

THE POSITIVE EFFECTS OF POLITICAL CHANGE ON THE BANKING SECTOR IN IRAQ AFTER 2003

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Abstract

The establishment of private banks after 2003 is one of the indicators of positive change, which is represented in openness in banking activity, which was reflected significantly on the stock market in Iraq and the occurrence of major changes in banking activity, which was reflected in financing investments that achieve the foundations of development in the economic sector.

Global economic developments cast a shadow over the reality of banking activity, and these developments, with their positive or negative effects, have contributed to the development of the banking industry. The transformation of banking from the traditional to electronic side and the entry of technology in the programming and implementation of banking business are also one of the most prominent positive effects of global economic developments. However, the latter was not without negative effects that crystallized in the form of economic obstacles. The Iraqi banking sector was not immune to the phenomenon of financial stumble. More than one bank was subjected to economic crises that contributed to its collapse and placement under guardianship and then its liquidation or bankruptcy. Therefore, new means have been applied to protect banks from stumbling or rehabilitating them, such as banking governance, banking integration and banking guardianship, in addition to the fact that banking openness had a positive impact on improving the reality of the banking sector in Iraq.

Keywords: positive effects, banking activity, banking sector, political change.

INTRODUCTION

Creating a sound banking sector is a prerequisite for laying the foundations of a stable financial system with a positive impact away from the negatives, and a pivotal factor in achieving economic development at the required level, and this is done through the establishment of a banking system capable of mobilizing and reallocating financial resources and improving their efficiency to serve economic activity, Working to modernize and strengthen the banking sector by making changes in the banking industry and restructuring it for the purpose of mobilizing domestic savings and reducing the phenomenon of migrant capital, with the possibility of attracting part of the flows of foreign investment. In Iraq, we find that the banking sector suffers from great business challenges and obstacles, some of which are internal, such as laws, legislation and external ones related to global markets (technical changes), and the consequent significant changes in the nature and structure of the banking industry. Therefore, the task of reforming the banking sector begins from studying its reality and seeking to overcome the difficulties they face, addressing the current distortions and imbalances, and discussing ways to activate the role of banks.

Undoubtedly, the political change in post-2003 Iraq, where the political system shifted from a totalitarian and dictatorial system to a democratic pluralistic system, had an impact and reflected on the performance and work of banking activity and internal and external dealing mechanisms, which generated an open environment for investment and financial exchanges at the local and international levels. And we will show this according to the following demands:

THE IMPORTANCE OF RESEARCH

The importance of this study is highlighted by focusing on the fact that banking systems reforms to be successful must be part of a more comprehensive strategy for change and reform. It is embodied

in liberating the financial sector from restrictions and obstacles, creating an appropriate legislative environment, increasing competition between banks and using advanced technological means of communication and information. The importance of the study aims to show banking openness (economic liberalism), study private or private banks and learn about the governance of banks. This study is also a road map for future studies. It can also be used in countries that have the same experience, as well as benefit from it in research centers.

THE PROBLEM OF RESEARCH

This study seeks to answer several questions: To what extent does banking openness affect improving the reality of banking activity in Iraq? Has the change of the political system in Iraq after 2003 had an impact on the emergence of private or private banks? How did the concept of bank governance reflect on the working mechanisms of those banks?

THE SEARCH HYPOTHESIS:

This study stems from the premise that banking openness and taking the concept of bank governance and allowing the establishment of private and private banks all represent positive effects of political change on the banking sector.

RESEARCH METHODOLOGY

The statistical and inductive approach were relied on in order to investigate the positive effects of banking openness and allow the establishment of private banks and the governance of banks and the importance of their implementation in the banking sector.

