



Impact of Banking Distribution on SME Funding: The Case of Iraq

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ABSTRACT

The research was aimed at measuring the orientation and type of relationship between the number of banks in Iraq and the rate of banking penetration on the one hand and the financing obtained by small and medium-sized enterprises (SME) on the other. The research has been informed of the problem of small and medium-sized enterprises in Iraq, especially when it comes to determining the need for a source of funding. And The banking sector in Iraq suffers from a small number of banks and poor banking penetration, to prove the research assumptions which asserts that there is a statistically significant relationship between the number of Iraqi banks and the rate of banking penetration and small and medium-sized enterprises. The standardized quantitative approach was used. The research concluded the rate of banking penetration does not help finance small and medium-sized enterprises, unlike the number of banks. Therefore, granting bank branches the powers to levy and grant financing to small and medium-sized enterprises, which will be reflected in increasing the financial capacity and investing liquidity, noting that these arms will have a higher capacity to monitor and follow up the development of these projects.

Keywords: Financing, Banking Sector, Banking penetration, Number of Banks, Central Bank.

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INTRODUCTION

Small and medium-sized enterprise have major advantages for the national economy, they help to absorb unemployment and increase the share of various economic sectors in gross domestic product, because they have multiple activities, including (agriculture, industry, tourism, etc.), In addition to their contribution to the growth of foreign trade by increasing the demand for raw materials and the supply of manufactured materials.

In all this, countries are interested in these projects, including Iraq, and this interest is evident from the programs and laws approved by Iraq 2012 The flexible microcredit program was launched, followed by the Small Business Income-Generating Program which started on 23/01/2013.

All this reflects the interest of the Iraqi State for small and medium-sized enterprises, its awareness of the importance of these projects and its determination to overcome the difficulties they face, and it should be noted that these laws and programs focus on funding that is supposed to be delivered by the Iraqi banking system.

And because that system already suffers from problems in the banking distribution, who loses the ability to meet the needs of

those who require banking services, including the funding of small and medium-sized enterprises,

The concepts and applications of, e-distribution remain weak in Iraq, in addition to the fact that the number of banks in Iraq and despite its development after 2003, Is still It is modest compared to the remainder of the state, and the rate of banking penetration in Iraq and despite its development also did not make the standard ratio of 1 to 10,000.

THE PROBLEM OF THE RESEARCH

SME in Iraq, particularly when they are incorporated, need a source of financing, and often depend on the banking sector as the principal source of borrowed funding, However, Iraqi banks have problems, including the small number of banks and the low rate of banking penetration, and the delay of the banking industry in Iraq in keeping pace with electronic banking distribution methods, and this may lead to a decline in its ability to finance SME, so that the problem of research may be summed up by the following question:

Do the number of banks in Iraq and the rate of banking penetration contribute to the capacity of the banking system to finance SME?

THE IMPORTANCE AND THE PURPOSE OF THE RESEARCH

Research gained its importance by discussing fundamental variables in the banking industry, which is the banks' ability to reach the banking service applicant and the bank's investment from its available financial resources, apart from the fact that the research was based on data from the actual work of the Iraqi banking system, in other words, the results it will achieve will be realistic, What added to the grandness of the inquiry was the uniqueness of the Iraqi banking environment, then the researcher was unable to hold a work dealing with the relationship between its variables.

The research aims to attain the following objectives:

First - Measuring the type and direction of the relationship between the number of Iraqi banks and the rate of banking penetration on the one hand, and the financing received by SME on the other.

Secondly - Explain the reality of the distribution of banking services in Iraq and the reality of SME over the period (2009-2015).

LITERATURE REVIEW

1. Ziyadat & Al-Nimr (2009)

The study was aimed at clarifying the role of e-marketing in influencing the elements of the banking marketing mix. With regard to the issue of the study, it was summed up by the question:

Do commercial banks become aware of the importance of e-banking marketing to deal with current and potential customers?

And the study assumed that electronic banking marketing had an effect on the components of the combination. The most important finding of the study is that the process of delivering banking services to clients is always personal and far from using technology to deliver them, Either the recommendation that I met has told that it is important That a site be on the bank's international information network, and that banks use the cyberspace to display their products electronically.

2. Al-Mohamed et al (2010)

The study aimed to identify factors which might hinder the expansion of electronic distribution of banking services, and to define the mechanism by which the electronic distribution of services in the Commercial Bank of Syria could be enlarged in order to improve its competitiveness. Either the research

problem is the helplessness of the Commercial Bank of Syria's response to the enormous progress in Communication and information technology and its roles in the distribution of services, And the study assumed that the failure to maintain stride with the regulations and legal philosophies that govern banking work with technical developments in the sphere of production and distribution of services represents one of the determinants of the expansion in the employment of electronic distribution channels, and the research proved its hypothesis using a descriptive analytical approach, The results of the survey are the need to develop regulations and laws governing banks, And to issue legislations and regulations that contribute to facilitating the processes of developing banking work in line with developments and with the requirements of acquiring and producing the operation of banks and enhancing their ability to contend.

