

Financial Inclusion and its Impact on Poverty reduction in Iraq

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Abstract

Financial inclusion is one of the most important programs adopted by many countries, especially (Iraq), for the purpose of bringing many dealers into the formal sector, increasing cash liquidity in banks with the aim of granting low-interest loans in order to contribute to reducing poverty, and following up expenditures with ease when withdrawing and depositing. And reducing tax evasion, and therefore it can be one of the doors to addressing the budget, as the study aimed at the effectiveness of the impact of financial inclusion in addressing poverty in Iraq, as Iraq is witnessing interest in some economic and social issues, including the phenomenon of poverty, and it provided many advice, consultations and support for various development programs that aim to tackle poverty.

Keywords: Poverty, Financial inclusion, tax.

Introduction

Great news everyone! The Iraqi government is taking action to alleviate poverty and its effects on specific groups in the community. Poverty is a problem that has many causes, including a weak development program, the shift from productivity to consumption, uncontrolled population growth, high prices of basic resources, and low wages for workers.

To tackle this issue, the Iraqi government has implemented several policies and programs such as social welfare programs, the distribution of ration cards, and increased spending on healthcare and education. However, these efforts have not been enough to significantly reduce poverty rates. It is time for more effective measures, such as investing in modern technology and implementing financial inclusion policies, to tackle poverty and its various contributing factors.

We have heard the calls to take a stand against poverty and destitution, and that is why we urge for the implementation of financial and banking services for all members of society. This will have a positive impact on the social aspect, as it will prioritize those in need and empower disadvantaged groups to access funding to improve their standard of living. Let's work together to eliminate poverty in Iraq!

The research problem:

The problem we are addressing is that the Iraqi society is suffering from poverty, which exceeds the limits that should not be crossed given Iraq's potential for livelihood. One important factor in reducing poverty rates is the implementation of financial inclusion

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programs. Therefore, we can ask: Can financial inclusion play a role in reducing poverty and the number of marginalized people?

To explore this, we can ask:

1. Does financial inclusion fund marginalize groups?
2. Does financial inclusion fund small and medium-sized projects?
3. Is financial inclusion an effective means of creating job opportunities for low-income individuals?

The research hypothesis:

Our research hypothesis is that there is a positive relationship between financial inclusion and poverty reduction in Iraq. Providing financial and banking services to the population has a positive effect on raising the living standards of marginalized and poor communities.

The aim of our research is to:

1. Assess the potential impact of financial inclusion indicators on poverty reduction.
2. Measure the effect of financial inclusion indicators on poverty rates in Iraq.
3. Estimate and analyze financial inclusion indicators in Iraq.

Let's remember that our research is an exciting opportunity to explore the potential of financial inclusion in addressing poverty in Iraq.

First section / The theoretical framework of financial inclusion and poverty

First: the concept of financial inclusion:

Financial inclusion is a crucial concept in developing the theoretical context

and identifying the factors that affect it. It refers to providing financial services at affordable costs to low-income individuals and marginalized communities. Financial inclusion also means the broadening of financial and banking products and services to a wide range of people, institutions, and individuals, particularly those with low incomes who face financial exclusion (Abdulghani, 2022: 45).

Secondly: The objectives of financial inclusion

As the world focuses on expanding financial inclusion, creating alliances between companies and international organizations for coordination, and working within these integrated and unified mechanisms, the benefits of financial inclusion proliferate. Advisory groups that help the poor see that building an integrated financial system is the only way to reach low-income individuals and poverty-stricken communities. This can be achieved through a set of objectives, including: (Hussein, 2019: 85).

1. Enhancing access to financial and banking services for all segments of society to educate them on the importance of available financial services and how to benefit from them.
2. Reducing poverty levels and achieving prosperity and social education

Thirdly, the importance of financial inclusion.

1. Financial inclusion ensures that all citizens in a country have access to various financial services, including those in remote areas, which contributes to reducing inequality and promoting social and economic equality across the nation.
2. Financial inclusion also enhances the ability of all members of society to participate and integrate with one another to build their communities. This is achieved by

developing individuals' capacity to use the financial system and improving their ability to start their own businesses.

3. The banking sector recognizes financial inclusion as a fundamental empowering element to reduce poverty and improve shared welfare.
4. Financial inclusion promotes the availability of financial services to low-income individuals, especially women, and enables small and medium-sized enterprises and residents to access financial services, making them accessible to everyone, particularly the poor.

