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## Distribution of Developmental Credit in Iraq under The Economic Development strategies for the Period (2011-2013)

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### **Introduction**

The importance of bank financing is highlighted in the circumstances of most countries with capital scarcity, or from deficiencies in the mechanism of its distribution and use, which requires from developmental banking institutions to play their role in promoting their activities and credit services and providing appropriate support to different economic sectors for the purpose of achieving economic development, perhaps the most prominent of these institutions are specialized banks where each of which concerned with the service of a specific economic sector according to the necessities of the current stage, these banks is considered the main pillar in financing those economic sectors with the necessary developmental credit, therefore, measures should be taken to reduce or eliminate structural imbalances in the national economy, which was produced by economic strategies that are characterized by ambiguity and the lack of clear disclosure, by extrapolating the strategies adopted by the concerned authorities in the distribution of credit to the economic sectors, in order to ensure the continuation of the activity of each sector, which is reflected positively on the country's economy and development, this may require the provision of an appropriate strategy adopted by the specialized banks, to enable them playing their developmental role in economic



development. In order to achieve the objectives of the research, it was divided into three sections, the first topic dealt with the research methodology and previous studies, while the second section reviewed the theoretical view of the meaning of concept of developmental credit, its importance, and types, as well as the concept, objectives and requirements of economic development, and the most important economic development strategies. While the third topic was allocated to the practical side has contained three aspects, the first included an introduction to the developmental banks in Iraq and the Central Bank of Iraq, while the second discussed the most important strategies of economic development through the economic development plans in Iraq for the period (1970-2013), and the third aspect of this topic dealt with the reality of development credit in Iraq. Finally, the research included a presentation of the conclusions and recommendations reached by the researchers.

### **Abstract**

Credit in general and developmental credit in particular are essential in modern economic life, through the support and development of all economic sectors, through preventing money from being left idle or frozen, credit has a large and prominent role in the midst of life events, given the tremendous technological and economic developments that have given it such importance, through the ability to provide the necessary funds, and motivate them to carry out developmental activities. The research is mainly intended to extrapolate the adopted credit strategy by the concerned parties in the distribution of development credit. As a result of the changes that took place in Iraq after 2003, the country's economic strategy has changed accordingly, therefore, the problem of research lies in the existence of indications of distribution of developmental credit directed to economic development in Iraq is not

done within a particular strategy, as well as the lack of clear vision of the Iraqi Ministry of Planning and Development Cooperation and its role in drawing up development plans, which includes financial allocations to the economic sectors in cooperation with the relevant authorities, in order to prove this, the research proceeded from the hypothesis of (lack of a clear strategy representing the overall framework to develop detailed plans for the distribution of developmental credit on the economic sectors stems from the economic strategy of Iraq during the period of research). The research has reached a number of conclusions, the most important of which were, a strategy to be followed by the concerned parties in the distribution of specialized developmental credit vary from time to time, but it is not clear and was not disclosed by the official authorities, the development strategy in Iraq has been unclear, particularly before 2003.

### **The first topic: Methodology of research and previous studies**

#### **First: the problem of research**

The search problem can be worded by the following questions:

1. Is there a specific strategy followed by the concerned authority for the distribution of developmental credit?
2. Do timings indicate the existence of this strategy or it is Impulsive procedures that represent reactions to the claims of some sides about the state of the national economy?

Thus, the research problem can be summarized as follows:

There are indicators that state the distribution of targeted developmental credit of economic development in Iraq is not within a specific development strategy, as well as the lack of a clear vision of the role of the Ministry of Planning and Development Cooperation of Iraq in drawing up developmental plans that include financial allocations for the economic sectors in cooperation with the relevant government agencies related to their financing.

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## **Second: The importance of research**

The importance of research is reflected in the importance of the subject of credit providing the scientific basis for the distribution of such funding especially that pay for developmental credit from governments towards the private sector, it is very important to know the role of the relevant stakeholders in this credit, so it became necessary identify the mechanism under which specialized developmental credit is granted and estimation the ability to rely on them to achieve the objectives of economic development in Iraq.

## **Third: Research Objectives**

The research aims to achieve the following objectives:

1. Review the bases and principles carried out by the specialized (developmental) banking industry and its founding goals.
2. Identify the correlation between economic strategies and strategies used to distribute development credit.
3. Showing the expected harmonization between the developmental credit distribution strategy and the country's economic strategy.

## **The hypothesis of research**

The research hypothesis is that there is no clear strategy represents the general framework for putting detailed plans regarding to the distribution of developmental credit on economic sectors stems from the economic strategy of Iraq during the period of research.

## **Fourth: Research Methodology**

The research is based on the historical descriptive approach in diagnosing the search problem to find out the reality of the work of specialized banks in Iraq, the quantitative analytical approach was also used through a set of indicators, in order to prove or deny the hypothesis of research.



