

Strategic Plan (2016 – 2020)

Annual Report for the year 2020

Governor's Speech

The strategic plan of the Central Bank of Iraq for the years (2016-2020) comes as a continuation of this bank's quest to achieve its vision and objectives by maintaining monetary and financial stability and an effective payment system.

This strategy has been prepared to reflect the central role of the Central Bank of Iraq to contribute to the achievement of sustainable development goals, which are activated through the roles it plays, including managing monetary policy with the aim of maintaining the stability of the general level of prices and providing an appropriate interest rate structure that contributes to providing an attractive and stimulating investment environment for economic activity. The Central Bank is also responsible for maintaining the integrity and efficiency of the payments system.

Based on the foregoing, the strategic plan frames the efforts of this institution in increasing financial inclusion, keeping pace with major developments in the use of financial technology, and ensuring leadership in the industry of this field in banks and financial institutions by increasing credit granted to the private sector, as well as providing support and financing for small and medium enterprises and providing various services for other financial institutions, which indicates the vitality of the plan and those working on its implementation from the Central Bank's formations for their efforts in preparing this report.

The Central Bank of Iraq believes in the importance of institutional work through strategic planning as an approach that helps to sustain and ensure the achievement of strategic goals. This strategic plan came to represent a quantum leap in institutional performance and a continuation of achieving sustainable future economic growth to ensure a vibrant and diversified financial sector that has the flexibility to face unexpected risks and negative developments.

In conclusion, we highly appreciate the efforts of the Comprehensive Quality Management section and Institutional Development Department in following up the implementation of the plan and submitting continuous reports and in preparing this important report.

Introduction

The Central Bank of Iraq played a key role in managing the economic process in Iraq through various monetary policy tools and achieving sustainable development and the strategic objectives of its plan for the years (2016-2020), through which it achieved high completion rates for projects and sub-goals that serve to achieve the strategic objectives set forth below:

The first strategic objective: Support and achieve financial stability.

The second strategic objective: Develop and strengthen the banking sector.

The third strategic objective: Developing the organizational structure of the central bank.

The fourth strategic objective: Developing the human capital of the central bank.

The fifth strategic objective: Activating and integrating the internal and external relations of the central bank.

The Central Bank was able to provide continuous support to the Iraqi economy by activating the economic reality and supporting banks' liquidity through financing small, medium and large projects, providing support to various economic sectors, restoring confidence in the banking sector, focusing on total quality management and institutional development by adopting international standards in structural developments, and continuous development of the use of electronic payment systems and information technology.

In this report, we review the projects completed during the year (2020) and according to the five strategic objectives contained in the Bank's strategic plan (2016-2020).

The first strategic objective: Support and achieve financial stability

Protect the financial system

- In order to keep pace with the technical development in the field of combating money laundering and preventing the financing of terrorism, as it was agreed with the United Nations Office on the installation site of a server for the purpose of creating a database that is accredited as a national center to collect, analyze and circulate that information about possible laundering and terrorist financing and to develop means to facilitate the task of the Judicial authorities and other authorities concerned with implementing the provisions of Law (39) of 2015 (2015), as the terms of the contract on infrastructure supply have been finalized with the competent departments of the Central Bank.
- An increase in the number of reports of suspicious activities from the previous year, and the result of this increase is an increase in the activity of the Money Laundering and Terrorist Financing Office through educational workshops in the field of combating money laundering and terrorist financing with law enforcement agencies, the General Customs Authority, banks, electronic payment companies, financial transfer companies.
- Preparing scenarios for money laundering and terrorist financing systems for electronic payment companies and merged exchange companies.
- Diagnose and identify the weaknesses of electronic payment companies (e-wallets, e-cards).
- Preparing the "know your customer" form for electronic payment companies.
- Participate in the issuance of due diligence controls for goldsmiths and gem dealers.
- Participate in the issuance of due diligence controls for auditors.
- Issuing a guidance paper on the risks of money laundering and terrorist financing related to the spread of the emerging corona virus.
- Based on the decision of the twenty-seventh general meeting of the Financial Action Task Force for the Middle East and North Africa, which was held in the (April 2018), which included the exit of the of Iraq from the follow-up process to updating every two years, the office submitted the first update report submitted to the Financial Action Task Force for the East The Middle East and North Africa (MENAFATF), which was discussed at the thirty-first general meeting, as the report focused on the most important developments taken by Iraq during the past two years. This paper shows the most important legislative and regulatory developments and the importance given to training and capacity building at the national level in the field of combating money laundering. The report also shows the activities of the Financial Intelligence Unit (Anti-Money Laundering and Terrorist Financing Office), as well as the extent of close national and international cooperation. The report also reviews the efforts of the regulatory authorities in the field of supervision and oversight of the financial sector and developments in the sector of specific non-financial professions and businesses, as well as the latest developments regarding the national assessment process for the risks of money laundering and terrorist financing.

