

The Republic of Iraq  
Central Bank of Iraq

# National Financial Inclusion Strategy 2025 – 2029

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## 1. EXECUTIVE SUMMARY

**Iraq's National Financial Inclusion Strategy (NFIS) aims to improve financial access through coordinated efforts among stakeholders.** Building on the Central Bank of Iraq (CBI) recent efforts to modernize the financial sector and establish a more enabling regulatory and operating framework for digital payments, the NFIS vision is to *"promote access to and usage of quality financial services and products, including through digital channels, to all segments of the population in Iraq, especially to marginalized segments including women, youth and MSMEs, so that they can better manage their financial lives and enhance their livelihoods, and to ensure that these services are extended in a way that guarantees consumers' empowerment"*.

**Key financial inclusion issues in Iraq comprise low account ownership and usage, access challenges, barriers to MSME finance, and limited financial literacy.** The state-owned banks, which dominate the financial sector, are undergoing restructuring, and the progress with this process and its eventual completion will be critical for financial inclusion. Women's inclusion is also constrained by social and economic barriers. One of the NFIS key goals is to increase bank or e-money account ownership to 50 percent by 2030, up from the current 11 percent primarily found among urban, higher-income, educated, non-displaced individuals, and employees. Building on CBI's commitment to ban discrimination in financial services, another of the NFIS goals is to halve the gap in account ownership between women and men to 3.5 percentage points. The third goal is to increase to 85 percent the proportion of Iraqis making digital payments

**The Iraq NFIS objectives and policy areas are presented in a conceptual framework which is based on the global experiences with development of financial inclusion strategies.** The framework includes strategic pillars as major areas of intervention to achieve the NFIS vision, along with foundational enablers to help achieve progress in these areas.

**Implementation of NFIS will rely on three strategic pillars: wide range of financial service providers, products, and access points; improved trust and awareness; and innovative digital financial services and fintech solutions that improve the cost-effectiveness and accessibility of products.** This would be achieved by: (i) an enhanced regulatory framework for non-bank financial institutions, strengthened agent networks leveraging existing *manafez* (local agents which serve as access points), and the development of relevant products for savings, credit, insurance, pension, and investment; (ii) strengthening the framework for financial consumer protection and market conduct supervision as it relates to disclosure, transparency, fair treatment, and dispute resolution, and by enhancing individual consumers and MSMEs financial capacities; and (iii) creating a suitable regulatory environment and boosting digital payment adoption for consumer and merchants.

**Three foundational enablers lay the NFIS foundations: the robustness of the financial infrastructure, an enabling legal and regulatory framework, and public and private sector commitment to the NFIS.** This includes: (i) following the development of key payment system infrastructures such as the Automated Clearing House (ACH), the card switch, and the Real Time Gross Settlement (RTGS), improving the credit bureau coverage, operationalizing the national payments strategy, establishing the collateral registry to moveable assets, fostering interoperability between bank and e-money accounts, and ensuring data

privacy and security; (ii) a framework that supports financial innovation, balances financial integrity and access goals, simplifies and standardizes customer onboarding, protects consumers, and fuels credit provision by the private sector; and (iii) close collaboration between government, financial institutions, and technology providers such as quarterly roundtables or joint reviews of key draft documents.

**The NFIS implementation will rely on a governance framework fostering effective oversight and continuous monitoring.** This will be achieved through: (i) a national committee for financial inclusion co-chaired by CBI's Governor to provide overall guidance and strategic direction; (ii) a Financial Inclusion Secretariat based at the CBI to oversee implementation; and (iii) technical working and consultative groups covering each of the strategic pillars and the foundations. In addition, to measure progress towards the NFIS objectives, a monitoring and evaluation system will be designed with a national results framework comprising all actions and their execution timeline, a dedicated technical team, access to high-quality data, and regular NFIS progress updates.

**The NFIS also includes an action plan aimed to be undertaken by CBI in the first 12 months of implementation.** This approach will allow for CBI to focus fully on putting the essential scaffolding in place to stimulate inclusion, before other stakeholders can build further on this with their various initiatives which will be captured in the planned annual work planning exercises.

## 1. INTRODUCTION

**Financial inclusion is a driver of poverty reduction and economic growth.** Access to financial services, beginning with basic transaction accounts, equips individuals and businesses with essential tools to manage risks, withstand economic shocks, build resilience, and invest in their future. At the macroeconomic level, financial inclusion fosters improved financial health, job creation, and economic development.

**Achieving comprehensive financial inclusion, however, requires coordinated national efforts, including policy reforms, private sector innovation, and the protection of financial consumers.** Countries that have made substantial progress in this area often do so through strategic, multi-stakeholder approaches, combined with strong national commitments to stability, integrity, and consumer protection in financial systems.

**This document outlines Iraq's National Financial Inclusion Strategy (NFIS), offering a medium-term framework for various financial sector stakeholders to collaboratively enhance financial inclusion.** Successful NFIS implementation requires strong leadership and continuous coordination among government authorities and both public and private sector stakeholders.

### i. Rationale for National Financial Inclusion Strategy (NFIS) for Iraq

**The adoption of an NFIS has become a widely recognized approach globally, with significant momentum over the past decade.** As of 2021, more than 60 countries had launched an NFIS, and at least 15 were in the process of developing one. The Central Bank of Iraq (CBI) has recognized the need for an NFIS to foster sustainable development and expand formal financial access for underserved segments of the population.

**According to 2024 demand and supply side national financial inclusion diagnostic conducted to inform the development of Iraq's NFIS, only 11 percent of Iraqis live in households with access to a bank account or mobile money account, with higher rates among urban, non-displaced, higher-income, educated individuals, and employees<sup>1</sup>.** Key barriers to account ownership include insufficient funds, high costs, poor customer service, and a lack of trust in financial institutions. Even among account holders, usage is low with 54 percent reporting no transactions in the past month. On the supply side, the national coverage of financial access points for various financial institutional categories lags behind regional peers, further hindering progress. For every 100,000 adults, there are only 4 bank branches as compared to 13 in MENA countries and 10 ATMs per 100,000 adults as compared to 32 in MENA countries<sup>2</sup>. Mobile money agents have a relatively higher presence with 32.17 agent outlets per 1,000 Km<sup>2</sup> in 2022<sup>3</sup>. The 2021 World Bank Findex Database (see Box 1 below) based on the demand-side financial inclusion data indicated a slightly higher financial inclusion (19 percent). Despite some differences in methodological approach both

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<sup>1</sup> National Financial Inclusion Diagnostic conducted by GIZ under Financial Inclusion for the Arab Region Initiative – [FIARI](#) (2024).

<sup>2</sup> Ibid

<sup>3</sup> IMF FAS

diagnostics conclude a low level of financial inclusion warranting the need for directed intervention in Iraq through an NFIS.<sup>4</sup>

**The Iraqi population relies on *Manafez* (“windows” in Arabic) – a network of 8,000 local agents which serve as access points located in most neighborhoods – for their day-to-day financial transactions.** These agents offer a range of financial services, including cash deposits, withdrawals, and transfers. While many salary payments, specifically public sector wages, have transitioned to cards or bank accounts (*tawteen el ma’achat*), most Iraqis still withdraw their salaries and spend in cash to cover daily expenses, instead of using digital payments. This preference is largely due to low merchant acceptance of digital payments and a general distrust of financial institutions.

**In response to these challenges, the CBI has launched multiple initiatives to modernize the financial sector, including new legal and regulatory frameworks for payment service providers, updates to the payments system, and enhanced consumer protection mechanisms.** The CBI’s National Payments Strategy emphasizes the importance of advancing financial inclusion, advocating for increased access to transaction accounts, mobile money, a broader network of agents and ATMs, simplified Know-Your-Customer (KYC) requirements, and banking sector reforms. Financial literacy efforts are also critical to building trust and confidence in the formal financial system.

**Despite numerous efforts, the financial sector continues to face regulatory and market barriers that impede broader financial inclusion.** The demand and supply side diagnostic conducted to inform this strategy, revealed that access and usage of financial services in Iraq remains scant. Gaps in financial inclusion push the most vulnerable towards the informal finance sector, increasing their risk and susceptibility to poverty. Iraq’s financial sector remains dominated by state-owned banks which, while offering retail banking accounts, primarily provide financing to public sector entities and state-owned enterprises and currently undergoing restructuring. Private commercial banks have limited capacity to support financial intermediation. Finally, the non-banking financial sector remains nascent, with small and underdeveloped capital markets, only two regulated MSME finance companies, unregulated non-government organization specialized in microfinance, and an underdeveloped insurance sector.

**In light of these constraints, the development of the NFIS is timely and necessary.** The implementation of NFIS would in turn contribute to the implementation of Iraq Vision 2030 which aims to promote poverty alleviation, inclusive growth, and good governance. Vision 2030 highlights the need for legal reforms in the banking sector, for improved Government-to-Person (G2P) payment systems, and for enhanced access to microfinance.<sup>5</sup> An NFIS thus provides a powerful instrument that enables stakeholders to make sustained progress towards a communal goal.

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<sup>4</sup> According to data from banking and non-banking financial institutions, the total number of bank and electronic accounts reached 16.7 million by the first quarter of 2024. This indicates that a higher proportion of individuals have accounts; however, they may not be effectively utilized, with some duplication of accounts within the same financial institution. Financial services providers’ data also shows that 38 percent of accounts are owned by females, compared to 62 percent by males, resulting in an overall gender gap of 23.7 percent. For the purposes of Iraq’s NFIS, in line with established practices, the headline financial inclusion indicators are based on the nationally representative demand side survey cited in this strategy (see Annex A for details).

<sup>5</sup> [Iraq Vision 2023 – Ministry of Planning](#).

## ii. Definition of Financial Inclusion

**Financial inclusion serves as a catalyst for economic growth, playing a crucial role in a country's overall development.** While it may not eliminate poverty on its own, it empowers individuals to improve their livelihoods. Establishing a clear definition of financial inclusion is essential to foster a shared understanding and common objectives among stakeholders. In line with the vision of the NFIS, the following definition of financial inclusion has been adopted for Iraq's NFIS:

***“Enhancing the access and usage of formal financial services for all segments of the population in Iraq, especially marginalized communities, in an affordable and sustainable manner and ensuring the protection of consumer rights.”***

## iii. Vision

**This vision extends beyond mere access to financial services, emphasizing the need for financially capable consumers who can understand and use products effectively.** The implementation of the NFIS should ensure that expanded access to financial services also includes usage of quality, appropriately designed, and affordable financial products. The vision statement, as agreed upon through CBI consultations, is as follows:

***“To promote access to and usage of quality financial services and products, including through digital channels, to all Iraqis, especially to marginalized segments including women, youth and MSMEs, so that they can better manage their financial lives and enhance their livelihoods, and to ensure that these services are extended in a way that guarantees consumers’ empowerment.”***

## iv. Targets

**An NFIS allows for collective action to meet the specific targets, the most important of which is the percentage of the adult population with access to a formal account as a gateway to other financial services.** These targets should be set based on the analysis of the financial inclusion landscape to establish the baseline, examining the timelines within which the targets are to be achieved, and assessing the level of ambition the public and private sectors may have in reaching certain targets. Target setting is both an art and a science in which target values are set based on several different considerations including, among others, historical growth rate projection(s), peer country averages (regional or income group or both), or high performing peer countries (regional or income group or both), as well as taking into consideration the potential for harnessing rapidly evolving technology. The Iraq NFIS aspires to the following headline targets:

- ***For account ownership, the goal is to reach 50 percent<sup>6</sup> of the adult population with an account at a formal financial institution.***

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<sup>6</sup> This ambitious target is set in the context of a low base and the potential to harness rapidly evolving new technologies to facilitate growth. For regional context, Jordan's level of access is currently at 47 percent after having been at 25 percent in 2014. Similarly, over the same period, Egypt's access grew from 14 percent to 27 percent.

