

Financial Inclusion and Its Role in Influencing Certain Macroeconomic Variables: a Case Study (Jordan, Iraq)

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Abstract

Given that the concept of financial inclusion reflects the ability of individuals and economic units, across all income groups, to access a wide range of diverse, innovative and high-quality financial services with ease and at low, competitive prices, whilst protecting their rights and helping them to manage their funds and savings efficiently and effectively, its dimensions and indicators have, over the past few years— and particularly following the recent global financial crisis—garnered widespread attention from both developing and developed countries, and the international community, through the G20 (20), the International Monetary Fund and the World Bank Group have played a major and effective role in developing and collecting data on financial inclusion, using and innovating the best methods to improve its levels, based on its great importance in fueling consumption and raising economic growth rates, as well as its contribution to achieving high levels of financial stability. International reports indicate a significant disparity between financial inclusion rates in developing countries and their counterparts in developed countries; in developing countries, this rate has not exceeded 30% at best, which suggests that the rate of financial exclusion in these countries exceeds 70%. Arab countries, as part of the developing world, are no exception to this (with the exception of the Gulf Cooperation Council countries). This makes the assessment of the financial inclusion index in these countries, and the measurement and analysis of its impact on certain macroeconomic variables, an important and effective tool for financial and monetary decision-makers when formulating their future policies.

Keywords: financial inclusion, economic variables, global financial crisis.

Introduction to the Research – Significance – Hypothesis – Conclusion

Financial inclusion has become one of the prerequisites for economic development in recent years and a crucial measure for achieving inclusive economic growth, as it is considered one of the most important factors linked to growth in developing countries, including Iraq, given its significance in promoting financial and economic stability. It is also an objective of the Central Bank, through which it seeks to deliver financial services to all members of society, particularly the disadvantaged and poor.

The importance of research: lies in understanding the reality of financial inclusion through the study and analysis of certain indicators and the main obstacles, as well as the development of a strategy to provide banking services to the largest possible number of segments of Iraqi society, thereby contributing to economic and social development.

The problem of research: was that financial and banking services remain inaccessible to most segments of society in developing countries, including Iraq, due to the failure to establish the correct standards for providing the appropriate mechanisms to achieve financial inclusion in these nations. Consequently, the research was based on the hypothesis that the use of financial inclusion mechanisms and methods in developing countries, including Iraq, is capable of mobilizing savings and influencing economic variables to achieve the desired objectives. The research concluded that the creation of financial inclusion data on the banking sector's operations and its temporal dynamics is of great importance in understanding why levels of financial inclusion in Iraq are lower than in other Arab countries. A large segment of society remains financially excluded, attributable to political and financial conditions, low levels of financial literacy among the Iraqi population, and weaknesses in Iraq's legislative framework, which poses a significant obstacle to individuals' use of financial and banking services on a continuous basis. The research concluded that the Central Bank of Iraq must develop a national financial inclusion strategy that supports financial and banking services for all segments of society, particularly the marginalized and poor, as well as key and excluded regions, in order to achieve financial inclusion objectives, provided that these services are directed towards investment to improve living standards and to benefit from the experiences of Arab countries. The research therefore turned its attention to Jordan, as its experience has been somewhat successful due to the similarity of its economic and social environment to that of Iraq.

Section One:-

The Theoretical and Conceptual Framework of Financial Inclusion

First: Financial Inclusion – (Concept, Obstacles, and Dimensions)

1-The Concept of Financial Inclusion

Financial inclusion is defined in various ways, both by diverse financial institutions and by specialist academics. There are multiple concepts of financial inclusion: some define it as individuals' ability to access financial services, whilst other studies define it as the provision of sustainable and sound financial services to individuals, or the provision of high-quality financial services whilst committing to the protection of service users ⁽¹⁾, whilst the World Bank (WB) defines financial inclusion, according to its 2014 report, as **“the proportion of the population using financial services out of the total population”**⁽²⁾

The Group of Twenty (G20) has defined financial inclusion as “enhancing access to and use of financial services and products by all segments of society, including marginalized and poor groups, that are tailored to their needs and provided in a fair, transparent and affordable manner”⁽³⁾.

In light of the growing global interest in financial inclusion, as demonstrated by international economic organisations and central banks, the Arab Monetary Fund recognized its importance and formed a regional working group to promote financial inclusion in Arab countries. A series of studies were conducted on this subject, and their definition of financial inclusion was: "the availability and use of all financial services for various segments of society through formal channels, including bank accounts, savings, payment and transfer services, insurance services, and financing and credit services, to prevent some people from resorting to informal channels and means that are not subject to even a minimum level of control and supervision and involve relatively high costs, leading to the poor of these groups' financial and banking needs" ⁽⁴⁾.

Based on the concepts outlined above, it can be said that financial inclusion:- is access for all to financial services at reasonable prices and of good quality, which specifically target the poor and low- income groups in society and meet their financial requirements; it is also essential that such services are provided in a sustainable and continuous manner in order to strengthen trust between users of financial services and those providing them.

¹ **Neha Dangi and Pawan Kumar (Department of Commerce, Kurukshetra University), Current Situation of Financial Inclusion in India and Its Future Visions, International Journal of Management and Social Sciences Research (IJMSSR), Volume**

² **The World Bank Group , Financial Inclusion , Global Financial Development Report , 2014, p15 .**

³ **G20, Global Partnership for Financial Inclusion (GPII), Financial Inclusion Indicators, Working Paper, chaina, 2016 .**

⁴ **Arab Monetary Fund, Regional Working Group on Promoting Financial Inclusion in Arab Countries, Working Paper on the Interdependent Relationship between Financial Stability and Financial Inclusion, 2015, p. 1.**

Second: Barriers of financial inclusion

1- The lack of engagement with banks and financial institutions is closely linked to disparities in income levels, and 75% of the world's poor do not engage with banks due to high costs and other burdensome requirements often associated with opening a financial account ⁽¹⁾ Only 25% of adults earning less than two dollars a day save their money in licensed financial institutions. Although the poor do not have the same access to financial services as high-income individuals, their need for such services is greater ⁽²⁾.