Financial Inclusion Enhancement

Financial inclusion is the main reason for economic growth as it works to achieve financial stability by enhancing the access of finance and financial services to segments of society, paying attention to issues of financial education and awareness of financial services and supporting micro, small and medium enterprises, as the Central Bank has done the following:

- Settlement of salaries (2076) spending units (self-financed and centrally), a subsidiary accounting unit in accordance with the instructions and regulations issued.
- Settlement the salaries of (867589) government employees in the year (2020), bringing the total number to (1861129) up to (December 2020), in addition to the settlement of the entitlements of (608,955) beneficiaries of the National Public Retirement Authority in accordance with Resolution (270) issued by the General Secretariat of the Ministers Council .
- Creating and adding (4) banks to the list of banks approved by the bank in the salary settlement project, bringing the total number to (32) banks, (6) government banks, and (22) private banks, in addition to (4) branches of foreign banks.
- Concluding agreements with the National Retirement Authority and maintaining the same bank account for the employee when referring him to retirement and transferring his financial obligations by virtue of the law to his pension according to the circulars numbered (23/515 and 23/770) on (10/3/2020 and 5/19/2020) for banks participating in the salary settlement project.
- Three companies were granted a license to operate as an electronic payment service provider by the Central Bank (Ishtar Gateway Company and Ariba Iraq Company) as an electronic payment service provider via cards and (Fast Payment Company) to operate as a mobile payment service provider.

In order to enhance and integrate the axes of financial inclusion in Iraq through the Central Bank's initiative represented by (6) trillion dinars to finance small, medium and large projects, the grants for the end of the year (2020) are represented by the following:

Regarding the 1 trillion initiative: -

(33) Banks has been granted an amount of (205,672,773,235) dinars (two hundred and five billion, six hundred and seventy-two million, seven hundred and seventy-three thousand, two hundred and thirty-five dinars).

- Allowing to enhance the liquidity of projects that were previously funded from the "One Trillion" initiative, with an amount not exceeding (5) million dinars, and according to what was stated in the circular numbered (1036) dated (6/29/2020), as this does not entail strengthening Loan guarantees based on the project guarantees themselves, and then restructuring the loan installments for a new year with zero interest or in return for simple administrative commissions.

Reducing the interest previously imposed on borrowers and administrative commissions on banks, as well as the interest rate of the banks and the guarantor company, so that the proposed total interest amounted to (3.5%) for the financing amount (1-20) million dinars, thus bringing the proposed total interest at (4%) (Concerning the amount of financing (21 million-1 billion) dinars, increasing the amount of the first tranche to (20) million after it was (15) million, with the reduction of the Central Bank commission to (5) per thousand after it was (7) per thousand, according to circulars no. (6 /5/1036) dated (06/29/2020).

Inclusion of the residential sector at the initiative of the Central Bank of Iraq (1) trillion dinars, so that the ceiling of housing financing becomes (100) million dinars for one loan, and the repayment period becomes (15) years, according to what was stated in the circular numbered (6/5/1376) dated (26/ 8/2020).

Granting facilities to citizens wishing to purchase bus cars (11) passengers and above and production cars in accordance with the controls and increase the percentage of these facilities from (20%) and does not exceed (40%) of the total amount of one advance granted to the bank and according to what was stated in our circular number (6/ 5/1627) dated (20/9/2020).

It was decided to include advances allocated to financing the housing sector by increasing it to (2) billion dinars instead of (1) billion dinars, according to what was stated in the circular No. (6/5/1447) dated (6/9/2020).

