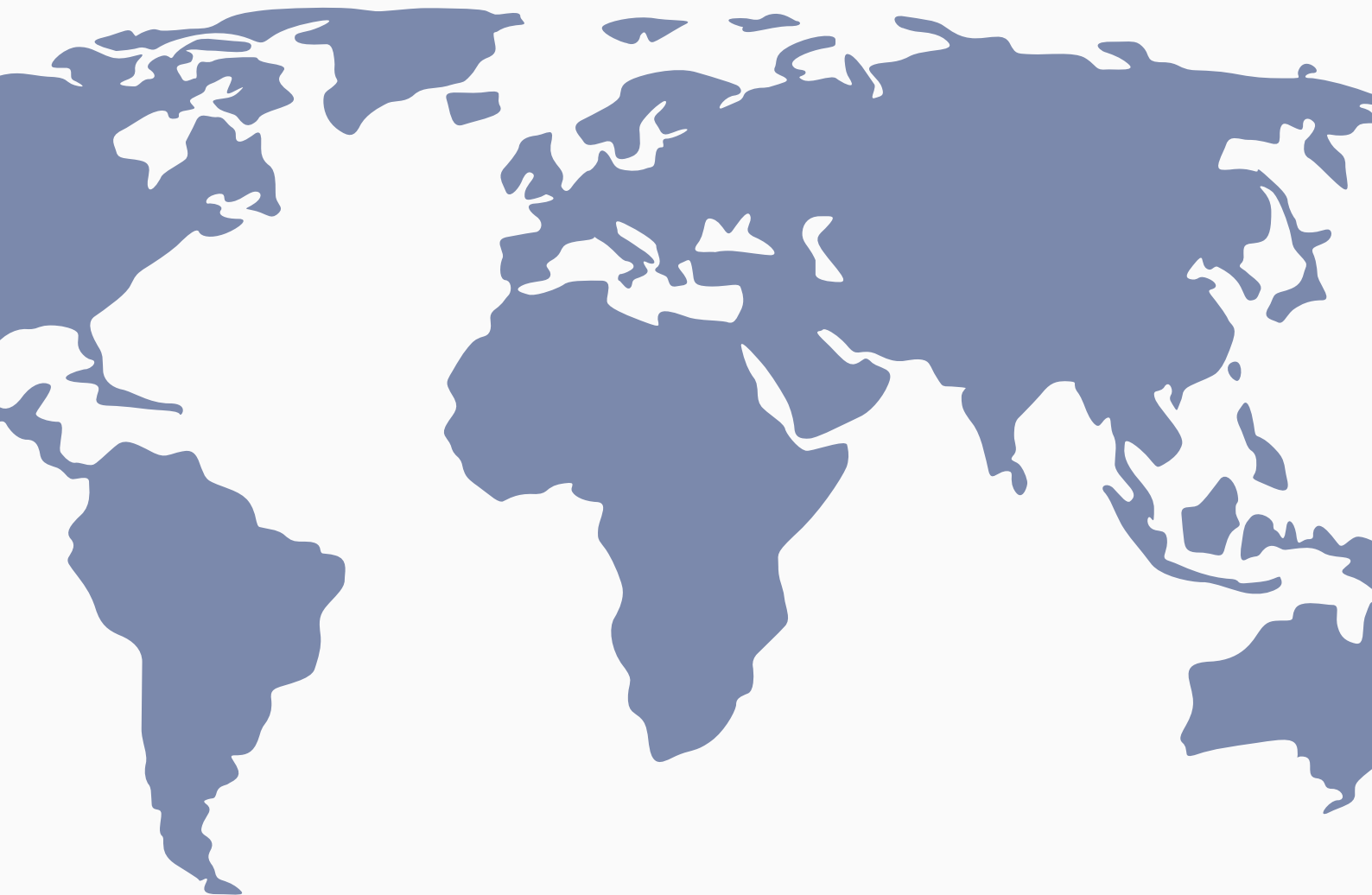




Vision Foundation
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Hawala and Informal Money Transfer Systems:
Regulatory and Security Implications in the Kurdistan
Region of Iraq (KRG)



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Researcher:

Salar Hamid Awakhti Ali
Banaz Sattar

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INFO@VFSSIQ.ORG WWW.VFSSIQ.ORG

Abstract

This research explores the role of Hawala as one of the oldest informal money transfer systems and its implications for regulation and security in the Kurdistan Region of Iraq (KRG). Despite its advantages of high speed, low cost, accessibility, and trust-based networks. Hawala poses significant risks, including money laundering, terrorist financing, tax evasion, and a lack of transparency. The study examines how Hawala competes with formal banking in the KRG, where its market share declined from about 70% in 2015 to 60% in 2025, while banking channels rose due to improved systems and tighter regulations.