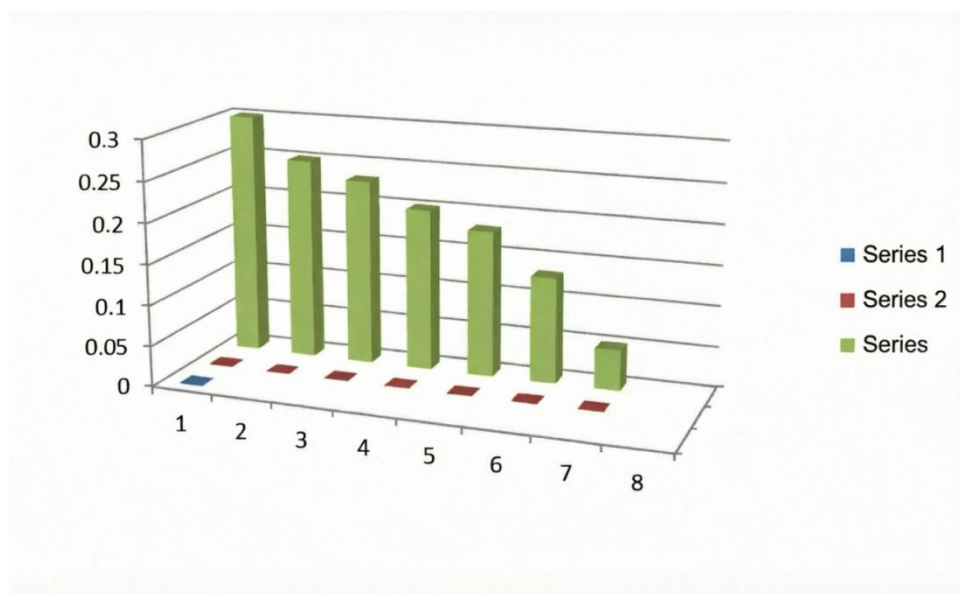
It can therefore be said that income levels clearly help to explain some of the differences in the use of financial services, with the World Bank's Global Financial Inclusion Survey (Findex) providing new data on the barriers to financial inclusion based on a survey of a group of adults worldwide who do not hold formal financial accounts. The most common reason for not having a formal account was a lack of sufficient funds, cited by 30% of the sample, as shown in Figure (1), whilst another reason was that a family member already held an account with a financial institution, accounting for 25% of the sample. This indicates an indirect link between the individual and a financial institution. The other reasons, listed in order of importance, were the high cost of financial products and services (23%) , the distance between the customer and the bank or financial institution (20%), the lack of necessary documentation to enter the financial system (18%), a lack of trust between customers and financial service providers such as banks and institutions (13%), and religious reasons (5%)⁽³⁾ .

¹ Fawaz Abdelsalam, The Economic Impact of Globalization on the Banking Sector in Egypt, Dar al-Nahda al-Arabiya, 2003, p. 58.

² Malvern Chinaka, Blockchain technology applications in improving financial inclusion in developing economies, Master of science in management studies at the massachusetts institute of technology, USA, Cambridge, 2016, p6 .

³ Michael S. Barr, Anjali Kumar, and Robert E. Litan, Building Inclusive Financial Systems A Framework for Financial Access, Brookings Institution Press, Washington, 2007 , p9 .

Figure (1)



Source: Prepared by the researcher based on:

Global Financial Inclusion (Global Findex) Database, World Bank, Washington.

Religious reasons refer to financial products and instruments compliant with Islamic Sharia law, which can play an important role in promoting financial inclusion among Muslim populations⁽¹⁾, as some 700 million of the world's poor live in countries with a Muslim majority. In recent years, there has been growing interest in Islamic finance as a tool for increasing financial inclusion among Muslim populations, boosting growth rates and eradicating poverty.

2- Dimensions of financial inclusion

It can be said that financial inclusion has various dimensions, namely (access to financial services, use of financial services, and quality of financial services). Each of these dimensions has implications for the relationship between financial service providers and their customers, and each plays a different role in achieving financial inclusion. A combination of these three dimensions has been used in various efforts to collect data on financial inclusion by the World

¹ Shilpa Aggarwal and Leora Klapper , *Designing Government Policies to Expand Financial Inclusion: Evidence from Around the World* , University of California at Santa Cruz , September, 2013 , p(5-6) .

Bank, the International Monetary Fund and the Global Alliance for Financial Inclusion. These dimensions are illustrated in Table (1).

The first dimension: access to financial services. This is usually the responsibility of the supply side and involves physical banking infrastructure, such as the availability of bank branches, ATMs and points of sale, or access to digital infrastructure. However, there are certain barriers to accessing these services; for example, Are there discriminatory practices between individuals and institutions regarding income levels and service provision? Are customers aware of the quality of the services provided to them? Here, the responsibility lies with financial education ⁽¹⁾.

The second dimension: the use of financial services, which is primarily the responsibility of the demand side and involves the extent to which individuals and institutions interact with financial services. If financial services are available to the customer, do they use them? For example, if a customer has a bank account, do they carry out withdrawals, deposits and payments ⁽²⁾.

The third dimension: The quality of financial services, which is primarily a supply-side responsibility and refers to the provision of high- quality financial products to meet users' needs. Quality typically refers to the competitive market among providers of these services, The role of governments and independent bodies is to set standards that encourage financial service providers to make their products user-friendly, reasonably priced, and delivered in an effective and efficient manner⁽³⁾.

Table (1) Dimensions of financial inclusion

T	Dimensions	Description
1	Access	Provision of organized and formal financial services close to customers and affordability

¹ B.C.M.Patnaik, Ipseeta Satpathy and Aroop Kumar Mohapatra, Including the Excluded through Financial Inclusion, International Journal of Physical and Social Sciences, Volume 2, Issue 7, July 2012, Pp216-220.

² Sonja E. Kelly, why Financial Inclusion Policy and Regulation, Submitted to the Faculty of the School of International Service of American University in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy, washington, 2016, p3 .

³ Malvern Chinaka, Blockchain technology applications in improving financial inclusion in developing economies, Master of science in management studies at the Massachusetts institute of technology, USA, Cambridge, 2016, op.cit, p4 .

