



The National Strategy for Bank Lending in Iraq

2024 - 2029

Supporting Private Sector Enterprises in Iraq



Ladies and Gentlemen,

The Central Bank of Iraq supported lending operations and the liquidity of the banking sector through its many initiatives, which achieved tangible results that were reflected in the local economy through the establishment and expansion of small, medium, and large enterprises in various sectors.

These efforts aimed to accomplish projects that contribute to creating features of local economic development through bank financing directed through the initiatives of this bank to achieve the goal of growth as one of the objectives of monetary policy based on Article (3) of the Central Bank of Iraq Law No. (56) of 2004.

In continuation of the Central Bank's role in the field of enhancing bank lending operations, work was undertaken to prepare this strategy, which takes into account the strengths, weaknesses, opportunities, and threats in the Iraqi context. As a result, a number of main and sub-objectives were formulated that contribute to providing a more supportive environment for lending operations.

This strategy focuses on supporting the private sector and facilitating access to credit, which requires cooperation and coordination between concerned parties to achieve the desired goals within specified time frames, as the private sector has a decisive and influential role in supporting economic growth in any country by creating new job opportunities and enhancing existing business ventures, stimulating innovation, increasing incomes, reducing poverty, and enhancing access to goods and services.

Ali Mohsen Ismail

Governor of the Central Bank of Iraq



The partnership between the Central Bank of Iraq and GIZ

Within the framework of cooperation and numerous partnerships established by the Central Bank of Iraq with various international organizations and institutions, and its openness to them to exchange expertise and improve performance in the Iraqi financial and banking sector.



The foundations for building this strategy were laid through the cooperation of the Central Bank of Iraq with the German Agency for International Cooperation (GIZ) as part of a project funded by the German Federal Ministry for Economic Cooperation and Development and the European Union titled "Strengthening Public Finances and Financial Markets" (FFM). This project aims to support reforms outlined in the Iraqi government's National Strategy to address the economic and financial challenges facing the Iraqi economy. The overall objective of the project is to strengthen financial and fiscal governance systems that enhance macro-fiscal stability and economic development by contributing to the improvement of public financial management and accountability, non-oil public revenues, anti-money laundering and countering the financing of terrorism, and financial sector stability.

The design of this document began through joint workshops with the German Agency for International Cooperation (GIZ) during October 2023, with intensive and ongoing inputs and in-depth discussions between the Central Bank of Iraq and the German Agency. During these workshops, an analysis of the financial and banking sector was conducted, identifying weaknesses and obstacles facing private sector financing, with a focus on the financing of economic enterprises. Strategic objectives for the development of these enterprises were outlined, along with enhancing their access to funding.

The National Strategy for Bank Lending Preparation Team

Executive Summary

The private sector plays a crucial and influential role in supporting economic growth in any country by creating new job opportunities, enhancing current business ventures, stimulating innovation, increasing income, reducing poverty, improving access to goods and services, and boosting tax revenues.

Recognizing this reality, the Iraqi government has formulated policies and plans to develop a sustainable and diversified private sector. This includes providing support to the private sector by increasing access to financing, where credit granted to the private sector represents only 9.14% of the total oil GDP and 21.39% of the non-oil GDP. Analyzing the credit gap in the economy through the credit gap index to identify weaknesses in the banking economy using the Hodrick-Prescott (H.P Filter)¹ indicates that it is 1.22% of the total oil GDP and 2.20% of the total non-oil GDP, which is within the minimum threshold and there is a possibility of increasing credit by approximately 7% without fear of impacting financial stability in the economy². Additionally, the potential financing gap for small and medium-sized enterprises in Iraq is estimated at around 9 trillion Iraqi dinars, approximately 5% of the total GDP³.

However, the presence of a set of challenges often hinders effective financing for the private sector, resulting in a gap between the private sector's demand for financing and the supply of this financing from financial entities. Consequently, this gap negatively impacts small and medium-sized enterprises, thereby affecting private sector development and job creation.

To begin addressing the credit gap in general and the financing gap for small and medium-sized enterprises in particular, the Central Bank of Iraq has set two main objectives to narrow this gap.

The main objectives of the National Strategy for Banking Lending in Iraq 2024-2029

First	Increase credit granted to the private sector by 4% of the non-oil GDP by 2029, equivalent to approximately 7 trillion dinars.
Second	Increase credit granted to small and medium-sized enterprises by 3% of the non-oil GDP by 2029, equivalent to approximately 5 trillion dinars (55% of the estimated gap), funding approximately 100,000 enterprises.

To achieve these two goals, a set of sub-strategic objectives has been formulated within key axes to address regulatory and technical obstacles affecting lending activity in Iraq on both supply and demand sides. Efforts are being made to bridge the gaps in meeting the needs of various economic sectors in general, and the enterprise sector in particular,

¹ The Hodrick-Prescott (H.P Filter) is the best known and most widely used method to separate the trend from the cycle (Hodrick and Prescott, 1997).

² Central Bank of Iraq, Financial Stability Report 2022, Issue 13, 2023.

³ The methodology of the International Finance Corporation was relied upon in extracting the financing gap for MSMEs in Iraq. In: International Finance Cooperation, Market Bite Iraq, 2022.

through the establishment of a roadmap and indicative preferences guiding various local and foreign financial institutions towards specific sectors for financing.

Based on the preceding, the approach of this strategy is founded on effective planned targeting through defining the main objectives for economic development, evaluating the current situation of private sector financing, taking into account governmental policies and best international practices in this field, leading to the proposal of specific policies and programs for sector development and identification of strategic axes to create a conducive environment for financial institutions to operate within the general direction of the government.

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First: The vision and overarching framework for private sector development in Iraq

The Iraqi government has defined its vision for private sector development in Iraq through diverse policies and plans aimed at diversifying the structure of the national economy. This governmental direction includes a strong focus on enhancing and supporting private sector institutions, particularly improving private sector access to financing sources through the development of the financial sector.

Given the Iraqi Central Bank's mandate as a supervisory authority focusing on achieving stability and financial deepening as fundamental pillars for promoting sustainable growth, employment, and prosperity in Iraq, the bank plays a crucial role in activating and implementing many of these national priorities. This role involves ensuring that both the banking and non-banking financial sectors effectively contribute to providing the necessary financing for growth and job creation. This aligns with the strategies and plans developed by the government to enhance and support the private sector, including:

1.1 Private Sector Development Strategy in Iraq 2014-2030

A roadmap for private sector development was established by the Cabinet in consultation with representatives from the private sector and international development partners, aiming to unify efforts for private sector development from 2014 to 2030.

The main goal of the strategy is to stimulate the growth and development of the Iraqi private sector by improving the business environment, attracting more domestic and foreign investors, and providing guidance to the private sector. This falls within the framework of activating Article 25 of the Iraqi Constitution, which emphasizes the necessity of supporting and developing the private sector.

The strategy is designed around four main pillars, with a particular focus on improving the business environment and supporting small and medium-sized enterprises (SMEs). These pillars include understanding the private sector, improving the business environment, SME development programs, and implementation frameworks.

The vision of the strategy reflects an aspiration to achieve a thriving national private sector capable of competing regionally and globally, contributing to economic diversification, sustainable development, and job creation.

It also includes a program to stimulate the productivity and competitiveness of SMEs and improve the business environment by simplifying policies and laws and providing access to financing. The program also aims to gain a precise understanding of the private sector and ensure its efficient and timely implementation.

1.2 Iraq Vision 2030

The comprehensive framework for achieving sustainable development in the country, issued in 2019, is aligned with the Private Sector Development Strategy 2014-2030.

The vision aims to build a sustainable future that focuses on achieving a balance between the economy, the environment, and social justice.

The Iraqi government envisions establishing a diversified economy based on sustainable development, with the private sector leading the way in development and economic growth. The vision aims to achieve a secure and distinguished life for citizens, characterized by stability, economic diversity, justice, and good governance.

The Iraq Vision 2030 addresses five national priorities, including building human capital, enhancing good governance, achieving economic diversification, building a secure society, and ensuring sustainable environmental protection. Each of these priorities includes specific goals to make tangible progress in various fields.

Through its focus on developing the financial sector, the vision aims to enhance the role of the private sector as a strategic partner in achieving development. This includes expanding credit available to the private sector, boosting confidence in the banking sector, and improving access to financial services.

The vision sets specific goals for each priority and seeks to achieve them within a specified timeframe. This involves poverty alleviation, creating decent employment opportunities, improving the education and healthcare systems, enhancing administrative decentralization and combating corruption, improving the efficiency of the oil sector, enhancing infrastructure, promoting a culture of tolerance and dialogue, and strengthening civic values.

1.3 National Development Plan 2018-2022

A key initiative developed under Vision 2030 is aimed at driving the economy towards progress and building a cohesive, healthy society that embraces everyone. The plan addresses economic challenges such as financial underdevelopment, the informal sector, and the limited role of the private sector.

In the context of developing the private sector, employment, and financial development, the plan has identified strategic objectives such as comprehensive economic reform, enhancing the role of the private sector, and reducing unemployment rates. It also focused on macroeconomic issues and challenges, such as the limited role of banks in financing investments and the impact of interest rates on credit.

The plan emphasizes monetary policy objectives in promoting disclosure and transparency in the banking sector and enhancing financial inclusion. Chapter five addresses the private sector and the development of the business and investment environment, with a focus on increasing the private sector's contribution and developing small and medium-sized enterprises.

Furthermore, among the challenges and objectives of the plan is the lack of coordination between fiscal and monetary policies and challenges related to inflation and exchange rates. The objectives include achieving inflation stability and maintaining the stability of the Iraqi dinar exchange rates.

The plan also emphasizes the need to enhance the role of banks in financing investments and increase the impact of interest rates. The objectives address possible means to enhance financial inclusion, for example.

Therefore, the development plan aims to achieve economic balance and sustainability, considering the specific challenges, objectives, and means of accomplishment as part of national efforts to improve the economic situation and enhance development in Iraq.

1.4 The Iraqi Ministerial Program 2023

A government action plan emphasizes the importance of the private sector in general, and small and medium-sized enterprises (MSMEs) in particular, and their role in sustaining the economic development process in Iraq, and reforming the private sector.

Implementation of this program involves a series of policies and measures necessary to address Iraq's economic, financial, and structural challenges, to achieve economic stability, promote sustainable growth, and foster employment and prosperity in Iraq.

1.5 The third strategic plan of the Central Bank of Iraq

This strategy has been designed as a continuation of previous strategies, drawing on the vision and mission of the Central Bank, and based on its goals and core functions as defined by the law.

The third strategic plan of the Central Bank of Iraq has identified seven main objectives, each containing several sub-objectives, as outlined below:

First Supporting and Achieving Monetary and Financial Stability

- Maintaining overall price stability.
- Ensuring exchange rate stability.
- Managing reserves according to best practices.
- Improving the quality and structure of the Iraqi currency.

Second Enhancing Digital Transformation and Stimulating Electronic Payments and Cybersecurity Support in the Central Bank and Banking Sector

- Developing the technical infrastructure of the Central Bank of Iraq and enhancing infrastructure in the banking sector.
- Strengthening cybersecurity maturity and data protection.
- Working towards achieving digital transformation and technical empowerment of operations in the Central Bank of Iraq and the banking sector.

- Adopting a strategic direction in developing the architecture of the electronic payment environment.
- Implementing financial technology (Fintech) projects.
- Enhancing electronic governance procedures and international frameworks to elevate the maturity level of information technology-related operations.

Third Enhancing Financial Inclusion

- Enhancing financial inclusion and improving its indicators.
- Financial literacy.

Fourth Maintaining a Sound Financial System that Ensures the Rights of its Participants

- Developing the banking sector.
- Developing non-banking financial institutions.
- Protecting the financial rights of consumers.
- Financial sustainability of the banking sector.

Fifth Resource Capabilities in the Central Bank of Iraq

- Development of human resources.
- Development of organizational and infrastructural frameworks.
- Enhancing risk management practices.

Sixth Enhancing the Local and International Position of the Central Bank of Iraq

- Strengthening local relationships.
- Enhancing the international standing of the bank.

Seventh Strengthening Compliance in Banks and Non-Banking Financial Institutions in line with International Standards Development

- Enhancing compliance in the banking sector.
- Strengthening compliance in non-banking financial institutions.
- Enhancing the international standing of the bank.
- Strengthening regulatory and supervisory frameworks both in the field and at the office level.

Second: Building on best practices and international principles

The international community widely recognizes private enterprises in general, and micro, small, and medium-sized enterprises (MSMEs) in particular, as important drivers of innovation, growth, job creation, and social cohesion. According to the Organization for Economic Cooperation and Development (OECD), credit provided to the private sector as a share of gross domestic product (GDP) is often low in many countries. At the same time, loans to SMEs represent a smaller proportion of commercial credit. Additionally, the lack of advanced financial infrastructure poses challenges to accessing financing⁴.