### **Fifth: Research limits**

1. **Time limits:** The period of temporal boundaries of the research is from (2011-2013) which the researchers believe are appropriate to prove and achieve research objectives.
2. **Spatial limits:** The spatial boundaries of the research are specialized Iraqi banks and the Central Bank of Iraq.

### **Sixth: Data and Information Collection Methods:**

The process of collecting data and information needed to complete the research are in two sides, **the theoretical side:** The theoretical aspect was covered by the researchers' reliance on Arab and foreign sources which serve the research orientations and requirements whether (scientific books, periodicals, university papers, researches, and relevant studies). **In practical side:** the researchers relied on several means to obtain the required data and information the most important of which are field visits in order to obtain reports and the annual financial statements issued by the sample banks of the research, annual statistical publications issued by the Ministry of Planning, in addition to the reports and publications issued by the Central Bank of Iraq to be adopted in the applied side of the research, as well as the laws and instructions obtained from the banks above and the concerned parties.

### **Seventh: Some previous studies**

- 1- **(Al-Azzawi, Suham Mohammed, 2004)** The role of specialized banks in the process of economic development in Iraq for the period (1980-2000). The objective of the study was to identify the strengths and weaknesses of banking operations which performs its work through Iraqi specialized banks, to search for a suitable formula for its work, which gives the justification for continuing to achieve the benefit and economic importance. The study reached several conclusions, contribution of the activity of the Industrial Bank to the development of sectors for certain aspects and for certain periods by extracting the analysis results of their resources and uses, especially on the credit side, after the continued support received by the State.

- 2- (Awadi, ShaimaJassimHamoud, 2010) (Features of the credit policy of specialized banks in Iraq for the period 1995-2006). The aim of the study is to conduct an analytical study for a number of specialized Iraqi banks in order to know the methods used in the credit management of these institutions, by analyzing the sources and uses of their funds, the study reached a number of conclusions, the most important of which, banking credit plays an important role in all economic sectors through its role in financing investment and consumer projects for individuals financing internal and external trade, as well as the role of distribution and use of financial resources, the size of the bank's credit contribution can be determined for the economic sectors through the types of banking credit and its tools.

### **The second topic: theoretical axis**

#### **First: the concept of developmental credit**

Credit is a very important banking activity because the resulting revenue is the main focus of any bank's income no matter how many other sources of income, without it, the bank loses its job as a financial intermediary in the economy, but at the same time it is considered the most sensitive economic instrument, because its adverse effects may not be limited to the bank or other financial institutions, but it affects the national economy if it has not been used properly and efficiently. (Al-Zubaidi, 2008: 17).

From above, economists have treated credit as an economic term with multiple definitions like many other concepts in economic, administrative and social fields, some of them define the bank credit as providing money from the bank to the borrower, or borrowing ability provided by the banking system in the form of loans to the individual, government, company or organization. (Joseph & David, 2010: 46).

Others define it as the trust that a bank gave someone either was natural or moral entities, to give him an amount of money to be used for a specific purpose, during an agreed period of time and under certain conditions for an agreed material return and guarantees that the bank will be able to recover its loan if the customer stops paying (Al-Daghim et al., 2006: 194).



While developmental credit is the economic approach provided by specialized banks as a result of its contribution to the productive process of all economic sectors, as it is one of the basic pillars that are unique to those banks in order to meet the financing needs of those sectors in order to push the national economy towards growth and stability, thus, specialized banks and other financial institutions in the national economy, must play its role and carry out its responsibilities in providing the necessary allocations for the needs of different sectors and other banking services in accordance with a comprehensive credit policy (Jalab, 1979: 327).

### **Second: The importance of development credit in achieving development**

Developmental credit plays a large and important role in the activity of banking institutions and beneficiaries, so the trends of the writers has been multiple and varied in dealing with the importance of credit on the basis of the party concerned, some of them are present its important from the point of view of the bank, some of them show its importance on the basis of companies and institutions, so the access to loans and bank facilities enable the borrower to cover the financial deficit which may paralyze the movement of its activity, thus, it opens the door to the movement of production and growth in different areas of work, and economic units can achieve their objectives and to continue its business (Al-Tahir and Al-Khalil, 2004: 362).

Optimal use of available resources creating new opportunities for investment to expand in current activities, this entails an increase in production and services, open new areas of employment, increase the level of income to all members of society, and to achieve more economic well-being (Taha, 2007: 439).

Thus, credit is considered one of the most important sources of satisfying financing needs of different sectors of economic activity therefore it should be used optimally, therefore, the credit level must be consistent and balanced with the actual needs of economic activity and in line with development plans, through a banking credit policy in line with the actual needs of economic activities and integrated with other economic policies, the absence of a clear and integrated policy, leads to misappropriation of credit resources, as well as the loss of economic stability, and thus lead to a difference in the growth rates of the different economic sectors, here,

credit loses its importance in financing economic development and is considered one of the obstacles.