2	Usage	Actual use of financial services and products, and the regularity with which users access these services
3	Quality	Services are well designed to meet customer needs, and products are developed to suit all income levels

Source: Prepared by the researcher

Section Two:-

An overview of financial inclusion in Iraq

One of the hallmarks of the decline in Iraq's banking sector is the low level of financial inclusion within the sector, due to the ongoing wars waged by the former regime, the depreciation of the currency against the US dollar, high inflation rates, and a loss of confidence in financial and banking institutions. This problem has been exacerbated in particular since the war on terrorism in 2014 and the destruction of many formal and informal institutions, particularly financial and banking institutions, as well as rising poverty and unemployment rates and instability. These and other factors have led members of society to prefer keeping their money as hoarded cash, despite the risks of holding it rather than depositing it in banking and financial institutions, thereby depriving the Iraqi economy of vital resources that the financial system to remobilize in support of economic development programmes and reconstruction plans. Consequently, financial inclusion has become one of the strategic objectives pursued by international financial institutions, alongside the central banks' focus on the imperative of promoting financial inclusion at the local level. Financial inclusion is the primary driver of economic growth, as it fosters financial stability; therefore, achieving a higher level of financial inclusion in Iraq require the provision of an advanced and rapidly expanding information technology infrastructure, as well as greater efforts to attract the largest possible number of financially excluded segments of society. The aim is to reduce the levels of general liquidity that lie outside the banking system's control, support the banking sector's liquidity position, and enable it to manage these funds by encouraging investment, stimulating savings, and enabling low-income groups to participate in the economic process and stimulating the economic cycle towards achieving economic and financial stability and sustainable economic and social development through the realization of financial inclusion. The Central Bank of Iraq is the leading contributor to the promotion of financial inclusion through various initiatives,

including the initiative to finance small, micro and medium-sized enterprises with 1 trillion dinars to grant loans to citizens from private banks at low interest rates so as not to place a burden on the beneficiary customers, through a set of instructions it has issued and continues to amend in line with serving the national economy, and the large-scale projects initiative worth 5 trillion dinars, which began in 2015⁽¹⁾ if the initiative funds are disbursed by the relevant banks at a low interest rate to enable investors to continue their work and boost production rates in the economic, agricultural, industrial and real estate sectors, which contribute to increasing economic growth in the country. The aim of the Central Bank's initiative is to provide financing to the widest possible segment of the population, increase employment and reduce poverty in Iraq. The Central Bank of Iraq has also sought to develop payment systems and electronic settlement mechanisms by improving salary payment systems for government employees and pensioners. The system has been implemented for Central Bank of Iraq staff with the participation of a number of private banks through the provision of automated payment terminals. Furthermore, the Central Bank of Iraq, in cooperation with the banks and Iraqi Private Banks League (IPBL) to raise public awareness of financial inclusion through seminars and workshops, as well as via various media channels⁽²⁾. The relationship between financial inclusion, financial stability and monetary stability: There is a close relationship between financial inclusion and financial stability, as financial inclusion aims to provide excluded population groups with access to formal financial services at affordable costs. It has been found that there are some in how to measure financial inclusion and arrive at an index for it. Several researchers have conducted comparisons of the relationship between financial inclusion and other economic variables, and based on this research, a correlation has been established between financial inclusion and financial stability, with each supporting the other. Among the most important initiatives through which the Central Bank of Iraq has contributed to promoting financial inclusion since 2015 and 2016, are as follow as⁽³⁾:-

First: the implementation of electronic payment systems for the collection of dues from ministries and government departments

Second: Licensing the company e-Zain Iraq and Asia for mobile electronic payment services

¹ Central Bank of Iraq. Annual Financial Stability Report. 2019. pp. 86–87.

² Central Bank of Iraq. Annual Report: Strategic Plan 2019. pp. 5–6

³ Central Bank of Iraq. Annual Financial Stability Report. 2016. pp. 75–67.

Third: Licensing Al-Taif Financial Transfer Company to operate as an electronic payment service provider and card issuer.

Fourth: Developing financial markets by activating the secondary market through the implementation of a trading system.

Fifth: Implementation of an internal clearing system between branches of the same bank.

Sixth: Project to develop the salaries of civil servants at state and private banks.

Seventh: Licensing of Al-Arab Information Technology Company to operate as an electronic payment service provider (issuer, processor, and acquirer)

Eighth: Licensing of Iraq Gateway Company for Electronic Payments to operate as an electronic payment service provider (issuer, processor, and acquirer)

From the above, it is clear that financial inclusion is supported by the family-run commercial sector as well as the small and micro-enterprise sector, making it stronger through the financial development of these sectors. This leads to a country that is more politically and socially stable, which is reflected in growth rates and increased stability of the financial system, and consequently in the standard of living of citizens. A report by that it may be difficult to achieve financial inclusion without stability in the financial system, and it is difficult to envisage sustained financial stability whilst increasing proportions of the population and the economy remain excluded from financial services. In the context of the same report, financial inclusion improves the formal financial sector's efficiency in mediating between deposits and investment, as well as increasing the share of the informal sector, thereby supporting the effectiveness of monetary policy. Furthermore, a diversification of asset portfolios and liabilities enhances risk distribution and avoids concentration.

The results of some studies indicate that losses on small loans pose lower systemic risks than those incurred from large loans; consequently, increased financial inclusion—if the granting of small loans is facilitated—leads to greater stability among financial service providers. In light of the above, we observe that financial inclusion works to transform the structure of the financial system in countries as a whole and supports its efficiency in relation to the products and transactions being introduced, the customers using the various services, the new risks arising, and also the institutions that have been established or expanded into new markets. It is also noted that the rapid expansion of financial inclusion and the resulting rise in credit granting rates can have a negative impact on financial stability, as not everyone is trustworthy or capable

of dealing with credit and its terms in an efficient and responsible manner, as demonstrated by the US subprime mortgage crisis and the microfinance crisis in a state in India ⁽¹⁾.

In other words, the relationship between financial stability and financial inclusion is one-to-one: on the one hand, it is difficult to achieve financial inclusion without a stable banking system; on the other hand, it is difficult to envisage sustained financial stability when a large sector of the social and economic system is financially excluded. Financial inclusion is not only linked to financial stability but also to monetary stability; that is, the increased interaction financial inclusion and monetary stability, meaning that monetary policy operates in two ways⁽²⁾:

The first method: helping more consumers to facilitate their consumption over time, this can influence key monetary policy choices, including the impact of the target price index.

The second method: this interaction encourages consumers to shift their savings away from tangible assets. It is thus clear that increased financial inclusion affects central bank policies aimed at maintaining monetary and financial stability in two ways⁽³⁾:

The first way: Increased financial inclusion facilitates the smoothing of consumption, as households can easily access savings and borrowing instruments; as a result, fluctuations in output are no longer costly, and this may facilitate the central bank's efforts to maintain price stability.

The second way: increased financial inclusion is likely to heighten the importance of interest rates in the realm of money transmission, as a larger share of money flows in economic activity is influenced by interest rates. Whilst this tends to improve the effectiveness of monetary policy through the use of interest rate instruments, policymakers may need to pay attention to their the money supply.

Third: Challenges hindering the Central Bank of Iraq's efforts to promote financial inclusion

Despite the measures taken by the Central Bank of Iraq to promote financial inclusion, there are challenges it faces, the most prominent of which are as follows⁽¹⁾:-

¹ The Interdependent Relationship Between Financial Stability and Financial Inclusion: Report of the Regional Working Group on Promoting Financial Inclusion in Arab Countries, Secretariat of the Council of Governors of Central Banks and Monetary Authorities of the Arab World, Arab Monetary Fund, 2015, p. 7.