Overview of the High-Level Principles of the G20 and OECD on Financing Small and Medium-sized Enterprises (SMEs)

- Identifying the financing needs and gaps for small and medium-sized enterprises (SMEs) and enhancing the evidence base.
- Strengthening SMEs' access to traditional banking finance.
- Empowering SMEs to access a diverse range of non-traditional financing tools and channels.
- Enhancing financial inclusion for SMEs and facilitating access to formal financial services, including informal enterprises.
- Regulatory design supports a range of financing instruments for SMEs, ensuring financial stability and investor protection.
- Improving transparency in small and medium-sized enterprise (SME) financing markets.
- Enhancing financial skills and strategic vision for SMEs.
- Adopting risk-sharing principles for publicly supported SME financing instruments.
- Encouraging timely payment in commercial transactions and public procurement.
- Designing public programs for SME financing that ensure added value, cost-effectiveness, and ease of use.
- Monitoring public programs to enhance SME financing and evaluate them.

Source: G20/OECD High-Level Principles on SME Financing, 2015, p. 4.

While some aspects addressed by the high-level principles of the G20 and the Organization for Economic Cooperation and Development regarding the financing of SMEs fall outside the scope or jurisdiction of the Central Bank of Iraq, the principles serve as a benchmark for assessing the current financial situation of the Iraqi private sector and have been consulted along with the strategic plans of the national government to solidify the recommendations and proposed measures in this strategy.

⁴ G20/OECD High-Level Principles of the G20 and OECD on Financing SMEs, 2015.

Third: Analysis of the current situation of private sector financing in Iraq

3.1 Overview of the Iraqi Financial Sector

3.1.1 Banks in Iraq

Banks heavily dominate the Iraqi financial sector, with the total banking assets reaching 198.7 trillion Iraqi dinars (approximately 150.5 billion US dollars) in 2022. Despite the large number of banks in general, the banking system in Iraq is dominated by seven state-owned banks. These banks hold 81% of the total assets, 90% of total deposits, and 84% of total cash credit.

Table 1: Distribution of the Iraqi banking sector (2022)

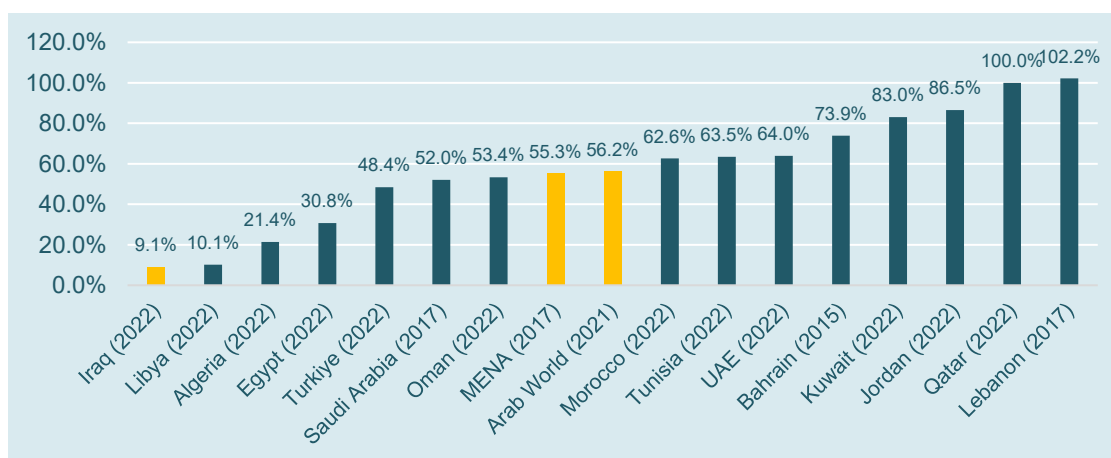
	State-owned banks	Private banks
Traditional	3	33
Islamic	1	30
Specialized	3	-
Total	7	63
Share of total assets	81.30%	18.70%
Share of total deposits	89.81%	10.19%
Share of total cash credit granted	83.73%	16.27%

Table (1) demonstrates the dominance of state-owned banks in the banking sector, representing over 81% of the total banking assets, 90% of total deposits, and 84% of total cash credit, a significant portion of which consists of direct loans and deductions for government transfers, weakening their liquidity, solvency, and profitability.

As evident, the remaining private banks, numbering 63 banks - both local and foreign alike - usually tend to be small in size, collectively representing slightly over 19% of the total assets in the banking sector and 16% of the total loans provided in Iraq.

Therefore, total lending or financial depth in Iraq is limited, where total credit extended to the private sector only accounts for 9.14% of the gross domestic product (GDP) from oil and 21.39% of non-oil GDP, significantly lower than its counterparts in the Middle East and North Africa region. While private sector credit from banks increases when oil is excluded from GDP, there is still significant room to enhance private sector credit in line with peer regional countries.

Figure 1: Private Sector Credit to Gross Domestic Product (GDP) Ratio in Selected Countries in the Middle East and North Africa Region

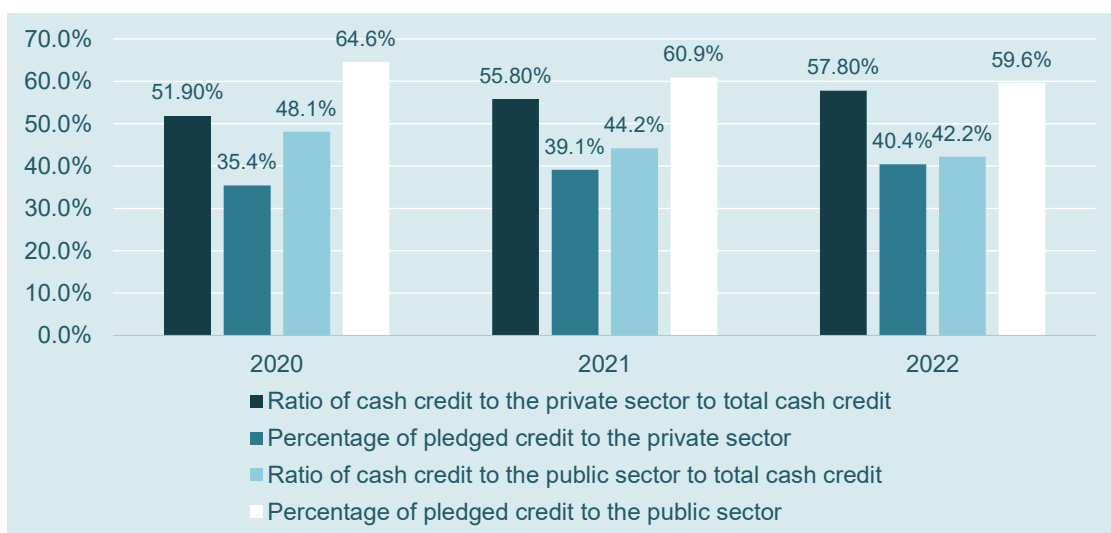


Source: World Bank, Private Sector Credit by Banks (% of GDP); Iraq Data / Central Bank of Iraq⁵.

In addition to the above, the cash credit to deposits ratio within the banking sector in Iraq is significantly low, reaching 46.9% in 2022, which is below the maximum threshold of 75% set by the Central Bank of Iraq. This further indicates excess liquidity within the banking sector and the potential for further credit expansion in Iraq overall. Given that state-owned banks tend to absorb more deposits compared to private banks, the cash credit to deposits ratio was particularly low for government banks (at 43.8% compared to 74.5% for private banks in 2022).

A large portion of the total credit in Iraq is distributed to the public sector, which represents the continuation of credit competition for the private sector.

Figure 2: Distribution of Cash Credit by Public and Private Sectors

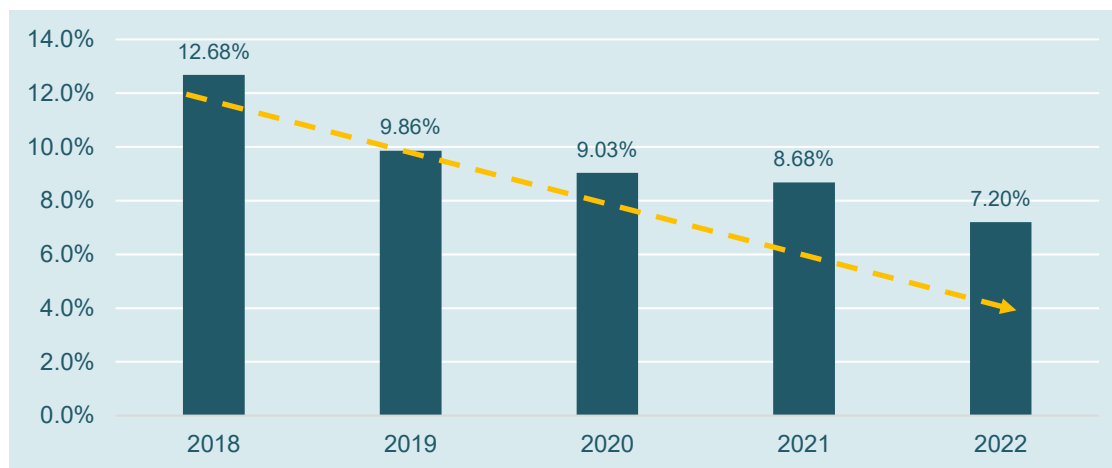


In terms of portfolio quality, the credit market in Iraq suffers from high levels of non-performing loans in commercial lending overall, which further dampens lending to the

⁵ For more information see: <https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS>

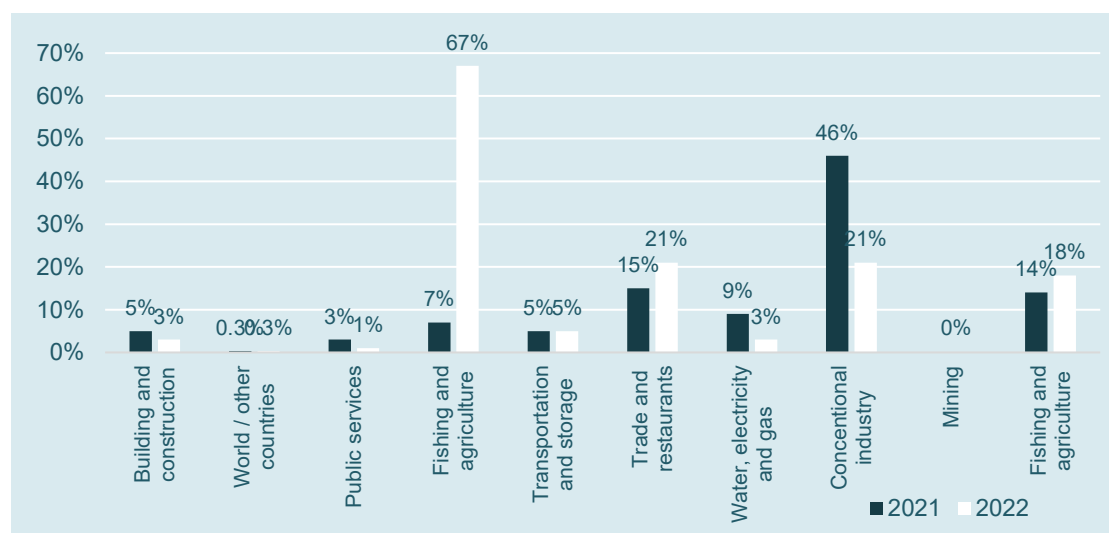
private sector in general. Despite the non-performing loan ratio to total cash credit continuing to decline in recent years, from 12.68% in 2018 to 7.2% in 2022.

Figure 3: Non-performing Loan Ratio to Cash Credit in the Iraqi Banking Sector



As for the distribution of non-performing loans, they were particularly high in the finance and insurance sectors, approximately 66%, and manufacturing sector, approximately 46%, and trade and restaurants sector, approximately 20%, in 2021. Non-performing loan rates also exceeded 10% of total cash credit for agricultural loans, trade, and community service sectors in 2021. Consequently, the perceived risks in lending to the private sector overall increase the requirements for collateral to cover the risks of credit extended.

Figure 4: Ratio of Non-performing Loans to Cash Credit by Sector



Estimating the Credit Gap

The Hodrick-Prescott (H-P) Filter method, proposed by the BCBS committee, was used to calculate the credit gap to GDP in Iraq, revealing:

- The presence of a negative credit gap when using GDP data including oil at (-1.22%) due to the increase in Iraq's GDP resulting from the rise in global oil prices.
- The presence of a positive credit gap when using GDP data excluding oil at (2.20%) due to the increase in credit provided to the private sector by (18.39%) during 2022 compared to 2021.