It should be noted that credit varies from country to country because of the different degrees of growth and underdevelopment of those countries, in order to make convergence in banking views, credit distribution policies between sectors within the economy should be in line with the position of those sectors in the scale of preferences, this distribution must be limited to each sector's ability to achieve its objectives through the use of credit granted to it, because it is more than likely that increasing the allocations of any sector more than it is allocated leads to the neglect or displacement of the sector or other sectors, which loses the importance of credit and its developmental role, despite its importance in meeting the financing needs of the economic sectors (Al-Hamdani, 2015: 36).

However, must be accompanied by caution associated with accuracy to handle with those damages, through seeking to grant this type of credit for successful developmental projects and different in sizes and types, thus, credit contributes to perform its function in achieving a balanced economy on one hand, and achieving the Bank's goal of increasing the revenues generated by it on the other hand, for the purpose of granting this type of credit developmental institutions have been earmarked for this purpose oversees the distribution of credit among economic sectors known as developmental or specialized banks.

### **Third: Types of developmental credit**

- 1. Industrial credit:** it is a term refers to the credit given by banks whether these banks are commercial or industrial specialized in the field of industrial investment in the form of loans for periods exceeding one year or more, for the purpose of their use in the purchase of fixed assets or finance the permanent increase in operating capital. Industrial credit takes many forms, including credit facilities and contributions to industrial projects, the importance of this credit is highlighted in that it represents an important aspect of the



functions of the Industrial Bank, it is the main axis of the work of industrial banks(**Al-husseini and Al-douri, 2000: 124**).

2. **Agricultural credit:** this credit is an urgent necessity for the improvement and development of the agricultural sector, the Agricultural Bank is the main source of agricultural credit to finance agricultural projects, without considering profit as a primary objective because its activities aimed to financing the needs of the agricultural sector according to the requirements of the country's agricultural plan(**Ahmed and Abdul Karim 2012: 11**).
3. **Real Estate credit:** it is the credit which aims to put liquid money in the hands of the owner of the property, who is committed to return the loan at a certain date in the future, it is long-term credit usually provided by real estate banks and other institutions such as housing fund which is often guaranteed by mortgage(**Mahmoud, 1979: 5**).

#### **Fourth: The concept of economic development**

The concepts of economic development differed with different schools, time periods and different views between economists and writers, there are many definitions that touched on economic development in many aspects, so it became difficult to define a clear concept, Nicolass Kaldor defined economic development as a set of procedures, policies and arrangements adopted to change the structure and construction of the national economy, ultimately aiming to achieve a rapid and sustained increase in the average real per capita income over an extended period of time benefiting the vast majority of the community (**Abdel Hadi, 2013: 298**).

Harbi Ereikat believes that economic development is a process of inclusive civilization linked to the creation of new and evolving conditions; it relies heavily on the seriousness of decision-making in the commitment to achieve change from underdeveloped reality to advanced reality in all economic, social and cultural fields, even in the military field, the state always needs to develop, follow up and train with the latest means(**Abdel Rahman and Ereikat, 2004: 268**).

#### **Fifth: The objectives of economic development**

The objectives of economic development vary from country to another, due to the situation of the state and its economic, social, cultural and even political conditions; however, there are common basic objectives that developing countries seek in their development plans (**Jamoun, 2005: 35**), the most important of them are:

- 1- Increase the real income, in order to raise the standard of living of individuals and provide a decent life for them.
- 2- Reduce the disparity in income distribution (**Abdel Rahman and Ereikat, 2004: 274-275**).
- 3- Paying of state debts and achieving national security (**Mandour, 2011: 43**).
- 4- Making radical changes in the environment of the national economy (**Abdel Hadi, 2013: 298**).
- 5- Changing the traditional nature of the national economy so that it does not depend on a particular sector without the other sectors (**Munib, 2014: 161**).

#### **Sixth: The requirements of economic development**

1. **Human resources:** means capacities, skills, and talents of individuals, who are or likely to be usable in the production of beneficial goods and services, therefore, the development planning process should include planning for human resources to achieve and ensure a continuous balance between supply and demand of labor, as the attention given by economists to human resources has been called the revolution of human investment in economic thought, no doubt that this concern in human resources and the trend to research in the fields of investment in the development of these resources comes from the realization of the importance of these resources in the pursuit to achieve economic development (**Al-Taher, 2011: 109-110**).
2. **Natural resources:** Natural resources can be defined as everything that exists in the nature and the human depends on it in his life and achievements (i.e. the earth and what is on it and what is inside it), it may not be a resource in the right sense until the exploitation of the human and make use of it, natural resources are the welfare and gifts that God gave to mankind, which the human does not intervene in its manufacture, where

these resources play an important role in moving the various economic activities, noting that there is a significant disparity in the distribution of these natural resources among the peoples of the earth, it is the wisdom of God for the purpose of trade and exchange of goods, but if the human Intervenes in their exploitation it will be economic commodities(**Al-Jendil and Ghidane, 2009: 17**).