- *Given the disproportionately low level of inclusion for women, the goal is to reduce the gap between men and women to at least 3.5 percentage points<sup>7</sup>.*
- *Increasing the portion of the population that has sent or received a digital payment from 77 percent (Findex) to 85 percent.<sup>8</sup>*

The definition of 'Formal' used in this NFIS is as per the World Bank Findex definition. It requires that: 1) a financial service provider is regulated and supervised by a financial regulator i;<sup>9</sup> 2) the account is a store of value; and 3) the account can make and receive payments.

## 2. CURRENT STATE OF FINANCIAL INCLUSION IN IRAQ

To design effective policies that address underlying challenges and close the gaps in financial inclusion in Iraq, the CBI and the GIZ under FIARI Initiative<sup>10</sup> collaborated on a comprehensive National Financial Inclusion Diagnostic<sup>11</sup> conducted in 2023. The survey aimed to fill existing data gaps and provide a clear picture of the financial inclusion landscape across the country including demand and supply side analysis. The findings from this survey now serve as the baseline for the NFIS and the foundation for setting future targets.

This section provides an overview of the Iraqi financial sector including key players, highlighting key gaps in access and usage. It examines various financial services, including digital finance and MSME financing, and addresses barriers like limited outreach and underserved populations. The focus also extends to quality aspect of financial inclusion, covering consumer protection and financial literacy. The aim is to provide a clear overview of the financial ecosystem and pinpoint areas for improvement.

### i. Financial Sector Overview- Key financial sector players & Ancillary Financial Infrastructure

The financial sector in Iraq remains under-developed and despite presence of a range of actors in the market, dominated by the banking sector which in turn is dominated by state-owned banks. Financial Service Providers include commercial banks, state-owned banks, e-money issuers, MSME finance companies, insurance companies, and microfinance NGOs. Some unregistered credit providers (Money Lenders, Pawn Shops) and Saving Groups also provide financial services. Friends and family members also

<sup>7</sup> In the context where the 2024 diagnostic revealed a one percentage point gap and the 2021 Findex recorded a seven-percentage point gap, the Strategy assumes a more conservative findings and aspires to at least half of the higher recorded gap.

<sup>8</sup> Because payments are often the entryway to account ownership, this would have positive knock-on effects on inclusion.

<sup>9</sup> In Iraq, the Central Bank of Iraq for banks and non-bank financial institutions, and the Iraqi Insurance Bureau (Diwan) for insurance.

<sup>10</sup> The [Financial Inclusion for the Arab Region Initiative](#) (FIARI) is an AMF initiative established under the auspice of the Council of Arab Central Bank and Monetary Authorities Governors, in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, the Alliance for Financial Inclusion, and the World Bank. The Initiative was established amid growing demand from AMF's member countries for tailored solutions to regional financial inclusion issues.

<sup>11</sup> Detailed insights from the diagnostic are included in Annex A.

support each other through the informal provision of financial services such as by facilitating payments and small loans.

**Despite a large number of banks, access points remain limited.** Iraq's financial sector is dominated by seven state-owned banks (SOBs) which are in need of restructuring, and which hold over 80 percent of total assets and 70 percent of total credit. Despite the presence of additional 63 privately-owned banks, including Islamic banks and foreign subsidiaries the overall branch network remains limited, with only 4 branches per 100,000 adults. Branches are concentrated, with nearly half in economic hubs like Baghdad (39 percent) and Basra (8 percent). Privately owned banks' branch network only slightly exceeds that of SOBs (486 vs. 382 branches). Iraq also has one of the lowest ATM coverage rates in the region, with just 10 ATMs per 100,000 adults compared to the Arab regional average of 32.<sup>12</sup>

Table 1: Banking Sector Players in Iraq

|                       | # of entities | Total branches | Branches in Baghdad | Branches in Baghdad (%) |
|-----------------------|---------------|----------------|---------------------|-------------------------|
| State banks           | 7             | ٣٨٤            | ١٤٩                 | 39%                     |
| Private banks         | ٢٣            | ٢٦٩            | ٩٩                  | 37%                     |
| Islamic banks         | ٢٨            | ١٩١            | ٨١                  | 42%                     |
| Foreign banks         | ١٠            | ٢٣             | ١٠                  | 43%                     |
| Islamic foreign banks | ٢             | ٥              | ٢                   | 40%                     |
| State Islamic bank    | ١             | ٤              | ٢                   | 50%                     |
| <b>TOTAL</b>          | <b>71</b>     | <b>876</b>     | <b>343</b>          | <b>39%</b>              |

**Capital markets and the insurance sector are underdeveloped.** Capital markets are small and underdeveloped, with a market capitalization of just 5 percent of GDP and a small fixed-income market (mostly confined to short-term public debt). The insurance sector is dominated by state-owned insurance companies that offer limited products.

**MSMEs access to finance in Iraq is severely restricted.** Despite some attempts to serve MSMEs, the overall available financing remains extremely small as compared to the market needs. Private banks have a small deposit base (IQD 13.1 trillion in 2022, 70 percent of which in current accounts) and are struggling with portfolio quality issues which limits their credit availability (IQD 9.2 trillion in 2022), making them ineffective financial intermediaries for Iraqi economy.<sup>13</sup> The microfinance sector is also underdeveloped, serving less than 1 percent of the adult population, well below regional peers. There are only two licensed MSME Finance Companies under CBI's supervision of modest size (less than US\$10 million). In addition, up to twelve Non-Governmental Organizations (NGOs) registered with the NGO Directorate, which operate through 51 branches, have a portfolio not exceeding US\$ 150 million, providing loans to 77,000 vulnerable MSMEs and individuals, of which 21 percent are women.<sup>14</sup> Despite their efforts, the reach and impact of

<sup>12</sup> Financial institutions report 3,178 Automated Teller Machines (ATMs).

<sup>13</sup> High non-performing loan (NPL) ratios (37 percent at the end of 2021) further threatens their stability. Source: CBI Report on Financial Stability Indicators 2022; Annual Statistical Bulletin 2022.

<sup>14</sup> Source: Iraqi Microfinance Network.

microfinance in Iraq remain limited, not only due to the small number of players but also because of either funding constraints or of the limited suite of products offered. This situation highlights a significant gap in financial inclusion for the country's underserved populations.

**Digital financial services, including e-money accounts, are gaining traction, with over 4.9 million accounts opened in the last five years.**<sup>15</sup> To date, licenses have been issued to 17 e-payment providers as well as mobile network operators (MNOs). Despite this, adoption remains low compared especially among younger populations. Iraq's 34 million internet users (75 percent of the population) and 46 million mobile connections (over 100 percent penetration) offer significant untapped opportunities for digital financial services. Qi cards, managed by the International Smart Card (ISC), are another popular payment tool, with currently 7.4 million cards in circulation. Initially launched as prepaid cards, used for public salary and pension payments in collaboration with SOBs Al-Rafidain and Al-Rasheed, these cards are now integrated into broader services, including Buy-Now-Pay-Later (BNPL) loans and online shopping. ISC operates a robust ecosystem that includes over 25,000 points of sale (PoS) and points of cash (PoC),<sup>16</sup> 6,000 merchants, and 500 enrollment centers, reporting 800,000 loans amounting to 4 trillion IQD. Overall, there are currently more than 63,881 Point-of-Sale (POS) devices and 30,980 electronic payment points (POC).

**Many Iraqis rely on *Manafez* for basic financial transactions such as cash deposits, withdrawals, and transfers due to their convenience and trustworthiness.** With over 8,000 agents across the country, *Manafez* play a crucial role in providing financial services, especially in areas where other financial channels are less accessible. While there are ongoing efforts to promote digital payments, the widespread use of cash remains prevalent as many Iraqis prefer to withdraw their salaries in cash to cover daily expenses. This preference for cash transactions presents a challenge to the expansion of Iraq's formal financial system, despite the transition to salary payments via cards and bank accounts.

**While the Central Bank of Iraq has successfully implemented key payment system infrastructures, such as the Automated Clearing House (ACH), a card switch, and the Real Time Gross Settlement (RTGS), some key financial infrastructures are still lagging in Iraq.** Critical credit infrastructure like credit reporting, secured transactions are in their nascent stages, characterized by low coverage, limited usage, a lack of value-added services, and insufficient human resources. Currently, the credit reporting system covers only 1.3 percent of adults, significantly below the MENA average of 15.8 percent<sup>17</sup>. Additionally, the moveable collateral registry has yet to be established. This gap leaves a substantial demand for credit unmet, particularly among small-scale households and MSMEs, which often have minimal immovable collateral.

**The CBI issued a regulation establishing a company to manage selected payment systems in Iraq.** The governance development related to the payment system market follows the footsteps of other regional countries. This body, once operationalized, will likely co-lead, with the CBI, the evolution of the payment ecosystem. Among others, prioritized innovation projects for the Iraqi payment market are realizing a fast payment system and a national payment gateway.

## ii. Summary of Gaps and Key Barriers to Financial Inclusion

<sup>15</sup> GIZ Financial inclusion diagnostic, 2024

<sup>16</sup> As per CBI guidance, PoS and PoC are and POC are aimed to be equivalent in terms of functionalities.

<sup>17</sup> Source: 2019, World Bank Doing Business.

**The National Financial Inclusion Diagnostic identifies several key factors contributing to significant gaps in financial inclusion.** Most notably, the overall level of inclusion, depending on which data source is used, is between 11 and 19 percent of the population. Similarly, certain segments of the population are more excluded than others, notably women, the less educated and the poor. These gaps can be broadly categorized into, a) issues related to the ownership and effective use of financial products and services, b) challenges in accessing financial services through various channels and digital platforms, c) barriers to finance for MSMEs, d) concerns about consumer protection within the financial sector, and deficiencies in financial literacy that hinder individuals' engagement with financial services. For a detailed analysis and financial inclusion data informing this table, please refer to **Annex A**.