As for the (5) trillion initiative, the funding was as follows: -

Financing the Agricultural Bank in amount of (2,397,280,000) dinars.

Financing the real estate bank in amount of (35,000,000,000) dinars.

Financing the Industrial Bank in amount of (17,470,000,000) dinars.

Financing the Housing Fund in amount of (200,000,000,000) dinars.

- The term of the loan (the Housing Fund) was extended to (15) years pursuant to Board Resolution no. (150) for the year (2020), and the (Real Estate Bank) loan period was extended to (15) years according to the approval of the senior management.

- In light of the economic crisis caused by the Corona pandemic, coinciding with the drop in oil prices, and in an effort by this bank to finance the financial deficit in the state's general budget, treasury transfers were deducted in favor of the Ministry of Finance in amount of (26,327,000,000,000) dinars.

Managing foreign reserves

To manage foreign reserves, the Central Bank during the year (2020) did the following:

- Increasing investment in deposits by creating new deposits to maximize annual returns, as the operations of deposit renewal and converting foreign currencies into US dollars were carried out using the (FXT) electronic platform instead of the indirect method and on this basis the best interest rates and currency exchange rates were obtained after negotiating with the correspondents between the initial price offered by the reporter and the market price, the total difference in the realized returns amounted to (4,454,509.84) dollars (four million four hundred and fifty-four thousand five hundred and nine US dollars and eighty-four cents) during the year (2020).

- Investment in Islamic cheques increased by 16%, as investments in this financial instrument increased from (2.5) billion US dollars in (2019) to (2.9) billion US dollars in (2020).

Increasing the volume of foreign reserves

- The Central Bank has achieved alternative investment opportunities and opened relationships with financial institutions with record returns compared to the interest rates prevailing in the market despite the deterioration of interest rates globally to unprecedented levels approaching (0%) as a result of the outbreak of the Corona epidemic, and then reducing the decline in returns to (26.03) %, as returns of (974,430,640.66) dollars (nine hundred and seventy-four million four hundred thirty thousand six hundred and forty US dollars and sixty-six cents) were achieved.
- Increasing investment in bonds by creating new bonds to maximize annual returns, issued by central banks, commercial banks and financial institutions.

The second strategic objective: Develop and strengthen the banking sector

For the purpose of developing and regulating the work of the banking sector and financial institutions and increasing their economic activity, the Central Bank has done the following:

- Enhancing disclosure and transparency in the banking system, as the bank worked to oblige banks to apply International Accounting Standard (9) and financial disclosure, and the banking sector had to provide all information related to the services and products it provides to its customers, provided that this information is clear, easy to understand, simple and accurate, to ensure informing customers of the advantages and risks, without resulting in any kind of misleading, provided that customers do not bear any trouble in obtaining these services, and banks must include the information they provide to customers with a clarification of the rights and responsibilities of customers and details of prices, commissions and fees charged by each bank for each service or a product, clarifying the advantages and risks associated with it, the mechanism for ending the relationship and its consequences, in order to make it easier for customers to make their decisions and to provide correct and accurate information about their conditions to banks, and banks were also obligated to create an electronic window for User contacts according to Circular no. (9/6/68) on (12/2/2020).
- The actual launch of the credit inquiry system (CBS on (1/11/2020), which is linked with all banks operating in Iraq, as the credit inquiry process is directly by the banks to their customers and their guarantors.

Uses of capital and measurement of net accrual

- Based on the decisions of the Board of Directors of the Central Bank of Iraq no. (154, 170) for the year (2020), an advanced examination process was conducted on the assets side of the financial position of the banks to verify that these investments do not include inflated balances and to reach sound and accurate financial positions compatible with the minimum capital set by laws and instructions.
- The examination process was carried out in accordance with international best practices in this regard by extracting the assets at fair value after excluding the deficit balances classified under the assets side so that the extracted results are employed within accounting equations that will diagnose the percentages of the realized capital losses.