The study applied qualitative approaches to obtain responses from fifty participants, consisting of Hawala intermediaries, regulators, financial experts, and users. Participants were generally supportive of Hawala due to its speed, low cost, and trust relationships, albeit with concerns over oversight, lack of a clear legal framework, and limited coordination with authorities. To mitigate these concerns, most participants agreed that Hawala should be incorporated into a form of regulated structure; nevertheless, the accessibility of services remained an area of concern. This research has shown that Hawala is important because it fills a void for many underserved regions, but it can be misused. Recommendations made include: formal legal regulation, licensing, supervision of users, and regulation of product distribution; digitization (eKYC, online platforms), reduce affordability barriers placed by banks provide political neutrality in governance; overall it is not the intent of this paper to argue for the offending of Hawala, simply rather for better regulation and incorporation of Hawala to allow explicit usage, transparency, security and protections for users and consumers in the KRG.

1. Introduction

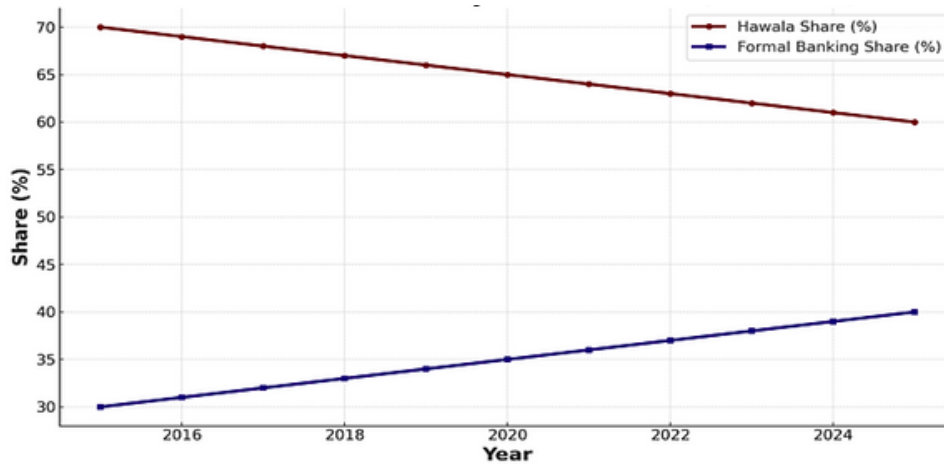
Hawala is an informal finance system and one of the oldest, generally accepted, identifiable, and widely used financial systems used in places with malleable or absent kind of banking infrastructure because of its low cost to users; its great speed of payment; and customer privacy. However, the advantages of Hawala also bring regulatory and security risks, especially in emerging markets, like the Kurdistan Region of Iraq (KRG), which have not yet developed formal financial institutions. This research will explore how Hawala works, the risks, and evaluate recent regulatory proposals for Hawala in the KRG.

Although Hawala had long been an important contributor to remittances of expatriates, Hawala began carrying renewed global concern because of its potential to be abused in settling illegal activities, most notably after 9/11. As a non-official mechanism of cross-border transfers, Hawala is still used in countries with limited or no formal financial institutions (Sharma, 2006). The use of Hawala is so accepted in almost all South Asia and Middle Eastern countries that it seems to overshadow all fears of abuse (El Qorchi et al., 2003).

Recent estimates report that informal transfer channels, invariably by Hawala, account for 35–75% of overall remittance flows for developing nations (Freund & Spatafora, 2005). In fragile contexts like Somalia, Hawala demonstrates resilience by linking marginalised economies to the global system (Lindley, 2009). Nonetheless, perspectives differ; while some perceive it as a security threat, others view it as a tool of financial inclusion for underserved communities.

Figure 1

Hawala vs. Formal Banking Share in KRG (2015-2025)