This indicates that bank credit could increase without adversely affecting stability within the Iraqi financial system, provided that the necessary criteria and principles are met when granting credit to various economic sectors.

3.1.2 Non-bank financial institutions in Iraq

In emerging markets, the non-banking financial sector (microfinance institutions, consumer finance institutions, leasing finance institutions, etc.) plays a significant role in expanding financing options, both in production and consumption, in a manner that does not compete with the banking sector but rather covers aspects that it does not address. This requires taking measures to support and facilitate the growth of the non-banking financial sector and removing obstacles that hinder its development.

The role of non-banking financial institutions (NBFIs) in financing small and medium-sized enterprises remains relatively limited. The Iraqi microfinance sector is one of the smallest in the region, particularly affected by previous crises. Over the past decade, there have been only two specialized companies in small and medium enterprise financing, subject to supervision and regulation by the Central Bank, along with smaller financing institutions under the supervision of other regulatory bodies (the General Secretariat of the Council of Ministers - Department of Non-Governmental Organizations).

3.1.3 Stocks and Capital Investment

The stock market in Iraq was established in 2004, where shares of joint-stock companies are traded according to the regulatory trading rules. However, it remains relatively small, with a total market capitalization of around \$10 billion as of May 2020 (representing approximately 5% of GDP), which is significantly lower compared to other countries in the Middle East and North Africa region, ranging from 25% to 90%⁶.

Unlike countries such as Egypt, Iraq lacks a small-scale financial market such as the Nile Stock Exchange, which could serve as a source of financing for small and medium enterprises. Regulatory frameworks for alternative financing options such as venture capital and private equity have not been established, and as a result, equity and venture capital

⁶ World Bank, Iraq Economic Monitor, 2023, p. 26.

markets do not currently represent channels for financing Micro, small and medium enterprises (MSMEs).

3.1.4 Fintech providers

The financial technology (fintech) sector in Iraq primarily consists of a limited number of sub-industries, focusing mainly on mobile payments and electronic transactions. Despite progress made, fintech adoption in Iraq faces significant challenges. One of the challenges in the financial sector is the lack of investment in fintech initiatives and the regulatory framework compared to neighbouring countries. However, several factors contribute to this situation:

- A significant portion of individuals and businesses still do not engage with banks and lack accounts in financial institutions (or mobile cash accounts).
- The relatively high cost of internet and mobile phone services compared to income levels acts as a constraint on the demand for digital financial services.
- The Central Bank of Iraq seeks to enhance trust in the security of electronic and online payments and reduce the preference of individuals and businesses for cash payments upon delivery in e-commerce transactions.

Despite the availability of digital and electronic payment services in Iraq, their role does not compare to other regional countries. Cash payments still dominate at delivery and bank transfers are the prevailing methods of payment in Iraq, hindering the adoption of digital payment methods.

Electronic transactions in Iraq are regulated under the Electronic Signature and Transactions Law. However, e-commerce and technology businesses are not regulated in this manner in Iraq. This means that e-commerce websites and mobile applications are not legally considered businesses unless they have a physical address in Iraq. Therefore, technology startups generally opt to register their businesses to obtain legal recognition.

3.1.5 Financial Inclusion in Iraq

Financial inclusion is defined as "the access of individuals and companies in society to useful and affordable financial products and services that meet their needs - transactions, payments, savings, credit, and insurance - provided in a responsible and sustainable manner⁷." The Central Bank of Iraq has identified financial inclusion as a key factor in promoting financial stability and increasing financial depth by adopting numerous initiatives to enhance financial inclusion.

However, financial inclusion remains a significant challenge in Iraq, with only 16% of adults having accounts in financial institutions, significantly lower than the regional average for the Middle East and North Africa region, which stood at 47% in 2021.

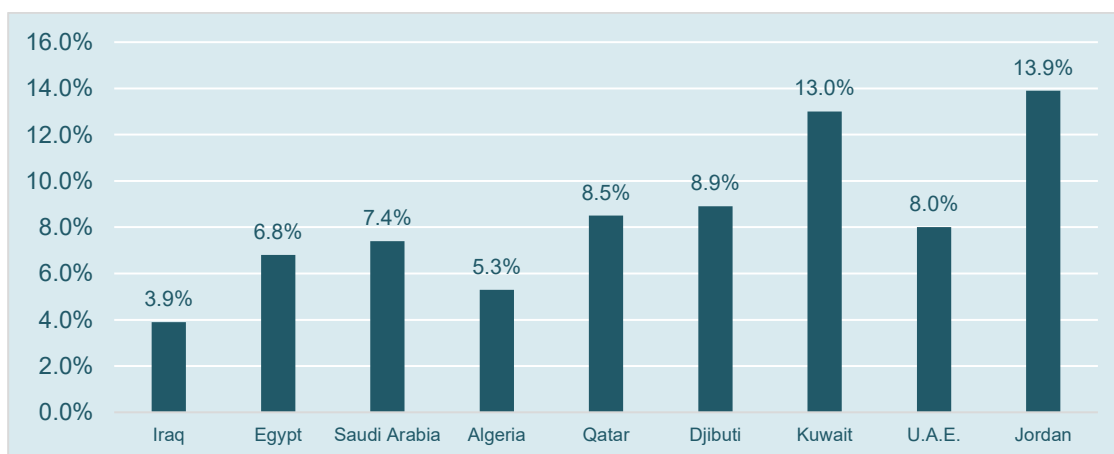
⁷ For more, see: <https://www.worldbank.org/en/topic/financialinclusion>

Table 2: Selected Financial Inclusion Indicators

Financial inclusion index (Age 15+)	Iraq (2017)	Iraq (2021)	MENA Regional Average (2021)	Arab World Average (2021)
Financial institution account	20%	16%	47%	39%
Borrowed money in the past year	63%	53%	51%	49%
Among these, from official financial service providers	3%	4%	11%	10%
Among them, from family and friends	52%	44%	39%	38%
Money Saved in the past year	31%	37%	35%	35%
Among these, saved at an official financial institution	2%	2%	11%	10%
Digital payments made	19%	14%	40%	32%

Source: Global Financial Inclusion Index 2021; Global Financial Inclusion Index 2017.

The Central Bank of Iraq tracks several key indicators related to financial inclusion, such as the number of bank branches per 100,000 adults in Iraq, the prevalence of electronic payment services among the population, and growth rates in the sizes of bank accounts, electronic cards, and e-wallets. In each of these areas, Iraq is taking significant steps to improve its position compared to regional countries, while also working to increase private sector credit volume.

Figure 5: Number of Bank Branches per 100,000 Adults in 2021

Source: Central Bank of Iraq, Financial Stability Report, 2022

3.2 An Overview of the Enterprise Sector in Iraq

The private sector in general, and small and medium-sized enterprises (SMEs) in particular, play a significant role in creating employment opportunities, achieving economic growth, and enhancing competitiveness (leading to improved quality of services and goods), meeting the needs of the local market, and thus reducing reliance on external markets for these goods and services.

However, the investment and business environment in Iraq presents challenges, which are dealt with similarly for both SMEs and larger-scale enterprises in terms of regulations and regulations. They face the same tax rates and do not receive preferential treatment in terms of obligations or government contracts and tenders⁸.

3.2.1 Current Lending Initiatives for the Private Sector by the Central Bank of Iraq

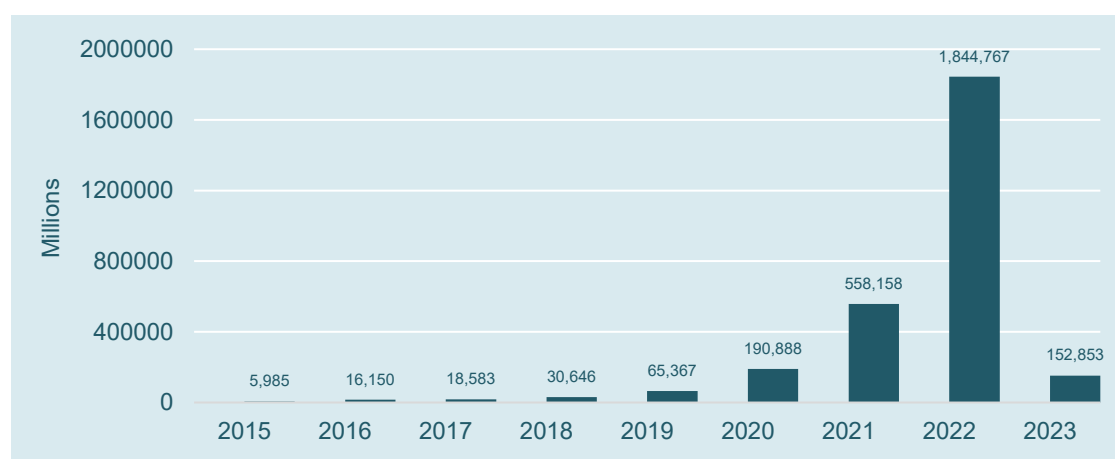
Trillion dinars initiative

The Central Bank of Iraq announced a lending program in June 2015 aimed at creating employment opportunities and promoting economic growth in the country through small and medium-sized enterprises (SMEs). The program aims to provide loans to SMEs to help them grow and create job opportunities. Under this initiative, which had an allocated budget of four trillion Iraqi dinars by 2022, the Central Bank initially aimed to increase financing for the private sector to one trillion Iraqi dinars (approximately 800 million US dollars) in the form of loans to eligible small and medium-sized companies, with a focus on companies engaged in manufacturing, agriculture, and other high-growth sectors.

Loans are provided to banks at a low interest rate and are intended to be used for investment in equipment, facilities, and other resources that will help small and medium-sized enterprises (SMEs) expand and create job opportunities. As a result, most lending to SMEs in Iraq today is linked to the Trillion Dinar Initiative. By the end of 2023, the number of beneficiaries of the Trillion Dinar Initiative had increased to 17,658, with a total disbursement reaching approximately 2.9 trillion dinars.

As evident, the Trillion Dinar Initiative plays a crucial role in providing local banks with refinancing facilities at highly competitive rates to reduce the cost of financing for the private sector. While there is still additional scope to further target the initiative towards small and medium-sized enterprises (SMEs) specifically rather than larger companies or real estate purchases, the initiative was reassessed at the beginning of 2023 to focus more on targeting SMEs rather than large companies or housing loans.

Figure 6: Amounts granted within the Trillion Dinar Initiative



⁸ International Finance Corporation, Market Bite Iraq, 2022.

Five trillion dinars initiative

As a complementary initiative to the Trillion Dinar Initiative, the Central Bank launched the Five Trillion Dinar Initiative, announced at the same time in 2015. The main difference between the two is the channel used and the targeted clients. The amounts disbursed under this initiative were approximately 11.5 trillion dinars by the end of 2023, aiming to finance housing loans and large industrial, agricultural, and service enterprises through state-owned banks only.

The main success of the initiative was in housing and construction loans provided through the Real Estate Bank and the Iraqi Housing Fund, where approximately 11 trillion dinars were granted, benefiting around 200 thousand citizens. However, this initiative was not aimed at financing small, medium-sized enterprises, or other types of enterprises. For example, only 225 small and medium-sized enterprises were funded by the Industrial Bank under the Five Trillion Dinar Initiative in 2022.