3. **Technological progress:** Technological progress is one of the requirements of economic development, which is considered by most economists as the most important element in economic development, which is lacking in most developing countries. Therefore, the reception of technological science leads to the development of human resources and adaptation of natural resources to serve the development process, as this investment helps to develop the basic elements of economic development, especially human and natural resources, and the transfer of administrative, management and technology knowledge to the host country for this investment(**Al-Shara, 2006: 44**).
4. **Capital accumulation:** This is one of the most important requirements of economic development, as all economists emphasize the importance of capital accumulation in achieving development, the accumulation of capital is achieved through the investment process that requires an adequate volume of real savings, through this resources can be provided for investment purposes, through which resources are provided for investment purposes, rather than directed towards the areas of consumption. The essence of capital accumulation lies in the fact that such accumulation enhances the country's capacity to produce goods and enables it to achieve a high rate of growth(**Al-Quraishi, 2007: 134-135**).

The problem of financing is one of the most important problems of economic development, without easy financing and available at all times, economic development will not be achieved, it is the cornerstone of economic development, and one of its main requirements, where it represents the administrative activity that related to obtaining and using funds effectively in order to achieve the objectives set by the project(**Al-Kasasba, 2010: 85**).

Thus, financing is defined as domestic and foreign financial flows directed towards the completion and realization of the development programs and projects that are necessary for the structure of the national economy and the economic well-being of society (Al-Sabti, 2005: 8).

### **Seventh: Economic Development Strategies**

1. Strong push strategy: Economist Rosenstein Rodan, the author of this strategy emphasizes the need for large capital, whether local or foreign, and to invest in the establishment of industrial base and multiple projects in general, supervised by governments, if a strong funding push is not available, progressive investments will vanish without success in launching industry, Rodan believes that progressing step by step will not have that active effect in breaking the vicious cycle of poverty in developing countries. Rather, it requires a minimum development effort that must be made so that the economy can start from recession to self-development, which means a minimum investment estimated by Rodan at 13.2% of national income during the first five years of the development process and will increase gradually (Hamdani, 2009: 33).
2. Balanced Development Strategy: The American professor RangarNurksre, formulated the core idea of strong push presented by RosenchtebenRodan in a modern, integrated formula, called the Balanced Development Strategy. This strategy argues that in light of the weak dependence on foreign trade of raw materials and agricultural crops in the development of the economy, the backward state has only the idea of local industrialization, and establishment of an integrated network of industries and the development of different sectors in a manner that leads to their prosperity together and enable them to play a multiplier role in the national economy, but the constraint that was presented in this strategy and aimed to overcome it is narrowing the scope of the market (vicious circle), as the decline in purchasing power and the consequent decline in income and purchasing power will lead to weak market scope, and thus a weak incentive to invest, which will impede the aspiration to establish new industries (Saidat et al., 2013: 39).
3. Unbalanced development strategy: American economist Albert H. Hirschman, is a leading figure in this strategy. The supporters of the unbalanced development strategy

believe to be focus on the growth of some key and leading sectors, and their leadership of the development process, so that the growth of these sectors will lead to the growth of other sectors, because of the lack of financial allocations, they believe that this method is better for developing countries, and the strong push must be made within some of the leading sectors or industries in the national economy, based on the experiences of some developed countries as historical witnesses, it would be more appropriate and better to concentrate efforts on the economic sectors that can be source of a series of creative imbalances that need to be monitored so as not to turn into economic balances if there is a will to continue the development process (**Hamdani, 2009: 36**).

This strategy, in its preliminary principles, argues that the creation of real development requires directing a strong push to a limited number of key economic sectors. Therefore, this strategy is based on the concepts of the leading sector, or pioneer sector. This means that there are leading sectors among the economic sectors that will develop other sectors, if the first development push directed to them.

### **The third topic: the practical axis**

#### **First: developmental banks:**

- 1- Agricultural Cooperative Bank of Iraq: The Agricultural Cooperative Bank was established as the first specialized bank in Iraq, under the name of the Agricultural and Industrial Bank under Law No. 51 of 1935, with a capital of (150) thousand Iraqi dinars, because of the duplication of functions of the bank and the lack of resources, the government decided to separate this bank into two independent banks, namely the Agricultural Bank and the Industrial Bank, to give each administrative and financial independence and accelerate the advancement of agricultural and industrial production, to give each of them administrative and financial independence, and accelerate the advancement of agricultural and industrial production. As a result, the Agricultural Bank was established under Law No. 18 of 1940 to finance the requirements of the agricultural sector, but the circumstances at that time was the reason for the delay in implementation until 1946. In 1959 the role of the Agricultural Bank was activated by increasing its

capital to (10) million dinars, It was renamed to “the Agricultural Cooperative Bank” under Law No. 110 of 1974(Akkawi, 2013: 14).