THE POSITIVE EFFECTS OF POLITICAL CHANGE ON BANKING ACTIVITY IN IRAQ

Despite the many negatives that followed the banking system in Iraq after the change in 2003, there are some positives that can be diagnosed and observed on Iraqi banking activity, which was largely lacking in banking activity in Iraq, especially before 2003, as the period that followed witnessed a shift in the nature of the Iraqi economy from what it was. And we will show this as follows:

The first requirement: Banking openness (economic liberalism)

After 2003, Iraq witnessed a shift in the economic and banking structure, as after the previous political system controlled the nature of the economy and banking activity in a monopolistic manner, there was a large inflation in the currency that was reflected in the reality of the subsistence level of the Iraqi people. The period that followed witnessed a clear change, as the political change after 2003 represented a real change and The banking system and the year 2004 witnessed the legislation of the Central Bank Law No. 56, which laid the foundations and pillars for controlling the currency and controlling the securities market, followed by the legislation of the Iraqi Banks Law No. 94 of 2004. Which led to following the methodology of the market economy, passing the interest rate, canceling credit plans, opening the door to work for foreign banks, opening their banks and branches, and opening the freedom to transfer money outside Iraq. This law was the real beginning of the work of Iraqi banks, especially private or private, as this law allowed the way for banking activity by opening the door to practice banking activities, freedom and flexibility in dealing and decision-making, this stage witnessed a great expansion of banks in quantity and quality, which resulted in the establishment of more than (36) banks after it was (16) banks before 2003. (Ahmed, 2016, P.128)

The political change after 2003 was not limited to the political aspects, but also the economic and banking aspects, as after the Iraqi currency suffered from great inflation as a result of the economic, political and economic blockade followed by the previous regime, the period followed by a shift in economic and banking activity was represented in redirecting the Iraqi economy towards liberalism and the open market. This was represented by the issuance (Al-Hafiz, 2009, P.56).



The issuance of the investment law was followed by the rehabilitation and development of the Iraqi stock exchange and gave way to the privatization of banks and local companies, as approximately (192) government and local companies were privatized in order to work to create a budget in Iraqi banking activity with the regional and international reality, especially as Iraq lived a stage of economic isolation for a long time that reflected negatively on the performance (Al Najjar, 2005, P 118)>

Then the investment law was legislated by the Iraqi Parliament No. (13) of 2006, which was proposed by the Iraqi government and was motivated by advancing the development process, developing the economy, rehabilitating banking activity, encouraging investment and reducing unemployment. This law is one of the most important laws that worked to create a state of balance and create an environment and conditions suitable for foreign investment in order to strengthen and promote the Iraqi economy and develop banking activity in a way that occurs in line with the regional and international economic reality (Ajeel, 2009, P.3), The most important objectives of the Iraqi Investment Law No. (13) of 2006 can be summarized as follows: (Iraqi Investment Law, 2006)

- 1- Encouraging investments and transferring modern technologies and contributing to the process of developing Iraq and expanding its production and service base.
- 2- Encouraging and motivating the local and foreign private sector to invest in Iraq and provide the necessary facilities for projects covered by the provisions of this law.
- 3- Developing human resources according to the needs of the market and providing job opportunities.
- 4- Expanding exports and strengthening the balance of payments and the trade balance.
- 5- Protecting the rights and property of investors in Iraq.

The banking system in Iraq witnessed a major change after 2003 represented in the nature of financial and credit transfers, as banks represented a source of financing investment and service projects. As the Iraqi banking activity has created a relative balance with regard to monetary policy in Iraq and through the policies of the Central Bank of Iraq, which has sought over the years to find policies through which the rate of reducing financial inflation in Iraq and finding foundations and rules for a financial and banking system in Iraq based on the principles of free market and liberal policy (Ahmed, p. 123), The new investment law in Iraq No. (13) of 2006 granted many privileges that can be totaled in the following (Ajeel,p.95):-

- 1- Taking out the capital and its revenues in accordance with the provisions of the law and the laws of the Central Bank of Iraq and converting the currency after paying its obligations and debts to the Iraqi government.
- 2- Providing rights for the foreign investor to trade in the Iraq Stock Exchange, Stocks and Bank Financial Bonds.
- 3- The right of investors to rent land and real estate for investment purposes.
- 4- The foreign investor has the right to (open a bank account in Iraqi or foreign currency in one of the legitimate and approved Iraqi banks inside or outside Iraq).
- 5- The investor has the right to insure the projects he invests in Iraqi insurance companies.

