategic necessity aimed at empowering individuals and institutions to access affordable and sustainable financial products—such as savings, credit, insurance, and payments—that meet their needs and are managed with responsibility and integrity. Its critical importance lies in its effectiveness as a tool for reducing social and economic disparities, combating poverty, and enhancing financial and monetary stability at the national level. In the Iraqi state, the financial and banking sector has faced complex structural and historical challenges. Since 2010, the Central Bank of Iraq (CBI) has embarked on a demanding journey to restructure the banking sector and transition it from a system heavily reliant on cash transactions (a cash-based society) to an integrated digital financial system. The period between 2010 and 2020 represents a pivotal decade in Iraq's economic history. It was marked by severe security and economic shocks; yet, at the same time, it served as a "laboratory" in which key reform initiatives were born, such as the salary localization (payroll digitization) project and initiatives supporting small and medium-sized enterprises.

This study seeks to analyze the pivotal role played by the Central Bank of Iraq in this context, with a particular focus on the demographic and geographic dimensions. Iraq is characterized by significant population and spatial diversity, which imposes specific challenges. Rural and remote areas suffer from weak banking infrastructure compared to urban centers, and clear gaps in financial access emerge between genders (women and men) as well as among different age groups.

The analysis of these initiatives does not aim merely to list achievements; rather, it seeks to assess "financial justice" in the distribution of these services and to understand the extent to which monetary policies and development initiatives are capable of overcoming social and geographic barriers. Ultimately, it examines whether financial inclusion can be transformed from an

institutional slogan into a tangible reality that affects the daily lives of Iraqi citizens—in Basra, Mosul, Anbar, and rural areas, as well as in urban settings.

Theoretical Framework and Analytical Reality of Financial Inclusion in Iraq (2010–2020):

Section One: Financial Inclusion (Concept, Importance, and Indicators)

Financial inclusion represents a fundamental shift in banking philosophy, transitioning from serving elite economic groups to targeting the broader base of society. The following subsections provide a detailed examination of its core aspects:

1. Concept of Financial Inclusion and Its Core Dimensions

Financial inclusion is defined as the state in which individuals and enterprises have access to useful, affordable financial products and services that meet their needs—such as transactions, payments, savings, credit, and insurance—delivered in a responsible and sustainable manner.

The World Bank and the Alliance for Financial Inclusion (AFI) identify three primary dimensions of financial inclusion: (World Bank, 2018)

- **Access:** This dimension refers to the ability of individuals to obtain financial services through the availability of formal channels, such as the number of bank branches, automated teller machines (ATMs), and point-of-sale (POS) terminals per 100,000 inhabitants.
- **Usage:** Access alone is insufficient; it is also essential to measure the extent to which individuals continuously utilize financial services. This can be quantified by the volume of deposits, frequency of withdrawals, and repeated use of credit or debit cards.
- **Quality:** This dimension emphasizes the suitability of financial products to meet consumer needs, the level of transparency, consumer protection, and the diversity of options available.

2. Economic and Social Significance of Financial Inclusion

The impact of financial inclusion extends beyond the banking sector to encompass macroeconomic and social dimensions: (AFI, 2011).

- **Enhancing Financial Stability:** By mobilizing cash holdings outside the banking system and channeling them into the formal economy, financial inclusion increases banks' capacity for lending and investment.
- **Poverty Reduction and Decreasing Income Inequality:** Financial inclusion enables low-income households and micro-enterprises to access affordable financing, shielding them from informal moneylenders and improving their income-generating opportunities.
- **Empowering Women and Youth:** It helps bridge gender gaps by providing women with financial independence and creates a fertile environment for youth to launch entrepreneurial initiatives through digital payment solutions.
- **Improving the Effectiveness of Monetary Policy:** When a large proportion of the population participates in the banking system, central bank tools—such as interest rate adjustments—become more effective in influencing consumption, savings, and inflation.

3. International Indicators for Measuring Financial Inclusion

International institutions, such as the International Monetary Fund (IMF) and the Global Findex database, rely on several quantitative indicators to assess the level of financial inclusion in a given country. Key indicators include: (World Bank, 2018).

- **Percentage of Adults with a Bank Account:** Considered the primary measure of financial access and service penetration.
- **Geographic Penetration Density:** The number of bank branches relative to population size and geographic area, a factor particularly relevant for applied studies in Iraq.
- **Digital Payment Usage:** The proportion of individuals who have made or received digital payments within a year, reflecting technological advancement in the financial sector.
- **Credit to Small and Medium-sized Enterprises (SMEs):** This indicator reflects the role of banks in supporting genuine economic development beyond routine commercial transactions.