The Agricultural Bank carried out the comprehensive commercial banking business after the issuance of resolution No. 9 of 1996 which allowed the specialized banks to carry out the comprehensive banking business, in addition to their business according to their internal laws and regulations. In 1998, it was registered as a public company in accordance with the Public Companies Law No. (22) of 1997 (Giyas, 2012: 115).

After the Agricultural Cooperative Bank carried out the comprehensive commercial banking business, article (3) of the Bank's Rules of Procedure No. (4) for the year 1999 indicates that its objective is (to contribute in supporting the national economy for all sectors according to development plans and planning decisions, financing agriculture in general, and contributing to its development by exercising the functions of investment banks and supporting production processes, as well as contributing in direct investment operations in economic projects, in addition to other commercial banking business).

- 2- The Iraqi Industrial Bank: The Agricultural Industrial Bank was established by Law No. 12 of 1940, and then it became an independent Industrial Developmental Bank in 1946, in order to develop and promote the national industrial sector in Iraq by supporting the private and mixed sectors, as the bank contributed in establishing many industrial companies that formed the structure of national industry for the mixed industrial sector for being a vital sector and important in the development of the Iraqi economy (Industrial Bank, 2016: 1).

Article (1/First) of the Industrial Bank Law No. (22) for the year 1991 (amended) states that the objective of the bank is (to develop and promote national industry in the private, mixed and cooperative sectors, within the industrial development plan, to carry out lending, borrowing and all other activities required by the implementation of this law).

- 3- Real Estate Bank of Iraq: The Real Estate Bank was established by Law No. 18 of 1948, started its business in 1949 with a capital of (1) million ID. The Bank's mission was to assist citizens in building houses, encouraging urban movement in the country, and granting loans to industrial entrepreneurs for the purpose of constructing housing for work (Al-Shammari, 2015: 56).

Article (2) of the rules of procedure of the Real Estate Bank No. (2) of 1999 indicates that the objective of the bank is (to contribute in supporting the national economy in the field of lending, real estate investment and banking according to development plans and planning decisions).

- 4- Central Bank of Iraq: The National Bank was established in 1947, which was renamed then to Central Bank of Iraq, and was one of the oldest central banks in the Arab region, where it had an impact on the increasing movement of the national economy, especially after central bank began to exercise monetary policy through granting loans to banking institutions on concessional terms with the determination of interest rates charged on the rebate of commercial banks as well as the advances as a collateral for government bonds.

The Central Bank began its work on 7/11/1947 under Law No. 43 of 1947, as a symbol of national sovereignty, and has four branches distributed in the provinces of Basra, Mosul, Erbil, Sulaymaniyah(**Al-Abbasi, 2014: 87**).

In order to give the Bank full independence in the formulation and implementation of its monetary policy and carry out its other functions, similar to the developed international central banks, the new law No. (56) of 2004 was issued which allowed the bank its financial, administrative and legal independence and it questioned by the Council of Representatives of Iraq (Article 103 / III of the Constitution of Iraq 2005) (**Al-Shibibi, 2011: 14**).**The main objectives of the Central Bank of Iraq are:**

- a. Controlling over the monetary and banking system in the country and its impact on it.
- b. Achieving economic stability and growth.
- c. It carries out central banking operations under certain economic and financial conditions.
- d. Controlling monetary inflation through:
  - Raise the exchange rate of the Iraqi dinar.
  - Raise interest rates it pays to banks on deposit, as well as those charged by the exposure of the balances of these banks and the facilities and loans provided to them(**Al-Obeidi and Al-Mashhadani, 2013: 127**).



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## **Second: To extrapolate economic strategies through economic development plans**

### **1- National Development Plans for the period (1970-1990)**

The strategy of economic development at this stage emerged from the philosophy and trends of the ruling party in Iraq inspired by the adoption of central and comprehensive planning. One of the most important procedures taken by the Iraqi state at that time, is the direction to control overall economic activities, and enable the public sector to impose its grip on all joints of the Iraqi economy. Comprehensive development plans have been done for all economic and social sectors at that stage, surpassing the concept of previous investment programs, this stage has been divided into two parts:

#### **a. National development plans for the period (1970-1980):**

By extrapolating economic development plans in Iraq for this period, it is clear that it is operating within the framework of a certain economic strategy, the basic principles of which are as follows:

- There was a clear interest to support and develop only the public sector without the private one which increased the interference of the state in all economic activities, so it (public sector) became the pioneer sector at that period.
- Following the balanced growth strategy in the development of economic sectors in parallel, especially the productive ones, such as agricultural, industrial and real estate sectors.
- Focus on supporting the industrial sector (industrial development) as a driving force and catalyst for development, as it was a priority among other sectors, because of the attractive power represented by the forward and backward linkages, structural changes that promote the growth of the rest of the economic sectors, as its outputs are inputs to the agricultural sector represented by the manufacture of agricultural machinery and chemical fertilizers, etc., as well as providing the construction sector with the necessary building materials to improve the housing sector.