*Table 2: Summary of Gaps and Underlying Issues in Focus Areas<sup>18</sup>*

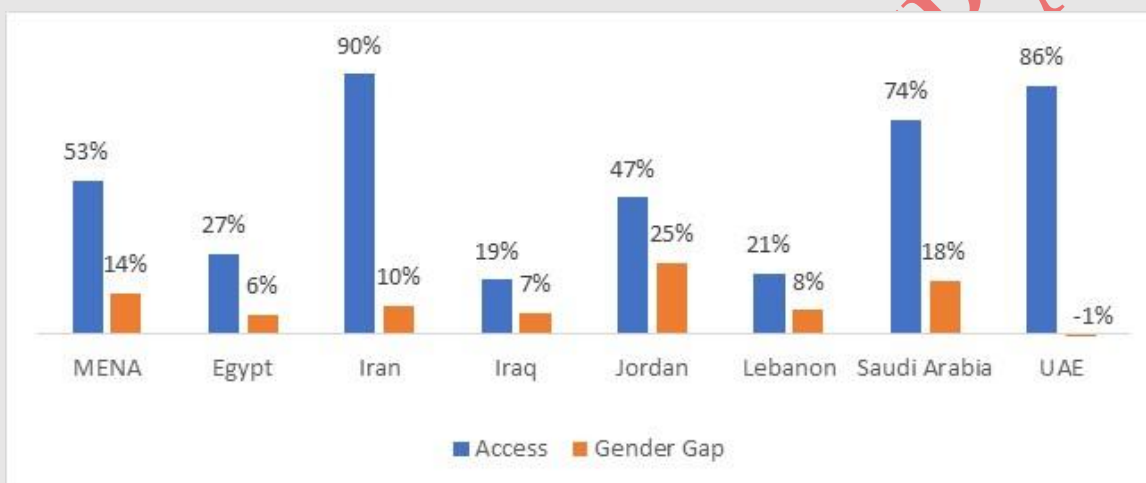
|                                                  | Gaps                                                                                                                                                                                                                                                                                                                                                       | Underlying causes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Ownership and Usage of Financial Services</b> | <ul style="list-style-type: none"> <li>• Low transaction and mobile money account ownership &amp; usage</li> <li>• Reliance on semi-formal and informal mechanisms for credit and savings</li> <li>• Low availability and use of insurance products</li> <li>• Customers with low education levels reluctant to use the formal financial sector</li> </ul> | <ul style="list-style-type: none"> <li>• Limited geographic reach of financial access points, particularly in rural and underserved areas</li> <li>• High cost of formal financial services, particularly digital payments, account maintenance and loans</li> <li>• Low trust in formal financial institutions due to historical instability</li> <li>• Lack of interest among financial service providers to serve populations in hard-to-reach areas or with limited income</li> <li>• Inadequate customization of products and cumbersome application procedures</li> <li>• Absence of market-wide clarity on the ability to conduct e-KYC and lack of tiered KYC rules</li> <li>• Limited deposit base among privately owned banks, limiting the availability of credit</li> <li>• Limited capacity among banks (administrative, risk management) leading to high NPLs.</li> <li>• Poor customer service and lengthy administrative processes</li> <li>• Unreliable electricity supply hampering consistent usage of mobile money services</li> <li>• Low financial literacy among Iraqi population regarding the benefits and risks of financial products and services</li> <li>• Continued reliance on informal channels driven by habit</li> </ul> |
| <b>Delivery channels and digital finance</b>     | <ul style="list-style-type: none"> <li>• Low incentives / trust to adopt digital payments for everyday transactions</li> <li>• Fewer ATMs and PoS terminals compared to peer nations</li> </ul>                                                                                                                                                            | <ul style="list-style-type: none"> <li>• Preference for in-person interactions with the person handling your money</li> <li>• Lack of trust among consumers regarding digital transactions</li> <li>• Low interoperability between e-money accounts and between banks and non-banks</li> <li>• Limited merchant acceptance and high transaction fees</li> <li>• Gaps in consumer awareness and financial and digital literacy</li> <li>• Unreliable electricity supply</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

<sup>18</sup> GIZ Financial Inclusion diagnostic, 2024; World Bank analysis

|                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                     | <ul style="list-style-type: none"> <li>• Low adoption and usage of e-money accounts</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>MSME Finance</b>                                 | <ul style="list-style-type: none"> <li>• Limited access to finance for MSMEs</li> <li>• Lack of working capital and credit products designed for</li> <li>• Lack of long-term finance, including debt and equity</li> <li>• Limited data on MSME portfolio</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>• Lack of an enabling regulatory environment for MSME finance</li> <li>• Underdeveloped credit infrastructure</li> <li>• High levels of informality among MSMEs</li> <li>• Low levels of financial literacy and management capacity among MSMEs</li> <li>• Reluctance among MSME owners to apply for formal loans</li> <li>• Stringent need of collateral with adding a guarantor as a requirements by banks to issue credit</li> <li>• Lack of interest among banks to cater to the MSME segment</li> <li>• Limited supply for financing for MSMEs due to regulatory hurdles</li> <li>• Absence of loan guarantee/risk sharing institutions</li> </ul> |
| <b>Consumer Protection &amp; Financial Literacy</b> | <ul style="list-style-type: none"> <li>• Poor market practices, such as inadequate customer service and lengthy transaction times</li> <li>• Customer service at banks is not client-oriented and transparent enough</li> <li>• Low consumer awareness of available external dispute resolution mechanisms</li> <li>• Weak institutional locus for developing, coordinating, implementing and evaluating financial literacy initiatives</li> <li>• Lack of data on critical financial literacy gaps</li> <li>• Limited understanding of the benefits and risks associated with financial products and services</li> <li>• Widespread mistrust of formal financial service providers</li> </ul> | <ul style="list-style-type: none"> <li>• Lack of a comprehensive regulatory framework addressing all aspects of financial consumer protection</li> <li>• Semi-formal and informal providers operate outside the current regulatory scope of the CBI</li> <li>• Absence of a clear, strategic plan to improve financial literacy</li> <li>• Fragmentation and lack of coordination among providers of financial literacy programs</li> <li>• Lack of human and capital resources for financial literacy efforts</li> <li>• Lack of minimum standards and practical, innovative methods for financial curriculum</li> </ul>                                                                      |

The gap in financial inclusion between men and women in Iraq is a notable concern and presents the greatest opportunity for an increase in the rate of financial access. According to the World Bank data from 2021, 19 percent of Iraqi adults owned a bank account. This represented a 15 percent account ownership for women compared to 22 percent for men.<sup>19</sup> This seven-percentage points gap is significant, even if Iraq is doing better than many other peers in the region (see graph below). There has been little change in this gap in Iraq since 2014, despite the fact that overall access has been growing. This is a worrying trend which will need both policy and private sector intervention to address.

Figure 1: Access to Accounts and Gender Gap in Iraq (% of adult population)



Source: World Bank Findex 2021

**Beyond a gap in access, the financial lives of women also point to a need for greater support and intervention.** For example, according to Findex data, unbanked women in Iraq are 22 percentage points more likely to need help using an account than unbanked men. In addition, 56 percent of women would find it very difficult or impossible to access emergency funds, as opposed to 40 percent of men.

**Women's financial inclusion remains constrained by social/cultural barriers as well as economic, legal, and regulatory challenges.** This low level of inclusion is not inconsistent with – and may in fact be exacerbated by – the low of female participation in the economy overall. Iraq has the second lowest female labor force participation rate in the world, and other development outcomes such as educational attainment and literacy are also low.<sup>20</sup> It is often reported that Iraqi women often face discriminatory practices, especially in the private sector. Fortunately, the Iraqi government and the Central Bank of Iraq (CBI) have undertaken a series of welcome initiatives to address these issues.<sup>21</sup>

**CBI has taken on several initiatives to move the needle on women's financial inclusion, but more could be done.** In March 2023, the CBI issued a circular that forbade discrimination against women in the provision of financial services, including the opening of accounts, credit cards, and loans. This was issued to all commercial banks and financial institutions regulated by the CBI, though not to non-bank financial

<sup>19</sup> World Bank, [Global Findex Database](#), 2021.

<sup>20</sup> World Bank "[Literacy rate, adult female \(% of females ages 15 and above\) – Iraq](#)", 2017.

<sup>21</sup> Oxfam, [Gender Profile – Iraq](#), 2018.

institutions, even though they may be serving women.<sup>22</sup> In addition to these positive interventions, the fact that 65 percent of women have access to the internet in Iraq creates an enabling environment for their access to digital financial services.

#### **Box 1. World Bank Global Findex Database**

**Since 2011, Findex is the first and only comprehensive source of global demand-side data on financial inclusion in 140+ countries.** It answers questions about how adults worldwide manage their money, make and receive payments, save, borrow, and manage financial risks. It also provides metrics on women, rural residents, and low-income households and tracks global policy and progress on improving financial inclusion. Because of this granularity of data and consistency in methodology across all jurisdictions, Findex allows for comparisons across countries, which most national datasets do not. Finally, and perhaps most importantly, Findex looks at demand side data, which excludes the duplication of data that characterizes data collected by national authorities from financial service providers. This allows for analysis about what percentage of the population, for example, have at least one account, rather than just the total number of accounts open in the market. In this sense, Findex data is consistent with the GiZ diagnostic.

**Findex data shows that 19 percent of Iraqis have a bank or e-money account, as compared to 11 percent as evidenced in the GiZ diagnostic.** Findex shows that account ownership in Iraq decreased slightly in 2021 after doubling between 2014 and 2017. This points to some gains that were lost but hopefully can be quickly recaptured. Lack of money and the cost of financial services are among the top barriers to account ownership. Findex data shows a significant opportunity for increasing financial inclusion through digital channels. For example, almost 90 percent of utility bill payments, 64 percent of government payments and almost all private sector payments were made in cash only. In addition, almost all adults who made a digital merchant payment in Iraq did so for the first time after the start of COVID-19. All these data point to the opportunity for expanding account access through digitization.

Source: World Bank Global Findex Database

### **3. NFIS FRAMEWORK**

#### **3.1 Target Segments**

**In recognition of the significant gaps, and aiming at fulfilling the vision statement, the NFIS will emphasize actions that prioritize expanding access for women, youth, and rural populations.** This includes identifying key interventions that can be tailored to the financial capability needs of these groups as well as a review of financial consumer frameworks to ensure that these vulnerable segments are adequately protected. In addition to these populations, the NFIS also intends to target MSMEs, given their role as key job creators and contributors to economic growth.

<sup>22</sup> Consumer Protection guide was issued as part of the CBI Banking Awareness and Public Protection Department notice (undated) to all banks licensed to practice banking.

## 4.2 Conceptual Framework for NFIS Iraq

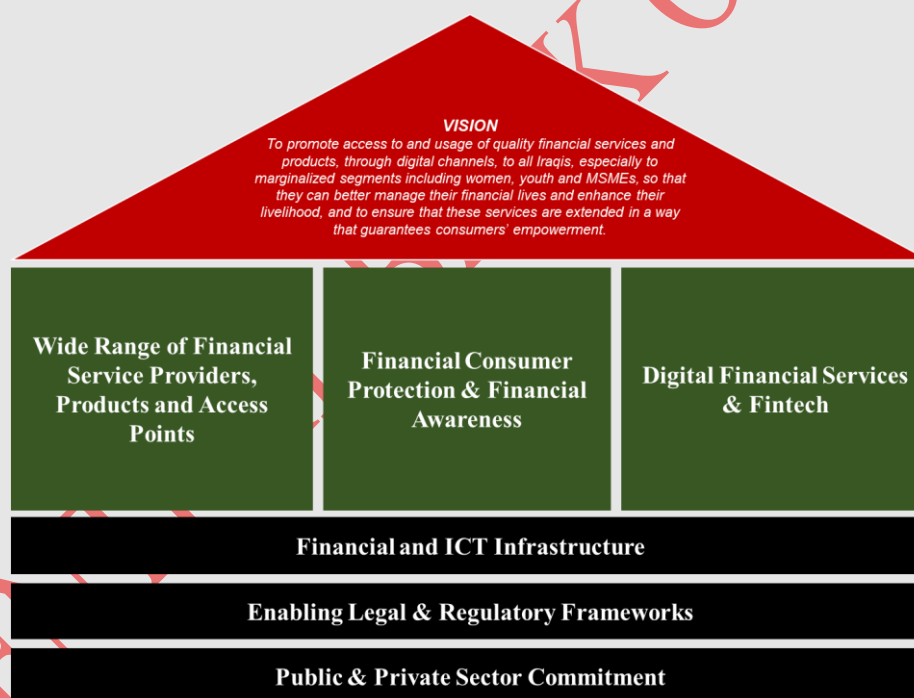
These three strategic pillars have been identified as major areas of intervention to achieve the NFIS vision.