Fourthly, let's discuss indicators of financial inclusion.

1. The financial services access indicator measures the ability of adults (15 years and older) to access financial services, such as credit cards and ATMs.
2. The savings in formal financial institutions indicator measures the ability of adults (15 years and older) to save in formal financial institutions.
3. The borrowing from financial institutions indicator measures the ability of adults to borrow from financial institutions.

The theoretical framework of poverty

Firstly, the concept of poverty:

Let's talk about poverty! Poverty is defined as the inability to achieve a certain level of material living in a society within a certain period of time. It represents a state of extreme deprivation in most basic aspects of life, such as food, health, education, housing, clean water, sanitation, and both material and emotional well-being. Poverty is a complex phenomenon with multiple economic, social, cultural, environmental, and political dimensions. It manifests in reduced food consumption, poor health conditions, low education levels, inadequate housing, lack of capital assets and savings, and more

Secondly, there are different types of poverty:

1. Income poverty refers to insufficient resources to ensure and secure the minimum level of socially appropriate living standards.
2. Capability poverty refers to a low level of individual capabilities that prevent them from participating in development processes.
3. Emergency poverty, also known as poverty resulting from crises, which may be political, economic, military, or natural disasters. This type of poverty can be overcome through international and popular solidarity.

Thirdly, there are two methods for calculating the poverty line:

A) In this method, the amount of consumption expenditure for the population is determined, which is sufficient to obtain the basic food energy through the following equation that estimates the cost of calories:

(Ketan, 2019:231)

$$\text{Inf (y)} = a + bc \text{ Ine}$$

B) The Basic Needs Cost method, which determines the poverty line by the value of consumption necessary to meet the minimum living requirements. (Laderchi, 2002:6)

Fourthly, poverty orientation:

1. Religious beliefs, habits, and traditions can lead to the prohibition of certain professions and activities for certain individuals and classes, contributing to poverty.

2. Social attitudes can perpetuate poverty by reinforcing societal hierarchies and power dynamics that leave some individuals wealthy and others impoverished. It is important to note that the responsibility for this phenomenon lies with society as a whole, rather than solely with those who are living in poverty.

Fifthly, the Nature and Effects of Poverty:

A. The nature issue of poverty

The nature issue of poverty is relative and varies from country to country and region to region. Poverty is not the fault of those living in poverty; rather, it is the result of systemic and social failures.

1. Poverty is a social issue that affects most members of society or certain groups. It can lead individuals to engage in conflict with one another in pursuit of financial gain, even resorting to illegal means such as forgery, theft, and usury. This can lead to a breakdown in discipline and chaos, undermining the cultural traditions that stable societies enjoy.

2. Poverty is also an economic issue, as it reflects an individual or society's inability to meet their various economic needs. Poverty is often the most significant impact of economic imbalances in a given country or region.

B. Major issue caused by poverty.

1. Lack of access to proper nutrition can lead to illness and hinder healing, which is a major issue caused by poverty.

2. Many people living in poverty are unable to pursue or continue their education, or are forced to prioritize work over learning.

3. Communities in poverty often struggle to provide adequate healthcare resources.

sixthly, moving on to the basic theories of poverty:

1. One theory suggests that poverty begins with a decrease in individual income, which can lead to reduced nutrition, poor health, decreased productivity, and a further reduction in income. (Al-Habib, 2020: 37)

2. The Malthusian theory of poverty focuses on the mathematical progression of human reproduction (2, 4, 6...) and the progression of food resources (1, 2, 3...), predicting that the world's population will grow faster than its food supply.

Seventhly, Poverty Indicators:

1. Poverty Gap Indicator: This measures the average gap between the income level of poor individuals and the poverty line. The basic idea behind this indicator is to calculate the total cost of bringing the poor above the poverty line.

2. Poverty Rate Indicator: Also known as the Headcount Indicator, this is the most common indicator used to measure the extent of poverty. It measures the percentage of the population that is considered poor and is easy to understand and calculate.