- On-site detection was conducted on projects financed by banks to verify the actual existence of these projects and to measure the impact of the banking sector in supporting economic development.
- The above examination process carried out during this year so far has included (27) banks, and the examination process is still ongoing to include all banks operating within the Iraqi banking sector.
- The amounts of deficits that occurred on the assets side of the banks that were subject to the audit process were determined and the capital losses realized in the banks' capital were calculated, with the request of the boards of directors of the banks and their major shareholders to cover the amounts of the deficit in the capitals to avoid the erosion of the capitals that represent the defensive line in potential financial crises and then maintain the public's deposits.
- Banks have started to cover the deficit amounts identified in their capital to avoid reducing their capital, according to the audit results reported to them, and due to the high amounts of deficit allocated to most banks, specific time limits have been set to cover the deficit amounts.

Letters of Guarantee Project

- The electronic platform project was actually launched on October 18, 2020, its work is summarized in applying the principle of electronic control to one of the basic activities of banks' work represented by letters of guarantee, as no bank can currently issue any letter of guarantee unless it is registered through this platform and penalties are imposed (financial and administrative) in case it does not exist.
- On (20/6/2021) the unified electronic bond project for letters of guarantee was launched, thus automating the stages of issuing letters of guarantee in all the Iraqi banking sector.
- Developing the work of electronic supervision instead of traditional supervision in view of the continuous updating procedures that are carried out by the staff of the electronic platform for letters of guarantee to develop this platform and the importance that letters of guarantee pose for banks.
- The number of banks that completed the legal undertaking for letters of guarantee has reached more than (10) banks, and this number will increase during the coming period.
- The number of letters registered on the electronic platform reached (11,527) for a total amount of (4.7) trillion dinars, and it is expected that all letters will be registered on the platform by the end of the year (2021).
- Preparing a comprehensive guide for circulating letters of guarantee, as it included the unification of the instructions for letters of guarantee and their updates in one book, which facilitates reference to the instructions for letters of credit at any time as they are unified.

Supporting and developing the Islamic banking industry

For the purpose of supporting and regulating the work of Islamic banks in Iraq, the Central Bank has done the following:

Issuing the executive controls and guiding principles for the SIFP and its appendix the SIFP ACCOUNT and ESCROW ACCOUNT controls, as it is one of the important strategies for this bank, through which it seeks to achieve partnership between the Islamic and commercial banking sector to enter the real sector through

financing important strategic projects aimed at achieving economic growth as one of the objectives of monetary policy.

- Issuing a guide to Islamic banking services.

Issuing controls for certificates of deposit and Islamic banking investment certificates.

- Issuing and approving the Islamic Liquidity List Model, which takes the specifics of Islamic banks in terms of time deposits and Islamic financial instruments.

- Issuance of (Islamic banking and financial conventions guide).

Supporting the establishment of a deposit insurance institution

In accordance with its plan, the bank completed the granting of the license for the Iraqi Deposit Insurance Company on (22/11/2020), as the establishment of this institution represents an essential pillar of the financial safety net, to form a solid institution capable of reassuring small depositors and the safety of their money.

The third strategic objective: Developing the organizational structure of the central bank.

Strengthening and completing infrastructure

Work is continuing with regard to the implementation of the new Central Bank building project, as the completion rates were regularly monitored during the year (2020).

- Follow up the alternative location of the Central Bank of Iraq in Jadiriya and provide it with all the systems necessary to sustain daily business.

- Follow-up of the Customer Security Program (CSP) with the Iraqi private banks to secure the remittance network (SWIFT) from cyber operations and fraud.

Purchasing the bank identification code (LEI) for a period of five years to digitally identify the Central Bank of Iraq in international transactions.

- Completing the linking operations between the Arab Regional Payment System project platform and the RTGS system, in cooperation with the payment system provider.

- In order to identify the information on the performance of the banking sector by presenting the performance averages and their details, as well as to identify the challenges and problems that the banking sector suffers from, the project scorecard for the corporate governance guide for banks / the first phase has been completed.

- Complete linking the companies of electronic payment service providers and the licensed banks, respectively, with the Central Bank of Iraq, to the banking communications network operating using optical cable technologies.

- Automating the work of letters issued through the banking sector and their statement, identifying the balances of existing letters electronically, eliminating the phenomenon of hidden records that some institutions follow by recording letters of guarantee, obligating banks to obtain actual cash guarantees and other important tasks and functions.

