

# **Making Payments in Iraq – March 2005 Update**

*Prepared by members of the Iraq Reconstruction and Management Office-Financial and Fiscal Affairs (IRMO-FFA) in coordination and cooperation with members of the: Iraqi Private Bankers Association; U.S. Treasury Department, and; Federal Reserve Bank of New York.*

## **I. General Comments**

Iraq has a cash driven society where banks are seldom viewed as places to store consumer wealth and communications between branches of even the same bank are often difficult to conduct and rely mostly on face-to-face meetings to update account balances rather than the use of automated networks. The flow of funds in Iraq's economy in general is more often than not, one of funds flowing out from banks with very little recirculation as is experienced in other societies. Why does this happen? It's a result of "learned behavior" including consumer experiences dating back to the end of the first Iran-Iraq war. During this timeframe, the former dictator found the country nearly broke and faced with making millions in stipend payments to returning soldiers. To generate cash, he instructed all banks to stop making payments other than those needed to pay government workers. Most who stored their wealth in the banking system lost everything. Accordingly, the current distrust in the banking system will take time and consumer education to overcome.

The population of any type of currency in banks given the current security situation makes such movements risky to the extent that it is often difficult for Iraq's own Ministries to keep current on payments to its own workforces. It's not an uncommon event for the State owned banks to simply run out of cash to make payrolls, and then call for special Coalition assistance to arrange transports of cash to them.

Realize however, that the future of Iraq's National financial system is anything but bleak. Foreign banking interests are starting to make efforts to position themselves in Iraq which will bring more of the modern, world-class banking capabilities to consumers of financial services. Also, on November 29, 2004 President Bush signed Executive Order (EO) 13364 protecting the assets of the Central Bank of Iraq (CBI). Now, for the first time since the inception of the sanction period, CBI will be able to invest their own assets abroad via their account at the Federal Reserve in New York. Previous to the signing of this EO, CBI funds were subject to seizure by the creditor nations (such as Russia, France and Germany). The EO itself is an important milestone in basic economic recovery and can be viewed at:

<http://a257.g.akamaitech.net/7/257/2422/06jun20041800/edocket.access.gpo.gov/2004/pdf/04-26686.pdf>

These revolutionary changes require all parties to have a thorough understanding of the financial system on the ground in Iraq. This paper will address payment types and considerations, share the latest information we have available on Electronic Funds Transfer and provide some bank contact information for use.

## **II. Payments made by Check**

Check cashing and thus the ability to make payments by check can be frustrated by the lack of an automated clearing system, not only on a national bank-to-bank basis, but also on a bank branch-to-branch basis. Checks drawn on accounts outside Iraq are not currently accepted on the Iraqi economy, but there is a way for you to get company checks cashed in Iraq thanks to the 18<sup>th</sup> Airborne Corps Group Finance Command.

### **A. Funds Drawn on Banks Outside Iraq and paid to Iraqi's**

Currently, if one were to present a check drawn on a U.S. or U.K. bank to an Iraqi person or firm, there is little that can be done with it to convert it to a hard currency without physically sending the check outside the country to the bank on which it is drawn or to a correspondent bank that will accept it. This will continue until foreign banks establish a physical presence in country or buy-in to an existing banking institution. As of this writing, no foreign bank has fulfilled all of its obligations to establish either type of presence in Iraq.

### **B. Funds Drawn on Banks Inside Iraq and paid to Iraqi's**

The Central Bank of Iraq currently recognizes 7 State Banks and 19 private banks. Of the State Banks two of them, Rafidian and Rasheed offer checking accounts and have branch locations throughout the country. Of the 19 private banks, all offer checking account services but have limited branch offices outside of Baghdad. As discussed earlier, because automated check clearing has not gained a foothold in Iraq as yet, you may find it to your advantage to start a checking account or accounts at bank branches nearest your needs. One of the things you'll notice when you get your checks issued to you is that the lack of Magnetic Ink Character Recognition (MICR) routing numbers. As a result, automated processing of checks is extremely limited. For this and other reasons, it may be best to make advance arrangements with the bank staff if you want to be able to convert a check to cash in the same day. Contact information for the main bank branches in Iraq, both State and private can be found at: <http://www.cbiraq.org/cbs4.htm>