² Ayman Bouzana, Wafa Hamdouch, "The Impact of Financial Inclusion Policies on Enhancing the Financial Stability of Arab Banking Systems," Journal of Economic Studies (ISSN: 2676-2013), Vol. 12, No. 1. Algiers, 2021, p. 80.

³Nagham Hussein, Ahmad Nouri Hassan, Financial Inclusion: Implementation Requirements and Measurement Indicators, Amman, Jordan: Dar Al-Ayyam Publishing, 2020, p. 18.

- 1- The absence of financial institutions supporting banking operations, such as guarantee companies and credit guarantee companies, and the lack of specialized offices to study, analyse and identify credit risks. Market liquidity, despite this having been identified several years ago.
- 2- Low banking density: banking density is concentrated in cities, particularly in the capital, Baghdad, whilst the presence and spread of banking networks covering other cities in the provinces is limited, and they are significantly underdeveloped in rural areas due to a lack of financial literacy.
- 3- Reasons relating to cost and procedures: the lack of the documents required opening an account and access services; financial services are considered costly by some due to the fees imposed on them, in addition to other reasons such as cultural factors, traditions or customs.
- 4- The banking sector's lack of capabilities, resources, and effective technical and technological infrastructure for managing investment portfolios and keeping pace with banking developments in neighboring countries has led customers to view our banks as backward and incapable of providing them with the best, most advanced services. This has resulted in their reluctance to deal with the banking sector and particularly private banks, due to their inability to meet customer withdrawal requests, leading to a significant decline in deposit rates in most banks⁽²⁾.
- 5- The activities of the parallel sector, represented by money changers who carry out large-scale domestic and international transfers, currency exchange and cash transfers outside the official framework, which attracts many individuals and companies.
- 6- Rising levels of poverty and unemployment, with poverty levels reaching 20% of the total population according to poverty indicators, and that these poor groups receive only 5% of their financing needs for the purpose of establishing small projects repair and manufacturing workshops, and services related to computers and mobile phones. As for unemployment, it has reached very high levels, reaching approximately 25% during the period⁽³⁾.
- 7- Laws, legislation and routine administrative requirements that hinder the opening of new financial institutions or the expansion of existing ones. Eighthly, to address these obstacles preventing the implementation of financial inclusion in Iraq, a series of measures have been

¹ Azraa Taha Muhammad, "Promoting Financial Inclusion by Reducing Cash Transactions," *Central Bank of Iraq, Journal of Financial and Monetary Studies*, Issue 4, December, pp. 57–58

² Samir Abbas, "Requirements for Banking Reform in Iraq," 2016, *Journal of the Union of Arab Banks*, Issue 412, p. 78

³ Banking Awareness and Public Protection Division, Central Bank of Iraq, *Study on the Implementation of the 2017 Financial Inclusion Strategy*, p. 1

proposed by the Central Bank of Iraq's Banking Awareness and Public Protection Division, which were follows:

First: Building trust between the bank and the individual through disclosure and transparency in banking transactions

Second: Banking services provided by banks and financial institutions

Third: Activating all types of bank deposits

Fourth: Eliminating red tape and bureaucratic language and adopting the language of the modern age.

Fifth: Working to reduce the gap between deposit and lending interest rates to ensure that national capital is not drained out of the country or into foreign banks.

Sixth: Speed and ease in deposit and withdrawal transactions, in line with currently adopted international practices.

Seventh: Tax exemptions are one of the most important factors in attracting individuals to the financial and banking sector, given that tax exemptions are granted to those who hold a bank account.

Eighth: The importance of citizens holding a bank account, which makes it easier for them to deposit funds to meet their financial obligations, as well as the role these funds play in stimulating the economic cycle, which in turn benefits their social lives.

Ninth: Activating the role of financial and banking media, which conveys information smoothly and transparently to citizens who are unaware of the importance of financial and banking services. This is achieved by launching specialized television channels that provide citizens with financial and banking services.

Tenth: Expanding the Central Bank's remit and oversight, and creating a regulatory and legal framework to supervise informal institutions that operate under permissible conditions.

Fourth:- Financial Inclusion Indicators in Iraq

Financial inclusion indicators are among the most important indicators used by central banks, providing an accurate analysis of the reality of the banking sector's operations based on a robust database of banking sector performance indicators, supported by demographic data, and will form the cornerstone for measuring the level of (financial inclusion) in Iraq, which relies on two key indicators are:-

*The financial services access index, which reflects individuals' ability to access financial services provided by formal financial institutions.

⁽¹⁾The second indicator is the level of financial service usage, which reflects the performance of financial intermediaries and their ability to provide the necessary financing for various economic activities whose sub-indicators will be used to measure the level of financial inclusion and its development within the Iraqi economic environment. It should be noted that the quality indicator has not been used due to the unavailability of the required data for this indicator in the statistics of the Central Bank of Iraq.

Table (1) Financial Inclusion Indicators in Iraq

Indicator	Variable
Access	Banking penetration
	Number of ATMs / Number of adults
	Number of ATMs per 1,000 km ²
	Number of branches per 1,000 km ²
Usage	Volume of loans and deposits / Gross Domestic Product
	Number of loan accounts / Number of adults
	Number of loan accounts / Number of adults

Compiled by the researcher based on the annual financial stability reports issued by the Central Bank of Iraq

¹ Keiiy,,Sonja ,why financial inclusion policy and regulation submitted to the faculty of the school of international service of American university in partial fulfillment of the requirements for the degree of doctor of philosophy ,Washington.2016 ,p4

First: Financial Services Access Level Index

The Central Bank of Iraq aims to develop payment systems and electronic settlement mechanisms in light of the development of electronic salary payment mechanisms for government employees and pensioners, as most government employees receive their salaries via a Ki-Card. Furthermore, the Central Bank has contributed to the localization of salary payments, which it initiated with Central Bank of Iraq staff in partnership with a number of private banks by providing ATMs. The Central Bank also encourages public and private banks to open more branches to provide financial services to as wide a section of society as possible and to include them within the formal financial system.