- Wide Range of Financial Service Providers, Products and Access Points
- Financial Consumer Protection & Financial Awareness
- Innovative Digital Financial Services & Fintech

The three foundational enablers to help achieve progress in these areas are as follows:

- Financial & ICT Infrastructure
- Enabling Legal & Regulatory Framework
- Public & Private Sector Commitment

Figure 1: Conceptual Framework for NFIS Iraq<sup>23</sup>



### Pillar 1 – Wide Range of Financial Service Providers, Products and Access Points

A key pillar of the National Financial Inclusion Strategy for Iraq is expanding the suite of financial providers, products, and access points available to the Iraqi population. This pillar emphasizes the

<sup>23</sup> The conceptual framework was developed in alignment with good practices discussed in the [World Bank's 2018 Toolkit: Developing and Operationalizing a National Financial Inclusion Strategy](#)

enhanced role of non-bank financial institutions, including e-money account providers, microfinance institutions, and MSME finance companies. A diversified financial ecosystem with a wide range of providers and readily available financial access points—such as bank branches, ATMs, point-of-sale (PoS) systems, and e-money agents—play a pivotal role in bridging the gap between financial institutions and consumers, particularly in rural and remote areas where formal banking infrastructure is sparse.

**Currently, Iraq faces significant challenges with insufficient access points.** With a limited set of formal (mostly bank) financial service providers that have scant financial access points, Iraq has one of the lowest levels of financial access in the region. This is compounded by the concentration of financial providers and services in urban economic hubs like Baghdad and Basra. This leaves a large portion of the population, especially in rural areas, reliant on access windows such as *Manafez* to provide a limited set of financial services. As a result of this, digital financial services, though growing, remain underutilized despite the increasing penetration of mobile phones and internet access.

**To enhance financial inclusion in Iraq, the NFIS must prioritize expanding and improving the availability and functionality of financial service providers and access points, especially that of non-bank financial institutions.** There is a need to facilitate the expansion of access points in a sustainable fashion, including by engaging with providers to explore what market forces could be drivers for their expansion into otherwise underserved areas. This involves encouraging the growth of non-bank financial institutions (including MSME finance companies, e-money account providers), creating supportive regulatory environments, developing diverse financial products, and increasing access points through mobile banking and agent networks, including by leveraging the *Manafez* network. This will require coordinated efforts between the public and private sectors, prioritizing leveraging of technology and regulatory reforms to increase the reach of formal financial services.

*Objectives of Pillar 1 - Wide Range of Financial Service Providers, Products and Access Points*

1. **Enhance the Regulatory Framework for Non-Bank Financial Institutions:** Develop and implement regulations that support the growth and operational efficiency of regulated non-bank financial institutions (NBFIs). This includes issuing guidelines around licensing, supervision, and risk management to ensure that regulated NBFIs can contribute effectively to financial inclusion. It also includes creating pathways for large NGO-MFIs to come under CBI supervision. Importantly, as this is a new regulation, there is a need to monitor effectiveness (e.g., monitoring if it effectively stimulates the entry of new providers and their outreach) and adjust where needed.
2. **Strengthen Mobile and Agent Networks and Boost Merchant Acceptance:** Leverage the *Manafez* network to scale up agent networks and reach the most remote communities. Formalize and harmonize the services provided across *Manafez* network by enforcing accreditation and updating the regulatory framework. Simplify onboarding processes for agents and merchants and provide incentives to grow their footprint.
3. **Foster the development of more diverse and appropriate financial products and services:** Increase awareness in the market of the value of introducing more customized products (i.e. savings, credit, insurance, pensions, investment) to the various underserved segments, including those through digital channels. This could range from conducting product-focused learning sessions with the industry to increase the overall understanding of how such products work and best practices on how they have been deployed, to exploring the potential for introducing innovation facilitators such as innovation hubs to nurture new products. The authorities should

also conduct a comprehensive review of development finance policy, institutions, and schemes, including guarantees, with a view to limit their cost and risk, remove market distortions and improve their effectiveness by focusing on private capital mobilization instead of direct provision of financial services. It also includes review and adjustment, where needed, of relevant legislation underpinning creation and offering of financial products and services.

## Pillar 2 – Consumer Protection and Financial Awareness

**Poor market practices by financial service providers can erode trust, particularly among consumers with low incomes and limited financial literacy.** This erosion of trust may drive these consumers toward informal financial sources or lead them to disengage entirely from the formal financial sector, thereby reducing overall financial inclusion. To address these issues, policymakers are advancing initiatives to bolster consumer protection within the financial sector. As part of the NFIS, efforts to enhance regulatory frameworks and supervisory practices for financial consumer protection will be both sustained and expanded. These measures aim to safeguard consumers, build trust, and encourage greater adoption and utilization of financial products in Iraq.

**In Iraq, low financial literacy and negative perceptions about the formal financial services among individuals and MSMEs are key barriers in the uptake and effective use of financial products and services, limiting the benefits of financial inclusion.** Enhancing financial literacy across the population is essential for boosting financial inclusion, as it empowers individuals and businesses to make informed financial decisions and better utilize available services.

### *Objectives of Pillar 2 – Consumer Protection and Financial Awareness*

1. **Strengthen the Legal Framework for Financial Consumer Protection (FCP) and Market Conduct Supervision:** Clarify and reinforce the legal mandate and institutional arrangements of financial sector authorities to create conditions for comprehensive and effective regulation and supervision for consumer protection within the financial sector.
2. **Establish Overarching FCP Obligations Across Providers:** Ensure that all financial service providers adhere to the same legal principles for disclosure, transparency, fair treatment, business conduct, and internal dispute resolution.
3. **Improve Dispute Resolution Mechanisms:** Develop and strengthen internal and external Dispute Resolution mechanisms to offer financial consumers accessible, affordable, and independent channels for resolving disputes. Ensure these mechanisms are well-resourced, fair, accountable, and efficient, providing timely resolutions for consumer issues.
4. **Strengthen Financial Education Programming to Empower Financial Consumers:** Strengthen financial literacy programming in the country by assessing current knowledge levels among the Iraqi population, enhancing coordination of financial literacy initiatives across providers with a focus on vulnerable groups, and optimizing delivery channels for better outreach and engagement.

5. **Strengthen MSME Capacity for Financial System Access:** Improve financial literacy and capacity of MSMEs in key areas such as financial planning, credit management, and understanding financial products, to build a pipeline of MSMEs equipped to engage with the formal financial sector.

### Pillar 3 – Introduce Innovative Digital Financial Services and Fintech

**Innovative digital financial services and fintech solutions have the potential to offer affordable and easily accessible financial products to underserved consumers.** For regulated financial institutions, these technologies provide cost-effective channels to reach a broader audience through sustainable models. Promoting a diverse range of well-designed, high-quality digital financial services can enhance consumer adoption and usage. By leveraging digital finance and payment systems, financial institutions can effectively expand their reach and deliver valuable services to those who need them most as well as initiating the previously unbanked into the ambit of formal financial services.

#### *Objectives of Pillar 3 – Innovative Digital Financial Services and Payments*

1. **Foster a Supportive Regulatory Environment:** Create a regulatory framework that provides timely, transparent, and consistent guidance to the market. This will help financial institutions navigate regulatory requirements more effectively and encourage innovation while ensuring compliance.
2. **Boost Adoption of Digital Payments:** Increase consumer demand for digital payment solutions through targeted literacy initiatives and merchant and consumer incentives such as tax breaks or rebates. Promote the convenience and security of digital payments to drive wider acceptance and usage.

### NFIS Foundational Enablers

#### Enabler 1: Financial and ICT Infrastructure

**Robust financial infrastructure—such as public credit registries or private credit bureaus, payment systems, and secured transactions and movable collateral registries—plays a crucial role in enabling financial service providers to assess customers effectively, offer affordable products, and extend services to remote areas through cost-efficient channels.** The financial sector in Iraq still lacks vital supporting systems, despite the Central Bank of Iraq having put in place important payment infrastructures such as the Automated Clearing House (ACH), card switch, and Real Time Gross Settlement (RTGS). The systems for collateral registries and credit reporting are undeveloped, having little utilization, little coverage, and little funding and movable collateral registry has yet to be established. A considerable loan demand remains unfulfilled as a result of this disparity, particularly for small households and MSMEs with little or no real estate collateral. Therefore, ongoing efforts to enhance the credit information and movable collateral framework and payment systems are crucial for strengthening this infrastructure. These initiatives will receive continued support under the National Financial Inclusion Strategy (NFIS).

**On the ICT side, digital infrastructure is crucial for financial inclusion in Iraq, offering a unique opportunity to transform the country's economic and social landscape.** Promoting digital finance requires enabling policies for digital payments, an interoperable payments system, and collaboration

between telecom companies and online credit providers. Supporting ICT infrastructures like affordable and reliable internet and electric connectivity and supportive policies are essential for a functional digital payments system. While the development of supportive ICT infrastructure is outside the direct mandate of CBI and NFIS, it is crucial to initiate discussions on this topic through public-private partnerships.

#### *Objectives of Enabler 1 – Financial and ICT Infrastructure*

1. **Expand and Enhance Credit Information Systems:** Improve the coverage and accuracy of credit bureau by bringing all financial service providers into its fold, ensure financial service providers have reliable data for assessing creditworthiness, particularly for underserved segments like MSMEs and individuals with thin credit files. Additionally, explore the use of alternative data for credit assessment to support individuals without traditional credit histories or immovable assets, thereby enhancing financial inclusion and supporting economic growth in line with NFIS Iraq's strategic goals.
2. **Strengthen Payment Systems:** Operationalize the National Payments Strategy and take steps to modernize and expand the payment systems to facilitate faster, more secure, and affordable payments, increasing access for remote and low-income populations. Invest in the development of robust digital infrastructure to support seamless digital payment systems. Strengthen the technological backbone necessary for efficient and reliable digital transactions, facilitating broader adoption of digital payments.
3. **Develop a Comprehensive Secured Transaction Framework:** Strengthen the centralized immovable collateral registry and establish a moveable collateral registry to streamline the process of securing loans, making it easier for individuals and businesses to leverage assets and gain access to formal credit.
4. **Foster Interoperability:** Ensure interoperability across financial infrastructure, enabling seamless transactions between different financial institutions, e-money accounts, and payment systems to broaden consumer access and enhance the user experience.
5. **Improve Data Privacy and Security:** Strengthen safeguards to protect consumer data and ensure trust in the financial system, encouraging greater participation in formal financial channels.
6. **Complete the rollout of digital ID.** A functioning and widespread digital ID system is essential for improving access to public and private services, ensuring inclusion, and supporting economic activities. Study how to leverage such digital ID to improve customer due diligence and reporting.