**b. Economic investment methods (1981-1990):**

This period was characterized by the outbreak of the eight-year war between Iran and Iraq (1980-1988), when the state started comprehensive changes in the strategy of economic development in accordance with the circumstances of the war at the time, transforming the ownership of a large number of public sector projects to the private sector and allowing it to expand its activities except for some productive activities such as oil and electricity. In the late 1970s, the government sought to remove Iraq from the least developed developing countries to the more developed countries. This was reinforced by the government's announcement of a cash surplus of \$ 36 billion, which is a good asset that meets the requirements of the economic and social development plan, as it will contribute to advancing the development process forward (Al-Waeli, 2009: 94). If we extrapolate the economic development plans during the period (1981-1990) we note that the state adopted a certain strategy, characterized by the following:

- Allowing the private sector to participate and compete with the public sector, by entering as an active participant in building the national economy to be integrated with the public sector, which their role will remain strategic, the state has started to sell part of its institutions to the private sector.
- Adopting an import substitution strategy to diversify sources of income and not rely on resources from the oil sector.
- Continued support of the industrial sector during that period, it had a clear interest compared to other economic sectors. Table (1) shows the size of allocations for the national development plan for the period (1981-1990) according to economic sectors:

**Table no. (1)**  
**Total investment allocations for the National Development Plan**  
**(1981-1990) according to economic sector**

(Value in Million ID)

Plan Sector	National development plan (1981-1985)		National development plan (1986-1990)	
	Allocations	Relative importance %	Allocations	Relative importance %
Agriculture	3 399	10	3 203	12
Industrial	6 661	19	8 927	35
Transportation & communications	5 623	16	2 490	10
Buildings & services	9 556	28	4 932	19
Other investments	9 370	27	6 142	24
<b>Total</b>	<b>34 609</b>	<b>100</b>	<b>25 694</b>	<b>100</b>

Source: Prepared by the researchers based on the Ministry of Planning, Economic Planning Authority, Development of public expenditure in the Iraqi economy, study no. (845), 1992: 43-40.

It is noted from the table above that the Iraqi government continued to support the industrial sector especially during the period (1986-1990), which received 35% of the total allocations, followed by the construction and services sector by 19%, followed by agricultural, transport and communications (12% and 10%) respectively.

## 2- Investment Methods for the Period (1991-2002)

In light of the continued threat of a war aimed at Iraq and the overthrow of its ruling regime during that period, there was no evidence of a new strategy for economic development during that period, but the evidence indicates an attempt to keep things as they are pending clarification of what will be nominated from the trends of the conflict between Iraq on one hand, and the United States and its allies on the other hand (Al-Allaibi, 2010: 137). The development strategy adopted by the state at that time focused on the following:

- The control of the public sector on all activities, with the decline of the contribution of the private sector, despite the adoption of the method of privatization in some economic sectors, as this is linked to the dominance of the state on the economic surpluses received from the oil sector. However, the strategy was not of a developmental trend, but devoted the control of the public sector and the exclusion of the private sector in achieving economic development.
- The development of the agricultural sector in that period due to the necessary need for food, as a result of the economic embargo imposed at that time with the continued development of the industrial sector.

**3- National Development Plans after 2003:** The strategy adopted by the economic development plans for the period (2013-2003) shows that its basic principles are characterized by the following:

- Dependence on the oil sector as a major sector leader, in the sense that it was followed unbalanced strategy of growth during that period, the oil sector considered a developmental hub that was financing other economic sectors, due to the high imports from it.
- The state has clearly stated that the private sector represents the main sector in promotion and development of the non-oil economic sectors, serious calls have begun to privatize these sectors, and this is a turning point or a big leap in diversifying sources of income and not relying on the oil sector in the future.

### **Third: The reality of development credit in Iraq:**

#### **1- A comparison of credit distributions among economic sectors**

The three economic sectors (agricultural, industrial and real estate) constitute the pillar on which the Iraqi economy is based, each sector contributes to building the national economy of the country. Therefore, each sector must obtain their own share of credit in order to be able to cope with the developments and play its expected economic role. These sectors have faced their own obstacles and problems in financing their own

needs, some of them have found their share, and some have not, those who did not find, due to the specifications of each sector. Therefore, the two researchers have proposed a comparison of two different periods of size of credit granted by the specialized banks of the three economic sectors mentioned above, and the objective is to look for the congruence in the trends of distribution of developmental credit on these sectors, the first was the period (1998-2000), while the second period was the years (2011-2013). The reason for the selection of these two periods is due to the relative stability at all levels, whether it was economic, political or security during these periods. Table (2) shows these credit distributions:

The data in Table (2) indicate the following:

- a) Increasing in the volume of developmental credit granted by the specialized banks for the period (1998-2000), reaching (4) billion dinars in (1998), the Agricultural Bank had the largest share of obtaining 70% of the total credit, while the Industrial Bank and Real Estate Bank were (14% and 16%) respectively which are very weak and do not rise to support economic activity in the country.