A. Banking density and penetration rates

Many bankers explore the principle of banking penetration through various models; some models have addressed the process of penetration in one way or another. For example, the Cameron model, developed in 1967, was based on the internationally recognized principle of density, which measures banking density by the population divided by the total number of branches. Banking penetration, on the other hand, is measured by the number of branches relative to the population; if the ratio is equal to one, this is the ideal distribution, and if it is greater than one, there is a positive deviation (+) meaning there is a high density of banks, which may exceed actual demand, resulting in significant costs for the banks and consequently lower profitability. If the ratio is less than 1, there is a negative deviation (-) meaning that, according to this model, the distribution of banks is insufficient ⁽¹⁾ and therefore banking services do not reach certain segments of society who are in need of these services. This model has been developed to take into account only the productive population, i.e. adults who are able to work, and is measured according to the following equations:-

$$\text{Banking density} = \text{Population (thousands)} / \text{Number of branches} * 100$$

$$\text{Banking penetration} = \text{Number of branches} / \text{Population (100,000 people)} * 100$$

We note from Table (2) that the level of banking penetration and density in the relationship started out weak compared to global indicators and even to actual economic needs. Raising the levels of access to and availability of banking services for the largest segment of society has a

¹ Cameron,A.Colin K.Trivedi, parvin , "Essentials of Count D ata Regression" University of California ,Davis ,JUNE1999 ,p1

positive impact on the level of financial and banking awareness and education, as well as economic and development role of the banking sector.

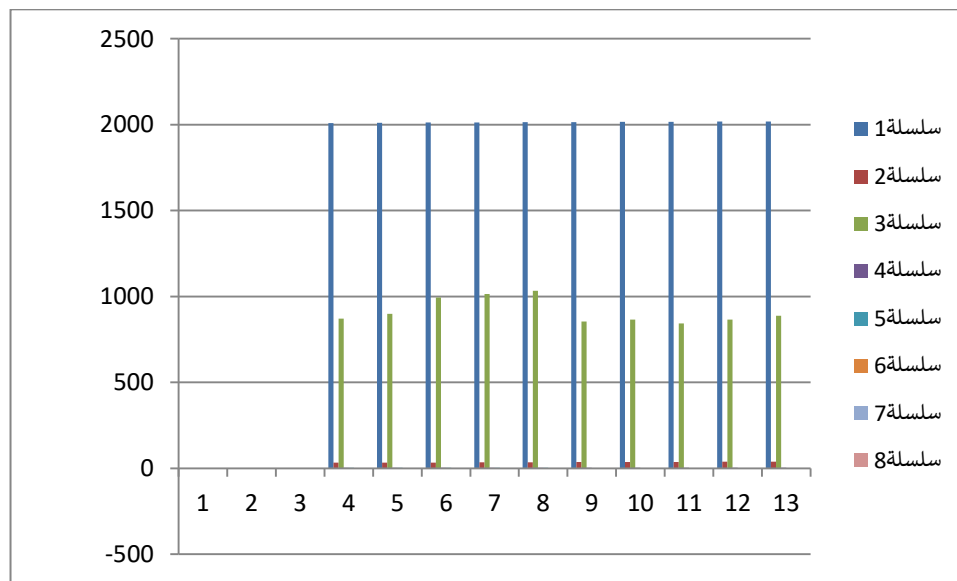
Table (2) Banking penetration and density in Iraq

Years	Population (in thousands) (1)	Number of bank branches (2)	Banking density (peopleper branch) (1/2) (3)	Banking penetration (branches per capita) (2/1) (4)
2010	32,489	871	3.73	2.68
2011	33,338	899	3.70	2.78
2012	34,207	994	3.44	2.90
2013	35,095	1014	3.46	2.88
2014	36,004	1034	3.48	3.34
2015	36,933	854	4.32	2.31
2016	37,883	866	4.37	2.29
2017	37,140	843	4.40	2.27
2018	38,200	865	4.41	2.26
2019	39,300	888	4.42	2.25

Table compiled by the researcher based on

- Central Bank of Iraq – Statistics and Research Department, Annual Statistical Bulletin 2010–2019
- Ministry of Planning – Central Statistical Organisation

Figure 2: Banking penetration and banking density



Source: Researcher's work based on data from the Central Statistical Organisation

We note from Table (2) that banking penetration and banking density continue to remain at low levels in Iraq, as the extent of banking penetration in Iraq has not changed significantly in recent years, whilst banking density has increased slightly, reaching approximately 4.42 in 2019, up from 3.73 in 2010. This was accompanied by a slight decrease in banking penetration, which stood at 2.25 in 2019, compared to 2.68 in 2010. This decline generally reflects the lack of a sufficient number of bank branches relative to Iraq's growing population, as well as the deterioration in security conditions since mid-2014 and the occupation of a number of Iraqi provinces by the terrorist organisation ISIS, which led to the closure of approximately 121 branches, as well as the scarcity of banks spread across Iraq, the absence of sound banking plans to expand the network of public and private branches, and the decline in the banking penetration index over recent years. This, in turn, has hindered access to financial services and prevented a larger number of social groups, particularly the marginalized and the underprivileged. This has led to a decline in service quality and a reduction in operational efficiency, thereby weakening the ability to mobilize domestic savings, facilitate trade and economic activities for citizens, and enable them to carry out their various financial transactions. In short, the higher the banking density and the lower the banking penetration, the more this reflects a deficient banking culture.

B. Banking penetration of ATMs and POS terminals

Electronic cards are one of the key tools within the national payment system. These cards have undergone development and growth during the research period, reflecting one of the key indicators of financial inclusion ⁽¹⁾, namely the volume of electronic payment methods. This provides a positive indication of the potential for their adoption and the implementation of strategies and mechanisms to achieve financial inclusion. Electronic cards are a manifestation of progress in commercial and social life; their rapid development in the modern era largely reflects the pace of advancement in banking technologies within banks and financial institutions, whilst also revealing people's drive to find more effective means of exchange to meet their needs and desires and to facilitate their financial transactions⁽²⁾. The Iraqi Payments System is a system for the electronic exchange of payments between banks via a secure and efficient network. This system plays a crucial and vital role in any economy, as it is the channel through which funds flow; consequently, it represents the cornerstone of the modern market economy by providing a set of mechanisms through which transactions can be settled. The Central Bank of Iraq is the controlling authority and operational manager of the system, as the owner of the system; it manages the settlement accounts of participants and provides liquidity and facilities during the working day, ensuring the clarity and efficiency of payment systems and clearing operations.

Table (3) the distribution of ATMs in Iraq

Years	people (15) and	ATM machines (2)	Percentage change	(POS) in points of sale	points of sale (POS)	Ratio (2/1)
2010	19,303	358	-	-	-	1.99
2011	19,929	467	0	50	398	2.34
2012	20,569	467	0	50	411	2.27

¹ Rasha Ouda Laftah. The Impact of the Iraqi Central Bank's Supervisory Audit on Achieving Financial Inclusion (Higher Institute of Accounting and Financial Studies). Certified Public Accountant, University of Baghdad, 2018, p. 81.