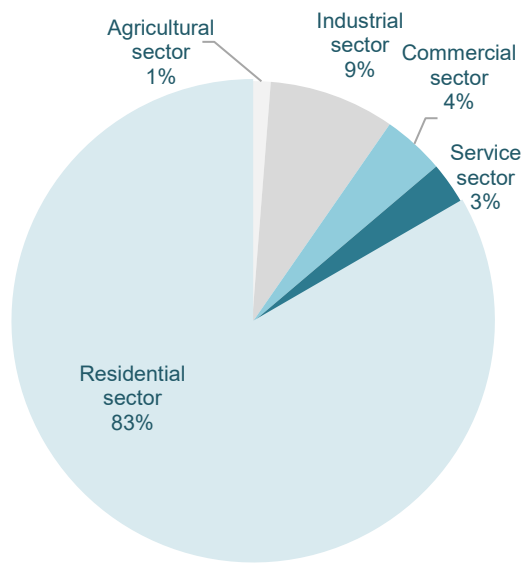
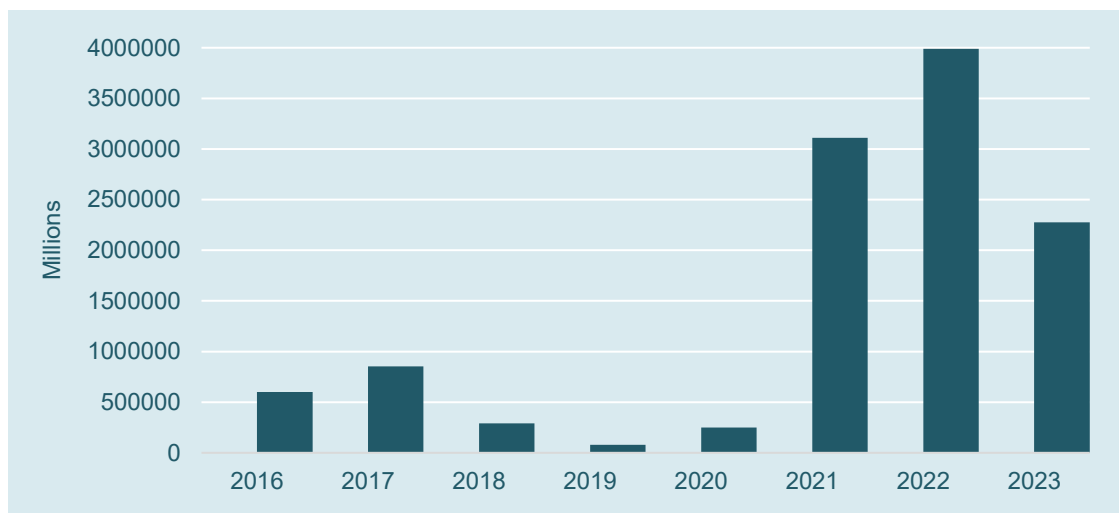


Figure 7: Total amounts granted by sector under the Trillion Dinar Initiative

Figure 8: Amounts awarded under the initiative to public banks



3.2.2 Classification of enterprises in Iraq

One of the key challenges in understanding the scope and size of the enterprise sector in Iraq, in addition to potential financing gaps, is the lack of a standardized classification for enterprises.

The Iraqi Ministry of Planning categorizes small and medium-sized companies in the market based on the number of employees they have (see Table 3). On the other hand, the Iraqi

Federation of Industries (IFI) classifies small and medium-sized companies based on invested capital and the number of employees (see Table 4). Meanwhile, the Ministry of Agriculture classifies agricultural enterprises based on the land area utilized for the enterprise activity (see Table 5).

Table 3: Classification of enterprises according to the Ministry of Planning

Classification	Criteria
Minor	1 to 3 employees including the owner
Small	4 to 9 employees including the owner
Medium	10 to 20 employees including the owner
Large	More than 20 employees

Source: Ministry of Planning

Table 4: Classification of enterprises according to the Iraqi Federation of Industries

Classification	Criteria
Very Small	Capital under 10 million Iraqi dinars and less than 5 employees
Small	Capital under 100 million Iraqi dinars and 5 to 10 employees
Medium	Capital under 1 billion Iraqi dinars and 11 to 49 employees
Large	Capital from 1 to 6 billion Iraqi dinars and more than 50 employees
Very Large	Capital over 6 billion Iraqi dinars and more than 50 employees

Source: Iraqi Federation of Industries

Table 5: Classification of enterprises according to the Ministry of Agriculture

Classification	Criteria
Small	Less than 10 thousand dunams
Middle	Less than 50 thousand dunams
Large	More than 200 thousand dunams

The lack of a unified classification for enterprises in Iraq makes it difficult to provide accurate statistics about the number and status of enterprises in general, as well as small and medium-sized enterprises in particular. According to estimates based on several sources, there are between 377,000 and 840,000 micro, small, and medium-sized enterprises in Iraq. The density of these enterprises in Iraq appears to be significantly lower than in other countries in the Middle East and North Africa region; for example, there are five times more small and medium-sized enterprises in Turkey and half this number in Algeria—both countries with similar population sizes.

Table 6: Estimated number of small and medium enterprises in the industrial, agricultural and commercial sectors

Sector	No. of small and medium enterprises	
	Minimum	Maximum
Small and medium-sized enterprises operating in commerce	151,684	337,969
Small and medium-sized enterprises operating in industry	18,850	42,000
Small and medium-sized enterprises operating in agriculture	37,700	84,000
Other small and medium-sized enterprises	168,766	811,781
Total	377,000	840,000

Source: German Agency for International Cooperation (GIZ) 2023: Priority Financing Needs for Iraqi SMEs, drawing on non-governmental organizations (NGOs), International Finance Corporation (IFC), GIZ's survey to estimate the number of small and medium-sized enterprises. The individual estimated do not add up to the total as each figure was independently estimated.

Despite the lower density of small and medium-sized enterprises in Iraq, they continue to play a significant role in all sectors of the economy outside of the oil and gas sector aimed at exportation, generating up to 90% of employment opportunities in the private sector.

The Iraqi Central Statistical Organization (CSO) estimated the number of small and medium-sized enterprises to be around 26,345, with only 181 of them classified as medium-sized enterprises. Since medium-sized enterprises typically contribute significantly to exports in developing countries, the underdevelopment of small and medium-sized industrial enterprises in Iraq may pose a barrier to increasing non-oil exports. Challenges facing small and medium-sized enterprises in the industrial sector specifically include limited banking knowledge and financial management, lack of land ownership documents for facilities, and the absence of appropriate policies to protect nascent industries.

Table 7: Estimated number of large enterprises in the industrial and agricultural sectors

Sector	Number of enterprises
Large enterprises operating in industry	781
Large enterprises operating in agriculture	20

Table (7) illustrates that the number of large enterprises is very limited relative to the size of the Iraqi economy. There are only 781 industrial enterprises, some of which are inactive due to technical reasons or for public benefit. Meanwhile, there are 20 large enterprises in the agricultural sector covering approximately 4 million dunams in a country classified as having highly fertile soil. This indicates a weakness in stimulating investment in these sectors or protecting domestic production and activating customs barriers, which would encourage investors and financiers to enter these sectors strongly. This would contribute to diversifying the Iraqi economy and reducing imports.

3.2.3 Challenges of doing business in Iraq

The Iraqi private sector, particularly small and medium-sized enterprises (SMEs), faces a business environment filled with challenges. According to the Ease of Doing Business Index, which assesses the regulatory environment for starting and operating a local firm, Iraq ranked 172 out of 190 countries by the World Bank in 2020. The main challenges include contract enforcement, cross-border trade, and particularly, access to credit (where Iraq ranked 186 out of 190 countries)⁹.

Table 8: Iraq's Ranking in the Doing Business Report 2020 Compared to its Regional Peers

Title	Iraq	Jordan	Oman	Qatar
Starting a Business	154	120	32	108
Dealing with Construction Permits	103	138	47	13
Getting Electricity	131	69	35	49
Registering Property	121	78	52	1
Getting Credit	186	4	144	119
Protecting Minority Investors	111	105	88	157
Paying Taxes	131	62	11	3
Trading across Borders	181	75	64	101
Enforcing Contracts	147	110	69	115
Resolving Insolvency	168	112	97	123
Total (out of 190 economies)	172	75	68	77

Source: World Bank: Doing Business 2020, Economy Profile: Iraq.

Credit needs of micro, small, medium and large enterprises

Access to finance is a major obstacle to the growth of MSME businesses in Iraq. The MSMEs sector faces a significant shortage of funding from the formal financial sector and a very low rate of banking services offered to it, as only 8% of Iraqi MSMEs have an enterprise bank account and 16% of them have a personal account.

Figure 9: Key findings from the GIZ Iraq survey on MSMEs

1	2	3	4
Many micro, small and medium enterprises close within 5 years due to lack of protection and discouraging environment including challenges in accessing finance.	More than 90% of small and medium enterprises have less than 30 employees, while more than 50% of them have three or fewer employees.	MSMEs generally do not trust the banking sector on the one hand, with overall low banking knowledge on the other hand.	The dependence of small and medium enterprises on cash transactions in Iraq and the weak use of electronic payment.

⁹ World Bank, Ease of Doing Business 2020

5	6	7
Small and medium enterprises need short, medium and long-term financing	The rate of financing needed by small and medium enterprises is 45 million Iraqi dinars, while financing for large enterprises exceeds the ceiling of one billion dinars.	Small and medium enterprises generally lack appropriate guarantees, and only a small number of them, 16%, are able to provide appropriate guarantees.

Source: GIZ, Priority Financing Needs of Iraqi SMEs, 2023

All these challenges have made it difficult for large enterprises to obtain the necessary financing, pushing small and medium-sized enterprises (MSMEs) to seek funding from other sources, especially from family and acquaintances. For example, the majority, around 25%, of Iraqi MSMEs surveyed by the International Finance Corporation, which utilized short-term financing, obtained this funding from their acquaintances¹⁰.

Monitoring the volume and quality of lending to enterprises

Due to the absence of a unified classification for enterprises in Iraq, treating small and medium-sized enterprises (SMEs) similarly to large enterprises to prepare official reports is challenging at all levels. As a result, it is currently difficult to separate credit data collected between small, medium, and large enterprises, making accurate estimations of bank credit and services provided to MSMEs (versus other enterprise) challenging. Since the overarching principle of the G20 and the Organisation for Economic Co-operation and Development regarding MSME financing is to "identify SME financing needs and gaps and improve the evidence base," there is scope to enhance enterprise data collection in Iraq and establish a unified national classification for them.

Despite progress, various sources indicate that lending to small and medium-sized enterprises (MSMEs) accounted for only 9% of total lending in Iraq in 2017—a figure that compares unfavourably to the global average of 26%. This indicates a relative scarcity of official financing for MSMEs in Iraq. It's clear that the supply of lending to MSMEs does not fully meet demand, as the total demand for MSMEs financing in Iraq, estimated based on available Central Bank data and International Finance Corporation methodology, is approximately 14.2 trillion dinars (~8% of non-oil GDP for 2022), leaving a potential financing gap for MSMEs of around 9 trillion dinars¹¹.

Estimation of Financing Gap for Small and Medium-sized Enterprises

In the Market Bite document for Iraq released by the International Finance Corporation in November 2022, and with data updates from the Central Bank of Iraq, a potential financing gap for Maro, small and medium-sized enterprises (MSMEs) in Iraq was

¹⁰ International Finance Corporation, Market Bite Iraq – Economic recovery creates opportunity to invest in SMEs, 2022

¹¹ International Finance Corporation. Market Bite Iraq – Economic recovery creates opportunity to invest in SMEs, 2022.

estimated to be approximately 9 trillion dinars. These estimates were based on the methodology and estimations provided by the International Finance Corporation.

Estimation of demand of financing for small and medium-sized enterprises:

- International Finance Corporation estimates the number of small and medium-sized enterprises (SMEs) in Iraq: 608,500.
- The average loan size requested by companies according to the aforementioned document is approximately 45 million dinars.
- Percentage of companies surveyed expressing the need for borrowing: 52%.
- The resulting estimate for total financing demand: approximately 14.2 trillion dinars (~8% of non-oil GDP for 2022).

Estimation of supply of financing to macro, small and medium-sized enterprises (MSMEs):

- The estimate for the total supply of financing for MSMEs: 5.3 trillion dinars, distributed across various available funding sources such as banks, family and friends, and informal sources.

Financing gap:

- Estimated financial gap: 14.2 trillion dinars - 5.3 trillion dinars = approximately 9 trillion dinars.

These estimates, based on the aforementioned document, are rough estimates of the financing gap for micro, small, and medium enterprises in Iraq, and therefore this strategy has placed at the forefront of its priorities the use of different data collection methods and conducting additional multi-criteria surveys (for example, the number of micro, small, and medium enterprises and the sources of their financing and the sizes of loans required if enterprises need them and according to the unified classification of enterprises...and other approved standards) can lead to further improvement of these estimates over time.

Source: International Finance Corporation, Market Bite Iraq - Economic recovery creates an opportunity to invest in small and medium enterprises; November 2022, Central Bank of Iraq: Department of Statistics and Research.

This data illustrates the limited role that the banking sector plays in the crucial area of providing credit to businesses. Banks perceive lending to the private sector in general, and to small and medium-sized enterprises in particular, as carrying higher risks compared to alternatives that may yield higher profits, such as cash operations, government lending, and retail lending. Financial examination of many major banks indicates that net interest income represents a very small proportion of the bank's total operating income, indicating the challenges faced by Iraqi banks in providing credit to businesses.