Second section / Analysis of Financial Inclusion and Poverty in Iraq: Firstly, the geographic distribution of bank branches and ATMs from 2011 to 2020 is shown in Table 1 below:

Table 1: Geographic Distribution of ATMs in Iraq (2011-2020)

year	Number of banks in Iraq *	Number of ATM	Branches with an area of 1000 square meters	Percentage change in the number of branches and area	ATM with an area of 1000 square meters	Percentage change in the number of ATM and area
2011	888	467	2.04	/	1.07	/
2012	982	467	2.26	10.87	1.07	0.00
2013	1002	467	2.30	1.77	1.49	39.25
2014	938	337	2.16	(6.09)	0.77	(48.32)
2015	821	580	1.89	(12.50)	1.33	72.73
2016	858	660	1.97	4.23	1.52	14.29
2017	833	656	1.91	(3.05)	1.51	(0.66)
2018	857	865	1.97	3.14	1.99	31.79
2019	881	1014	2.02	2.45	2.33	17.09
2020	884	1340	2.03	4.95	3.08	32.19

Source: the researcher by depending by (central bank of Iraq, department of Statistics and Research, annual statistical bulletin, 2011-2020).

Looking at the previous table (1), it's clear that the banking spread percentage for ATMs and bank branches is low. This is because of the limited number of ATMs and bank branches in Iraq compared to its size. During the research period, there was an improvement in the number of ATMs, with the percentage reaching 1.07 in 2011, but it dropped to its lowest point in 2014 at 0.77 due to the poor economic situation before the occupation. The overall economic policies were unstable, experimental, and improvisational. Unemployment was high, poverty was widespread, and the economic situation was dire. After the occupation, the economic policy collapsed, and the state structures were shattered. This led to decisions being made regarding prices and wages in an arbitrary manner, skyrocketing unemployment, and a significant rise in poverty rates. There was an increase in the number of people suffering from poverty due to the lack of economic opportunities, housing, and jobs. This economic problem prevented thousands of young people from forming families and living a stable and comfortable life and the political situation requires everyone to avoid any form of violence, whether in words or actions, and to approach their differences objectively and not personally. It is essential to expedite the fair and well-thought-out legislation of election laws and hold early elections to restore trust in the political class and alleviate the frustration expressed through the ongoing protests in the parliament. Unfortunately, the security situation in Iraq is bleak, and the fundamental principles of security, stability, and optimism are almost non-existent. The rise of sectarian tensions is evident through various incidents of assassinations and vendettas, which weaken the security situation and diminish people's optimism. In 2020, the rate of security incidents was at an all-time high of 3.08 per day, with a total of 1340 incidents reported and it's no secret that most ATMs are found in major commercial areas and bank branches. This is due to a lack of financial and banking literacy among some individuals, security concerns, or a preference for manual transactions over electronic card payments. However, it's worth noting that ATM usage is still limited to employees who receive mandatory salaries through them.

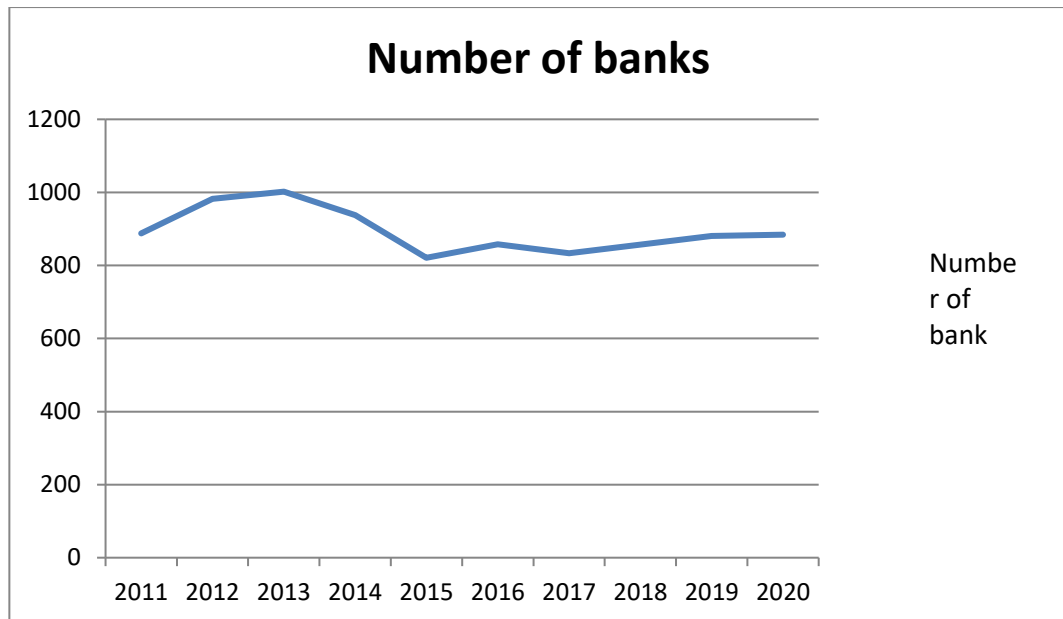


Figure (1) number of banks in Iraq

This information was sourced by the researcher depending on the table data (1).