² Amina Amior, Electronic Cards. Electronic Cards for Payment and Withdrawal, Master's Thesis, University of Constantine Mentouri, Faculty of Law, 2004–2005, p. 8.

2013	21,227	467	0	30	707	2.20
2014	21,926	337	-27.84	30	730	1.54
2015	22,082	580	72.11	30	736	2.63
2016	22,654	660	13.79	30	755	2.91
2017	22,283	650	-0.61	-	218	2.94
2018	22,696	865	31.86	-	2,200	3.81
2019	23,294	1,014	17.23	-	2,226	4.35

The table is based on the researcher's work, drawing on

- The Central Bank of Iraq – Statistics and Research Department, Annual Statistical Bulletin 2010–2019

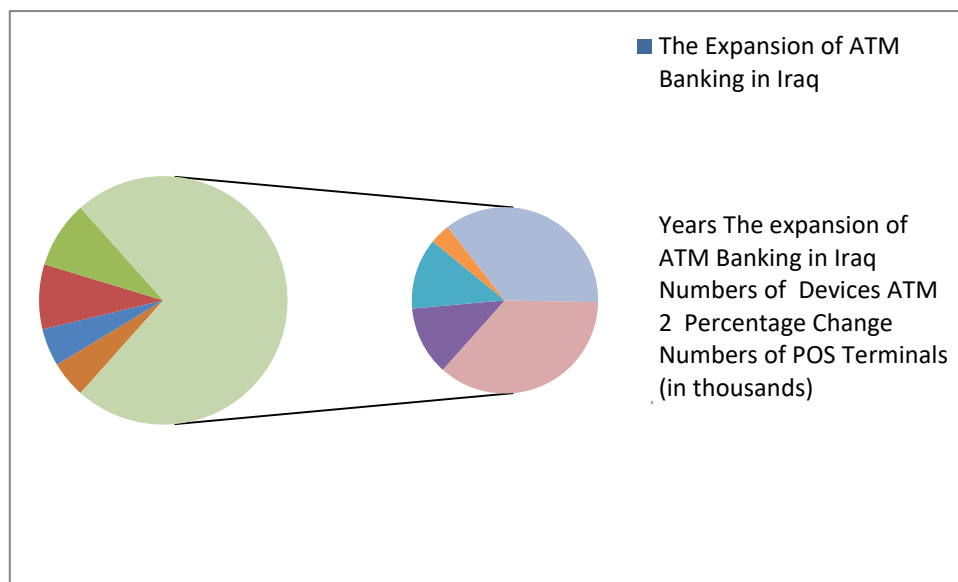
- Ministry of Planning – Central Statistical Organisation

Electronic banking payment channels in Iraq are limited in form and type; examples include automated teller machines (ATMs) and point-of-sale (POS) terminals provide a means of accessing financial and banking services quickly and at low cost; they may also act as substitutes for bank branches, offering many of the banking services provided by branches. Consequently, their widespread adoption is crucial for improving access to, and subsequently engagement with, the banking sector. The benefits of POS terminals include increased sales, reduced risk, and ease of electronic auditing and monitoring by benefits of electronic payment transactions, capital preservation, and investment through secure and reliable financial transactions, as well as opportunities for free advertising. The table above illustrates the development of electronic card activity within the Iraqi banking system.

We note from the table above that the penetration rate of ATMs is low in the local environment. The number of machines remained stable between 2011 and 2013 at 467, with no increase, before falling in 2014 to 337 due to the terrorist activities of ISIS in Mosul Governorate and other conflict zones, representing a decrease of 27. In 2015, the number increased to 580 ATMs, representing a 72.11% increase, which was reflected in a rise in the banking penetration rate to 2.63. The number of machines increased further in 2016 to 660 ATMs, representing a 13.80% increase. The increase in banking penetration in Iraq is attributed to private banks, which contributed to the rise in the number of ATMs from 467 in 2014 to 660 in 2016, and then to 1,014, representing a 17.23% increase. Most of these machines are located in shopping malls, commercial centers, some government departments and certain bank

branches. Despite the increasing use of ATMs in Iraq, the country still ranks low in terms of usage within the Arab world. See the figure:-

Figure (3) Distribution of ATMs in Iraq



Source: The researcher's work, based on data from the Central Bureau of Statistics

Second: A proposed national strategy to improve financial inclusion in Iraq

There are many indicators, such as the distribution of banks across Iraq; the low density of banks in the country negatively affects financial inclusion in Iraq if there are no more than three branches per 1,000 square kilometers. Another indicator is the availability of mobile banking services; with the global development of banking services and the spread of banks, mobile banking services have emerged to facilitate customers' management of their banking transactions and avoid queues of customers enquiring about their accounts. This service operates 24 hours a day, including during public holidays and official holidays, allowing customers to enquire about their accounts and pay all their bills. In addition, there is the banking depth index and the usage penetration index; however, is beyond the scope of our research to delve into, and we have merely referred to it, as well as the ratio of deposit accounts to the adult population, the ratio of loan accounts to the adult population, and many other measures proposed to improve the financial situation.

Third: Financial Inclusion in Jordan – Reality and Challenges

Economic conditions and imbalances have had a significant impact on the Jordanian economy, which is a small economy reliant on oil imports. The Jordanian economy was affected by the 2008 subprime mortgage crisis, as well as the Arab Spring, which coincided with the suspension of Egyptian gas supplies and the political unrest in Syria, which led to the displacement of a large numbers of Syrians to Jordan and a decline in the level of aid and grants. Consequently, the Jordanian economy has sought to implement mechanisms and measures to maintain its economic stability, preserve its financial stability and avoid a fiscal deficit⁽¹⁾. The table below reflects the success of the mechanisms adopted by the Jordanian economy and their impact on its gross domestic product at current prices, reflecting a positive business environment, increased attractiveness to investment, and efforts to liberalize foreign trade. The data reflects positive developments in the legislative and legal environment, with its support for economic activities and the success of privatization measures⁽²⁾. The table also reflects the impact of external economic imbalances and conditions on inflation rates, showing a rise in inflation after 2003 as the Jordanian economy was affected by the political situation in Iraq, as well as the closure of the oil supply route from Iraq. However, inflation rates returned to 2007 levels, but soon rose again, affected by the subprime mortgage crisis and the global rise in oil prices. As the Jordanian economy is an oil-importing economy, this contributed to increased price levels resulting from higher production costs linked to oil prices. The table therefore reflects the correlation between fluctuations in inflation rates with global economic and political conditions, highlighting the fragility of the Jordanian economy and its susceptibility to external factors and imbalances. Consequently, in 2018, the Jordanian authorities implemented measures to curb rising inflation, including raising the standard rate of VAT on many goods and public services that had previously been exempt from tax or were subject to taxes of up to 4%, which were raised to 10%, as well as adopting a policy of liberalizing bread prices⁽³⁾. Fluctuations in unemployment rates were linked to these same imbalances and their impact on the Jordanian economic reality, with unemployment rates