#### *Enabler 2: Enabling Legal and Regulatory Frameworks*

**Creating a robust legal and regulatory environment is essential for achieving comprehensive financial inclusion.** This foundational step involves the Central Bank of Iraq, in collaboration with private and public sector stakeholders addressing urgent legal reforms in existing legal and regulatory framework. These reforms are crucial for establishing a well-functioning financial ecosystem that fosters the development and availability of high-quality financial products.

### *Objectives of Enabler 2 – Enabling Legal and Regulatory Framework*

1. **Promote Financial Innovation:** Support the development of innovative financial products and services by creating a regulatory environment that encourages experimentation and technological advancements. This includes adopting regulations that facilitate the introduction of new technologies while maintaining regulatory oversight.
2. **Balance Financial Integrity with Access Goals:** Ensure that regulations effectively balance financial integrity with the goal of universal access to financial services. This involves enforcing anti-money laundering (AML) and combating the financing of terrorism (CFT) measures while designing regulations that do not impede access to formal financial accounts for underserved population.
3. **Standardize and Streamline KYC Processes:** Simplify and standardize the Know Your Customer (KYC) procedures to ensure consistency across the financial sector. Implement a tiered approach that aligns the complexity of KYC requirements with the associated risks, making it easier for low-risk customers to access financial services while maintaining robust safeguards.
4. **Promote conducive legal and regulatory environment for private sector:** Foster an enabling environment for private sector by enacting and strengthening laws/regulations on credit reporting and secured transactions, insolvency regimes, and consumer protection.

### *Enabler 3 – Public and Private Sector Commitment*

**Particularly in Iraq where there is no close and institutionalized engagement between the key institutions that would be central to driving financial inclusion, public and private sector commitment and engagement is crucial.** This foundational enabler ensures that both government bodies and private institutions work collaboratively to create a cohesive and supportive environment for expanding financial services. A robust commitment from both sectors can drive the implementation of effective policies, foster innovation, and mobilize resources necessary for broadening access to financial services. Commitment and collaboration can be demonstrated through cross-sectoral working groups, periodic round tables to discuss and agree on various topics, and pooling resources to implement financial inclusion initiatives, among others.

### *Objectives of Enabler 3 – Public and Private Sector Commitment*

1. **Strengthening Public-Private Partnerships:** Encourage collaboration between government agencies, financial institutions, and technology providers to leverage their combined expertise and resources for advancing financial inclusion.
2. **Launch Collaborative Projects:** Initiate joint projects that leverage the strengths of each partner. For example, develop new digital financial products or services with input from fintech companies, financial institutions, and regulatory bodies.
3. **Investment in Digital Infrastructure:** Facilitate investment in digital infrastructure and technology to ensure reliable and widespread access to digital financial services, particularly in rural and remote areas.
4. **Track Progress:** Develop metrics and indicators to monitor the progress of joint initiatives and evaluate their impact on financial inclusion. Regularly review and assess the outcomes to identify successes and areas for improvement.

#### 4. COORDINATION AND IMPLEMENTATION MECHANISMS

**Successful implementation of the NFIS requires strong leadership and a robust governance structure.**

Establishing a clear governance structure is vital to ensure accountability, streamline decision-making, and maintain momentum throughout the process. This structure should include well-defined roles and responsibilities for key entities. The following comprehensive governance framework for Iraq's NFIS has been proposed, designed to ensure effective oversight, policy guidance, and continuous monitoring throughout the implementation phase.

##### 4.1 National Financial Inclusion Committee

The Committee will offer overall leadership, policy guidance, and strategic direction for the NFIS, overseeing its implementation with support from the Financial Inclusion Secretariat. The National Committee for Financial Inclusion will be chaired by the Governor of the Central Bank of Iraq and will comprise the following institutions: Ministry of Finance, Ministry of Education, Ministry of Interior, Ministry of Communication and representatives from the private financial institutions and civil society.

- Adopt and launch Iraq's National Financial Inclusion Strategy (NFIS).
- Integrate NFIS priorities and actions into the institutional strategies and work plans of respective Committee member institutions.
- Oversee the implementation of major legislative, policy, and infrastructural reforms necessary to achieve the goals of Iraq's NFIS.
- Ensure that budgetary allocations are sufficient to support the implementation of NFIS reforms.
- Convene bi-annually to review NFIS progress, make necessary adjustments, and revise the Action Plan as needed.
- Communicate the progress and outcomes related to Iraq's national financial inclusion objectives.

##### 4.2 NFIS Secretariat

**The NFIS Secretariat, based at the Central Bank of Iraq (CBI), will oversee the day-to-day implementation of the NFIS, ensuring alignment with the implementation plan and directives from the National Financial Inclusion Council.** It will facilitate establishment of the Working groups and coordinate and monitor the efforts of various entities working towards NFIS targets and provide both technical and administrative support.

The Secretariat will:

- Develop annual workplan
- Provide technical and administrative support to the Working Groups, and National Financial Inclusion Council, including tasks such as data collection and dissemination, technical training, and meeting organization.

- Gather progress updates from the Working Groups and compile them into comprehensive reports.
- Provide the National Committee with quarterly progress reports on the implementation of the NFIS.
- Develop a system/team to monitor NFIS implementation progress in alignment with the Action Plan.
  - Implement the Monitoring and Evaluation (M&E) results framework, encompassing data collection and evaluation, to track progress towards targets.
  - Conduct research to inform and support the implementation of the NFIS, as necessary and feasible within available resources.
- Communicate the progress of NFIS implementation to all stakeholders and the general public.

#### 4.3 Technical Working Groups

**Three working groups will be established, one for each of the NFIS pillars: 1) Wide Range of Financial Service Providers, Products and Access Points; 2) Financial Consumer Protection & Financial Literacy; and 3) Innovative Digital Financial Services.** Additionally, a cross-cutting working group will focus on the enablers—Financial Infrastructure, Enabling Regulatory Environment and Public & Private Sector Commitment—that support all focus areas. Each working group will be explicitly tasked to consider actions to expand financial inclusion of women within their respective technical areas. These working groups will serve as consultation forums, bringing together technical experts from diverse sectors, including public and private entities, as well as civil society. Members will be selected based on their expertise in the respective focus areas to ensure informed and effective collaboration.

The Working Groups will:

- Facilitate coordination among members to develop detailed action plans for their respective focus areas.
- Engage with industry players and other stakeholders as well do advocacy within their respective organizations to secure support and implement their respective action items.
- Provide the Secretariat with quarterly updates on implementation progress and related targets, or as needed.
- Recommend changes and adjustments to agreed action plans or targets.

#### 5. MONITORING AND EVALUATION

**To effectively measure progress toward the objectives outlined in the National Financial Inclusion Strategy (NFIS), a robust monitoring and evaluation (M&E) system is essential.** This system must be well-resourced, well-coordinated, and widely supported by all stakeholders. It will serve as a key accountability

tool, helping to identify challenges, showcase achievements, and optimize resource allocation to ensure the NFIS objectives are met. The M&E system will be designed around four core components to track progress and guide the implementation of the NFIS:

1. **National Results Framework:** The primary objective of the NFIS results framework is to ensure that the actions outlined in the Action Plan are executed within the specified timeline, while identifying and addressing obstacles to timely completion. This framework explicitly articulates the expected outcomes of the NFIS and provides a structured approach for assessing progress towards its objectives, using well-defined and quantifiable indicators and targets. Organized by NFIS focus areas, the framework incorporates the elements of access, usage, and quality, which are central to the vision for financial inclusion in Iraq. The table below presents the high-level "impact" indicators of the National Results Framework. The NFIS results framework should be viewed as a dynamic tool, with indicators and targets reviewed and updated as necessary throughout the life of the NFIS. All indicators will be disaggregated by men and women.

Table 3: National Results Framework

| Thematic Areas | Indicators<br>(disaggregated by men and women)                                                              | 2024<br>(Baseline) | 2028<br>(Target) | Data Source | Reporting Frequency | Reporting Breakdown |
|----------------|-------------------------------------------------------------------------------------------------------------|--------------------|------------------|-------------|---------------------|---------------------|
| Access         | # of POS terminals per 100,000 adults                                                                       |                    |                  |             |                     |                     |
|                | # of Bank branches per 100,000 adults                                                                       |                    |                  |             |                     |                     |
|                | # of agents per 100,000 adults                                                                              |                    |                  |             |                     |                     |
|                | % of adults with bank accounts                                                                              |                    |                  |             |                     |                     |
|                | % of adults with mobile money accounts                                                                      |                    |                  |             |                     |                     |
| Usage          | % of account holders with dormant account (no deposit/withdrawal in past year)                              |                    |                  |             |                     |                     |
|                | % of adults making or receiving a digital/ cashless payment                                                 |                    |                  |             |                     |                     |
|                | % of adults that save at a regulated financial institution                                                  |                    |                  |             |                     |                     |
|                | % of adults that borrow from a regulated financial institution (including banks, microfinance institutions) |                    |                  |             |                     |                     |
|                |                                                                                                             |                    |                  |             |                     |                     |
| MSME Finance   | Value of outstanding loans to MSMEs (as % of total private sector credit)                                   |                    |                  |             |                     |                     |
|                | # of MSMEs with an active loan from a CBI regulated institution                                             |                    |                  |             |                     |                     |
|                | # of MSMEs with a loan from a Microfinance NGO                                                              |                    |                  |             |                     |                     |
| Quality        | % of adults that express trust in the financial sector                                                      |                    |                  |             |                     |                     |

|  |                                                                             |  |  |  |  |  |
|--|-----------------------------------------------------------------------------|--|--|--|--|--|
|  | # of complaints received through complaint handling systems at FSPs and CBI |  |  |  |  |  |
|--|-----------------------------------------------------------------------------|--|--|--|--|--|

2. **Coordination and Implementation Team:** A dedicated technical team to coordinate and lead the M&E process will be established, operating under the NFIS Secretariat to ensure seamless execution and fostering collaboration among all stakeholders. This team will be responsible for driving the M&E framework forward, aligning efforts across institutions, and ensuring that objectives are met efficiently and effectively. Their role will be critical in maintaining focus, resolving challenges, and ensuring that all stakeholders remain engaged and aligned throughout the process.
3. **Comprehensive Financial Inclusion Data:** Access to high-quality, relevant data is the cornerstone of a strong Monitoring and Evaluation (M&E) system, as it provides essential insights into the progress and effectiveness of the objectives and actions outlined in the NFIS. Strengthening Iraq's financial inclusion data infrastructure will be a top priority, with a focus on expanding both the scope and quality of available data. Special attention should be given to enhancing demand-side measurements, which capture the needs and behaviors of individuals and businesses, while also improving the quality and frequency of supply-side data. This data, collected directly from financial service providers, will comprehensively cover key areas such as MSME finance, financial literacy, and the usage of digital financial services (DFS). World Bank Findex data is reliable, issued regularly (about every 3-4 years) and allows for direct cross-country comparison, making it an ideal data source to use. That said, strengthening's Iraq's ability to generate some limited data every year or in alternate years would be welcome.
4. **Communicating NFIS Results and Mid-Term Reviews:** Keeping stakeholders and the public informed about NFIS progress is crucial for highlighting successes and addressing ongoing challenges. This can be achieved through regular updates to the National Financial Inclusion Council via bi-annual implementation progress reports and an annual public report on financial inclusion. Additionally, conducting mid-term reviews and assessments, along with updating and realigning the original NFIS objectives, policy areas, targets, or actions, will ensure their continued relevance. These activities can also uncover new opportunities and reinvigorate efforts when needed.