Credit infrastructure challenges restrict private sector financing in Iraq

Lending to the private sector (and micro, small and medium enterprises) by banks in Iraq is limited by several limiting factors in the credit market infrastructure as well as the legal environment, and in particular, the following aspects limit private sector lending:

- Limited credit information and reporting
- Absence of mechanisms for risk-sharing or guarantee funds
- Challenges related to registering collaterals and their frameworks
- Dominance of the informal sector in the micro, small and medium enterprises sector
- Weak legal procedures related to business matters (for example, limited small claims courts, and bankruptcy systems)

Definition of Credit Infrastructure by the World Bank

"The credit infrastructure comprises the set of laws and institutions that enable efficient and effective access to finance, financial stability, and socially responsible economic growth through the establishment of credit reporting, secured transactions, collateral registries, bankruptcy, and debt resolution."

Source: The World Bank, <https://www.worldbank.org/en/topic/creditinfrastructure>

Credit information and reporting

The Central Bank of Iraq works to create an enabling environment for business lending, starting with the establishment of a Credit Information Exchange Department (Credit Information Exchange Department) in 2016 tasked with performing the roles of a "credit bureau" and "credit registry".

The functions of the credit registry are essential to enable the Central Bank of Iraq and the government to shape and implement relevant economic policy measures and private sector development, particularly by monitoring lending levels and associated risks in the country. Additionally, the functions of the credit bureau are crucial for assessing creditworthiness and attaching it to each borrowing institution/macro, small and medium-sized enterprise to build and establish a positive credit record based on their previous or current bank loans, which may facilitate their financing in the future.

Despite the importance of the Credit Information Exchange Department under the Central Bank of Iraq in facilitating lending and achieving some improvements, it remains relatively ineffective in alleviating banks' concerns about the reliability of clients' credit histories. This is due to issues related to incomplete data and the lack of effective follow-up processes. Additionally, there are currently no private credit bureaus or credit information sharing mechanisms, whether for consumer information or business information. This further increases the challenges banks face in assessing risks and making lending decisions based on reliable and comprehensive information.

According to the International Finance Corporation, as of 2019, the Credit Information Exchange Department covered only 1.3% of the adult population in Iraq, and the data was limited to just three types of credit products: consumer loans, credit cards, and vehicle loans¹².

¹² International Finance Corporation. Market Bite Iraq – Economic recovery creates opportunity to invest in SMEs, 2022.

The World Bank assesses a country's ease of doing business, including its credit access, by evaluating the depth of credit information available from credit bureaus and registries, as well as the coverage (percentage of adults) of any credit bureaus or registries in a country. In 2020, Iraq received the lowest possible score (0 out of 8) in the credit information category, recording significantly lower than its peers in the region.

Table 9: Credit Information Ranking for Iraq in the Doing Business Report 2020 Compared to Its Peers

	Iraq	Jordan	Oman	Qatar	MENA region average
Credit information (scoring 0-8)	0	8	6	8	5.3

Source: World Bank Doing Business 2020, Economic Profile: Iraq

Due to the lack of coverage and evaluation, the current Central Bank of Iraq's Credit Information Exchange Department program does not enable banks to mitigate credit risks (i.e., by reducing information asymmetry) and increase lending, thus limiting potential lending to the private sector, especially small and medium-sized enterprises compared to larger companies.

Table 10: Details of Credit Information for Iraq in the Doing Business Report 2020

Credit Information Depth Index (0-8)	Credit bureau	Credit history	Result
Are the data distributed for both companies and individuals?	0	0	0
Are positive and negative credit data distributed?	0	0	0
Are data from retailers or utility companies distributed, in addition to data from banks and financial institutions?	0	0	0
Is at least two years of historical data distributed?	0	0	0
Is data on loan amounts less than 1% of individual income distributed?	0	0	0
By law, do borrowers have the right to access their data at the credit bureau or credit registry?	0	0	0
Can banks and financial institutions access borrowers' credit information online (e.g., through an online platform, system-to-system connection, or both)?	0	0	0
Are credit bureau scores or registration provided as a value-added service to help banks and financial institutions assess borrowers' creditworthiness?	0	0	0

Source: World Bank Doing Business 2020, Economic Profile: Iraq

Fund insurance and risk-sharing

It is recognized that credit guarantee facilities play a key role in addressing market failures and encouraging lending to MSMEs, and despite the great potential of credit guarantees in the Iraqi market, the provision of guarantees at present is mostly limited to the Iraqi Company for Bank Guarantees.

Registration of collaterals (real estate and movable), their evaluation, and foreclosure

The use of traditional guarantees (i.e., immovable properties) is limited in Iraq, often leading to excessive reliance on personal guarantees (surety), typically in the form of guarantees from government employees with fixed salaries.

While registering real estate guarantees is possible, there are significant challenges related to assessing and possessing these guarantees in the event of default.

Iraqi law stipulates that creditors cannot immediately claim ownership of guarantees in case of default but must apply for a mortgage to have the property auctioned publicly, creating uncertainty and delays. Additionally, Iraqi law restricts eviction in cases where the property serves as the primary residence, hindering its use as collateral and focusing on secondary properties instead.

At present, Iraq lacks the relevant legislation to establish a registry for movable guarantees for lending, making it impossible for banks to register movable guarantees such as vehicles or equipment. Since the assets of many small and medium-sized enterprises (MSMEs) are predominantly movable, this creates limitations on lending to MSMEs.

The World Bank's Doing Business report, particularly within the category of getting credit, includes a strong indicator of legal rights, specifically evaluating the legal rights of borrowers and lenders regarding secured transactions. Iraq received the lowest possible score in 2020 (0 out of 12) in this area, as shown in Table (13).

Table 11: Details on the Strength of Legal Rights (Related to Credit) in Iraq in the Doing Business Report 2020

Legal Rights Strength Index	Result
Is there a comprehensive or unified legal framework in the economy for secured transactions extending to the creation, declaration, and enforcement of security interests in movable assets?	No
Does the law allow companies to grant non-possessory security rights in a single category of movable assets without requiring a specific description of the collateral?	No
Does the law allow companies to grant non-possessory security rights in almost all of their assets without requiring a specific description of the collateral?	No
Can security rights extend to future assets or assets acquired thereafter, and do they automatically extend to products, proceeds, and replacements of the original assets?	No
Is there a general description of debts and obligations permitted in security agreements; can all types of debts and obligations between parties be secured? Can the security agreement include a maximum amount that the assets can encumber?	No
Is there an operational collateral registry for both incorporated and unincorporated entities, geographically unified and categorized by asset type, with an electronically indexed database under the debtor's name?	No

Is there a notice-based collateral registry where all security interests can be registered?	No
Is there a modern collateral registry that allows for online registration, modification, cancellation, and search by any interested third party?	No
Are secured creditors paid first (i.e., before tax claims and employee claims) when the debtor defaults outside of bankruptcy proceedings?	No
Are secured creditors paid first (i.e., before tax claims and employee claims) upon liquidation of the company?	No
Do secured creditors automatically undergo a stay of enforcement when the debtor enters court-supervised restructuring proceedings? Does the law protect the rights of secured creditors by providing clear grounds for exemption from the stay and setting a time limit for it?	No
Does the law allow parties to agree on enforcement outside of court at the time of creating the security interest? Does the law allow secured creditors to sell the collateral through public auction or private tender, as well as allow the secured creditor to retain the assets to satisfy the debt?	No

Source: World Bank Doing Business 2020, Economic Profile: Iraq

The current reliance on personal guarantees represents a challenge for many micro, small and medium-sized enterprises in obtaining financing, often limiting the size of potential loans. This may force enterprises owners to rely on close family and friends to act as guarantors, creating barriers for those with weaker networks or traditionally marginalized groups (such as women and youth).

Registration of large companies, SMEs and informal businesses

The informal sector also poses a significant challenge in Iraq, particularly concerning the treatment of micro, small and medium-sized enterprises similar to larger enterprises in terms of registration and taxation. Sources indicate that over 50% of companies in Iraq are unregistered, as the registration process in Iraq is relatively difficult according to the Doing Business Index (2020), where Iraq ranks 154 out of 190 countries in the Starting a Business Index.

Table 12: World Bank Doing Business Scores for "Starting a Business"

Indicator	Iraq	MENA	OECD
Procedure (number of steps)			
For Men	8	6.5	4.9
For Women	9	7.1	4.9
Time required (in days)			
For Men	26	19.7	9.2
For Women	27	20.3	9.2
Cost (% of per capita income)	34.2	16.7	3.0
Minimum paid-up capital (% of per capita income)	14.6	8.9	7.6

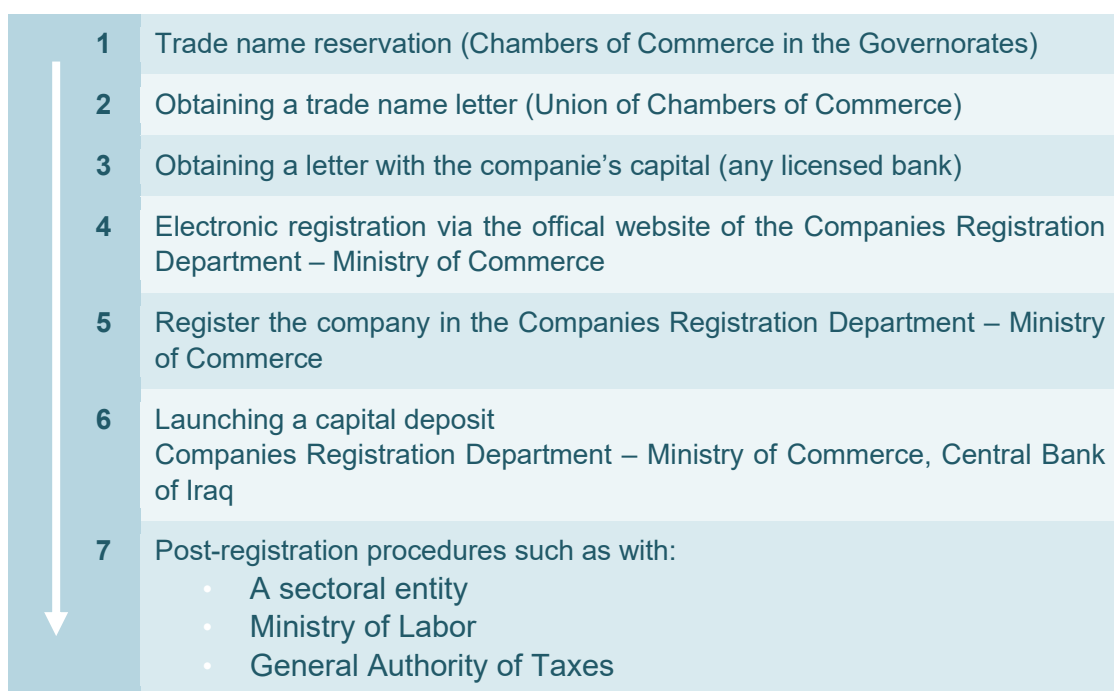
Source: World Bank Doing Business 2020, Economic Profile: Iraq.

The relatively high cost of registering businesses and formal procedures creates incentives for tax evasion and corruption, ultimately reducing lending to the private sector. Financial institutions tend to focus on lending to formal micro, small and medium-sized enterprises (MSMEs), although personal lending for business purposes may still be viable, through borrowing in the individual's name.

The prevalence of informal businesses poses a challenge for formal private companies, as informal private companies typically evade taxes, among other potential forms of regulatory avoidance.

The Iraqi government has taken several measures regarding business registration to facilitate local and foreign business registration procedures through an online portal on the official website of the Companies Registration Department – Ministry of Trade. Figure (10) illustrates the current key steps in the company registration process.

Figure 10: Key Steps in the Company Registration Process



Additional legal obstacles to enhancing financing for the private sector and micro, small and medium enterprises

Currently, legal procedures for financial institutions in Iraq are not straightforward and easy, even though Iraq has branches of civil courts that exclusively handle commercial cases. As a result, banks' dealings with legal procedures are cumbersome, time-consuming, and relatively costly (i.e., with transaction costs for the bank rising).

In many countries around the world, small claims courts efficiently handle related legal procedures, for example, foreclosure. Effective small claims courts specialize in civil and commercial suits often specifically addressing relatively small amounts of money, particularly monetary compensation issues. Small claims courts typically follow quick and

simplified procedures to reduce costs and speed up resolution, and lawsuits are often settled by municipal courts or judges in a single day.

Moreover, the Iraqi legal system is burdensome concerning matters related to business insolvency, business rescue, and reorganization.