¹ Central Bank of Jordan: Financial Stability Report, 2012, p. 13

² Mays Awad Shantawi and Ahmad Ibrahim Malawi: The Impact of Industrial Exports on Economic Growth in Jordan: An Empirical Study for the Period 1980–2010, Humanities and Social Sciences Series, Vol. 31, No. 1, 2016, p. 136

³ Central Bank of Jordan: Annual Economic Report for 2019, pp. 17–19

reaching 12.9% in 2009 reflecting the worsening unemployment levels and their impact from the global crisis of 2008 and their impact on the Jordanian market.

Table (4) GDP at current prices and its growth rate / million Jordanian dinars, inflation and unemployment rates, and the monetary stability coefficient for the Jordanian economy

Years	GDP at current prices / million Jordanian dinars	Inflation rate	Unemployment rate	Monetary stability coefficient
2000	5153.6	83.5	13.2	-
2001	5998.6	85.0	14.2	1
2002	6363.7	86.6	15.3	1.08
2003	6794.0	88.6	14.5	2.9
2004	7228.8	90.9	12.5	1.34
2005	8090.7	94.1	14.8	2.23
2006	8925.4	100.0	14.0	1.75
2007	10675.4	104.7	13.1	1.47
2008	12131.4	119.3	12.7	2.43
2009	15593.4	118.5	12.9	4.13
2010	16912.2	124.5	12.5	3.59
2011	18762.0	130.0	12.9	2.42
2012	20476.6	136.0	12.2	1.48
2013	21965.5	143.6	12.6	3.85
2014	23851.6	94.2	11.9	1.94
2015	25437.1	93.4	13.0	2.1
2016	27444.8	92.6	15.3	1.9
2017	28448.5	95.7	18.3	0.11
2018	30793.3	100.0	18.6	0.6
2019	31945.7	100.8	19.0	2.24

**Source: Compiled by the researchers based on reports from the Central Bank of Jordan
for various years**

Consequently, Jordan has worked to adopt policies and mechanisms to reduce unemployment, which stood at 12.7% in 2010, but soon rose again to reach 19.0% in 2019. This was caused by a decline in growth rates in economic activities and their exposure to global economic crises and imbalances, as well as the influx of Syrian families due to the poor political situation in Syria and their competition with the Jordanian workforce, providing a cheaper labour force than Jordanian workers, which exacerbated the unemployment problem in Jordan, as the table illustrates monetary stability in Jordan, affected by the aforementioned imbalances and their repercussions on monetary stability.

Financial Inclusion in Jordan:

The Central Bank of Jordan worked to establish regulatory frameworks in 2013 to take steps towards building a strong financial environment and achieving financial inclusion⁽¹⁾, Whereas The Central Bank launched a strategic vision document in 2016 aimed at achieving financial inclusion, creating an effective digital environment for Jordanians, ensuring access to financial services, and making them a right for all. This reflects the Jordanian economic and financial understanding that sustainable economic growth depends on the strength and effectiveness of financial inclusion in Jordan. Consequently, the Jordanian government has worked to establish a solid infrastructure by establishing legal foundations and frameworks to move towards a comprehensive financial system through cooperation between the Central Bank and the public and private sector⁽²⁾. Since Jordan has indeed taken successful steps by establishing legislative frameworks and implementing mechanisms and procedures that contribute to the creation of various types of banks in the country. The ratio of licensed bank branches reached 69.58 branches per 100,000 people in 2019, compared to 60.94 per 100,000 people in 2007. The ratio of ATMs reached 115.37 per 100,000 people in 2019, compared to 95.04 in 2008⁽³⁾ Jordan is one of the countries committed to achieving financial inclusion to cover refugees as well, as the Central Bank has worked to achieve financial inclusion for migrants, workers and refugees by using advanced technology, with iris scanning serving as a means for refugees to access cash grants. This is the result of a partnership with Banque du Caire, from which 23.000 displaced

¹ Maha Al-Bahu: "Unleashing the Potential for Financial Inclusion in Jordan," Al-Bawaba Interview, April 9, 2018, available at: <https://www.cgap.org/>

² Central Bank of Jordan: Financial Stability Report, 2016, p. 15

³ The World Bank. (2017). World Bank open data. Available at : <https://cutt.us/SBbnd>

Syrian families in Jordan as monthly aid⁽¹⁾. Jordan has taken a number of steps and implemented mechanisms to foster a generation with financial literacy, as well as launching awareness campaigns on radio, television and other media regarding the (JOMOPAY) system and the use of mobile phones as a means of payment, as it allows for interoperability between banking service providers via mobile phones to reach various segments of society. It has also implemented numerous programmes dedicated to financial service providers and worked to launch several mobile wallets in partnership with telecommunications companies and financial service providers, with a particular focus on young people and women. An example of such services is the ‘My Wallet’ service, launched by a consortium comprising the telecommunications company Umniah and the Emerging Markets Payments (EMP) group, in partnership with several banks and a microfinance institution (Al-Mara’a Fund), which has worked to develop the wallet to suit the needs of female customers. The fund is currently trialing the product in several selected branches⁽²⁾. There are several obstacles hindering the achievement of financial inclusion in Jordan, the most significant of which is that economic growth in Jordan remains fragile and is in decline; the growth rate in 2015 stood at of 2.4%, down from an average of 6.4% for the period 2000–2009. This hinders efforts to achieve financial inclusion in Jordan, as does the impact on the Jordanian economy of political unrest in neighboring countries, which has contributed to an increase in cheap labour and exacerbated unemployment rates among the Jordanian workforce. Furthermore, the ratio of public debt to GDP acts as a barrier to achieving financial inclusion, as the debt ratio rose from 89% in 2014 to 93% in 2016⁽³⁾. Furthermore, the proportion of adults holding bank accounts has declined; according to (Findex) data from 2014, 24.6% of the population held bank accounts which are 13 percentage points lower than in countries with the same level of real GDP as Jordan. Furthermore, Jordan suffers from a decline in opportunities to access bank credit and loans due to financial challenges and risks that require high collateral, which in turn affects companies and the expansion of their activities, leading to a decline in growth and employment, as well as the fact that the Jordanian financial landscape suffers from clear gender disparities in bank accounts, due to the financial exclusion faced by women, with the proportion of women holding