### **C. Company Check Cashing Provisions – New Service for Contractors**

The in-country finance offices have had provisions for cashing personal checks by contractor employees, but now in coordination and cooperation with the 18<sup>th</sup> Soldier Support Group (Airborne), there is a process for Coalition Contractors to cash checks drawn on banks located in the U.S. and denominated in U.S. dollars. Whereas personal checks are normally limited to \$200 per week, company checks can now be cashed up to \$100,000 per week with some advance notice to your local finance office. As in the case of personal check cashing, companies will be asked to sign an agreement such as that attached at Appendix F. Now companies can cash personal checks for their own employees if desired, and avoid losing them for 2-3 hours per week waiting in line at the finance offices. For paying local vendors, suppliers and subcontractors, you of course have the option of settling your debts in cash or by making a deposit at the banking institution nearest to your need and issuing a local check drawn from that bank.

### **III. Payments Made by Cash**

Coalition Contractors did not have to be in country long to discover that there was no ability to use credit or ATM cards, and finding available bank related services was challenging given the security situation near many work sites. In order to make payments to local suppliers, vendors and sub-contractors, some have resorted to carrying luggage bags of USD across borders themselves while others paid and continue to pay fees to international banks for the risk associated with making a physical money movement on their behalf. Nearly all contractors have had a different experience and story to share on how they have wired around the difficulties and challenges posed to them to get the currency they need when they need it, and where they need it.

#### **A. Local Security Considerations**

Once acquired however, payments in cash continue to be problematic for the payee. For example, Iraqi persons in their role as contractors, suppliers and employees can become easy targets for criminals and insurgents when paid in cash. There have been instances when Iraqi's have left a coalition base with a cash payment and been robbed, often resulting in injury and at times death. Payments made in the form of a check drawn on a local bank branch and denominated in Dinar is perhaps the safest way to pay Iraqi firms and persons.

#### **B. Local Exchange Considerations**

Except for some areas in Irbil where USD is used as petty cash funds in government offices and perhaps small pockets of areas elsewhere, payments made in USD cannot be readily spent within local economies, but must be exchanged for New Iraqi Dinar (NID). The local economy does include those in the business of exchanging money who operate apart from and in competition with the banking system. When exchanges are made, brand new \$100 bills come closest to trading at the official exchange rate and denominations less than this bring far less with hardly any trading being available for \$5 and \$1 bills. It's been reported that even Central Bank of Iraq ("CBI" is the equivalent of the U.S. Federal Reserve Bank) will not accept exchanges for denominations of \$20 bills and less. When possible, payments should be made in the local currency to avoid the need for exchange at the lowest payee levels. CBI is currently willing to make currency exchanges for a charge of 1%. The bid and offer auction rates are posted to the web by CBI and can be accessed using this link: <http://www.cbiraq.org/cbs6.htm>. Your home bank can communicate with CBI using the Bank Identification Code (BIC) "CBIRIQBAXXX". This BIC code is tied to the SWIFT network. According to Iraq's Private Banking Association, Dollar to Dinar exchanges can often be accomplished for half the CBI rate or ½%.

### **IV. Establishing and Operating a Local Bank Account**

If you have banking needs and would like the ability to issue checks for services rendered, you should start an account in NID (preferred) and/or USD near where you need to make your payments. Although there are banks throughout Iraq, you should make your own local contacts and review their security capabilities and their financial condition. Be an educated consumer when making a selection and remember that there is

no insurance available for deposits. To locate a bank nearest your worksite, you may contact IRMO Financial & Fiscal Affairs who maintain a database of countrywide banking institutions. POC's are Richard Arsenault and Roger Calhoun who can be reached at [ArseaultRP@state.gov](mailto:ArseaultRP@state.gov) and [CalhounRJ@state.gov](mailto:CalhounRJ@state.gov). IRMO Financial & Fiscal Affairs is not in a position to assess the financial condition of banks.