Fourth: Constrains and opportunities for bank lending in Iraq – SWOT analysis

Summary of restrictions on private sector financing

The preceding can be summarized by identifying several significant constraints hindering the provision of more financing to the private sector in general, and micro, small and medium-sized enterprises (MSMEs) in particular. It is expected that addressing some or all of these constraints (which is the ultimate goal of this strategy) will have a positive impact on directing more financial funding towards the private sector. The main constraints facing private sector financing identified in Iraq include:

First: Weaknesses

S	W
O	T

- Iraq currently lacks a unified national classification for enterprises, making it difficult to gather data and statistics on the market and financial sector according to the classification of these enterprises. This hinders understanding the potential impact of various strategic measures on the MSMEs sector.
- Additionally, the legal and institutional frameworks related to property rights, business registration, contract enforcement, debt collection, foreclosure, financial transparency, corruption, and others pose challenges to the business environment in general and to banks lending to the private sector in particular.
- The International Monetary Fund has noted that "these factors make it difficult for banks to manage risks effectively and complicate asset recovery procedures in case of default."¹³
- Guarantees pose a significant challenge to private sector financing, especially for micro, small and medium-sized enterprises (MSMEs) that typically own movable assets such as equipment and inventory. However, banks usually require either a personal guarantor with a steady income (the sponsor) or collateral in the form of fixed assets such as real estate, or both.
- The absence of a registry for movable guarantees prevents MSMEs from relying on the assessed value of their core assets, such as equipment and vehicles, to obtain financing.
- The weak credit history (especially about historical credit information on micro, small and medium enterprises), the prevailing informal nature them, as well as the weak financial reports of many of these enterprises, make information asymmetry a major challenge that hinders bank lending to them.
- The banking sector's lack of appropriate (small) credit techniques, such as (experience in lending based on cash flow to micro, small, and medium enterprises) and dealing with them in the same way with large enterprises, led to a lack of credit offered to these enterprises, in addition to their high cost.

¹³ International Monetary Fund, Country Report No. 19/249, 2019, . p. 40.

- The increase in non-performing loan ratios in the private sector - which partially depends on the factors mentioned above - leads to the inhibition of private sector lending by banks, especially in light of limited refinancing options exceeding the Trillion Dinar Initiative (which recently included lending to other sectors) and insufficient credit guarantee programs and risk-sharing.
- Limited branch networks and human resources for banks in Iraq, cause weak lending to the private sector in general and micro, small and medium enterprises in particular, as Iraqi banks have a limited presence in the governorates and digital banking services and financial inclusion are still weak.
- Non-bank financing institutions in Iraq are limited, with a small and largely unorganized microfinance sector, a lack of leasing companies, and a scarcity of financial technology. This lack of diversity in financial service providers reduces incentives for innovation and the potential for competitive business models that may more effectively serve marginalized sectors (e.g. micro and small enterprises, those in remote areas, etc.).
- The weak desire of enterprise owners to go to the banking sector to obtain financing due to complex procedures and banks' unwillingness to bear risks, in addition to weak banking awareness and marketing campaigns for the financial services they provide.
- Poor financial knowledge of micro, small and medium enterprise owners.

Second: Threats

S	W
O	T

- Absence of market-oriented economic policy and weakness in public policies.
- Small size of the private sector, and financial, managerial, and accounting weaknesses in the business sector.
- Weak business environment, with Iraq ranking low in the Ease of Doing Business Index, leading to private sector inclination towards marginal business activities and reduced interest in credit in productive sectors.
- MSMEs in Iraq are often somewhat informal (not fully registered or not registered at all) due to cumbersome registration processes or tax evasion, which restricts bank lending to them.
- Lack of awareness within the banking sector about the importance of diversifying revenue sources and managing budgets in a way that enhances the financial position of the bank. A significant portion of the banking sector's activities is focused on exploiting exchange rate gaps or financing government debt as low-risk, high-profit opportunities compared to credit activities, limiting the expansion of this sector.
- Cash leakage and the increase in the proportion of cash outside the banking system lead to a decrease in available financial resources for lending and dominance of the cash economy.
- The limited role of the stock market in providing savings channels that contribute to financing the private sector and expanding its financial capabilities.

- Weak legal framework for protecting bank rights in settling default cases and difficulties in taking legal action.
- Government institutions' reluctance to engage with the private banking sector.
- Presence of informal entities engaged in lending activities.
- Wide public aversion to dealing with the banking sector due to various reasons including lack of trust and financial literacy.
- Increasing speculation in real estate, dollars, and precious commodities at the expense of saving and investing in the banking sector.

Summary of available opportunities for expanding banking credit

By analyzing the government's orientation towards economic reform and assessing the current situation of the financial and banking sector, it is possible to identify a set of strengths and opportunities available to increase financing for the private sector.

Third: Strengths

S	W
O	T

- + Freedom to set interest rates by the banking sector
- + Availability of extensive and continuous training and development programs for bank employees
- + Provision of technical support by the central bank for the financial and regulatory infrastructure of the banking sector, including the implementation of the following:
 - Electronic platform for guarantee letters
 - Banking Supervision and Reporting System (BSRS)
 - Implementation of the project to localize the salaries of government employees to expand financial inclusion
 - Promoting a culture of electronic payment among economic units
 - Adopting electronic payment mechanisms for collection and taxation in public institutions
 - Implementing prudential control standards by Basel III regulations
- + Presence of a deposit insurance company with the participation of all banks
- + Existence of a bank guarantees company to guarantee loans granted (small and medium-sized enterprises)
- + The existence of a centralized credit information database (CBS) at the central bank
- + Presence of risk management, compliance, anti-money laundering, and internal control departments in all banks
- + Banks' application of international accounting standards
- + Application of international standards for financial reporting

- + Application of the CAMEL banking evaluation system with its elements: capital adequacy, asset quality, management, and profitability

Fourth: Opportunities

S	W
O	T

- + Expansion of the business sector and investment in Iraq and the need for financing
- + Availability of abundant human resources, significant financial resources, and diverse natural wealth
- + Central Bank launching several initiatives for banks to provide loans to the private and familial sectors at nominal interest rates
- + Existence of a national plan for financial inclusion, expanding the number of individuals and companies dealing with the financial and banking sector
- + Existence of a unit dedicated to monitoring and developing the microfinance sector at the central bank, coordinating efforts in this field within the banking sector's scope.
- + Increasing numbers of banks receiving ratings from accredited international credit agencies, enhancing confidence in them.
- + Increasing the capital of the Iraqi Company for Bank Guarantees and developing its guarantee programs.
- + Supporting the establishment of a pioneering bank to finance micro, small and medium-sized enterprises.
- + Supporting the establishment of an integrated financial centre in Baghdad.
- + Supporting the establishment of a national electronic payment company contributing to increased financial inclusion and the development of financial infrastructure.

Fifth: Objectives and Strategic Measures

In line with national priorities and best international practices, the Central Bank of Iraq has developed this strategy in collaboration with relevant national entities and international organizations supporting efforts to address regulatory and technical obstacles affecting lending activities (both productive and consumptive) in Iraq, addressing both supply and demand sides, and attempting to bridge financing gaps to meet the needs of various economic sectors. This is achieved through the establishment of a roadmap and indicative preferences guiding various domestic and foreign financial institutions to support and develop micro, small and medium-sized enterprises.

To begin addressing the credit gap and the financing gap for micro, small and medium-sized enterprises, the Central Bank of Iraq has set two main objectives to reduce these gaps.

First	Increase credit granted to the private sector by 4% of the non-oil GDP by 2029, equivalent to approximately 7 trillion dinars.
Second	Increase credit granted to small and medium-sized enterprises by 3% of the non-oil GDP by 2029, equivalent to approximately 5 trillion dinars (55% of the estimated gap), funding approximately 100,000 enterprises.

5.1 The main axes and sub-strategic objectives

Achieving this goal requires specifying more detailed "sub-strategic objectives" to address the various constraints outlined in this strategy to provide a more conducive environment for lending to the private sector. Based on this, the Central Bank of Iraq has identified the following twenty sub-strategic objectives, which fall under five thematic areas and are further detailed in tables (14-18).

Table 13: The main axes and sub-strategic objectives

<p>The First Axis: Data Collection and Knowledge Management</p> <ul style="list-style-type: none"> • Develop and issue a unified classification and definition for enterprises • Collect diverse data about enterprises in Iraq according to the unified classification • Collect comprehensive data on credit granted in the economy • Establish and regularly update estimates of financing gaps for micro, small, medium, and large enterprises
<p>The Second Axis: Legal and Regulatory Framework</p> <ul style="list-style-type: none"> • Encourage effective official registration of private sector companies • Enable lenders to more effectively enforce guarantees

- Enhance an effective commercial court system (for small claims)
- Improve the corporate bankruptcy system

The Third Axis: Financial Sector Development

- Encourage the banking sector to provide more financing to the private sector (with a focus on MSMEs)
- Develop the credit registry for borrowers
- Provide a conducive environment for non-bank financial institutions to fulfil their role in enterprise financing
- Encourage the use of financial technology and electronic payment in transactions and economic activities

The Fourth Axis: Enhancing Financing for Small and Medium-Sized Enterprises

- Continuing to support financing for micro, small and medium-sized enterprises within the Trillion Dinar Initiative
- Completing the establishment of the Loan Guarantee Institution, which focuses on guaranteeing loans for micro, small and medium-sized enterprises
- Hosting the Arab Entrepreneurship Summit 2027
- Enhancing the diversity of products and services available for micro, small and medium-sized enterprises in financial institutions
- Building lending capabilities and technologies for small and medium-sized companies in financial institutions

The Fifth Axis: Financial Inclusion for Micro, Small and Medium-Sized Enterprises and Illiteracy Eradication

- Promoting awareness to enhance access to financial services
- Improving financial literacy for owners of micro, small and medium-sized enterprises and enhancing knowledge of financing opportunities
- Enhancing the provision of non-financial services for micro, small and medium-sized enterprises through national and international partnerships

5.2 Measures and Action Plans

Each core Axis and its relevant sub-strategic objectives will be described in further detail, including the statement of actions and expected outputs.

The First Axis: Data Collection and Knowledge Management

Collecting data and managing knowledge covers an important aspect, ensuring the availability of an integrated and updated database of enterprises and credits that can be referenced in economic analysis and estimation of financing gaps, as well as identifying various targets for economic policies according to the state's general direction. This also complements various developmental strategies initiated by national partners to design appropriate policies that align with the reality and structure of the Iraqi economy.

Table 14: Sub-Strategic Objectives, Actions, Outputs, and Responsible Entities for Data Collection and Knowledge Management

Sub-Objectives	Actions	Outputs	Responsible Entities
Develop and issue a unified classification for enterprises	The participation with stakeholders to adopt a unified classification for enterprises based on the best international practices and tailored to the structure of the Iraqi economy, and to generalize the new definition to banks and non-banking lending institutions, demanding their classification of clients accordingly to move forward.	Unified classification of enterprises	<ul style="list-style-type: none"> Central Bank of Iraq Ministry of Commerce The Ministry of Planning The Ministry of Labour and Social Affairs Other stakeholders (banks, microfinance institutions, industry, agricultural and trade associations, etc.)
Collecting various data on enterprises in Iraq according to the unified classification and publishing it in an annual report	Directing banks and non-banking financial institutions to provide data and statistics on credit granted to enterprise according to the unified enterprise classification, as well as diverse data and statistics on the granted credit and its various fields, with the Central Bank of Iraq guiding the preparation of this data.	An annual report from the Central Bank of Iraq on enterprise financing and classification Credit and its fields	<ul style="list-style-type: none"> Central Bank of Iraq Banks Non-banking financial institutions Ministry of Labor Department of Non-Governmental Organizations
Create and regularly update the	Conducting exploratory surveys in conjunction with national and international	Methodology for calculating the financing gap	<ul style="list-style-type: none"> Central Bank of Iraq National Partners

MSME financing gap estimate to be tracked over time	partners and determining the appropriate methodology for calculating the financing gap for enterprises	for enterprises based on bank data and surveys	<ul style="list-style-type: none"> International partners
	Calculate the SME financing gap based on this methodology and define an approach to regularly update and monitor it over time (with regular annual reporting to the public)	Determine the financing gap for enterprises and include it in the reports prepared for this purpose	<ul style="list-style-type: none"> Central Bank of Iraq National Partners International partners

The Second Axis: Legal and Regulatory Framework

Legislation and regulation cover issues that require changes in the law or its application to benefit companies or private sector lenders to facilitate increased private sector lending. It is worth noting that all of these measures require coordination between the Central Bank of Iraq and other ministries, which will be established through specific working groups.