¹ UNHCR. (2015). Iris scan system provides cash lifeline to Syrian refugees in Jordan Available at: <https://cutt.us/6rf8g>

² *Ibid.*, p. 15

³ Iman Boukra: The Reality and Prospects of Financial Inclusion in Jordan, *Dafatir* Economic Journal, 2018, Zayan Ashour Al-Mahkama University, p. 12

bank accounts falling to 15% in 2014, down from 17% in 2011⁽¹⁾. Furthermore, Jordan lacks a crucial measure: the authorization of microfinance companies to accept deposits under mechanisms and conditions designed to mitigate risks. Therefore, the Central Bank of Jordan must implement the acceptance of very small deposits for medium and long-term periods, given their role in increasing the number of participants in successful financial inclusion in Jordan, as the Jordanian economy must move towards diversifying its productive base, driving economic growth, and increasing the average income level of individuals, with its reflection on the educational reality and the enhancement of financial literacy. Financial literacy plays a role in achieving financial inclusion and increasing the Central Bank's ability to use monetary policy tools to control price levels and achieve monetary stability, as well as increasing productivity and the quality of labour by attracting high- quality jobs on a large scale, thereby reducing poverty and income inequality and increasing output and growth rates⁽²⁾. Consequently, the Jordanian economy has worked to develop strategies to achieve financial inclusion, increase the number of adults holding bank accounts, and foster cooperation between financial institutions in the public and private sectors under the supervision and management of the Central Bank of Jordan to support their efforts towards achieving financial inclusion. The Central Bank of Jordan has worked to join the Alliance for Financial Inclusion (AFI) and its working groups with the aim of strengthening the mechanisms and practices associated with financial inclusion, as well as integrating the Central Bank into the Global Alliance for Financial Inclusion and committing to promoting global integration with the aim of achieving financial inclusion. It can be seen from the table (4) that financial inclusion rates have been affected by global economic conditions, as the level of financial inclusion declined and the index fell from (0.39604) in 2007 to (0.344887) in 2015, affected by global financial crises, oil price volatility, and political crises in neighboring countries. The Central Bank of Jordan worked to implement measures and mechanisms to ensure the success of financial inclusion, reaching 0.352246 in 2019.

Conclusions:-

- 1- The weakness of the banking sector's technological infrastructure and the nascent state of the telecommunications sector in Iraq have led to low levels of banking penetration, banking

¹ World Bank: Draft Report on Financial Inclusion Policies and Regulations in Jordan, April 4, 2017

² Park, C. and Mercado, R. (2015), Financial Inclusion, Poverty, and Income Inequality in Developing Asia, Asian Development Bank Working Paper No. 426

density and banking depth in the provision of financial and banking services. Furthermore, low levels of financial literacy among the public and economic entities on the demand side have weakened their financial capabilities, as well as those of employees in the banking sector and the lack of impact from macroeconomic variables.

- 2- The weak infrastructure of the technology and telecommunications sector relative to the banking sector in Iraq, which has been reflected in the reality of the banking services provided to individuals.
- 3- The process of implementing the financial inclusion strategy involves coordinating a series of steps to establish a clear vision for the future of the Iraqi banking sector, as well as the mission and institutional values underpinning the adoption of financial inclusion. This is followed by the identification of the objectives and goals of launching the strategy, followed by the preparation of a specific strategy and its implementation in a manner consistent with and needs of the Iraqi banking sector, particularly the economic and political circumstances the country has experienced. Firstly, the vision towards achieving a national financial inclusion strategy.
- 4- Improving and expanding access to financial services for all by offering a comprehensive range of financial products and services tailored to the needs of the widest possible section of the population, extending services to underserved sectors and those on low incomes, and utilising available distribution channels; maximizing the benefits of modern communication devices and mobile phones; and capitalizing on the growing number of internet users in Iraq, given that the number of internet users in Iraq reaches 30.52 million by 2021. Expanding the network of bank branches and financial service facilities, and focusing on establishing specialized offices for financing small and micro-enterprises. Developing.
- 5- Regular monitoring must be provided to facilitate participation in strategy development. Such monitoring should cover the roles of the participating parties and assess the extent to which they have fulfilled the tasks assigned to them in accordance with a timetable that influences the progress of the strategy's implementation. Monitoring enables the adjustment of the strategy's implementation plan, as well as the monitoring and tracking of strategy development through indicators, statistics and field surveys in the process of developing a national strategy. The body responsible for leading the strategy development process must be identified, along with the parties involved in strategy development, and must be appointed relevant committees for monitoring the strategy, such as steering committees and technical committees, a coordinating

director must be appointed, and the roles of key partners in strategy development, and strengthening the expertise of the members of the technical committee for strategy development; as well as defining the expected outputs and outcomes of strategy implementation, including indicators, measurement methods and verification procedures; in addition to implementing the national strategy for financial inclusion and securing government support for the launch of a national strategy through the formation of monitoring committees.

Recommendations:-

- 1- It is essential for the Central Bank to develop a national financial inclusion strategy to implement financial inclusion requirements, which should complement the strategies of Iraqi commercial banks and not conflict with the general principles governing the operations of those banks, whilst achieving the specified objectives in a manner consistent with the circumstances facing Iraq and the economic policy-makers, given the importance of achieving harmony and linking the strategies for small and medium-sized enterprises, financial inclusion and financial education, as exemplified by the1 , which draws on leading global and Arab experiences in this field.
- 2- The Central Bank has been urged to activate its supervisory role in order to require Iraqi banks to maintain acceptable levels of liquidity; the Central Bank has adopted the practice of issuing periodic bulletins and annual reports on financial inclusion in Iraq; and the Central Bank is making further efforts to raise levels of financial inclusion in Iraq, given its vital role in driving economic development and growth.
- 3- It is essential to guide and activate the strategic partnership between the public and private sectors, to enhance the role of venture capital firms, and to strengthen the role of banks in financing growth, development and sustainability projects, in order to create more job opportunities for young people. Also, financial and banking services must be supported and provided to poor, marginalized and low-income segments of society in rural and remote areas to achieve financial inclusion objectives, provided that that these services are geared towards investment to improve living standards and open accounts with low or minimal fees through the innovation of financial services suited to all segments of society, consumer protection, and the promotion of confidence in the system, thereby ensuring fairness and transparency in the provision of financial services without discrimination or excessive pricing

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