After 2003, the political system followed a somewhat deflationary fiscal policy, and the reason for this is due to the political system's quest to find economic and financial formulas and mechanisms to confront the inflation that Iraq was suffering from as a result of the economic blockade and the wars fought by Iraq, destroyed the Iraqi economy and the currency collapsed, which created a banking system suffering from great problems after 2003 (Al-Shamri, 2020, P.134).

Banking and financial policy in Iraq has been able to achieve good results, especially in light of the conditions that Iraq was living after 2003, which were represented in the decline in the value of the Iraqi dinar to two times its price against foreign currencies, as well as a decrease in the rate of financial inflation in Iraq from (60%-70%) in the years following the 2003 process. Iraq witnessed (Abdudi, 2019, P.277).

The banking and financial policy that the political system tried after 2003 had relatively tangible economic results, as Iraq has witnessed for years of siege and wars that destroyed the Iraqi economy and the banking system and reflected on economic activity in general. Through economic and banking policies, the political system sought to control Iraqi currencies and the stock exchange, which created a new banking and financial opening that allowed foreign investment to enter the securities market in Iraq.

THE SECOND REQUIREMENT: PRIVATE BANKS

After 2003, the banking sector witnessed a remarkable activity represented in the establishment of many Iraqi private and private banks, which represented a noticeable shift in the Iraq Stock Exchange and these banks represented a turning point in banking from government to local.

One of the noticeable change in banking activity after 2003 was the emergence of many private or private banks, which the economic and banking openness played a prominent role in its establishment. The Iraqi Banks Law No. 94 of 2004 and the Investment Law No. (13) of 2006 had a great incentive to establish Iraqi private banks, which number about (36) banks with a capital of about (220) million. These banks have had a prominent impact on the investment and service sectors in Iraq due to their internal and external financial and credit transactions. (Bakr, 2015, p.55).

At present, the number of Iraqi banks and their heads of funds has increased significantly, as the number of Iraqi banks reached (57) banks, including (6) government banks and (51) private banks. (The Central Bank of Iraq, 2014, p. 29), financial and banking legislation and policies in Iraq after 2003 and beyond sought to find formulas and institutions to consolidate banking and involve the private sector or private banks in financial and banking activity in Iraq by highlighting the role and activity of private banks as one of the pillars of expanding and diversifying Iraq's stock market. The period after 2003 witnessed an increase in the number of private and private banks, as well as an expansion in their cash and credit capital. (Mohammed and Radi, 2012, p.140)

After 2003, the political system sought to consolidate the rules of the correct foundations of the Iraqi economy, especially banking activity in light of the great development witnessed by regional and international countries in the field of economy, banking and banking, and in light of the state of closure, depression and banking activity in light of the large inflation of the Iraqi currency against foreign currencies. The political system worked to the legislation of the Iraqi Banks Law No. 94 of 2004 in order to make room for private banks and move banking work in Iraq to stimulate the Iraqi economy and keep pace with global developments. (Kanaan and others, 2017, P67).

THE MOST IMPORTANT INDICATORS OF BANKING ACTIVITY IN IRAQ AFTER 2003 CAN BE SUMMARIZED AS FOLLOWS (AL-SHAMRI, PP.138-140) :-