The transition from "financial exclusion" to "financial inclusion" requires a concerted effort between the regulations enacted by the Central Bank and the technological infrastructure of banks. This will be discussed in the next section, which highlights the challenges of the Iraqi context.

Section Two: The Reality of the Iraqi Banking Sector and Structural Challenges (2010–2020)

The period between 2010 and 2020 witnessed dramatic transformations in Iraq's financial structure, during which the Central Bank had to manage a banking sector burdened by historical legacies while confronting severe security and economic crises.

1. Structure of the Iraqi Banking System and Distribution of Forces

During the study period, the Iraqi banking sector was characterized by a clear duality that directly affected financial inclusion efforts: (Sriram, 2018).

- **Public Banks:** Government-owned banks, led by Rafidain and Rashid banks, controlled the largest share of assets and deposits. Despite their wide geographic presence, they struggled early in the decade due to outdated technical systems and reliance on manual operations.
- **Private Banks:** The number of private banks grew during this period, offering greater flexibility in adopting modern technologies. However, they faced challenges related to public distrust and primarily focused on short-term commercial banking and currency exchange.
- **Islamic Banks:** Emerging as a new player, Islamic banks sought to attract a large segment of the population that avoided conventional banks for religious reasons, representing an important demographic dimension in financial inclusion.

2. Geopolitical and Security Challenges and Their Financial Impact

Financial inclusion efforts were not isolated from security and spatial realities; several obstacles emerged: (Rojas-Suarez, 2016). (Yoshino & Morgan, 2017).

- **2014 Crisis:** The occupation of large areas of Iraq by ISIS led to the closure of dozens of bank branches and a loss of confidence in the financial system in those regions, causing a sharp decline in geographic financial inclusion indicators.
- **Oil Price Shock:** Complete dependence on oil revenues made banking liquidity vulnerable to global market fluctuations, affecting the Central Bank's capacity to finance credit initiatives during austerity years.
- **Cash-hoarding Culture:** Iraqi society remained predominantly cash-oriented, with individuals preferring to store money at home due to low financial literacy and historical mistrust of financial institutions.

3. Digital and Geographic Gaps in Service Distribution

Before the expansion of digital initiatives, the geographic distribution of financial services suffered from significant distortions: (Islam, 2015).

- **Urban Concentration:** Most financial services, including branches and ATMs, were concentrated in Baghdad and major provincial centers (Erbil, Basra), while districts, subdistricts, and rural areas experienced a "financial desert."
- **Weak Electronic Payment Infrastructure:** Until 2015, point-of-sale (POS) terminals were nearly nonexistent, and card usage was largely limited to cash withdrawals, hindering the integration of youth and small businesses into the digital system.
- **Lack of Disaggregated Data:** At the beginning of the decade, the Central Bank faced a shortage of accurate data regarding gender gaps (women's access to financial services), making it difficult to design precisely targeted policies for each demographic group.

Diagnosing these challenges clarifies that the Central Bank of Iraq's initiatives, which will be examined in the next section, were not merely "technological luxuries" but rather "reform imperatives" aimed at rescuing the banking sector from both local and international isolation.

LITERATURE REVIEW:

- **Darrat, Topuz, and Yousef (2002)** assess the cost and technical efficiency of commercial banks in Kuwait using data envelopment analysis. Presented at the Economic Research Forum conference, their study finds variation in performance across institutions, influenced by factors such as size, ownership structure, and technology use. The research provides policy recommendations for improving banking sector efficiency and competitiveness. It contributes to empirical literature on banking performance in Gulf economies during financial sector liberalization.
- **Faruk, B.U., Haruna, A.I., & Maizare, K.M. (2024)** paper investigates financial inclusion and literacy among Persons with Disabilities (PWDs) in Funtua, Nigeria. The study highlights systemic barriers such as lack of accessibility, discrimination, and inadequate digital tools. It advocates for inclusive policy design, targeted financial education, and assistive fintech to improve PWDs' financial access. Findings underscore the need for disability-sensitive financial frameworks to ensure that inclusion efforts leave no one behind.
- **Fattah, S., & Nafisi-Moghadam, M. (2023)** study explores how oil sanctions affect financial market integration and interdependence, with implications for economic stability and financial inclusion. It finds that sanctions reduce cross-border financial flows and disrupt capital markets, especially in oil-dependent economies. The paper suggests that such disruptions can hinder inclusive financial growth and access to global financial systems. It recommends diversification strategies and the development of domestic financial infrastructure to reduce vulnerability and support long-term inclusive financial development under economic sanctions.
- **Stephen, G. (2022)** study explores digital financial literacy among Library and Information Science professionals in Northeast India. It reveals that while digital access is improving, gaps persist in understanding digital tools, cybersecurity, and

online financial services. The study recommends tailored training programs to bridge digital financial skill gaps among professionals. It emphasizes that enhancing digital literacy can empower individuals to manage personal finances effectively and promote wider financial inclusion in semi-urban and rural Indian communities.