#### **A. Registering Your Company**

CBI has instructed all banks to tie the business registration number to your bank account for the purpose of being able to review financial transactions. Some contractors equate registration to a requirement to pay business related income taxes, but this is not necessarily the case. If you are operating under a reconstruction contract and are not conducting business in Iraq independent of that contract, you are not *currently* liable for paying business related income taxes. According to Transitional Authority Legislation (TAL) currently in force, (see article 26 (C)) all CPA orders remain in force unless or until rescinded or amended by the Transitional or future Iraqi governments. CPA Orders specifically addressing this topic can be found in CPA Orders 17 (see section 10) and 49 (see section 4).

These and other CPA orders can be found on the web at:

<http://www.iraqcoalition.org/regulations/#Orders>

The TAL is also available on the web at:

<http://www.iraqcoalition.org/government/TAL.html>

Information on how to register your company in Iraq are on the web at:

[http://www.export.gov/iraq/bus\\_climate/foreign\\_reg\\_guide.html](http://www.export.gov/iraq/bus_climate/foreign_reg_guide.html)

#### **B. Security of Funds Held at Banks in Iraq**

Whether we discuss private banks or the state owned banks, account holders need to be aware that there is no deposit insurance in Iraq like that offered by the Federal Deposit Insurance Corporation (FDIC) in the United States and little recourse is available should the institution fail. This is especially true of the private banks that could be forced to discontinue operations if they maintained large amounts of funds on-hand and were then robbed. For this reason, many do not hold large amounts at their local branch but instead have accounts at the state owned banks where they maintain a majority of their physical currency balances. For the state-owned banks that allow establishment of private commercial accounts (Rafidain and Rasheed), your chances of getting access to your funds after the bank suffers a significant loss *may* be better because they are in fact government institutions supported by the Ministry of Finance. There are however, no guarantees on the long-term viability of the banks currently operating in Iraq.

#### **C. Presenting Checks for Bank Payment**

Because of custodial and security issues, funds may not be immediately available at your bank branch and prior coordination of your cash needs with the branch manager will make the process of obtaining funds in a timely fashion much more

likely. If your needs are in Iraqi Dinar, the chances of immediate availability are greater. Hard currencies such as USD are held across the country in small quantities because of the security exposure. Large amounts can be made available if your local manager has a forecast of your needs at least two weeks in advance, which enable them to provide notice to the State owned banks who then ultimately communicate with Baghdad for coordination of their currency movements. Also worth noting here is that bank patrons are encouraged to establish an account at each location where you will need currencies. If you rely on only one bank branch to meet needs in other parts of the same governorate expect a check processing/settlement delay of as much as two weeks. Once cleared, arrangements are then made to move the currency needed which could add another 7-10 days to the process.

#### **D. Cautionary Note on Use of State Banks**

Until final agreement is reached on Iraqi foreign debt, creditors in nations such as France, Germany and Russia are able to seize assets held at the state owned banks outside Iraq's borders. When working with the State banks, work only with branch locations inside Iraq.

#### **V. Payments by Electronic Funds Transfer (EFT)**

EFT in simplest terms is an electronic payment instruction; it does not automatically create a physical presence of cash although some appear to be under the mistaken impression that it does. In the U.S., these payment instructions usually trigger cash available for withdrawal almost immediately because banks keep cash reserves on-hand locally to support personal and commercial transactions. Not always so in Iraq. What may take minutes in the U.S. may take a couple of days here, so be sure you keep your local banker informed of your needs so that they can forecast their cash requirements and better serve you. Currently, there are a number of private banks that can support EFT type transactions through cross-border correspondent banks. The rates they charge for providing these services vary from bank to bank, and depending on the transfer amount, the rates may be negotiable. While the focus is on EFT *into* Iraq, the institutions discussed below can also work with you to wire funds *out of* Iraq including CBI itself.

##### **A. Private Bank Highlights**

While there are many banks capable of working with you, we'll highlight five of them because they are reportedly in various stages of acquisition by major banks outside the country with good reputations and sound international ratings. These acquisitions are expected to help bring these banks to a higher level of service and operation sooner than the others who continue to operate independently.

