



FINANCIAL INSTITUTIONS AND THEIR ROLE IN THE DEVELOPMENT AND FINANCING OF SMALL INDIVIDUAL PROJECTS

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Article history:	Abstract:
<p>Received: 30th January 2022 Accepted: 28th February 2022 Published: 8th April 2022</p>	<p>Financial institutions are one of the most important components of any country's financial system. They play a vital role in determining the effectiveness and efficiency of the financial system, And comes in the importance of financial institutions in that they provide the economy services for richer than them, They represent the vital infrastructure through which money flows from savings to investors in various economic fields. Interest in medium and small enterprises is one of the factors of economic growth. Small and medium enterprises sector is an important sector of the national economy, Through its contribution to economic development, increasing domestic output ... etc. Small individual projects are of interest to different countries of the developed and developing world alike, Starting from the vital role of these projects in economic growth and job creation, And activating local and regional development. The aim of this research is to shed light on the experience of the Iraqi private banks listed in the Iraqi market for securities as one of the financial institutions that play a large role in providing the cash needed to develop and finance small individual projects.</p>

Keywords: Financial Institutions, Banks, Small Enterprises

1. INTRODUCTION:

Financial institutions are one of the most important and dangerous economic institutions that contribute to stimulating or hindering economic activity, Through their ability to grant credit or credit scaling, and through the control (central bank) in determining the interest rate and legal reserve ratio, As well as the contribution of some in the creation of money, and the purchase of securities, And the employment and use of savings. Small enterprises are one of the components that play a major role in advancing the economy of many developed countries.

1.2 Research Problem

Small enterprises face several challenges in Iraq, and one of the most important of these is the difficulty of obtaining sufficient financial funding to sustain them, Because small entrepreneurs are often professionals, And craftsmen, that is, they do not have sufficient savings to allow them to set up their projects, and hence we can identify the problem of research in the following question:

To what extent can financial institutions contribute to the development and financing of small individual projects?

1.3 Objective of Research

The main objective of the research is to identify financial institutions and their role in the development and financing of small individual projects. Through the main objective, the research aims to achieve the following objectives:

- 1- Learn about the role of financial institutions in financing small projects.
- 2- To identify small projects and their impact on economic development if they have the necessary means.

1.4 The importance of research

The importance of research stems from the objective it seeks, and its importance is highlighted by the importance of small enterprises, As they contribute effectively to economic development that is of great interest to many countries, And for the purpose of demonstrating the role of small individual enterprises' contribution to the operation and production, Must be provided with adequate financial funding by financial



institutions represented by Iraqi private banks, As the financing of the most important problems facing small enterprises, and hence shows the importance of research to identify the financial institutions and their role in the development and financing of small individual projects through the granting of loans and the establishment, And the operation, development, and realization of employment opportunities, through the creation of a special section for the development and financing of small individual projects, and manages this section competent people with experience and competence and skill.

1.5 Research Hypothesis

Iraqi private banks have a role in the development and financing of small individual projects, which is reflected in economic growth and development.

1.6 Community and Research Sample

The research community is represented by Iraqi private banks. The research sample consisted of three banks:

2. Middle East Investment Bank.
3. National Investment Bank.
4. Bank of Baghdad for investment.

5. LITERATURE REVIEW

2.1 Financial institutions

Financial institutions are part of the financial system and are the financial markets of this system and regulate their operations, Control, and control. Financial institutions are similar in many respects to other business organizations, It uses inputs to produce production units of financial services provided, As well as a site in which it operates, and an organizational framework that operates through its members and other elements of production.

2.1.1 The concept of financial institutions:

Financial institutions can be defined as businesses that may be private, public, or corporate, Organized and managed in order to achieve many of the objectives may be maximizing profits of the most important and may not seek some of these institutions to make a profit. (Omar, 2009: 44).

They are also known as intermediary institutions that mediate between those who increase their income from spending, And between those who wish to spend more of their income by transferring money from one user to another. (Mishkin:2016:20).

2.1.2 The importance of financial institutions

Financial institutions facilitate payments between economic units against their liabilities, As well as by obtaining savers' funds against their own liabilities, and then by lending to others, They as well as their mediation between borrowers and savers are selling

rights to themselves to depositors, And then buy rights on the borrowers from them mainly, and sell these institutions and buy future rights and this activity in the completion of payments and promises to make future payments, Which is very important in the modern economy, and that this mediation offers these economies many benefits, including (Mayer, 2007: 23).