What Distinguishes the Present Study (Value Added):

The significance and distinctiveness of this study stem from its serious academic attempt to integrate institutional analysis with on-the-ground realities within an economically unstable environment. Its added value, compared to previous studies, can be highlighted through the following key aspects:

- **Thematic Comprehensiveness:** Unlike studies that address financial inclusion from a narrow perspective (such as financial literacy alone or bank performance), this research adopts a panoramic approach that links *Central Bank initiatives*—as both a regulatory and executive authority—with *field-level outcomes* across demographic and geographic segments. This provides a holistic understanding of the financial inclusion cycle.
- **Geopolitical Specificity (Conflict and Transition Environment):** The study is distinguished by examining financial inclusion in a *high-risk environment* marked by severe security and economic fluctuations during the period (2010–2020). It analyzes how monetary policy can succeed in promoting financial inclusion amid challenges such as displacement, oil price volatility, and weak infrastructure—a context that differs substantially from the stable settings addressed by most international studies.
- **Focus on Distributive Justice Dimensions:** The research uniquely emphasizes the *spatial and demographic gap*. It goes beyond merely tracking increases in the number of bank accounts to analyze *where* these increases are geographically concentrated and *who* benefits from them demographically. This sheds light on the concept of equity in access to financial services.
- **Coverage of a Digital Transformation Decade:** The study covers a pivotal time period marked by the gradual transition from a cash-based economy to the early stages of *financial digitization* and payroll localization in Iraq. As such, it serves as an evaluative study of a historical transitional phase whose features were not fully captured in earlier research.
- **Applied Orientation:** The research does not stop at theoretical discussion; rather, it seeks to present quantitative and analytical indicators derived from Central Bank of Iraq data. This approach transforms the findings into *policy-oriented recommendations* that decision-makers can use to develop future national strategies.

RESEARCH PROBLEM:

The research problem lies in the existence of a gap between the initiatives launched by the Central Bank and the actual levels of citizens' access to financial services. This problem can be formulated through the following main research question:

"To what extent were the initiatives of the Central Bank of Iraq during the period (2010–2020) effective in reducing the spatial and demographic gap in financial inclusion?"

From this main question, the following sub-questions arise:

- Did these initiatives succeed in reaching rural and underserved areas?
- What was the impact of financial technology (FinTech) on enhancing these initiatives?

The study is based on secondary data collected from various policy documents from Iraq.

RESEARCH OBJECTIVES:

This research seeks to achieve the following objectives:

- To identify and document all initiatives launched by the Central Bank of Iraq between 2010 and 2020.
- To analyze the geographic distribution of financial services (bank branches and ATMs) in order to assess the extent of spatial equity.
- To identify the obstacles that hindered the achievement of full financial inclusion during that period.

RESEARCH LIMITS:

- **Spatial Limits:** The study is confined to examining the initiatives and policies issued by the Central Bank of Iraq and their implementation within banks operating inside Iraq.
- **Temporal Limits:** The study covers the period from 2010 to 2020, a critical timeframe that includes the initial shift toward banking modernization, the "ISIS" crisis, and the launch of the National Financial Inclusion Strategy.

ANALYSIS AND DISCUSSION:

Section one: Analysis of the Central Bank of Iraq's Strategic Initiatives (2010–2020)

During the study decade, the Central Bank of Iraq (CBI) transitioned from the role of a "regulator" to that of an "economic catalyst" by launching a series of initiatives aimed at breaking the barrier of isolation between citizens and the banking system. These initiatives can be analyzed through the following axes:

1. The “Salary Localization” Project (Transition to Inclusive Banking)

The salary localization project for public sector employees is considered one of the most significant historical steps taken by the CBI to enhance financial inclusion demographically: (Njuguna, 2015).

- **Mechanism:** Government institutions were mandated to transfer employee salaries from manual cash payments to bank accounts using electronic cards (MasterCard and Visa).
- **Demographic Impact:** This project successfully integrated millions of employees into the banking system, significantly increasing the percentage of account holders in Iraq.
- **Stimulating Competition:** Employees were allowed to choose their banks freely, motivating both public and private banks to improve services (loans, advances, mobile applications) to attract this large cash inflow.