1. **Credit Bank of Iraq** is in the process of being acquired by the National Bank of Kuwait (NBK). Information about NBK can be found on the web at <http://www.nbk.com>. NBK in New York established an account for use by Credit Bank customers and has a friendly fee structure. More information on Credit Bank, including wiring instructions, can be found at Appendix A.

2. **Dar Es Salaam Investment Bank** is in the process of being acquired by HSBC. Information about HSBC is available on the web at <http://www.hsbc.co.uk/> More information on Dar Es Salaam can be found on the web at [www.desiraq.com](http://www.desiraq.com) and attached at Appendix B.
3. **National Bank of Iraq** is in the process of being acquired by The Export and Finance Bank of Jordan. Information about this bank can be found on the web at <http://www.efbank.com.jo/> More information on National Bank of Iraq is attached at Appendix C.
4. **Al-Baraka Bank** is in the process of forming a venture with Jordan National Bank. Information about the Jordan National Bank can be found on the web at <http://www.ahli.com>. More information on Al-Baraka Bank (not to be confused with Dillah Al Baraka – Saudi Arabia) can be found at Appendix D.
5. **Bank of Baghdad** is in the process of forming a venture with Iraq Holding Company (Kuwait) and United Gulf Bank. More information on United Gulf can be found on the web at <http://www.ugbbh.com> and information on Bank of Baghdad at <http://www.bankofbaghdad.net> and at Appendix E.

Other activity in the private bank sector includes a potential venture between United Bank and Ibn-Sina Holding Company (a Kuwaiti Joint Stock Company). Some of the following have submitted bank license applications and are expected to start operations in 2005:

- Kurdistan Bank Company
- Regional Bank Company for Investment and Development
- International Islamic Bank Company
- Glgamis Bank Company for Investment and Finance
- Al-Mashriq Bank Company
- Al-Aman Bank Company for Investment and Finance
- Tigris & Euphrates Bank Company
- Shaian Bank Company for Financial Investment
- International Ashur Bank Company for Investment
- Al-Mansur Bank Company
- Bank Company of Islamic Al-Noor
- Bank Company Trans-Iraq for Investment

International Banks that have been granted licenses to operate in Iraq and have until March 31, 2005 to begin operations in Iraq either as independent branch operations or through local bank ventures or acquisitions are as follows:

- Standard Chartered Bank
- HSBC
- National Bank of Kuwait
- Arab Banking Corporation
- Arabian Bank
- United National Bank

- Housing Bank for Trade and Finance
- Saderat Bank

**B. State Bank Highlights**

The State Bank branch network throughout the country is formidable and this is especially true of the two main bank branches of Rafidain and Rasheed that are mainly used by the Iraqi government to dispense government payrolls. Although it is not currently possible to conduct wire transfers directly with these branches, it is expected that soon, CBI will act as an intermediary for banks outside Iraq to reach the extensive branch network of Rafidain and Rasheed within Iraq's borders. When procedures have been formally established, we'll attach wire instructions as an appendix in an updated publication.

**XI. Bank and Bank Branch Locator**

We've been able to compile a master listing of CBI approved banks and branches of those banks and present them at Appendix G. This listing will be updated as new banks begin operation, and bank-branch locations expand.

Appendix A

**Wire Transfer Instructions**  
**Credit Bank of Iraq**

**Amount** \$USD

**Pay To** National Bank of Kuwait, New York Branch  
Routing: 026000217  
SWIFT: NBOKUS33

**Beneficiary Bank**  
Credit Bank of Iraq  
A/C 400204375003

**Beneficiary**  
For Further Credit to: [as example Credit Bank of Iraq, Samawa branch]  
Account name: [ABC Coalition contractor]  
Account No: [as assigned by the bank branch where you establish the account]

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**Point of contact:**  
Mr. Fouad M. Moustafa, Managing Director  
IRAQNA: 0790-190-7068  
MCI: 914-360-0494  
EMAIL: kreditbkiq@yahoo.com