1. The rights of these institutions are of a liquid nature, so it is necessary to clearly distinguish them from the rights of other borrowers such as bonds, which gives these rights the ability to switch to cash quickly and without loss.
2. Reduce the cost of transactions for both lenders and borrowers
3. Risk pooling By combining these depositors' amounts, these institutions reduce the risk of borrowing, including providing protection to their depositors.

2.1.3 Advantages of financial institutions:

Financial institutions provide many advantages that can be summarized as follows: (Abbas and Nawal, 2003: 9).

1. Creating the stock market issued by economic units and various institutions.
2. Risk distribution.
3. Reducing the cost of conducting financial transactions.
4. Compilation of small savings

2.1.4 Types of financial institutions

Financial institutions are divided into several types: (Omar, 2009: 46)

1- Commercial banks: Commercial banks are considered to be the largest financial intermediaries. Commercial banks are the banks that accept deposits paid on demand or after specified dates and then deposit these deposits in their operations.

2-Savings banks: It helps in mobilizing and mobilizing financial resources and employing them in investment projects by collecting large amounts of savers' funds and investing them in various investment fields. The savings banks rely mainly on small savers to obtain their resources.

3-Insurance companies: Insurance companies are another type of financial intermediaries that contribute to the provision of financial resources, and development of savings awareness.

4-Microfinance Institutions: Are institutions that provide financial services to the poor, most of which are institutions based on microcredit programs, and accept the deposit of micro amounts from their clients.

2.2 Commercial banks



Commercial banks are the most important intermediary financial institutions and their main function is to accept current deposits, Savings deposits from individuals, institutions, public administrations, and projects, And invests it for its own profit, by granting loans and other financial transactions. Some concepts can be included for commercial banks as follows:

Commercial banks are defined as one of the specialized financial institutions dealing in money and seeking profit, And commercial banks are the place where the offer of funds to meet demand, Providing an efficient system that mobilizes deposits and savings of individuals and economic units (Anwar, 2005: 14).

Commercial banks can be defined as intermediary financial institutions dealing with various long and medium credit instruments, And the short term in both the monetary and financial markets and their markets, as well as the task of mediation between lenders and borrowers for the purpose of making a profit. (Imran, 2015: 15).

The researchers know commercial banks as banks that specialize in receiving deposits and granting loans, As well as offering a range of complementary banking services such as buying and selling securities, Discounting bills and accepting them, collecting commercial papers, selling and buying foreign currency, opening documentary credits, issuing letters of guarantee, etc.

2.2.1 Objectives of commercial banks:

Commercial banks seek to achieve three main objectives, and that the most important of these objectives are: (Husseini and Aldouri, 2008: 42)

A- Profitability: The management of banks on a continuous basis to achieve the profits of large banks, since the measure of the efficiency of management of banks depends on the extent of achieving profits if the management of banks a huge profit, This means that they are efficient management and vice versa, and for the management to make profits must be the proceeds of the bank is greater than the costs of the bank.

B- Liquidity means the speed and ease of transferring assets to cash and with minimal losses, as the goods are more liquid than real estate, And receivables are more liquid than goods. Liquidity in commercial banks is concerned with the extent to which banks manage to meet their obligations through the ability to execute customer withdrawal requests, And to meet credit requests, ie, banks should maintain high liquidity in which they can meet their obligations at any time they wish.

C-Security: Commercial banks are keen not to reach losses more than the capital property, any losses of this kind may lead to a withdrawal of funds depositors and thus lead to the bankruptcy of the bank.

2.3 Small Projects

Increased interest in the last period of the subject of small projects, so that it became one of the main subjects taught in institutes and universities, Despite the fact that small projects have long been a basic component of the national economy, as all large projects were the initial beginnings of small projects, And that existing small enterprises will become many large enterprises in the future, as well as that small enterprises as a whole constitute a large economic force.

2.3.1 The concept of small enterprise:

A small project is defined as a project that creates a high degree of risk or uncertainty For the purpose of achieving profitability and growth by identifying opportunities and pooling the resources necessary for the establishment of the project. (Ibrahim and Ismail, 2006: 21).

The small project was defined as an investment activity in which capital resources were used for the purpose of creating productive assets that would lead to future benefits (Rassen, 2018: 16).

The researchers know the small project as a project that employs a small number of workers, is run by owners and serves the local market.

2.3.2 Characteristics of small projects

Small enterprises have several characteristics and most important: (Omar, 2009: 28).