In 1999, development credit amounted to 9 billion dinars; the Agricultural Bank maintained its lead position with 73% of the total credit granted, while there was no improvement in the contribution of the Industrial Bank and the Real Estate Bank, as the ratio of the first (17%), and the latter (10%).

In 2000, the development credit of these banks increased to approximately 38 billion dinars. The Agricultural Bank acquired the highest percentage (83%) of total credit granted, while the decline was evident in the proportion of industrial and real estate bank to (10% and 7%), respectively, which is the lowest percentage during the above period.

- b) The volume of developmental credit granted by the specialized banks during the period (2013-2011) ranged between (1.9) billion dinars and (2.5) trillion dinars. Contribution rate of the Agricultural Bank is (50%) of the total credit in 2011, this percentage continued to rise to settle at (61%) in the last year of the mentioned period. The

percentage of the real estate bank reached (46%) in 2011 and decreased to (35%) in 2013. As for the Industrial Bank, its contribution rate did not exceed (4%) during the period, and is considered the weakest ratio compared to the previous two rates of the Agricultural and Real Estate Bank.

Thus, during the period (1998-2000), the state's interest in the development and promotion of the agricultural sector was noticeable, as it is the wider arena through which it can deal with the pressures of the economic siege in that period despite the existence of the memorandum of understanding (oil for food and medicine), believing that this memorandum does not meet the need of the country of food on one hand, and on the other hand it may not continue to work in the political situation at the time. The agricultural sector achieved 70%, 73% and 83% for the years (1998-1999-2000), respectively, while the other sectors achieved only a small percentage of between (17%-7%). As for the period (2011-2013) we see a marked change in the direction of the state towards the development of the real estate sector to be the strongest competitor to the agricultural sector, where the two sectors had achieved a close ratios, with low contribution of the industrial sector from its previous pace, which resulted the emergence of the phenomenon (dumping commodity), i.e. dumping the domestic market with foreign products, the purpose of this dumping is to harm the national industry in the long term or eliminate it in the future which reflected negatively on local products.

## **2- Strategic changes in the distribution of developmental credit on the economic sectors**

From the above, by comparing the data available to us, and what results of the previous paragraph on the distribution of developmental credit granted to the economic sectors during two different periods, the researchers believe that the development strategy adopted by the state during the period (1998-2000) was represented by the unbalanced development strategy, which, as mentioned in the theoretical aspect, is the development of one economic sector. The agricultural sector was the leading or pioneer sector in that period without other economic sectors, it is noted in the first period and through the data in Table (1) that the relative importance of the specialized banks are very far apart,

whether between the agricultural and industrial bank or between the agricultural and real estate, since there are no close ratios between them.

During the period (2011-2013) the researchers believe that the strategy of the state has not changed from the previous one at the period (1998-2000) in development of a certain economic sector without the other. Table (3) shows the size of the increase and decrease in financing of economic sectors through the difference between the average of the two periods above and as follows:

**Table no. (3)**  
**The Average of relative importance of specialized banks for the period (1998-2000) and (2011-2013)**