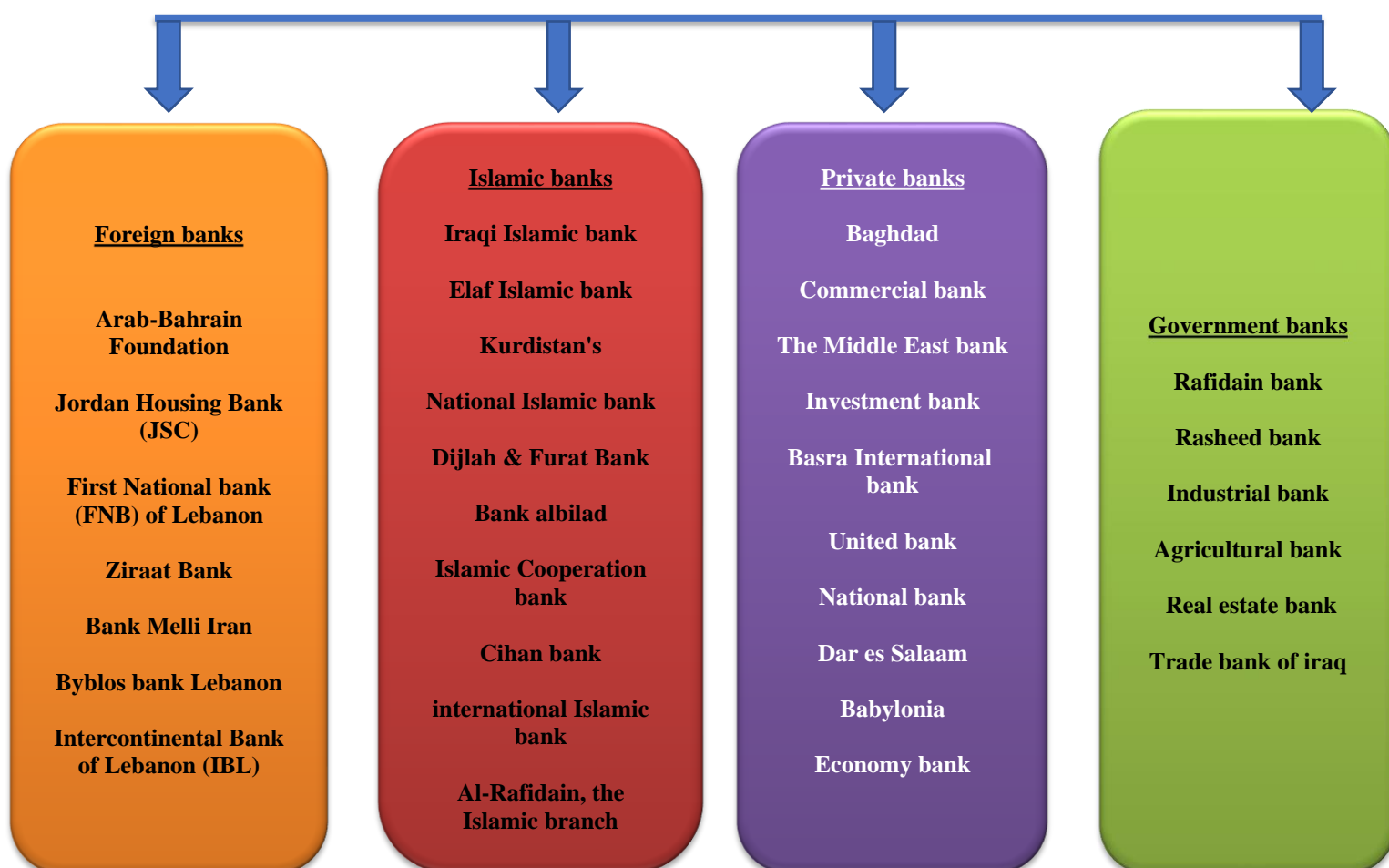
- 1- There are about 57 banks in Iraq after 2003, including (9) Islamic banks, the rest are commercial (7) specialized commercial government banks, as well as (11) branches of foreign banks, nearly 900 branches of banks in Iraq and about 500 branches of private banks.
- 2- There are many banks that refer to Arab and foreign investors. The participation rate of foreign capital ranges from about (75%) of banks' capital.
- 3- According to the statistics of the Central Bank until 2010, the capital of the banking sector in Iraq is about (310) billion dollars, and this percentage varies from year to year with a growth rate (8.8%) and the balance that made Iraq represent (13%) of the total banking sector in Iraq.
- 4- Government banks control the banking sector significantly, especially Al-Rasheed and Rafidain banks, as they control its percentage (97%) of total commercial and banking transactions. On the other hand, the percentage of private banks is (3%) and they clearly control treasury transfers and financial transactions, especially foreign ones, despite the problems experienced by government banks.
- 5- It is noted that the banking density is reduced in Iraq, as one bank per (50) thousand people is different from the global averages of (10) thousand people per bank, which is an indicator of the

decrease in the number of banks and the need to establish other banks, as the capital of banks is the basis of their work and activity.