Bank operations development

- In order to reduce the costs of keeping securities and obtain additional returns as a result of investing in the securities lending program with the possibility of direct communication with bond holders and the completion of trading operations (selling, buying) without the need for an intermediary, an account was opened for the Central Bank with the custodian for the safekeeping of the invested securities by the bank.
- Starting work on the new Swift Scope project to develop external transfers.
- Preparing a draft guarantee approval (CBLC) for exporting crude oil to simplify work procedures and ensure the collection of shipment amounts for these credits.
- Amending the guidelines for managing and investing foreign reserves, in line with changing economic conditions, and achieving high flexibility in managing foreign investments to accommodate the ongoing fluctuations in global markets.

The fourth strategic objective: Developing the human capital of the central bank.

Human resources in the bank

The process of developing human capital and designing and developing distinguished training programs increases the chances of the emergence of influential strategic leaders, maintaining and investing core capabilities, and developing an organizational culture that sponsors ethical practices in the central bank and the banking sector alike. The Central Bank / Banking Studies Center implemented during the year (2020) (41) training courses in various specializations distributed to employees of the Central Bank, state departments, and banking and non-banking financial institutions. A set of professional certificates granted to employees:

- 1- A qualification course for obtaining the Certified Internal Auditor (CIA) certificate, part one and part two.
- 2- A qualification course to obtain a certificate of a certified specialist in combating money laundering and terrorist financing (CAMS).
- 3- Certified Branch Manager (CBM) certificate.

The fifth strategic objective: Activating and integrating the internal and external relations of the central bank.

The Central Bank of Iraq joined the Reserves Advisory Management Program (RAMP) of the World Bank, to create the first bond trading portfolio and train office cadres (front, middle, and rear) to implement operations with the highest level of efficiency.

- Consolidating the banking relationship through the (RAM) (Relationship Application Management) system, with a total of (10) banking relationships with banks for the purpose of exchanging documented and approved messages with correspondents and banking institutions in the world.

Linking the Central Bank as a direct participant with the BUNA Regional Payments Corporation to develop external transfers in the local currencies of the participating countries.

- Conducting the largest transfer of Islamic bonds and cheques by the Central Bank of Iraq to the new bank account with Al-Hafiz AL -Ameen and Euro clear and completing the process with accuracy and record time.

- Subscribing to the ECR Research Foundation (Euro Currency Research) and benefiting from the financial reports and research that have been received since the beginning of the subscription.

- Accreditation of the Islamic International Rating Regency as a credit rating agency accredited by the Central Bank of Iraq.

- Opening sub-accounts for banks operating in Iraq for the purpose of paying electronic cards (Visa, Master Card).

- Attending the meeting of the Trade and Investment Committee emanating from the Partnership and Cooperation Agreement between Iraq and the European Union.

- Attending the seventh meeting of the Arab Statistics Initiative and the meeting on the Foreign Trade Organization, which was held via the electronic platform.

- Attending the workshop (Promoting the integration of sustainable development goals in the national context by localizing the indicators of the sustainable development goals at the national level), which was held by the Ministry of Planning in cooperation with the United Nations Development Program.

- Cooperation with the World Bank and the German Development Agency (GIZ) to start preparing and implementing special surveys on the demand side for services.

Joining the Global Alliance for Financial Inclusion (AFI) as a main member, which will contribute to the preparation of the national strategy for financial inclusion to benefit from the services provided by the organization to implement strategies and systems to improve the quality of access and use of financial services.

- Participation in a remote workshop on (the application of the demand-side statistical survey model for financial services) organized by the Arab Monetary Fund in cooperation with the German Agency for International Development (GIZ).

- Participation in a remote workshop on developing the national strategy for financial inclusion, organized by the World Bank, with the participation of representatives from banks, electronic payment companies, and the Association of Private Banks in Iraq.