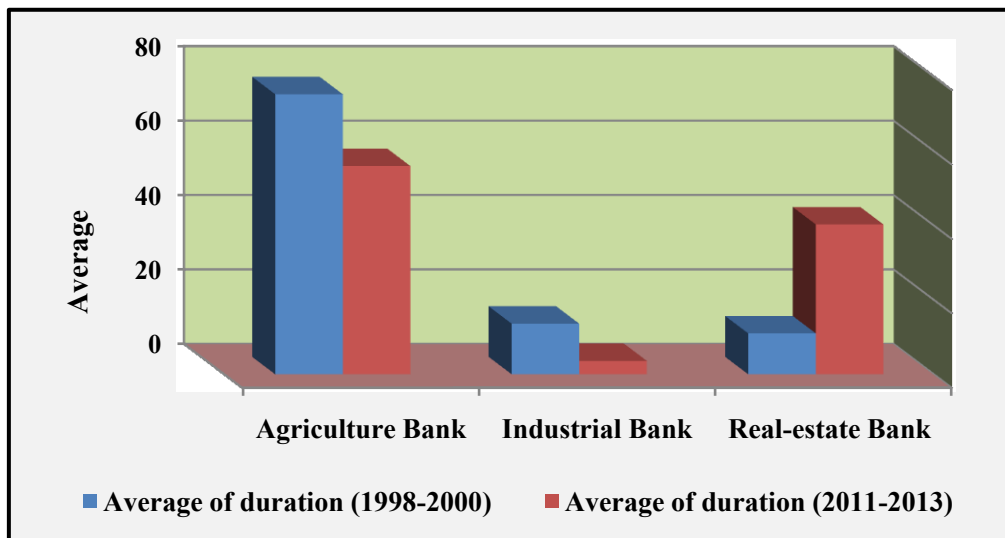
Details Year	Agriculture Bank	Industrial Bank	Real-estate Bank
	Relative importance %	Relative importance %	Relative importance %
1998	70	14	16
1999	73	17	10
2000	83	10	7
<b>Average</b>	<b>75.3</b>	<b>13.6</b>	<b>11</b>
2011	50	4	46
2012	57	3	40
2013	61	4	35
<b>Average</b>	<b>56</b>	<b>3.6</b>	<b>40.3</b>
<b>Difference between average of two periods</b>	<b>(19)</b>	<b>(10)</b>	<b>29</b>

Source: prepared by the researchers based on the data of Table (2).

It is clear from the data in the table above showed that the trend was to finance both the agricultural and real estate sectors at one time during the period (2011-2013), despite the low contribution of the agricultural sector to (19%) and increase the contribution of real estate sector to about (29%), with the low rate of contribution of the industrial sector by (10%), as the decline

began to be clear and tangible in size of credit granted to it from the previous period. Figure no. (1) shows the amount of this increase and decrease:

**Figure (1)**  
**The difference between the two averages (1998-2000) and (2011-2013)**



Source: prepared by the researchers based on the data table (3).

The rise and fall among the three sectors is due to several reasons related to these three sectors including: openness to the outside world, weakness in the ration card, unlike the previous period completely, and increase the demand for the construction and purchase of housing units as a result of the high standard of living..., etc. The state's interest in development (a single sector) is due to non-developmental reasons, the state does not adopt a solution, such as the energy problem that all sectors of the economy need, the absence of restrictions that prevent or limit the phenomenon of dumping goods for foreign products, did not create the appropriate ground for the advancement of the industrial sector, and other technical and operational problems.

**This shows** the existence of a strategy adopted by the State in the distribution of developmental credit, but it is not clear and not disclosed, in other words there is no tight mechanism for the distribution of credit among the economic sectors in the framework of a clear economic strategy, and this is what we explained in comparing the distribution of credit between two different

periods, since the distribution was not at an equal pace nor at a relatively close pace that achieve the right path for economic development in Iraq.

## **Conclusions and Recommendations**

### **First: Conclusions**

- 1- Reject the hypothesis of research saying (The absence of a strategy for the distribution of developmental credit for the economic sectors: agricultural, industrial and real estate, since there is a strategy followed by the concerned parties in the distribution of specialized credit, but it is not clear and not disclosed by official bodies), as the developmental strategy in Iraq was not clear by extrapolating economic development plans, there was no clear-cut strategy, but were economic programs and methodologies, in order to arrange the economic situation experienced by the country at the time, the credit strategy have witnessed before and after the research period a clear and explicit volatility.
- 2- Data analysis showed that strategic changes were taking place according to the stage of the Iraqi economy, which led to changes in the distribution ratios of specialized developmental credit, as mentioned in the data of Table (3), as each strategy encourages the development of a specific economic sector according to the circumstances of the stage. The share of the agricultural, real estate and industrial sectors during the research period was (56%), (3.6%), (40.3%), respectively.
- 3- The mechanism of distribution of developmental credit to the economic sectors was following the country's economic strategy under the necessities and changes imposed by each stage whether it was political, economic or international.

### **Second: Recommendations**

- 1- Adoption of the relevant bodies (Ministry of Planning and Development Cooperation and the Central Bank of Iraq) economic reforms, is to put a tighten strategy to develop various economic sectors, to promote their developmental reality, while maintaining the disclosure of economic plans and strategies that are put within them to be a path to be guided when drawing up appropriate plans suitable for specific economic promotion in particular or the Iraqi economy in general.



- 2- The need to establish a special body in the Iraqi Ministry of Planning and Development Cooperation, whose function is to draw up the appropriate developmental strategy for each stage, not hesitate to take advantage of some foreign expertise in this field, while supporting strategic planning that makes economic strategy possible, with the support of strategic planning that makes economic strategy possible, to be the framework in which the concerned bodies in terms of distribution of developmental credit can work properly.
- 3- Urging research centers in the Ministry of Planning and related bodies to develop modern mathematical methods to analyze and predict the distribution of developmental credit to economic sectors in the "input-output" approach.

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