The post-2003 phase represented a major shift in banking activity in Iraq, as it witnessed the adoption of new banking policies and the opening of investments in the field of stock exchange and banks, which created many new private banks Which significantly moved the stalemate in banking activity in Iraq, which generated a relative rise in financial and banking transactions and with regard to the exchange rate of the Iraqi dinar, Iraq's entry into the regional and global securities market, and giving way with regard to bank transfers and linking Iraq to the global banking system. (Bakir, P.50)

The objectives of banking policy and the expansion of the establishment of private banks were to achieve economic development and develop the banking sector in Iraq and work to find bases and foundations for banking activity that contribute to achieving real economic and financial development in Iraq by stimulating the encouragement of foreign investments and financing investment projects that will achieve comprehensive development (khatab , 2009, p. 31), We will show the structure of the Iraqi banking system in the following chart:

Structure No. (1): The structure of the banking system in Iraq after 2003
Central Bank of Iraq (Alamiri, p.85)



The establishment of private banks after 2003 is one of the indicators of positive change, which was represented in openness in banking activity, which was significantly reflected on the securities market in Iraq, and major changes in banking activity that were reflected in financing investments that would achieve the foundations of development in the economic sector.



THE THIRD REQUIREMENT: GOVERNANCE OF BANKS

After 2003, Iraq witnessed a major transformation in the banking system that reflected on the working mechanisms of these banks and thus contributed to increasing their activity. One of these transformations is governance, which represented an essential and effective element in the process of transferring money and external communication, using means of technology and information in the field of financial and banking transactions.

Iraqi banks have developed a special system and extensive work programs in order to develop the process of economic activity in order to keep pace with modernity and the great development that the world has gone through under multiple years. Perhaps at the forefront of these programs is (governance¹)*in banking, financial institutions and internal and external transactions. The aim of this was to promote a liberal free economy, transparency and ease of dealing and combating corruption, as the application of the foundations and principles of governance has become a necessity in financial and banking transactions, as governance has become one of the most important methods followed by all working countries in the aspect of financial and banking activity and transactions. (Alamiri, p.88)

Governance represented one of the most important indicators of positive development in banking activity in Iraq after 2003, which was to provide the conditions and principles of proper banking by providing technical and technological requirements that will ensure the smooth functioning of banking activity and financial transactions, as well as keeping pace with the great development witnessed by the world Especially since Iraq has lived for a long time in wars and the economic blockade that has had serious repercussions on banking activity, governance has contributed greatly to linking Iraq to the system of global banking activity, whether through financial transfers or external banking partnerships. (Mohammed and Radi, P.188)

Banking governance is one of the means produced by the requirements of global development, as the world has witnessed a major boom in technological and technical aspects in financial, banking, commercial and many other transactions, which require Iraq to enter this field. The most important types of electronic banking operations can be summarized as follows: (Ali, 2019, p. 31-35).

1- Convert money electronically: It is the process by which money is transferred internally and externally through electronic communication and through Internet networks with external banks through the SWIFT system² (*), which represents a link of communication between international banks through an organized, controlled and secure network of financial and banking communication.

2- Wire transfer system: It is a system that is done by transferring bank commissions in a direct and immediate way between companies and consumers and used for fast and large financial transfers.