- Participation in a remote workshop on building and implementing the national strategy for financial inclusion organized by the Arab Monetary Fund in cooperation with the World Bank and the Global Alliance for Financial Inclusion within the framework of the Arab Monetary Fund's Financial Inclusion Initiative (FIARI).
- Completion of technical requirements by the Central Bank of Iraq as a direct participant in the Arab Regional Payment System platform for inter-Arab payments.
- Signing an agreement by the 15 local banks with the Arab Monetary Fund to participate in the Arab Regional Payment System platform.
- Contracting with (Oliverwyman) a consulting company to develop the structure of the payments system and develop plans and projects that contribute to enhancing the use of electronic payment tools and digital financial services, as well as developing capabilities and skills.
- The Anti-Money Laundering and Terrorist Financing Office worked to complete its signature of bilateral cooperation agreements with various authorities at the local level, in order to implement what was stipulated in Paragraph (Third) of Article (9) of the law, as the cooperation agreement with the National Security Agency was concluded in May / (2020), as well as the Ministry of Finance / General Authority for Taxes.
- In addition to working on finding channels and mechanisms for cooperation with counterpart units with the aim of exchanging information and experiences, and in practice, the office adopted the signing a memorandum of understanding with the French Financial Intelligence Unit in the framework of international cooperation and exchanging information on combating money laundering and terrorist financing crimes.

Accomplished Initiatives for 2020

Accomplished Initiatives – 28

- Banking Control Department - 9
- Statistics and Research Department – 3
- Anti-Money Laundering and Terrorist Financing Office - 3
- Payment Department – 3
- Department of Information Technology and Communication -3
- Internal Audit Department -3
- Department of Investment and Foreign Transfer -2
- Accounting Department – 1
- Issuance and treasury department – 1

Department	Initiative
Issuance and treasury department	banknote printing
Accounting Department	<ul style="list-style-type: none"> - Achieving the centralization of accounts / the third stage, transferring the tasks of executing restrictions from the issuance and treasury department to the accounting department.
Department of Investment and Foreign Transfer	<ul style="list-style-type: none"> - Opening an account for the Central Bank at AL-Hafidh AL-Ameen Stabilization of crude oil export credits.
Internal Audit Department	<ul style="list-style-type: none"> - Promote risk-based regulation by developing indicators to identify and measure. - Promote risk-based regulation by developing indicators to identify and measure. - Support and development of the internal audit function. - Systemic risks and measures to manage them.
Department of Information Technology and Communication	<ul style="list-style-type: none"> - Scorecard for the Corporate Governance Guide for Banks / Phase I Letter of Guarantee platform. - A project to link electronic payment companies and some of the newly -- licensed banks with the Central Bank of Iraq through an appendix to a contract for a project to establish a banking communication network using optical cable technology.
Payment department	<ul style="list-style-type: none"> - Arab Regional Payment System (BNU). - The international settlement mechanism for credit cards issued by banks and electronic payment service providers. - Mobile Payments.
Anti-Money Laundering and Terrorist Financing Office	<ul style="list-style-type: none"> - Establishing a regulatory framework for the Anti-Money Laundering and Terrorist Financing Office. - Keeping abreast of technical development in the field of combating money laundering and preventing the financing of terrorism. - Concluding cooperation agreements with various concerned parties inside Iraq and concluding memoranda of understanding with units.
Statistics and Research Department	<ul style="list-style-type: none"> - Exchanging information and providing advice to the government in the field of competence. - Strengthening the representation of Iraq in international organizations and central banks and upgrading its role in international forums. - Exchange of experience and information with central banks in the field of capacity building through holding training programs and seminars.
Banking Control Department	<ul style="list-style-type: none"> - Enhancing disclosure and transparency practices by developing a plan for the gradual transformation of banks towards the application of the international standard (9), and obligating all banks to apply the standard according to the specified periods of the plan. - Technical audit and evaluation of information technology for the banking department, banks and companies. - Developing the credit information exchange and public protection department in accordance with the best international practices, defining tasks, duties, modes of dealing, cooperation, scope of work, and providing infrastructure requirements and the necessary material and human resources. - Modern credit inquiry system database. - Islamic Banking Services Guide. - Preparing an integrated framework for the establishment of an institution to guarantee deposits. - Syndicated Islamic Finance Program. - Supporting and motivating Islamic banks to expand long-term financing tools and formulas and develop existing financial tools. - Building an effective supervisory framework on the banking and financial sector, focusing on partial and macro precautionary indicators, setting a risk-based supervisory framework in line with the basic principles of Basel (3) standards, and adopting supervisory control requirements in banks in accordance with Basel (3) decisions.