2. Credit Initiatives (One-Trillion and Five-Trillion Dinar Programs)

To promote financial inclusion from the perspective of “financing,” rather than merely “depositing,” the CBI launched major credit initiatives: (Chakravarty & Pal, 2010).

- **One-Trillion Dinar Initiative:** Targeted support for small and medium-sized enterprises (SMEs), a vital demographic including youth and graduates, by providing low-interest loans and simplified guarantees through the Iraqi Credit Guarantee Company.
- **Five-Trillion Dinar Initiative:** Directed at specialized banks (agricultural, industrial, real estate) and the Housing Fund to stimulate the economy in housing and production sectors, thereby facilitating financial access to diverse geographic areas, including deprived and underdeveloped provinces.

3. Development of Electronic Payment Systems and Digital Transformation

The CBI focused on building the infrastructure necessary to improve geographic access to financial services: (Ibadoglu, 2018).

- **Electronic Clearing System (ACH) and Real-Time Gross Settlement (RTGS):** Enabled fast and secure transfers between banks, reducing reliance on cash for large transactions.
- **Promotion of Card Usage and Point-of-Sale (POS) Terminals:** Issued regulations to facilitate the acquisition of electronic payment devices in commercial centers and government institutions (e-collection).
- **Establishment of “Iraq Gateway” for Electronic Payments:** Supported mobile operators to enter the mobile money sector, a critical tool for financial inclusion in areas lacking bank branches (geographic access).

4. National Financial Inclusion Strategy and Establishment of a Dedicated Department

At the end of the decade, the CBI consolidated its efforts by establishing a specialized Financial Inclusion Department and began drafting the “National Financial Inclusion Strategy,” aiming to: (Iftikhar & Al-Raffi'i, 2020).

- Promote financial literacy among school and university students.
- Enhance consumer protection to increase trust in the banking sector.
- Require banks to submit periodic reports on financial inclusion rates, disaggregated by gender (women) and geographic distribution.

These initiatives represented a “quiet revolution” in Iraq’s financial system. The relationship between the Central Bank and citizens expanded beyond physical cash to encompass bank accounts, smart cards, and developmental loans, fundamentally transforming the financial landscape.

Section two: Development of digital Inclusion for financial inclusion in Iraq (2010–2020):

This section of the study, analysed the report issued by the central bank of Iraq, which reflect the realities of the Iraqi economy in terms of development of digital indicators for financial inclusion during study period. The following table shows the growth from 2010 to 2020.

Table-1 : Development of digital Inclusion

Year	Number of bank branches (per 100,000 adults)	Number of Automated Teller Machines (ATMs)	Number of points of sale (POS)	Number of active e-wallets	Access rate in rural areas (%)
2010	3.2	310	120	0	2%
2011	3.4	380	145	0	2.5%
2012	3.8	420	190	0	3.1%
2013	4.1	490	230	0	3.8%
2014	3.5*	450	210	5	3.0%
2015	3.7	510	340	25	4.5%

2016	4.2	680	620	120	6.2%
2017	4.8	890	1,1	450	9.5%
2018	5.3	1,15	2,4	1,100,000	14.8%
2019	5.9	1,42	3,8	1,950,000	19.2%
2020	6.4	1,75	5,2	3,200,000	24.5%

Source: Reports from the Central Bank of Iraq

From the above table-1, it is found that:

1. The number of bank branches has doubled between 2010 and 2020.
2. Due to the increasing number of bank branches in Iraq, there is a need to increase the number of ATMs. This has led to an annual increase in the number of ATMs, determined according to the percentages allocated to each bank branch and the number of its customers.
3. Increased awareness of electronic payments has led to a rise in the number of users, which in turn has created a need for more electronic payment devices (pos).
4. Increased awareness of electronic payments has led to an increase in the number of users of electronic wallets.

CONCLUSION:

- **Policy-Driven Progress:** The study confirms that financial inclusion in Iraq is a direct outcome of CBI interventions rather than organic market growth.
- **Tech-Led Inclusion:** FinTech and mobile wallets proved to be more effective than traditional banking in overcoming geographical barriers in rural and liberated provinces.

Recommendations:

- **Targeted Rural Expansion:** Future strategies should focus on districts and sub-districts to bridge the "Digital Divide" between urban and rural areas.
- **Inclusion of the Informal Sector:** Developing incentives for freelancers and private-sector workers to integrate into the formal financial system.
- **Digital Literacy & Security:** Launching nationwide awareness campaigns focusing on cybersecurity to enhance public trust in digital platforms.

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