## 6. IMPLEMENTATION ACTION PLAN

The following are the early actions to be prioritized for implementation as part of the NFIS aimed to be undertaken by CBI within the first 12 months of implementation; they should be preceded with the development of annual workplan and establishment of technical working groups. These actions are also those that require primary input and leadership from CBI rather than other entities. This approach allows for CBI to focus fully on putting the essential scaffolding in place to stimulate inclusion, including the M&E framework, before other stakeholders can build further on this with their various initiatives which will be captured in annual work planning exercises.

| #        | Action                                                                                                                                                                                                                                                                                                                                 | Output/outcome                                                                          |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <b>1</b> | <b>Expand access points in underserved areas</b>                                                                                                                                                                                                                                                                                       |                                                                                         |
| 1.1      | Conduct a review of relevant regulations to identify opportunities for reform that will encourage NBFIs to play a greater role (e.g., Manafez) in expanding physical and digital access points.                                                                                                                                        | Report and action plan                                                                  |
| 1.2      | Issue provider-agnostic regulation on agents that details simplified agent onboarding, acceptable incentives and parameters to promote agent interoperability.                                                                                                                                                                         | Agent regulations drafted                                                               |
| 1.3      | Develop a framework for interoperability between banks and nonbanks as well as between various e-money accounts. This would include guidance mandating the adoption of interoperable QR codes.                                                                                                                                         | Interoperability framework developed with input from industry                           |
| 1.4      | Conduct a study of merchant acceptance of digital payments, including a review of the feasibility and cost of introducing incentives for driving merchant acceptance                                                                                                                                                                   | Report and action plan                                                                  |
| <b>2</b> | <b>Improve financial and ICT infrastructure</b>                                                                                                                                                                                                                                                                                        |                                                                                         |
| 2.1      | Conclude the introduction of fast payments as part of the broader roll out of the National Payments Strategy                                                                                                                                                                                                                           | FPS Procured                                                                            |
| <b>3</b> | <b>Strengthen consumer protection</b>                                                                                                                                                                                                                                                                                                  |                                                                                         |
| 3.1      | Review and – as appropriate – update the legal and institutional framework for financial consumer protection and market conduct supervision                                                                                                                                                                                            | Report detailing legal and institutional reforms and action plan                        |
| 3.2      | Review and – as appropriate – update market conduct supervision manuals                                                                                                                                                                                                                                                                | New and/or updated supervision manuals                                                  |
| 3.3      | Review and – as appropriate – update the provider obligations around disclosure, transparency, fair treatment, business conduct, and internal dispute resolution.                                                                                                                                                                      | Updated guidance on provider obligations                                                |
| 3.4      | Develop an internal dispute resolution (IDR) framework with supporting regulation                                                                                                                                                                                                                                                      | Finalized IDR framework ready for implementation                                        |
| 3.5      | Develop an alternative dispute resolution (ADR) framework with supporting regulation                                                                                                                                                                                                                                                   | Draft ADR framework and regulation                                                      |
| <b>4</b> | <b>Improve financial capability</b>                                                                                                                                                                                                                                                                                                    |                                                                                         |
| 4.1      | Establish a robust, multi-agency financial literacy working group that meets on a quarterly basis to coordinate, share experiences and lessons learned, and act as a consultative platform to design and integrate new initiatives. The Working Group will meet quarterly and have representation from both public and private sector. | Working group established and with clear standard operating procedures (SOPs)           |
| 4.2      | Develop/strengthen the institutional locus within CBI for overseeing financial literacy, including defining how the team that handles this mandate interacts with the team focused on consumer protection                                                                                                                              | Directive on the functions, mandate and locus of the unit overseeing financial literacy |
| 4.3      | Develop key financial literacy principles for financial service providers to guide the development and dissemination of their                                                                                                                                                                                                          | Principles check list                                                                   |

|          |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                  |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|          | financial literacy campaigns. These should be organized by product type (most notably payments, savings and credit) and targeting un- and under-served segments (women, rural residents, etc.)                                                                                                                                         |                                                                                                                                                                                  |
| 4.4      | Develop public good digital financial literacy tools which can be downloaded and disseminated at no cost to the user. These can be for both individuals and MSMEs.                                                                                                                                                                     | <i>Recorded voice messages and videos made available to the public via the CBI website</i>                                                                                       |
| <b>5</b> | <b>Strengthen data infrastructure</b>                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                  |
| 5.1      | Evaluate national data infrastructure to identify opportunities for continuous collection of financial inclusion data                                                                                                                                                                                                                  | <i>Report mapping data collection targets</i>                                                                                                                                    |
| 5.2      | Review the data FSPs are required to share with national authorities to: i) assess the avenues for collection of sex-disaggregated data; ii) review if any data integrity issues may need to be addressed                                                                                                                              | <i>Directive to FSPs on data collection updates</i>                                                                                                                              |
| <b>6</b> | <b>Support the development of new products aimed at the unserved and underserved populations, with a special focus on women.</b>                                                                                                                                                                                                       |                                                                                                                                                                                  |
| 6.1      | Create an environment in which national authorities, providers and industry associations become exposed to best practice on customer centric product design of financial products and services at the last mile. This can include product-focused round tables, facilitating peer-to-peer learning from players in other markets, etc. | <i>A plan, to be executed over the course of a year, detailing activities aimed at increasing the level of understanding and enthusiasm about inclusive product development.</i> |

## ANNEX A- KEY FINDINGS FROM NATIONAL FINANCIAL INCLUSION DIAGNOSTIC

### a. Access and Usage of Financial Services

**According to the Financial Inclusion Diagnostic, only 11 percent of Iraqis live in a household with a bank account or e-money account.** Access is more common among urban residents, the non-displaced, higher-income individuals, the educated, and the employed. Gender disparity is minimal, with 10 percent of women and 11 percent of men having such accounts. Among account holders, there is a strong preference for state-owned or public banks, while e-money accounts are more commonly owned by women, self-employed individuals, and private sector employees. Account ownership with Islamic banks remains relatively low.

Figure 2: Percentage of Iraqis in a household with a bank/e-money account

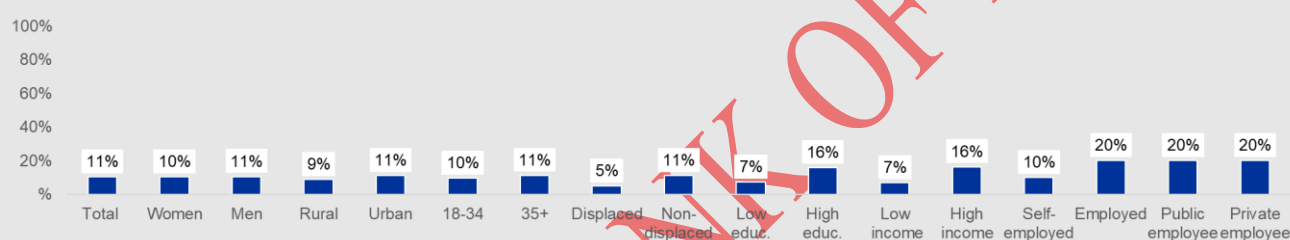
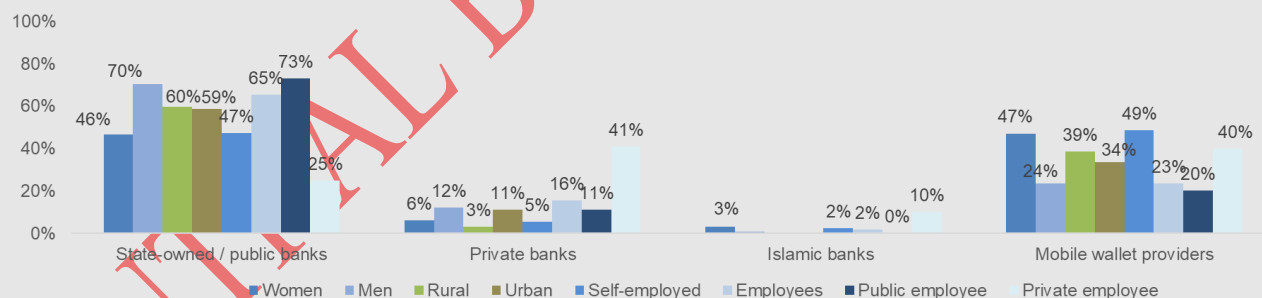


Figure 3: Account ownership among Iraqi adults by institution type

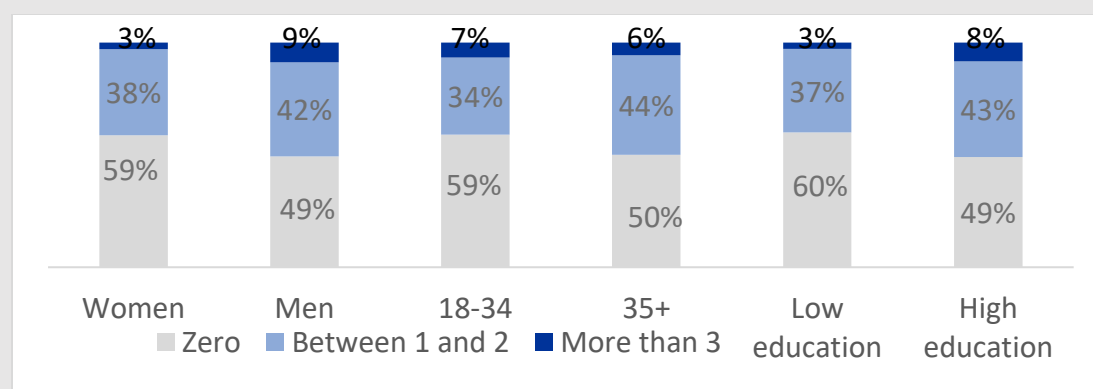


In addition to low account ownership, usage statistics also lag behind, with 54 percent of account holders reporting not having made a transaction<sup>24</sup> in the past month. Usage is relatively higher among adults over 35 years of age, men and adults with higher education levels<sup>25</sup>.

<sup>24</sup> Includes any inflow or outflow of money, deposit and withdrawal of cash on or from an account (at an ATM or via other means), transfers made or received, payments or receipt of money via bank account, card, check, e-money account or cash, etc.