Secondly, poverty rates

Table (2) below illustrates the poverty line and percentage in Iraq between 2011 and 2020.

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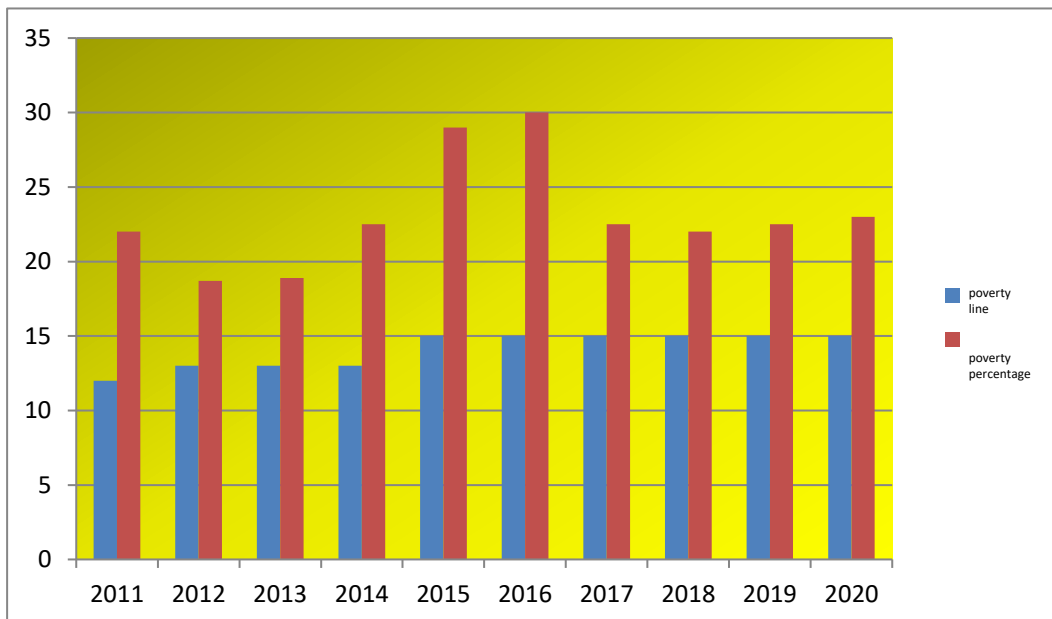
Percentage	Poverty line (Thousand Dinar)	Year
22	120000	2011
18.7	130000	2012
18.9	130000	2013
22.5	130000	2014
29	150000	2015
30	150000	2016
22.5	150000	2017
22	150000	2018
22.5	150000	2019
23	150000	2020

This information was sourced from the Statistical Yearbook published by the Central Statistical Organization, Ministry of Planning and Development Cooperation in Iraq.

From table 2, we can see that poverty rates in Iraq were at 22% in 2011, but decreased to 18.7% in 2012 and continued to decline until 2013 due to the implementation of poverty reduction strategies. According to the Central Statistical Organization, the poverty rate in

2013 was estimated to be 18.9%, with 6,317,100 million people living below the poverty line. Economic growth helped reduce poverty and improve living standards, resulting in achievements in various areas, such as job creation, gender equality, and increased food assistance. However, in 2014, the poverty rate increased to 22.5% and the number of people living in poverty rose to 8,101,680 million due to deteriorating security conditions and the control of terrorist groups over many areas and provinces. The poverty rate continued to rise until 2016, reaching 30%. This significant increase in poverty was due to the economic decline caused by the security situation, inability to access food assistance, high unemployment rates, and a weak social protection network. As a result, many Iraqi families and displaced persons fell below the poverty line due to the loss of their livelihood sources in the areas they had fled from, in 2016, the number of displaced individuals reached 3.2 million, with the majority being women and children. They were living in dire conditions due to the high number of displaced individuals, which created pressure on the areas they fled to. As a result, there was an increased strain on all types of services, such as electricity, water, schools, and more. After 2016, there was a noticeable improvement in security conditions, and most of the displaced individuals returned to their areas. This led to a positive change in the poverty rate, which was 22% in 2018. However, the rate increased in 2019 and 2020 due to the economic situation in the country, such as the COVID-19 pandemic, travel restrictions, business closures, school shutdowns, project suspensions, domestic and international inflation, and more.