Table 15: Legal and Regulatory Framework Subsidiary Objectives, Measures, Outputs, and Responsible Entities

Sub-Objectives	Actions	Outputs	Responsible Entities
Encouraging effective official registration of private sector companies	Establish a working group to study how to simplify the steps required to establish and register formal private sector businesses in Iraq, with potentially specialized processes for MSMEs	Simplified procedures for MSMEs to start or register a business	<ul style="list-style-type: none"> Central Bank of Iraq Federation of Chambers of Commerce Company Registration Department, Ministry of Labor Ministry of Labor Ministry of Finance Council of Ministers
	Establish a temporary moratorium on fees and taxes (e.g. 3 years) for SMEs that register to promote and incentivize registration.	Create and declare a stop	<ul style="list-style-type: none"> Ministry of Finance Baghdad Governorate Central Bank of Iraq Federation of Chambers of Commerce Company Registration Department Ministry of Labor
Empowering lenders to more effectively enforce guarantees.	Facilitating the transfer of land ownership to industrial institutions that currently possess land designated as agricultural (to encourage additional usage).	Land transfer and possible legal reform	<ul style="list-style-type: none"> Central Bank of Iraq Ministry of Justice Ministry of Finance

	<p>Establishing a task force to initiate communication with the Ministry of Finance and the Ministry of Justice to coordinate improvements to the legal frameworks related to debt enforcement and collateral seizure. This includes, among other things:</p> <ul style="list-style-type: none"> • Amending the law to allow creditors to directly allocate registered collateral (rather than the current public auction process) • Allowing eviction in certain cases to enhance properties as collateral • Enhancing cooperation and capabilities with public transportation authorities to seize vehicle collateral • Simplifying travel ban decisions and asset seizure within 24 hours, and so forth 	<p>Improving the regulatory framework for debt enforcement and guarantees (amending a law or new laws)</p>	<ul style="list-style-type: none"> • A work team with implementation Authority from the • Central Bank of Iraq • Ministry of Finance • Ministry of Justice
	<p>Develop and create a register of transferred guarantees</p>	<p>Create a register of transferred guarantees</p>	<ul style="list-style-type: none"> • Central Bank of Iraq • Ministry of Finance • Ministry of Justice • Ministry of Transportation • Ministry of Interior – Traffic department
	<p>Enhancing professionalism and standardizing real estate appraisal through providing training.</p>	<p>Increase the number of qualified real estate evaluators</p>	<ul style="list-style-type: none"> • Central Bank of Iraq • International partners
<p>Improving the insolvency and default system for companies</p>	<p>Establish a working group to initiate liaison with the Ministry of Finance and the Ministry of Justice to explore improvements in dealing with corporate (or SME) liquidation, business rescue, rehabilitation, insolvency, etc.</p>	<p>Improving the regulatory framework of the insolvency system (new law or laws)</p>	<ul style="list-style-type: none"> • A working team with implementation Authority from the • Central Bank of Iraq • Ministry of Finance • Ministry of Justice • Ministry of Planning • Company Registration Department

The Third Axis: Financial Sector Development

This axis covers the operations and techniques of financial institutions, both banking and non-banking, with small and medium-sized enterprises, encouraging the use of financial technology and electronic payment methods for various financial transactions for the public to facilitate these operations and provide the appropriate infrastructure for them. It is worth noting particularly that the measures under this axis are independently implemented by the Central Bank of Iraq, based on its role in regulating and supervising the financial sector and providing suitable infrastructure.

Table 16: Financial Sector Development Subsidiary Objectives, Measures, Outputs, and Responsible Entities

Sub-Objectives	Actions	Outputs	Responsible Entities
Encouraging the banking sector towards more financing of the private sector (focusing on MSMEs)	Conduct a detailed review of all controls and instructions related to financing micro, small and medium enterprises, to remove the determinants restricting the expansion of the credit granting process.	A unified document for banking controls and instructions related to the process of financing micro, small and medium enterprises	<ul style="list-style-type: none"> Central Bank of Iraq Banks Non-banking financial institutions
	Studying the determination of specific percentages of the total credit portfolio of banks to allocate to micro, small and medium enterprises, and granting the banks a period commensurate with this strategy to achieve them.	Determine a standard percentage of the total credit portfolio allocated to financing micro, small and medium enterprises	<ul style="list-style-type: none"> Central Bank of Iraq Banks
	Directing banks to submit an annual work plan for planned credit based on the previous year's data, indicating the amount of financing allocated to micro, small and medium enterprises according to the specified percentage.	Micro, small and medium enterprise portfolio statistics from every bank in Iraq	<ul style="list-style-type: none"> Central Bank of Iraq
	Reviewing commissions and additional costs on micro, small and medium enterprise financing transactions	Determine commissions and additional costs	<ul style="list-style-type: none"> Central Bank of Iraq
Developing borrowers' Credit Registry	Project to establish a credit information office (joint stock company)	Providing a credit inquiry service for lending institutions by instructions and controls to study credit risks	<ul style="list-style-type: none"> Central Bank of Iraq International partners

	Supporting the Credit Reporting Bureau (CRB) in enhancing the mechanism for collecting and verifying data collected from banks.	Improving the collection and verification mechanism	<ul style="list-style-type: none"> • Central Bank of Iraq • International partners
	Creating awareness campaigns to inform the public about the importance of credit records and their impact on the ability to obtain credit.	Public awareness campaigns throughout Iraq	<ul style="list-style-type: none"> • Central Bank of Iraq • National partners • International partners
Providing the appropriate environment for non-banking financial institutions to exercise their role in financing enterprises	Reviewing the regulations and guidelines related to regulating the operations of small and medium-sized enterprises finance companies to identify areas that need development and reform in their legal and regulatory framework. This is to enable them to play a greater role in providing financing for micro, small and medium-sized enterprises.	Review the current legal framework through dialogue with existing small and medium-sized companies compare it with other similar countries, and make the necessary amendments, if any	<ul style="list-style-type: none"> • Central Bank of Iraq • Non-banking financial institutions • International partners
	Encouraging the establishment of new finance companies for small and medium-sized enterprises or transferring smaller financing institutions from the oversight of the Department of Non-Governmental Organizations to be under the supervision of the Directorate of Supervision of Non-Bank Financial Institutions under the Central Bank of Iraq.	Establishing/transferring at least two new companies to finance SMEs, with the possibility of obtaining foreign support	<ul style="list-style-type: none"> • Central Bank of Iraq • International partners
	Establishing a legal and regulatory framework allows for the establishment of leasing finance companies and consumer finance companies to diversify the activities of non-banking financial institutions to develop the financial sector.	Formulating the regulatory framework for this type of activity	<ul style="list-style-type: none"> • Central Bank of Iraq
Encouraging the use of financial technology and	Updating and disseminating the detailed electronic payment strategy along with the operational action plan.	The updated payment strategy has been uploaded to the Central Bank's website	<ul style="list-style-type: none"> • Central Bank of Iraq

electronic payments in transactions and economic activities	Coordinating with technical entities to solve issues related to point-of-sale device connectivity.	Payment connection improvements	<ul style="list-style-type: none"> Central Bank of Iraq Technical entities for points of sale
	Implementing awareness campaigns to promote the deployment of point-of-sale terminals and highlighting the benefits to merchants and service centres.	Campaigns continue	<ul style="list-style-type: none"> Central Bank of Iraq Stakeholders from all governmental institutions, private and public economic institutions
	Engaging with international organizations to provide training for electronic payment employees and participate in international experiences to enhance supervision and licensing.	Developing the capabilities of electronic payment employees at the Central Bank of Iraq.	<ul style="list-style-type: none"> Central Bank of Iraq International partners
	Improving supervision of payment service providers by creating realistic reports supported by in-depth data analysis of electronic payment transactions, leading to a deeper understanding of transaction volumes, geographic distribution, concentrations, and transaction nature.	Publishing quarterly analytical reports on payments.	<ul style="list-style-type: none"> Central Bank of Iraq

The Fourth Axis: Enhancing Financing for Micro, Small and Medium-Sized Enterprises

This axis covers directing banking and non-banking financial institutions to increase financing for micro, small and medium-sized enterprises and developing the capabilities of their employees to deal with this type of financing. It also involves establishing a development bank specializing in financing such enterprises, as well as a loan guarantee company focused on addressing collateral challenges, reducing credit risks, and enhancing capabilities. It is worth noting particularly that all of these measures require coordination between the Central Bank of Iraq and relevant entities, which will be established through specific task forces and direct updates.

Table 17: Enhancing Financing for Small and Medium-Sized Enterprises Subsidiary Objectives, Measures, Outputs, and Responsible Entities

Sub-Objectives	Actions	Outputs	Responsible Entities
Continuing support for financing micro, small and medium enterprises within the One Trillion Dinar Initiative	Renewing the workflow of the initiative to create strict oversight over the utilization of the Trillion Dinar Initiative for financing micro, small, and medium-sized enterprises exclusively.	A specific percentage of the Trillion Dinar Initiative funding is allocated to small and medium-sized companies.	<ul style="list-style-type: none"> Central Bank of Iraq
	Expanding the types of accepted collateral within the Trillion Dinar Initiative.	New directives worth a trillion dinars have expanded the collateral system (including movable assets).	<ul style="list-style-type: none"> Central Bank of Iraq
	Focusing efforts on enhancing export-oriented businesses within the framework of the Trillion Dinar Initiative, tracking export orientation in statistics, and exploring the possibility of offering preferential rates to banks for exporting companies.	The new trillion-dollar directives focus on export-oriented companies.	<ul style="list-style-type: none"> Central Bank of Iraq Federation of Industries
Completing the Loan Guarantee Corporation project, which focuses on guaranteeing loans for micro, small and medium enterprises	A strategic technical committee to discuss the establishment of a loan guarantee company for micro, small and medium-sized enterprises and/or reforming the Iraqi Company for Guaranteeing Bank Deposits (ICBG).	Determine the direction to enhance risk-sharing plans between credit providers and the loan guarantee company	<ul style="list-style-type: none"> Central Bank of Iraq ICBG International partners
Completion of the Riyadh Bank project (Dedicated SME development bank)	A strategic technical committee to establish Riyadh Bank, which focuses on financing micro, small and medium-sized companies using the latest financial technologies	Establishing the bank.	<ul style="list-style-type: none"> Central Bank of Iraq Al-Riyadh Bank shareholders
Enhancing the diversity of products and services	Conduct an analysis of all financial products and services related to micro, small and	Conducting a diagnostic report on the available financial products for	<ul style="list-style-type: none"> Central Bank of Iraq Banks

available to micro, small and medium enterprises in financial institutions	medium-sized companies and available in banks at present	micro, small and medium-sized enterprises.	<ul style="list-style-type: none"> • International partners
	Identifying potential financing needs, with a particular focus on working capital-related products, overdraft facilities, Sharia-compliant products, leasing, factoring, consumer finance, enterprise finance, contract finance, etc., and developing a strategy to address these needs.	Developing a strategy to enhance financial products.	<ul style="list-style-type: none"> • Central Bank of Iraq • Private banks • International partners
	Updating potential supported funding sources (donor organizations), linking supported funding with risk-sharing by providing some products or conditions needed by micro, small and medium-sized enterprises.	Reviewing initiatives by the central bank and others, as well as their mechanisms of risk-sharing (such as new public social guarantee programs), to provide new products for financing micro, small and medium-sized enterprises or offer preferential conditions.	<ul style="list-style-type: none"> • Central Bank of Iraq • Private banks • International partners
Building lending capabilities and techniques for micro, small and medium enterprises in financial institutions	Continuing to build capacity regarding cash flow-based lending methods relevant to financing small and medium-sized enterprise by establishing implementation and training programs for selected private banks.	Continuing capacity-building projects for employees of banks and micro, small and medium-sized enterprise finance companies.	<ul style="list-style-type: none"> • Central Bank of Iraq • Private banks • Non-banking financial institutions • International partners
	Enhancing specialized lending units for micro, small and medium-sized enterprise in banks.	Increasing the average number of employees in micro, small and medium enterprise units per bank on an annual basis (based on the current standard).	<ul style="list-style-type: none"> • Central Bank of Iraq • Private banks • International partners
	Simplifying and expediting procedures for granting micro, small and medium-sized loans to small and medium enterprises (varied approvals).	Awareness campaigns in banks about the benefits of diverse and simplified operations.	<ul style="list-style-type: none"> • Central Bank of Iraq • Private banks • International partners

The Fifth Axis: Financial Inclusion for Micro, Small and Medium-Sized Enterprises and Illiteracy Eradication

This axis covers the framework of financial inclusion in the economy, mechanisms, and plans to enhance access to financial services and financial literacy by the public and enterprise stakeholders. The measures under this theme are implemented in coordination between the Central Bank of Iraq and relevant entities, which will be established through specific task forces and continuous updates.