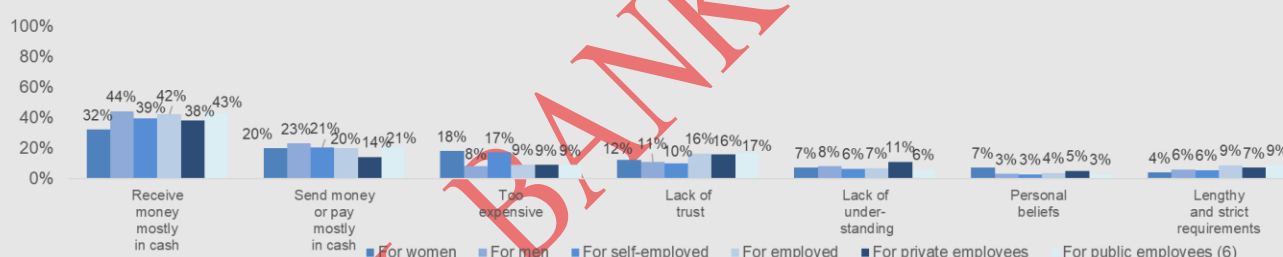
<sup>25</sup> High education is defined as attended secondary school, an institute or higher (MS, PhD)

Figure 4: Number of transactions (in the past month) among account owners



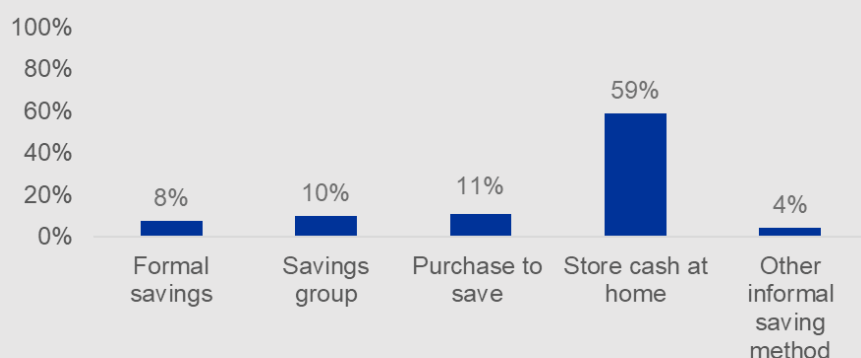
Common reasons for not having an account include a preference for cash transactions, costs, and lack of trust, particularly among women and self-employed individuals. Youth and low-income Iraqis feel banks are uninterested in them due to unstable incomes. There are also no incentives for students to open accounts, such as fee discounts or streamlined KYC processes. Many Iraqis avoid bank loans to steer clear of interest fees, which also contributes to low account ownership.

Figure 5: Reasons for not having a financial account



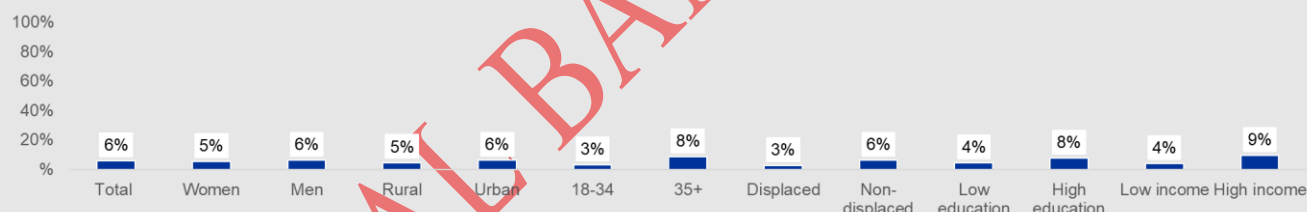
While 19 percent of Iraqis reported saving in the past 12 months, the majority (59 percent) reported saving cash at home, with only 8 percent of respondents saving at a formal financial institution. Even those with bank accounts or e-money accounts often prefer cash due to mistrust in formal financial institutions. Concerns include perceived insecurity of stored money, withdrawal limits, and fees.

Figure 6: Savings by instrument type



**Credit product usage also remains low in Iraq.** Although 22 percent of Iraqi adults have borrowed money recently, only 6 percent have taken out a formal loan. Among those who have used formal financial institutions for borrowing, the majority are adults over 35, with higher incomes, and higher education levels. State-owned banks are the preferred lenders for these formal loans. Women and displaced individuals are more likely to rely on informal loans<sup>26</sup> to meet their credit needs. Most informal loans for women come from relatives or friends (60 percent) or savings groups (27 percent).

Figure 7: Percentage of Iraqi adults with formal borrowing



**The main reasons for avoiding formal loans are religious prohibitions against paying interest and high interest rates.** Informal loans, in contrast, avoid the complexities of dealing with banks or microfinance institutions and are more accessible. Many participants noted that banks are reluctant to lend to those without a stable income or suitable guarantor.

**There is significant potential to formalize remittances.** While 16 percent of Iraqis reported sending or receiving money domestically or internationally in the past year, only 11 percent used formal transfer methods. Informal channels, such as exchange shops or *Manafez*, are preferred for domestic transfers due to their convenience, lower cost, and trust. For international transfers, Western Union is popular for its reliability and affordability. Bank transfers are infrequent due to the low number of account holders and high fees, especially for transfers in USD.

**Insurance coverage remains very low, with only 2 percent of Iraqis having non-mandatory insurance.** The primary reasons for not purchasing insurance are a lack of awareness about insurance products and

<sup>26</sup> Informal loans include loans from money exchange shops, merchants, specialized money lender, employer (government or private sector), savings groups and relatives or friends.

not having anything to insure. Additionally, a lack of trust in insurance providers is commonly cited, especially among the non-displaced and higher-income individuals.

Figure 8: Percentage of Iraqi adults with insurance products

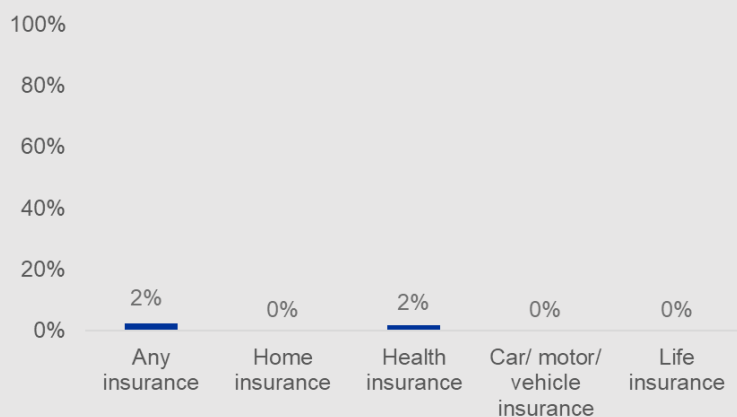


Figure 9: Reasons for low-uptake of insurance products (displaced vs non-displaced population)

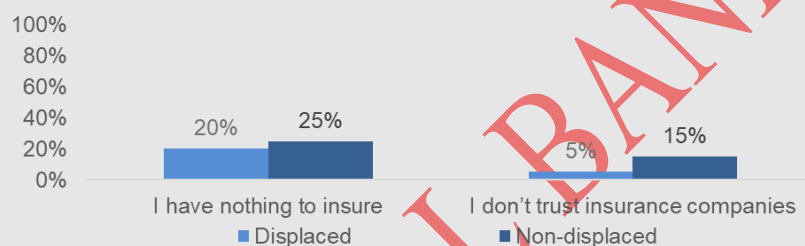
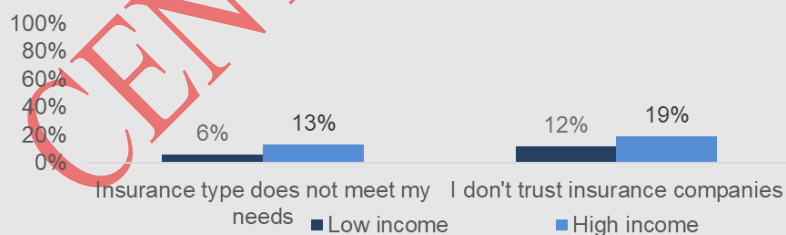


Figure 10: Reasons for low uptake of insurance (by income level)



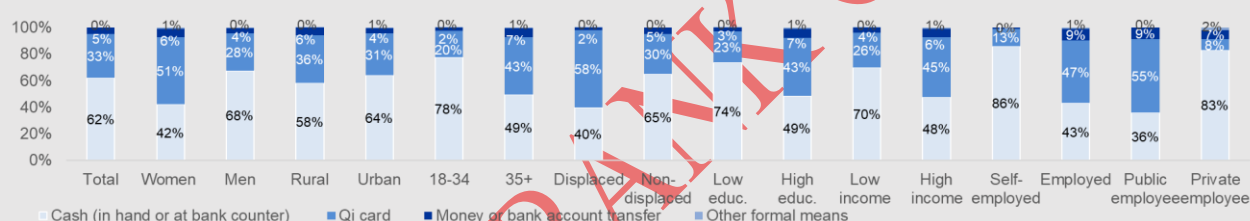
## b. Digital Financial Services and Channels

**Despite the growing popularity of digital e-money accounts in Iraq, only 4 percent of households have someone using an e-money account, indicating significant potential for expansion.** Early adopters tend to be women, higher-income individuals, the educated, and private sector employees. E-money accounts are particularly appealing to rural and low-income residents due to their ease of access and use. Although e-money accounts are not widely used for savings, they are valued by youth for transferring money, making online purchases, paying for courses, and traveling abroad.

**Cash remains the predominant payment method in Iraqi society.** Even among those with bank accounts or e-money accounts, cash is primarily used for transactions. Geopolitical instability, historical distrust in financial institutions, and low financial awareness contribute to this cash preference. Despite efforts by the Central Bank of Iraq (CBI) to promote point-of-sale (PoS) payments, there are over 18,000 points of cash (PoC) compared to more than 10,000 PoS terminals in the country.

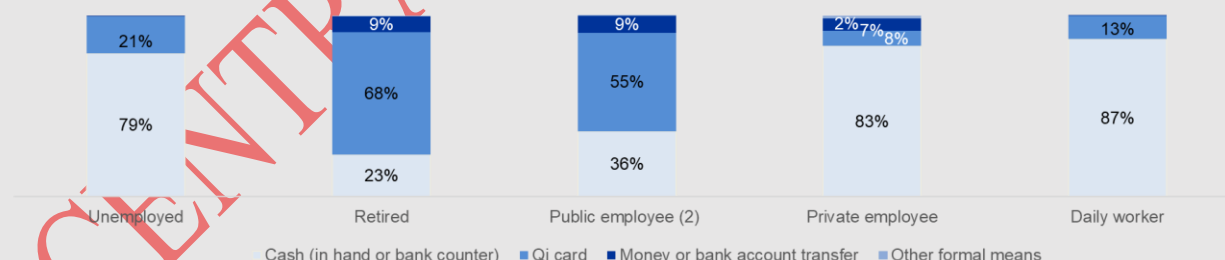
**Half of the Iraqi population receives salaries, pensions, or social benefits, with 62 percent of these payments being made in cash.** This trend is more pronounced among individuals aged 18 to 34, those with lower incomes and education levels, the self-employed, and private sector employees.