1. The small project is managed by the owner
2. Small enterprise locally in its operations
3. The small project is characterized by personal character
4. The small project depends heavily on internal financial resources in its establishment and growth.

2.3.3 Reasons for the failure of small businesses:

Not the condition that the beginning of each project is paved with success, and it is natural to exit many small projects of investment in a short period of time, Due to mistakes made by the owners of the project led to this, but it should be noted that these reasons differ in the case that the existing project was purchased for the purpose of expansion, or reinvestment again (Afana Abu Abd, 2004: 21).

There are several factors confirmed by recent studies led to the failure of small projects are as follows:(Al-Ghurairi, 2015: 30).



5. Poor efficiency and experience of the owner of the small project: the use of a work manager does not have the required knowledge and experience sufficient to manage the small project, and thus lead to higher costs, and the length of work.
6. The objectives of the small project are not clear and include not dealing with the developments, and not to set a date for delivery of the project.
7. poor awareness of the small project of weak executive support, and weak experience in the nature of work.

3. RESEARCH METHODOLOGY AND RESULTS

Introduction to the establishment and objectives of banks Sample Research: The research community represents the Iraqi private banks listed in the Iraqi

market for securities, amounting to (36) bank. The sample was selected from three Iraqi banks:

First :Middle East Investment Bank

The Middle East Iraqi Bank for Investment was established as a shareholding company with a nominal capital of 400 million Iraqi Dinars, in accordance with the incorporation certificate No. SM / 5211 of 7/7/1993 issued by the Companies Registration Department under the Companies Law No. 36 of 1983 And after obtaining the banking license issued by the Central Bank of Iraq under the book No. A / 4 / 941/4 issued on 28 September 1993 in accordance with the provisions of Law No. (64) for the year 1976 amending. The bank started its work and opened its main branch to the public on 8/5/1994.

Here are some financial indicators for Middle East Investment Bank:

Table (1) Financial indicators of Middle East Investment Bank (amounts in thousands of dinars)

Financial indicators	2017	2016	Growth %rate
Volume of deposits	33579	326517	%2
Revenue	840,268	010,356	%24
Investments	36364	42802	%15
Equity capital	250000	250000	0
Cash Credit	100252	346,126	%21
Loans	690,301	705,178	%69

Source: Based on the annual reports of the Middle East Investment Bank for the years (2016-2017).

Table (3) shows that the volume of deposits increased by 2016 to (326,517), while in 2017 it reached (332,579) with a growth rate of 2% and revenues in 2016 were (266,840) growth rate (-24%), while in 2016 it reached (42,802) In 2017 it was 36,364 with a growth rate of -15%, while cash in 2016 was 126,346 and in 2017 it grew by (100,252) with growth rate (-21%). (2016) was at (178,705), while in 2017 it was (301,690) with growth rate (69%).

Middle East Investment Bank is working to mobilize national savings and employ them in various investment fields, And contribute to the promotion of economic development in Iraq in the light of the general policy of the state and contribute to the

achievement of the objectives of development, and economic growth.

The Middle East Bank has been granted a loan of 4 billion Iraqi dinars by the Central Bank in several installments (2015, 2016 and 2017) in order to achieve economic and social development through supporting small and medium enterprises. The loan is payable in quarterly installments, Provided that the interest rate and administrative margins shall not be on the loan amount, And the interest rate borne by the borrower does not exceed (5.5%). During the year (2016) the Central Bank granted the bank the second installment of the loan amount of (1) billion Iraqi dinars, and during the year (2017) the Central Bank granted the



bank the third and fourth installments of the loan amount of (2) billion Iraqi dinars.

Table (2) Distribution of Middle East Bank loans for small individual projects by activity at the level of Iraq for the years (2016-2017) (amounts in millions of dinars).

Activity / Year	Total	2017	2016	Relative importance
trade	141196	71196	70000	%79
Industrial	12624	7624	24222	%7
Finance	4191	1191	3000	%2
total	177233	80011	97222	%100

Source: The number of researchers relying on the Middle East Bank Central Unit for lending to small enterprises.

It is clear from the table above that the number of loans granted to small enterprises in 2016 in the business sector was 70,000 and reached (71,196) in 2017 (92%). The loans granted in the industrial activity in the year (2016) amounted to (5000), and in the year (2017) (12624) by (8%)(2017). Loans in 2017 (4191) amounted to (2%), indicating that the financing activity of the share of loans comes after commercial and industrial activity..