3. BniLam (2016)

The study aimed to highlight the importance of banking marketing in general and distribution in particular, and to prove the relationship between banking distribution and net income. Either the research problem was articulated in the course of a doubt whether the distribution of banking services is important to the net income achieved by the bank, and the

survey assumed that there is a statistically important relationship. Between the number of branches and the net income of the bank, and the study reached proof of its hypothesis by applying the standard quantitative approach, and the field concluded that the more branches of Ashur International Bank increase its earnings and that the number of bank branches can bear on the bank's net profit (29%). The study recommended Until the bank continues its pace of bank distribution, activation and opens branches, the bank's net income will continue to grow.

ADDING KNOWLEDGE TO EXISTING RESEARCH

The main difference between current research and previous studies is the choice of the dependent variable. While selecting (Ziyadat & Al-Nimr, 2009) the components of the marketing mix and (Al-Mohamed et al, 2010) competitiveness and (BniLam, 2016) net profit, the current research chose to fund small projects and averaged the agreed spatial boundaries (BniLam, 2016) and differed from the others, and the temporalis differed from all, and in terms of approach, he also agreed (BniLam, 2016) to take the standard quantitative approach and set himself apart from the others.

BANK'S ROLE IN SUPPORTING SME

Banks are considered to be one of the most suitable financial institutions to supply productive units with diverse financing needs due to a lack of self-financing. Funding is provided through the money market, and the money market Long and medium-term financing needs are met by institutions and individuals throughout the money market. Across the money market, commercial banks in their various forms offer short-term loans and facilities and occasionally medium-term loans (Jamaoun, 2005: 42), and the increased interest of bankers from developed countries in SME for several reasons (Abdul Hakim, 2007: 63), And the role of banks in financing SME is clear, especially specialized and commercial banks, and this role ranges between establishing funds that finance these projects and investing in them, or establishing special units within banks to finance these projects and take the financing service provided by banks for these Projects have many forms, including (Egyptian Banking Institute).

A- Short-term loans: These are loans that correspond to the income of some projects and their participation rate.

B - Recurring loans: which have opened a new credit account when the term of the loan expires and the client's obligations are

paid, in this case the size of the loans depends on the customer's credit flows.

C- Micro-loans or un-secured overdraft credit facilities that satisfy the requirements of financing the day-to-day transactions of small enterprises.

Commercial banks benefit from many advantages over non-bank financial institutions and non-governmental institutions in terms of financing SME, for a number of reasons.

A- Clear rules for declaring ownership, financial disclosure and capital adequacy which contribute to better management and risk reduction.

B - The branch network infrastructure that allows banks to reach as many SME as possible.

C- Accounting systems and internal control systems which allow him to carry out a large number of transactions.

These advantages give commercial banks a comparative advantage in comparison with non-bank financial institutions and non-governmental institutions in providing financial services to SME, as well as using computers in accounting applications by banks that may help increase the degree of transparency in transactions, which leads to attracting private investors. To invest in SME.

METHODOLOGY

The model of the number of banks depends on the impact left on financing SME, which is supposed to have a positive effect, as shown in the following equation:

$$Y = \alpha + \beta_1 X_1$$

And The model of the rate of banking penetration depends on the impact left on financing SME, which is also supposed to have a positive effect, as shown in the following equation:

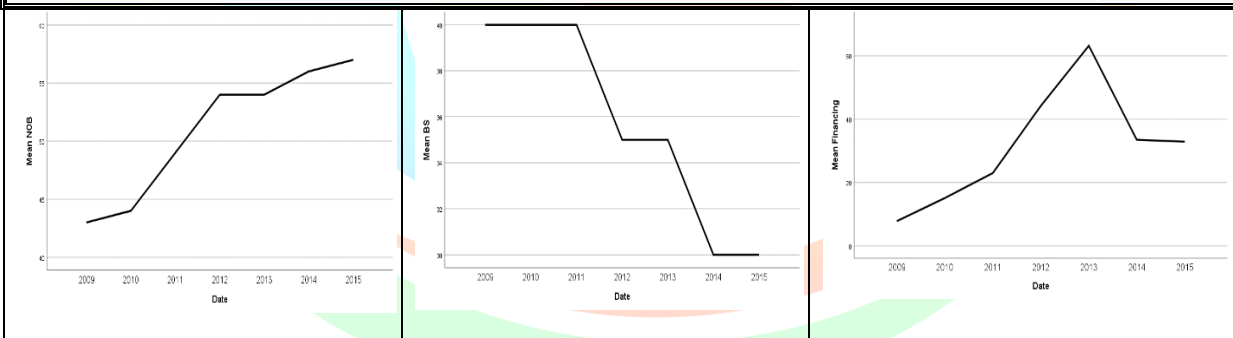
$$Y = \alpha + \beta_2 X_2$$

MEASUREMENT OF THE RELATIONSHIP BETWEEN THE RATE OF BANKING PENETRATION AND THE NUMBER OF BANKS FUNDING SME

1. Research Variables

The research contained two independent variables NOB (Number of banks) and BP (Banking penetration), and one dependent variable (the financing granted to SME in Iraq), The period of time researched extended from 2009, when the small loans program was started, until 2015 the year in which the Small Income Generating Projects Fund stopped. And as shown in this figure:

Fig (1) Search data.