Figure 11: Modes of receiving government payments (across demographics)



**Receipt of salary and pension payments through digital means is more common among retirees and public sector employees.**

Figure 12: Mode of receiving wages (by employment type)

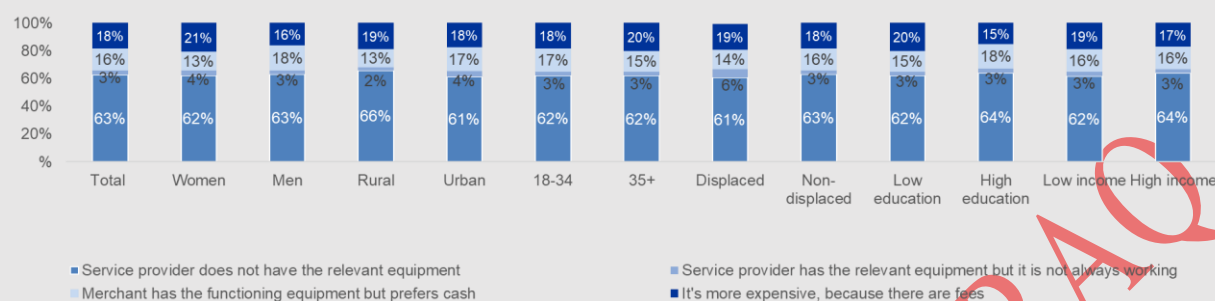


**Ninety-seven percent of Iraqis withdraw or keep their entire salary, pension, or social benefits in cash, with slightly lower proportions among high-income and educated individuals.** Although many low-income recipients use their Qi card for social security aid, they primarily use it for cash withdrawals, indicating that the Qi card's potential for broader financial inclusion remains underutilized.

**Ninety-five percent of Iraqis use cash for all their expenses, including rent, electricity bills, local pharmacies, and groceries.** The main barrier to non-cash payments is the lack of payment equipment

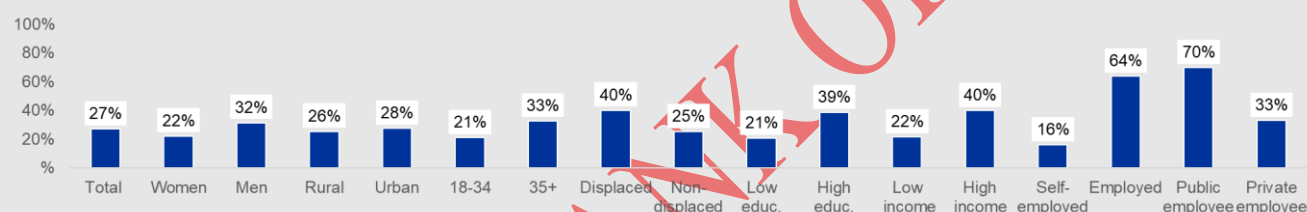
among service providers, followed by fees. Displaced and low-income individuals often have lower financial literacy, which further drives their preference for cash-based solutions.

Figure 13: Reasons for relying on cash payments for everyday expenses



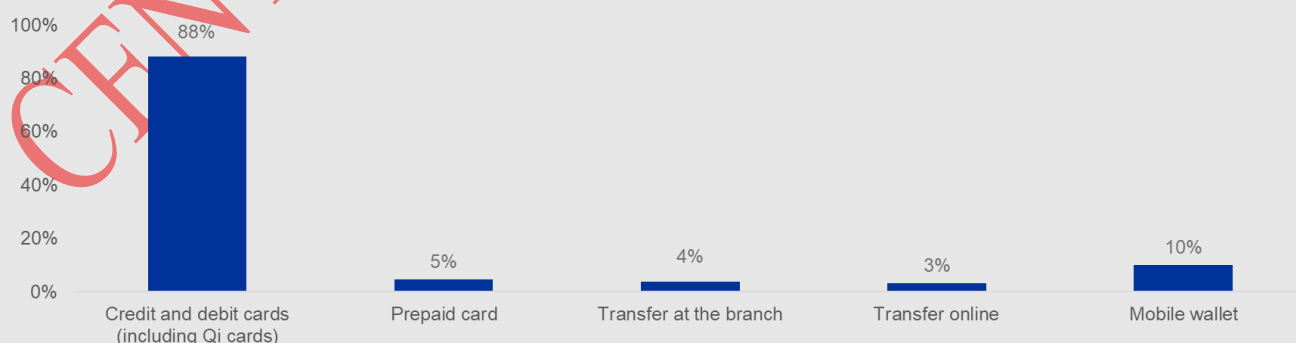
**Only 27 percent of Iraqis use a non-cash solution / means of payment to perform a transaction at least once a month, the figure is higher among high-income/educated, displaced and public employees.**

Figure 14: Percentage of Iraqi population using non-cash payment methods (across different demographic groups)



**Most of the Iraqis using a non-cash solution / means of payment, use a credit or debit card (including Qi cards and others)**

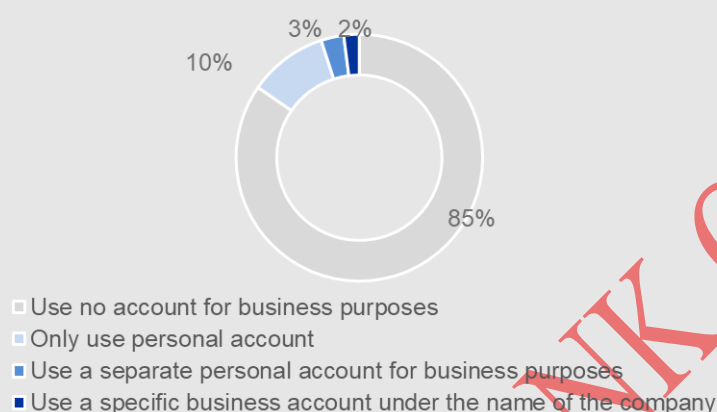
Figure 15: Most common non-cash payment methods used



### c. MSME Finance

**Majority of MSMEs<sup>27</sup> in Iraq (9 out of 10) are informal, small in size (1-3 employees) and male-owned.** Around 72 percent MSMEs in Iraq have no form of licensing nor registration. The penetration of accounts for business purposes is only at 14 percent, with only 2 percent MSMEs reporting using a dedicated business account under the company name.

Figure 16: Account ownership among MSMEs in Iraq



**MSME registration is time-consuming and costly, preventing many small businesses from opening formal accounts.** Most MSME owners participating in focus group discussions expressed little interest in formal banking, citing reluctance to pay fees for accounts in an environment where cash transactions dominate. As a result, 85 percent of MSMEs operate without a business account, relying primarily on cash. Some also avoid registration and the use of point-of-sale (PoS) machines to evade scrutiny from authorities. While men-led MSMEs in urban areas show some interest in e-money accounts, women-led, home-based businesses rely exclusively on cash for expenses and assets.

**MSME owners are also hesitant to seek loans from formal financial institutions,** citing high interest rates, perceived non-compliance with Shari'ah law, lengthy application processes, and difficulty securing guarantors. Additionally, MSME owners believe their lack of fixed income disqualifies them from formal loans, with none of the focus group participants having applied for one. Instead, they rely on informal loans from family, friends, or savings groups.

**On the supply side, banks are disincentivized to lend to MSMEs due to stringent guarantor requirements, which favors public sector employees.** The most common guarantor is a public sector employee, whose loan repayment must not exceed 30 percent of their salary. While some companies offer loan guarantees, the additional costs deter borrowers. Furthermore, recovering defaulted loans through asset seizure is a complex, lengthy process, discouraging banks from lending to MSMEs. The revival of the Iraqi Company

<sup>27</sup> Micro, Small and Medium Enterprises (MSMEs) are defined as per the classification by size of employment, used by the Ministry of Planning: a micro enterprise has from 1 to 3 employees (including the owner), a small enterprise has from 4 to 9 employees (including the owner) and a medium enterprise has from 10 to 29 employees (including the owner). An MSME can be registered or informal.

for Bank Guarantees (ICBG) may help alleviate this issue. Additionally, the informality of most MSMEs, which lack legal status, hinders their interaction with financial institutions.

**The regulatory framework only allows national individuals or companies to invest in SME financing,** and with only two such companies licensed by the Central Bank of Iraq (CBI), the supply of financial services for MSMEs remains limited. MSMEs also receive no tax benefits or preferential treatment in public tenders, leaving them on the same footing as larger companies, which further stifles their growth.

#### d. Consumer Protection and Financial Literacy

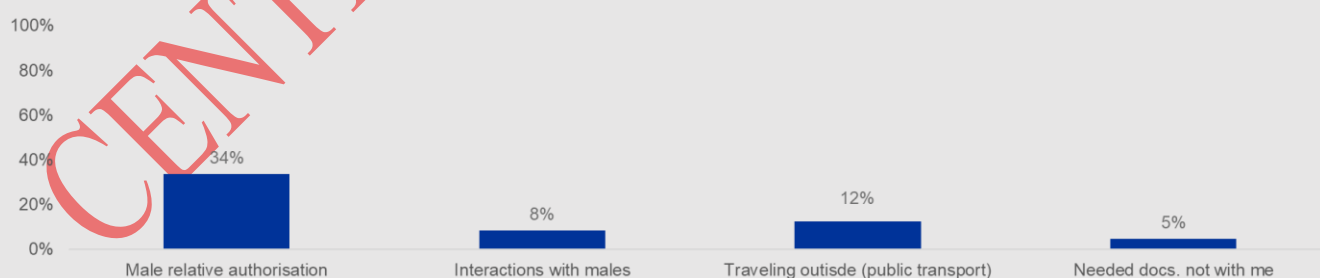
**A lack of trust in formal financial institutions is a recurring issue in Iraq.** While more than 40 percent of Iraqis trust state-owned banks for deposits and payments, nearly a third reported distrusting all financial institutions. Many Iraqis avoid bank transactions or point-of-sale (PoS) systems to prevent third parties from accessing their financial information, particularly to evade taxes, which inhibits the growth of the formal financial sector.

**Distrust in banks is also rooted in past negative experiences, such as personal or widely known instances of bank failures.** Some Iraqis are concerned that banks will use their deposits for investments, leading to fears that they may not be able to withdraw their money when needed. In rural areas, formal financial institutions are often far away, making them less accessible, while local agents (*Manafez*) are nearby and offer fast, convenient services without the bureaucracy of banks.

**Focus group findings highlight that many Iraqis feel excluded from the formal financial system due to unstable or low incomes.** Respondents reported a lack of knowledge about financial institutions and their services, and they perceived banking fees as high. Additionally, they believe obtaining a loan is unlikely, reducing their incentive to open a bank account.

**For women, particularly young, displaced, or less educated women, access to financial services is further limited.** About 34 percent of women in the diagnostic study reported needing male relative authorization to use financial services, with younger women and those with lower education levels facing the most significant barriers. Only 32 percent of Iraqi women reported having control over their own money, with older, educated, and higher-income women more likely to have financial independence.

Figure 17: Reasons for limited uptake and usage of financial services among Iraqi Women



**Customer service at banks is viewed as inefficient and overly bureaucratic.** Procedures, including Know Your Customer (KYC) regulations designed to prevent fraud and money laundering, are seen as burdensome and time-consuming. This inefficiency contributes to the prominence of the informal financial

sector, where *Manafez* agents are perceived as offering quicker, more straightforward services with minimal paperwork. Formal financial institutions are further hindered by slow transaction processing, which discourages both individuals and businesses from using bank accounts for routine transactions.

**There is limited awareness regarding available complaint redressal and recourse mechanisms available to consumers.** Low-income individuals, especially those in rural areas or displaced, have limited awareness of formal complaint mechanisms. They prefer to visit NGOs, *Manafez* agents, or government offices in person to resolve issues. Farmers, for example, report poor customer service experiences with banks, despite being aware of complaint systems like hotlines and complaint boxes. In contrast, educated youth are more familiar with complaint mechanisms for e-money accounts and cards and generally report positive experiences in resolving issues, often using hotlines or mobile applications.

CENTRAL BANK OF IRAQ