¹ Governance: is one of the most important requirements and imperatives whose application has become the basis in recent times, to ensure the organization of work in private and public sector organizations at the local, regional and global levels for the purpose of establishing rules and principles for the management and control of institutions, and applying the method of practicing good governance in them to include these solid rules not only private sector It is a set of rules, laws, standards and procedures under which organizations are managed and actively controlled, and it is responsible for regulating the relationship between the actors in the organization and stakeholders, and helps those in determining the direction and performance of the organisation, Through it, it can protect the financial interests and investments of shareholders, as well as maximise the organization's profits and market value in the long term, and regulate the relationship between senior management that includes (executive management and board of directors) and between shareholders and stakeholders associated with the organization. For the look at: Razan Salah, What is Governance, on the Internet and Information, visited on 29/4/2021, available at the following link: <https://mawdoo3.com>

² SWIFT system: It is a system called the group of international interbank banking transactions (money transfers and interbank transactions system). It is a global banking network and most banks in the world are subscribed to it, and SWIFT is the largest and most efficient tool for international money transfer, with more than 11,000 member institutions in more than 200 countries, sending more than 5 billion financial For more, look: Abdullatif Hamza Al-Qarri, Islamic Investment Banks Theory and Practice, Academic House for Publishing and Distribution, Amman, 2011, p. 67.



3- banks payment clearing system (ships): it is an instant transfer system for bank commissions that does not contain any information and is used for international transfers and is managed by the clearing association in new york and the number of transfers can reach more than 150 transfers per year. Al-Shahat, 2007, p.58)

4- Clearing House System (ACH): This system is the one that was created for small remittances that are paid in one or two days between companies and consumers and pay the salaries of employees and retirees.

Technology has contributed to the movement of capital, as the manifestations of globalization and technological development have made the world a small village. Therefore, any development process requires the provision of the necessary financial allocations, which highlighted the need to apply the conditions and methods of technological development or governance in banking activity in order to facilitate the task of foreign investment through financial and banking transfers that finance investment and development operations. (Chalifa, 2003, P.290)

Globalization has required countries to apply technological methods in institutions, devices, banks and all forms of economic transactions through the use of Internet networks and electronic devices, ensure transparency, eliminate financial and administrative corruption, and lay the solid foundations of the modern economy that keeps pace with modern technological and technical progress. (Razak, 2010, P117)

Technology is an essential and effective element in controlling economic and banking transactions by ensuring the required speed and efficiency in financial transactions. It is an effective tool for storing information, coordinating banking transactions between banks and their customers, linking local bank systems to a wide network of banking transactions with the countries of the world and achieving greater benefit to customers. (Mahmoud, 2015, P3)

The application of the rules and foundations of technology in Iraq requires finding a structure and cadres capable of dealing with modern technologies and technology. Because Iraq has suffered from many problems with regard to the legacy of wars and the destruction it has left in infrastructure. Many Iraqi banks, and before it, the banking policy followed by the political system, sought to create the appropriate conditions for the application of the foundations and rules (Lamy, 2013, p.12)

The application of governance in Iraqi banks is one of the most important positive indicators that occurred after 2003 in the financial and banking aspects through the presence of many banks that worked to apply methods and methods of technology and development in order to improve the overall performance of banking activity in Iraq and increasing transparency and eliminating corruption, as well as keeping pace with the great technological development that countries have been accelerating in its application in banking, whether in terms of transactions, remittances or mechanisms of communication with their customers and customers.

Conclusion

At the end of the research, we came up with a number of results that we present as follows:

1- The period after 2003 witnessed many positive changes in banking activity, which represents a clear indication of the positive change in this field, which was represented in the new economic and banking policy adopted by the political system, which represented a shift to the open market after the isolationist policy pursued by the previous regime.

2- Expanding the establishment of banks and legislation that pushed in this direction in order to enhance banking activity in Iraq, as well as applying the foundations and rules of governance, which represented a shift in banking activity and reflected on the nature of transactions and the performance of the banking system in Iraq.

3- The economic openness experienced by most Arab countries has led to the emergence of Islamic banks and private banks and activity in the banking sector and its alternative products in modern banking life. This has contributed significantly to the establishment of the principles of the economy and the enactment of banking legislation that enshrines the business of family banking.

4- Despite the challenges facing banks and financial institutions in the field of competition.

5- Private banks have become important in the banking and financial markets thanks to their economic and competitive capacity derived from the nature and specificity of the work for political change on the banking sector in Iraq after 2003.

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