Source: Researcher with.

NOB (Number of banks) & BP (Banking penetration) Based on the economic reports of the Central Bank of Iraq.

Financing based on the annual reports of the Iraqi Company for the Financing of SME.

The BS values = 10000 persons for each bank branch.

Funding values = USD Million.

2. Test of Normality

Since the time series of research data is below 30 views, the best test for a normal distribution is a Shapiro-Wilk test, the results of the analysis revealed that the independent research variables and the dependent variable follow the normal distribution, This is highlighted by the value of Sig for the number of banks that

reached (0.189), and the value of Sig for the rate of banking penetration that reached (0.062), and the value of Sig for financing of small SME in Iraq which reached (0.885), All these values are higher than the level of significance $\alpha=0.05$, And as indicated in the following table:

Table (1) Normality test on search variables.						
	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	Df	Sig	Statistic	df	Sig
NOB	0.272	7	0.128	0.871	7	0.189
BP	0.258	7	0.174	0.818	7	0.062
Financing	0.169	7	0.200	0.968	7	0.885

Source: Prepared by the researcher according to SPSS results.

3. A measure of the relationship between the number of banks operating in Iraq and funding for SME.

The value of the beta coefficient was 2.413, which measures the sum of influence of the number of banks operating in Iraq in the financing granted to SME, and it is significant as the calculated value of (t) of 2.473 is greater than its tabular value of 2.02 at the level of significance

(0.05), and the simple linear regression equation is also significant, this is proven by the estimated value of (F) of 6.76, which is greater than its tabular value of 6.61 at the level of significance (0.05), while the value of the Regression coefficient is 0.55, Having in mind that the number of banks operating in Iraq can explain 55% of the change in the size of SME financing, and this is consistent with the theoretical details of the research, and as indicated in the next table:

Table (2) the correlation coefficient and the regression between the number of banks operating in Iraq and the financing given to SME.

α	β_1	Calculated t	R	R^2	Calculated F
-91.69	2.413	2.473	0.74	0.55	6.76

Tabular value for (F) in df (1 , 5) And the level of significance 0.05 = 6.61

Tabular value for (t) in df (1 , 5) And the level of significance 0.05 = 2.02

Source: Prepared by the researcher according to SPSS results.

4. A measure of the relationship between the rate of banking penetration and funding for SME.

The value of the beta coefficient was - 2.136 which measures the sum of influence of the rate of banking penetration in the financing granted to SME, and it is not significant as the calculated value of (t) of 1.350 is smaller than its tabular value of

2.02 at the level of significance (0.05), and the simple linear regression equation is also not significant, this is proven by the estimated value of (F) of 6.76, which is smaller than its tabular value of 6.61 at the level of significance (0.05), and this is not It corresponds to the theoretical details of the research, and as indicated in the next table:

Table (3) the correlation coefficient and the regression between the rate of banking penetraion and the financing given to SME

A	β_2	Calculated t	R	R^2	Calculated F
107.68	-2.136	1.350	0.52	0.27	1.82

Tabular value for (F) in df (1 , 5) And the level of significance 0.05 = 6.61

Tabular value for (t) in df (1 , 5) And the level of significance 0.05 = 2.02

Source: Prepared by the researcher according to SPSS results.

CONCLUSION

1. The Iraqi banking industry has witnessed after 2007, which was announced by the Iraqi Central Bank in general economic stability and continued growth, and it indicates that the Iraqi banking market offers high investment opportunities, and all these banks barely meet the demands of the Central Bank of Iraq, and do not fulfil their role of financing. Therefore Increasing supervision over banks operating in Iraq and forging to create larger banking conglomerates, as well as strictness in granting work permits in the sphere of banking will contribute to supporting the desired economic development through SME.

2. The decline in the rate of banking penetration during the research period indicates the changing need for banking services in Iraq, and while the rate of decline continues to expand at the same

rate, it will soon achieve the standard rate. Therefore, there is a need to leverage the experience of advanced banks in developing banking services and to raise customer awareness. Interacting with the various activities of the bank.

3. The rate of banking penetration does not help finance SME, unlike the number of banks. Therefore, granting bank branches the powers to levy and grant financing to SME, which will be reflected in increasing the financial capacity and investing liquidity, noting that these arms will have a higher capacity to monitor and follow up the development of these projects.

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