Check out Figure (2) for a graphical representation of the poverty line and percentage in Iraq between 2010 and 2020.



This information was sourced by the researcher depending on the table data (2).

Third section / Presentation and analysis of the results of the Standard Model

Reading the third section, the study sample's time series variables must undergo a stationary test to determine their integration order and whether they are stationary or not. This test is performed using the Phillips-Perron test, which is one of the most accurate tests for determining whether time series variables are stationary or not. The test also determines the statistical properties of the variables. The results of the test for the time series variables of the study sample have been revealed.

Through Table 18 and when applying the Dickie Fuller extended unit root test, we got the results shown in Table 19.

Figure 19 Results of testing the stillness of the time series of the variables studied

UNIT ROOT TEST RESULTS TABLE (ADF)						
Null Hypothesis: the variable has a unit root						
					<u>At Level</u>	
GI	BS	BDI	BD	ATM		
-2.8060	-1.6849	-0.2364	-1.4366	1.2204	t-Statistic	With Constant
0.0690	0.4299	0.9221	0.5533	0.9977	Prob.	
*	n0	n0	n0	n0		
-4.6424	-2.7530	-3.5822	-2.7440	-0.8120	t-Statistic	With Constant & Trend
0.0041	0.2231	0.0480	0.2264	0.9548	Prob.	
***	n0	**	n0	n0		
0.2931	-1.3910	1.8600	1.0935	1.8078	t-Statistic	Without Constant & Trend
0.7643	0.1498	0.9822	0.9254	0.9810	Prob.	
n0	n0	n0	n0	n0		
					<u>At First Difference</u>	
d(GI)	d(BS)	d(BDI)	d(BD)	d(ATM)		
-2.2674	-2.3178	-1.8830	-2.3763	-1.6268	t-Statistic	With Constant
0.1883	0.1723	0.3348	0.1555	0.4586	Prob.	
n0	n0	n0	n0	n0		
-1.7399	-2.2001	-1.7119	-2.2745	-4.6681	t-Statistic	With Constant & Trend
0.7089	0.4748	0.7180	0.4361	0.0255	Prob.	
n0	n0	n0	n0	***		
-2.2905	-2.0291	-0.3096	-2.0472	-3.9752	t-Statistic	Without Constant & Trend
0.0234	0.0421	0.5646	0.0405	0.02885	Prob.	
**	**	n0	**	**		
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant						
b: Lag Length based on SIC						
c: Probability based on MacKinnon (1996) one-sided p-values.						

Source: Prepared by the researcher based on output data (Eviews)

Through table 19, it can be observed that the time series test for variables (BDI, GI) was stationary at their original levels, whether with a trend, without a trend, or with a breakpoint and trend, at significance levels of (1%, 5%, 10%). On the other hand, the time series for variables (BS, BD, ATM) was stationary when taking the first difference, with the same significance levels and trend conditions.

Conclusion:

1. Financial inclusion means individuals and companies have access to useful and affordable financial products and services that meet their needs, and is a key factor in eliminating poverty.
2. To enhance financial inclusion, there are several pillars and supports, including bolstering financial infrastructure, educating consumers on financial matters to ensure they obtain financial services and are protected against financial risks, providing means for handling complaints and fulfilling financial obligations with clients by implementing a suitable regulatory system.
3. Financial inclusion has dimensions which consist of access, meaning the ability to provide financial services, and quality, which pertains to the ability of financial products to meet customers' needs. Effective policies for financial inclusion include banking agents, mobile payments, diversifying service providers, reforming government banks, consumer protection policies, and others. There are also mechanisms for implementing these policies, such as studying supply and demand, setting future goals, developing a national strategy to encompass all segments and sectors of society.
4. Poverty is an economic indicator in which a person lacks sufficient income to obtain basic necessities for life, such as education, health, housing, and others

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