**Bank Locations and poc's:**  
Baghdad (above)  
Basra (Mr. Simon M. Simon, local (964) 1-040-62-3606)  
Hillah (Mr. Mawaffak A.L. Alwazzan, IRAQNA 0790-190-7098)  
Samawa (Mr. Talib A. H. Alghabban, IRAQNA 0790-192-3117, local (964) 1-815-1199)

**Wire Fees as of January 2005:**  
¼ point with a minimum charge of \$5 and maximum of \$100

**Web Site:** None



**Wire Transfer Instructions**  
**Dar Es Salaam Investment Bank**

**Amount** U.S. Dollars

**Pay To** HSBC Bank Middle East, Jordan Branch  
SWIFT: BBMEJOAX

**Beneficiary Bank**  
Dar Es Salaam Investment Bank  
A/C 006-021364-186

**Beneficiary**  
For Further Credit to: [as example Dar Es Salaam Investment Bank, Samawa branch]  
Account name: [ABC Coalition contractor]  
Account No: [as assigned by the bank branch where you establish the account]

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**Amount** Euros

**Pay To** HSBC Bank Middle East, Jordan Branch  
SWIFT: BBMEJOAX

**Beneficiary Bank**  
Dar Es Salaam Investment Bank  
A/C 006-021364-187

**Beneficiary**  
For Further Credit to: [as example Dar Es Salaam Investment Bank, Samawa branch]  
Account name: [ABC Coalition contractor]  
Account No: [as assigned by the bank branch where you establish the account]

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**Amount** Sterling

**Pay To** HSBC Bank Middle East, Jordan Branch  
SWIFT: BBMEJOAX

**Beneficiary Bank**  
Dar Es Salaam Investment Bank  
A/C 006-021364-185

**Beneficiary**  
For Further Credit to: [as example Dar Es Salaam Investment Bank, Samawa branch]  
Account name: [ABC Coalition contractor]  
Account No: [as assigned by the bank branch where you establish the account]

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**Wire Transfer Instructions**  
**Dar Es Salaam Investment Bank**

***Point of contact:***

Mr. Asad Al Khudhairi, Chairman

MCI: 914-360-4646

LOCAL: (964) 1-886-4137

EMAIL: [info@desiraq.com](mailto:info@desiraq.com) or [payments@desiraq.com](mailto:payments@desiraq.com)

***Bank Locations and poc's:***

Baghdad (above)

Diwaniyah (local (964) 1-03-66-2688)

Karbala (local (964) 1-885-0953)

Kut (not available)

(2) Mosul (local for Al-mussel branch (964) 1-060-77-1993; Al-Jazzier branch 060-81-2044)

Samawa (local (964) 1-03-773-8911)

***Other opening expected during 2005:*** Basra, Dohouk, Erbil, Kirkuk

***Wire Fees as of January 2005:***

½ point with a minimum charge of \$50 and maximum of \$500

***Web Site:*** [www.desiraq.com](http://www.desiraq.com)

Appendix C

**Wire Transfer Instructions**  
**National Bank of Iraq**

**Amount** \$USD

**Pay To Export and Finance Bank, Amman Jordan**  
SWIFT: EFBKJOAM

**Beneficiary Bank**  
National Bank of Iraq  
A/C 0212510533800

**Beneficiary**  
For Further Credit to: [as example National Bank of Iraq, Baghdad branch]  
Account name: [ABC Coalition contractor]  
Account No: [as assigned by the bank branch where you establish the account]

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**Points of contact:**

Mr. Ghassan Kamal Jamil  
LOCAL: (964) 1-717-5009  
MCI: 914-360-2345  
IRAQNA: 0790-190-6445  
EMAIL: [nationalbank\\_iraq@yahoo.com](mailto:nationalbank_iraq@yahoo.com)

Export and Finance Bank (local Baghdad rep)  
Mr. Shams A-Khateeb  
IRAQNA: 0790-190-6429  
EMAIL: [shams\\_alkateeb@yahoo.com](mailto:shams_alkateeb@yahoo.com)

**Bank Locations and poc's:**

(2) Baghdad local (964) 1-717-1351/0698/4899  
Mosul local (964) 1-60-77-1184

**Wire Fees as of January 2005:**

1/2 point with a minimum charge of \$10, no maximum charges listed.