Table 18: Financial Inclusion for Small and Medium-Sized Companies and Illiteracy Eradication Subsidiary Objectives, Measures, Outputs, and Responsible Entities

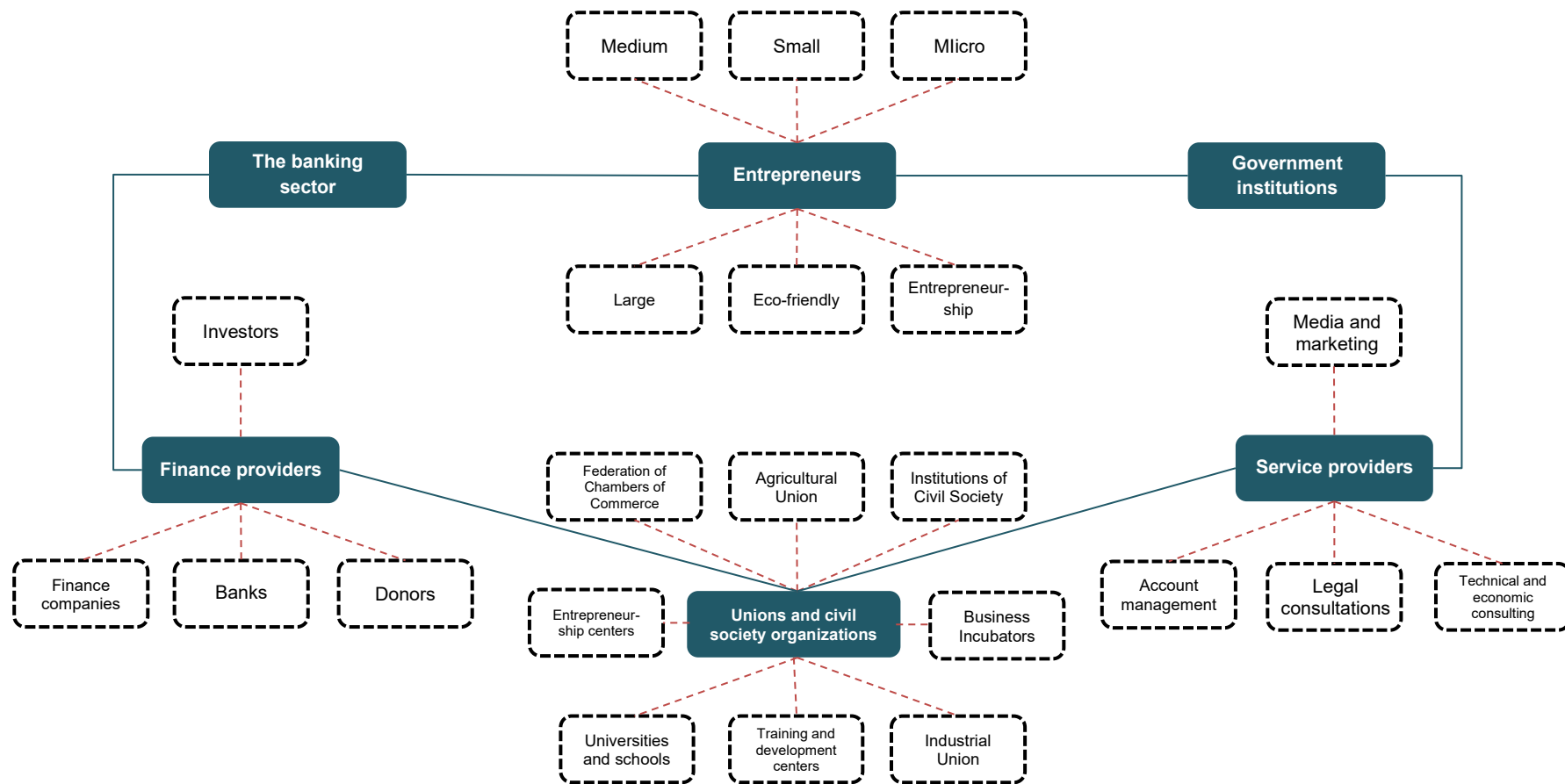
Sub-Objectives	Actions	Outputs	Responsible Entities
Spreading awareness to enhance access to financial services	Encouraging micro, small and medium-sized enterprises to open bank accounts by: <ul style="list-style-type: none"> Reviewing anti-money laundering and counter-terrorism financing procedures as much as possible to reduce bureaucracy and obstacles hindering the opening of accounts at banks. Launching awareness campaigns to encourage the public to open bank accounts and clarify the role of deposit guarantee companies and the benefits of dealing with banks. 	Increasing the number of open enterprise accounts and increasing the percentage of financial inclusion	<ul style="list-style-type: none"> Central Bank of Iraq Banks International partners
	Engaging with national and international entities to increase awareness of different financing options, advantages, and products.	Conducting awareness campaigns and providing guidance materials on financial services, banking awareness, and understanding the mutual rights between banks, non-banking financial institutions, and the public.	<ul style="list-style-type: none"> Central Bank of Iraq International partners
	Directing banks to provide expansion plans (branches, ATMs, etc.) in their strategies.	Increasing the number of branches, ATMs, point-of-sale terminals,	<ul style="list-style-type: none"> Central Bank of Iraq Banks

		and other mobile applications.	<ul style="list-style-type: none"> • Non-banking financial institutions
	Directing banks to provide various data on financial inclusion indicators according to guidelines disseminated by the central bank.	Issuing regular reports illustrating the evolution of financial inclusion rates in the economy.	<ul style="list-style-type: none"> • Central Bank of Iraq
Improving the financial culture of micro, small and medium enterprise owners and enhancing knowledge of financing opportunities	Managing awareness campaigns targeting owners of micro, small and medium enterprises about the steps and advantages of officially registering their businesses.	Increasing the proportion of official economic institutions in the economy (formalization of the economy).	<ul style="list-style-type: none"> • Central Bank of Iraq • Companies Registration Department • International partners
	Hosting seminars and conferences and increasing training provided to micro, small and medium-sized enterprise owners, especially on how to obtain financing (such as registration and financial data), as well as consumer rights.	Spreading financial culture among the public in general and micro, small and medium enterprise owners in particular	<ul style="list-style-type: none"> • Central Bank of Iraq • International partners • Banks • Educational institutions • Federations of industry and agriculture, chambers of commerce and others
Enhancing the delivery of non-financial services to micro, small and medium enterprises through partnerships	Encouraging banking and non-banking financial institutions to provide non-financial services to the public (such as consultations, financial literacy and project management training, feasibility studies, etc.), in addition to offering credit and other financial services. Networks of financial service providers can be established.	Establishing networks for national financial service providers who can offer services such as business development, legal counselling, financial literacy, reference information, and more.	<ul style="list-style-type: none"> • Central Bank of Iraq • International partners • Non-financial service providers and business associations
	The central bank, through investment, can particularly support a campaign to provide non-financial services and other necessary services to small and medium-sized enterprises led by traditionally marginalized groups (such as women, youth, minorities, etc.).	The campaign has been designed and implemented to increase financial literacy among traditionally marginalized groups.	<ul style="list-style-type: none"> • Central Bank of Iraq • International partners • Non-financial service providers and business associations

Sixth: Governance and coordination

The presence of an effective governance and coordination structure is of paramount importance for implementing this strategy to increase lending to the private sector in Iraq. This strategy will be implemented through a consultative and participatory process, involving all relevant stakeholders, under an effective governance structure led and supervised by the Central Bank of Iraq.

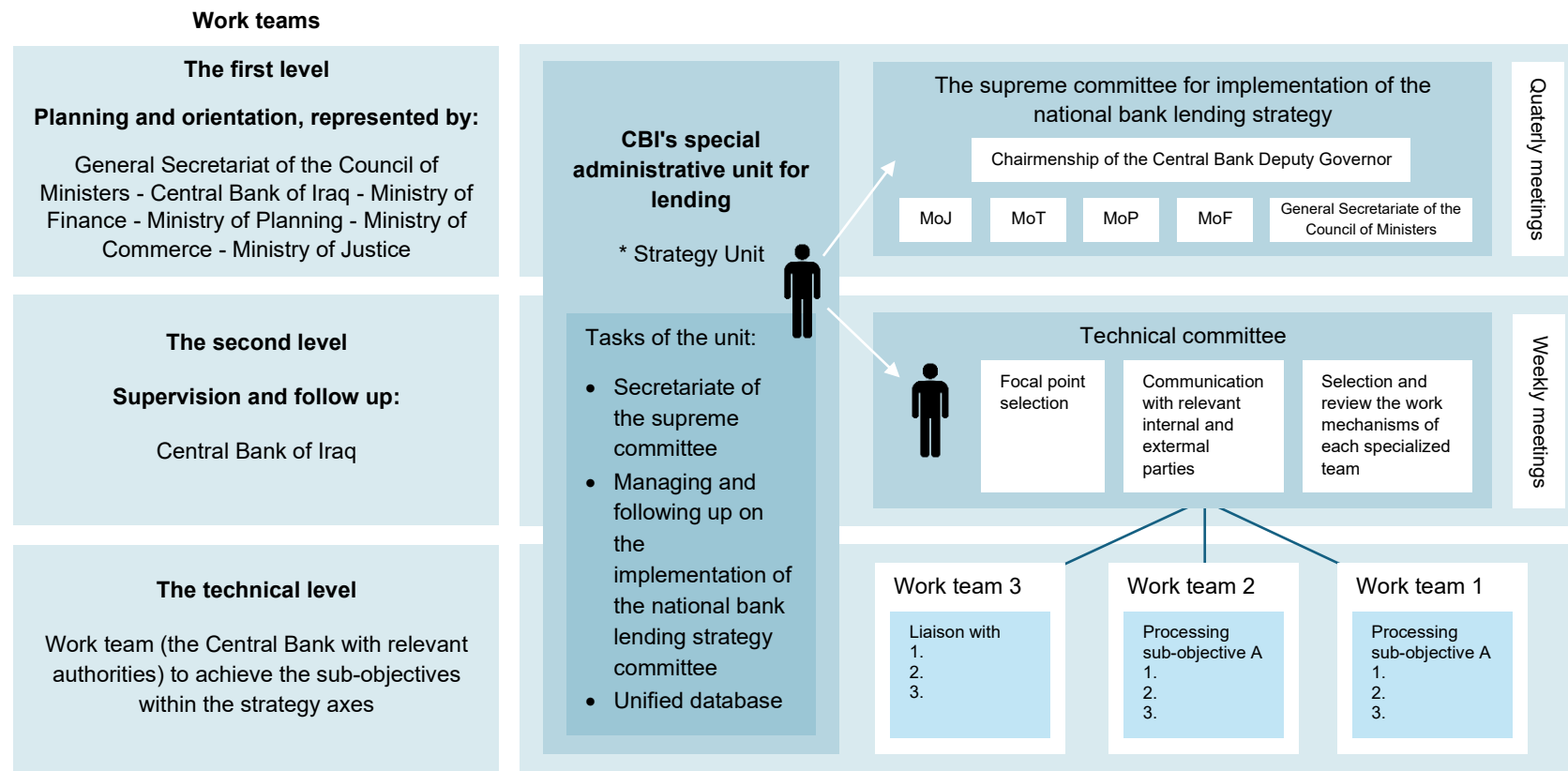
First: The main stakeholders in implementing the National Strategy for Bank Lending (Figure 11)



Second: Matrix of responsibilities and coordination

The Central Bank of Iraq directs stakeholders through the National Lending Strategy Implementation Committee, coordinates with them through the Technical Committee, consults with them in working groups, and provides necessary support through the relevant lending administrative structure, overseeing the lending process at the Central Bank of Iraq.

Figure 12: Governance Structure for Implementing the Lending Strategy



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List of abbreviations

AML	Anti-Money Laundering
ATM	Automated Teller Machine
BMZ	German Federal Ministry for Economic Cooperation and Development
CBI	Central Bank of Iraq
CFT	Combating the Financing of Terrorism
CIED	Credit Information Exchange Department
CSO	Central Statistical Organization for Iraq
EU	European Union
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
ICBG	Iraqi Company for Bank Guarantees
IFC	International Finance Corporation
IFI	Iraqi Federation of Industries
IMF	International Monetary Fund
IQD	Iraqi Dinar
MENA	Middle East and North Africa
MFI	Microfinance Institution
MoP	Ministry of Planning
MSMEs	Micro, Small, and Medium Enterprises
NBFI	Non-Banking Financial Institution
NDP	National Development Plan 2018-2022
NFS	Non-Financial Services
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
POS	Point of Sale
PSDP-I	Private Sector Development Program in Iraq
PSDS	Private Sector Development Strategy
SOB	State-Owned Bank
SOE	State-Owned Enterprises
USAID	United States Agency for International Development
USD	United States Dollar

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