Second :The National Investment Bank

The Bank was established as a private shareholding company with a capital of 400 million Iraqi Dinars. Pursuant to the Certificate of Incorporation numbered 5802 dated 2/1/1995. The approval of the Central Bank was obtained on 28/3/1995 on the practice of banking as an investment bank Al Ahli Investment and Agricultural Finance) and started its work through the main branch on 8/4/1995.

Table (3) Financial indicators of Al-Ahli Investment Bank (amounts in thousands of dinars)

Financial indicators	2017	2016	%Growth rate
Volume of deposits	184729	163039	%13
Revenue	37242	44731	-%17
Investments	253929	246747	%3
Equity capital	250000	250000	0
Cash Credit	172479	149129	%16
Loans	3200	1800	%77

Source: Based on the annual reports of the National Investment Bank for the years (2016-2017).

Table (3) shows that the volume of deposits increased by 2016 to 163,039, while in 2017 it reached (184,729) with a growth rate of 13% and revenues in 2016 were (2017) and (2,467,47) in 2017 (2,539,29) with a growth rate of 3%). In 2016, the cash credit was (149,129) and in 2017 it became (172,479) growth rate (16%). As for loans granted in 2016, it

was (1800) The year (2017) was (3200) growth rate (77%).

The National Bank for Investment is working on mobilizing national savings and employing them in various investment fields and contributing to enhancing the economic development process in Iraq in the light of the general policy of the state, which



contributes to achieving the objectives of development and economic growth.

During the year 2015, the National Investment Bank was granted a loan of (1) billion Iraqi dinars by the Central Bank as part of the plan of the Central Bank of Iraq to grant commercial banks loans for the financing of small and medium-sized loans with interest and a few administrative margins that do not exceed the interest rate borne by Borrower for (5.5%) to achieve economic and social development. During the year (2016) the Central Bank granted the bank the second installment of the loan amount of (1) billion Iraqi dinars, and during the year (2017) the Central Bank

granted the bank the third and fourth installments of the loan amount of (2) billion Iraqi dinars.

Third: Bank of Baghdad for investment

The Bank was established as a private shareholding company with a capital of (100) million Iraqi Dinars in accordance with the founding certificate No. 4512 dated 18 February 1992 issued by the Companies Registration Department under the Companies Law in force at that time No. (36) for the year (1983) The First Iraqi Private Bank The amendment of the Central Bank of Iraq Law No. (12) for the year 1991 allowed for the approval of the Central Bank of Iraq. The Bank commenced its activities in the licensed banking business as of September 12, 1992.

Table (5) Financial Indicators of Bank of Baghdad Investment (amounts in thousands of dinars).

Financial indicators	2017	2016	Growth rate
Volume of deposits	714000	827000	%14
Revenue	54133	73620	%-26
Investments	89229	97399	%-8
Equity capital	250000000	250000000	0
Cash Credit	110000	137000	%-20
Loans	145602	195066	%-25

Source: Number of researchers based on the annual reports of the Bank of Baghdad for the years (2016-2017).

Table (5) shows the decrease in the volume of deposits, which in 2016 amounted to (827,000), while in 2017 it reached (714,000) growth rate (-14%). The revenues in 2016 were (2016) to (97,399) and in 2017 (89,229) growth rate (-8%) in the year 2017(2016) increased by (110,000) at a rate of growth (-20%), while in the case of loans granted in 2016 it was (195,066) The year (2017) was (145,602) growth rate (-25%).

The Bank of Baghdad invests in mobilizing national savings and employing them in the various investment fields and contributing to the promotion of the economic development process in Iraq in the light of the general policy of the state, which contributes to achieving the objectives of development and economic growth.

4.CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

The following are the main conclusions of the research in its theoretical and applied aspects:

8. This research provides more understanding and empirical evidence related to financial institutions and small individual projects.
9. Banks have a clear role in the development and financing of small projects, through loans granted to small individual projects.
10. The procedures of the private Iraqi banks in the case of granting loans to small projects indicate that there is no specialized lending unit, which leads to delay.
11. The size of the number of loans does not meet the requirements of the project,



especially in the case of increased work and future expansions.

4.2 Recommendations

1. A specialized lending unit should be established in commercial banks to perform small-scale lending functions.
2. Increase the proportion of loans granted to small enterprises by commercial banks.
3. Commercial banks should diversify micro-enterprise loans in many geographic regions.
4. The commercial banks shall prepare the amounts necessary to finance the small projects, through the general budgets of the State.

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