**Web Site:** None

Appendix D

**Wire Transfer Instructions**  
**AL-Baraka Bank for Investment and Finance**

**Amount** \$USD

**Pay To:** Wires are not currently being processed  
SWIFT:

*Note: SWIFT information will be available when acquisition is complete.*

**Beneficiary Bank**  
Al-Baraka Bank for Investment and Finance

**Beneficiary**  
For Further Credit to: [as example Al-Baraka Bank, Baghdad branch 4]  
Account name: [ABC Coalition contractor]  
Account No: [as assigned by the bank branch where you establish the account]

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**Point of contact:**  
Mr. Munther S. Al-Fettal (General Manager)  
LOCAL: (964) 1 71-7-3201 or 71-8-2599 or 71-8-2288  
IRAQNA: 0790-190-6833  
EMAIL: m\_alfettal@yahoo.com or m.alfettal@barakabank.com

**Bank Locations and poc's:**  
Baghdad 4-locations (above)

**Wire Fees as of January 2005:**

N/A

**Web Site:** None

Appendix E

**Wire Transfer Instructions**  
**Bank of Baghdad**

**Amount** \$USD

**Pay To United Gulf Bank**  
SWIFT: UGUBBHMXXX

**Beneficiary Bank**  
Baghdad Bank

**Beneficiary**  
For Further Credit to: [as example Baghdad Bank, Hillah branch]  
Account name: [ABC Coalition contractor]  
Account No: [as assigned by the bank branch where you establish the account]

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**Point of contact:**  
Mr. Abdul Aziz Malack  
LOCAL (964) 1 717-4182 or 4099  
IRAQNA: 0790-190-6697  
EMAIL: info@bankofbaghdad.net

**Bank Locations and poc's:**  
Baghdad – 11 locations (above)  
Baquba- (964) 1 25-52-2695  
Basra- (964) 1 40-61-9347  
Falluja- (964) 1 24-66-4225  
Hillah- (964) 1 30-22-1285  
Karbala- (964) 1 23-32-0664  
Kirkuk – (964) 1 50-22-0694  
Mosul- (964) 1 60-77-1184  
Najaf- (964) 1 33-37-0828

**Wire Fees as of January 2005:**

According to Mr. Malack, the wire fee's will vary depending on the country of original. Before using the wire instructions, contact Mr. Malack to learn of the easiest and most cost effective method of conducting the transfer. Additional charges may be applied by United Gulf Bank (UGB).

**Web Site:** <http://www.bankofbaghdad.net>

[COMPANY LETTERHEAD]

[date]

To: Finance Unit [Location: City, Country]

From: [Name of Program Manager]  
Program Manager  
[Company Name]

Subject: Authorization for Company Check Cashing Privileges

We hereby request company check cashing privileges be extended to [employee name], and as an alternate [employee name] who are authorized to sign [company name] checks to support ongoing reconstruction operations in Iraq up to \$100,000 per week. We certify that we are a U.S. firm engaged in a U.S. government project and the above named individuals are U.S. citizens or a Third-country national employed by my firm as a civilian employee.

[company name] agrees to provide the Finance unit with at least seven days notice of cash requirements for all amounts in excess of \$50,000 per week. Further, [company name] agrees to present checks drawn only on U.S. banks or credit unions in U.S. currency and payable in U.S. dollars. Additionally, the checks will be made payable to "Disbursing Officer, DSSN [treasury account number of local finance unit]," two or three party checks will not be presented, and the individual presenting the check must have government photo identification.

We understand that the check will be processed through the local finance unit as an automatic clearing house (ACH) debit to our bank or credit union account, and will notify our bank or credit union in advance to accept those ACH transactions. Should a check be returned as non-payable for any reason to the local Finance unit, [company name] agrees to cover the total costs associated with the recovery of funds including any and all third party charges and administrative penalties.

Sincerely,

[Original signature]

[Name of Program Manager]