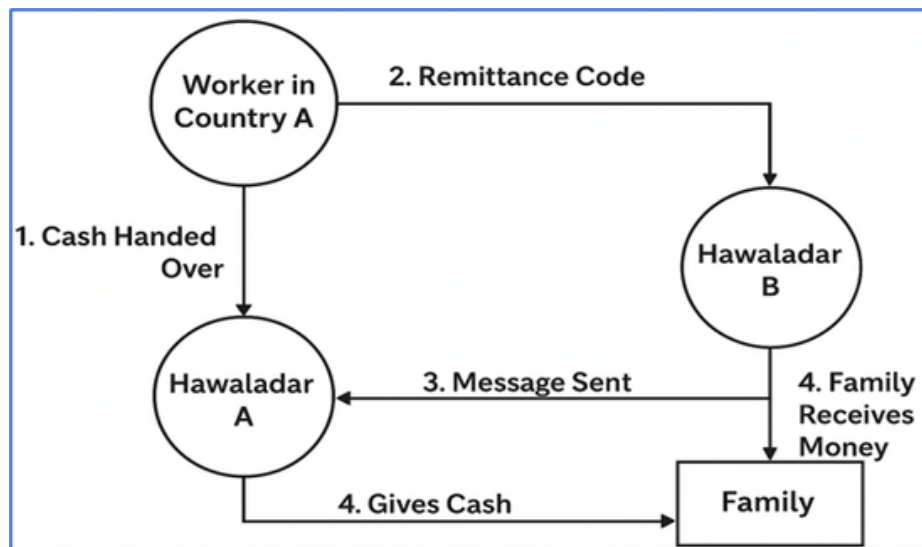


From 2015, a study (Figure 1) determined that the Hawala share has progressively decreased from approximately 70% in 2015 to 60% in 2025, while the formal banking channel share increased from 30% to 40%. This information indicates that the money transfer market is shifting towards official channels, which is likely due to improved banking systems, increased trust in banks, and enhanced government regulation of Hawala, an informal and often unregulated transfer system. Informal Transfer Systems (IFTs) like Hawala and online money transfer services (PayPal) are still globally relevant and useful due to cheap and often instantaneous access (Chang-Ryung Han & Ireland, 2013). IFTs are also important for remittances by migrants, who often serve as central actors in IFTs as diaspora communities in wealthy regions such as the GCC, Europe, and North America, originating from the Middle East, South Asia, and East Africa (Ecubay & Kilimvi, 2023).

Hawala is still popular because it keeps things private, uses culturally familiar transference systems, and often serves areas that traditional banks don't reach (Abdul, 2017). Because they are informal, IFTs are often not well documented. Even though rules have gotten better, IFTs can still be used for illegal things like money laundering and funding terrorist activities, which has made regulators worried (Cook & Smith, 2011; Chang-Ryung Han & Ireland, 2013). As they try to balance the risks of Hawala and its role as an important financial service, Iraqi and Kurdistan authorities need better laws that protect consumers without making it harder for them to access important funds (Ecubay & Kilimvi, 2023; Abdul, 2017).

Figure 2

Process an Informal Hawala Transaction



The worker from country A visits a local remittance office and hands over the amount he wants to remit, as shown above (Figure 2). The office then provides him with a confidential code for the transfer. The code and necessary details are emailed or phoned by the remittance office in country A to the remittance office in country B, and the family of the worker goes into the local remittance office, and the money is handed over with the code.

2. Legal and Regulatory Framework

2.1 Formal vs. Informal Financial Systems

Formal and informal financial systems cohabit and often complement each other in developing countries. Informal finance, established in relationships, reliability, and cultural reciprocity, can sometimes surpass formal credit systems in supporting SMEs and rural communities by mitigating issues such as asymmetric information and loan defaults (Mauri, 2000; Abdelzaher, 2019; Ji, 2009). Moneylenders, pawnbrokers, and mutual associations serve as exemplars of informal operators (Mauri, 2000).

Formal financial systems are regulated by established legal frameworks that ensure oversight and consumer protection via licensing, transparency, and adherence to regulations, including Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) measures. Informal systems like Hawala, on the other hand, operate largely beyond formal regulation, depending on trust relationships and little documentation. They provide flexibility and competitive pricing; however, they lack transparency. In underserved regions, informal systems fill the voids created by formal sectors; however, due to insufficient oversight, they pose risks related to illicit activities (Mauri, 2000).

Table 1

Comparison of Formal and Informal Financial Systems

Criterion	Formal Financial Systems	Informal Financial Systems (e.g., Hawala)
Regulation & Oversight	Licensed, supervised, and compliant with AML/CTF regulations	Not fully regulated, based on trust; 21 participants support full oversight, 14 partials, 11 disagree
Transparency	High (documentation, reporting)	Low (minimal paperwork); 22 participants suggested adopting digital transparency standards
Cost & Speed	Higher fees, slower procedures	Lower fees, faster transfers; 36 participants mentioned speed, 17 mentioned low cost
Accessibility	Limited in rural or underserved areas	Widely accessible, even without banks; digital facilities available through modern apps
Risk Level	Lower, but with bureaucratic barriers	Higher, prone to misuse; main risks: money laundering/smuggling (23), tax evasion (16), informal group management (8), economic harm (7)
Examples	Banks, microfinance institutions	Hawala, moneylenders, pawnbrokers
User Knowledge	-	50 participants: 23 high knowledge, 17 medium, 7 low, 3 partial knowledge
Main Reasons for Use	-	Speed (36), lower fees/costs (17), lack of trust in official banks (17), personal trust (15), and other reasons, such as privacy and ease of access (5)
Integration & Regulation Opinions	-	Most participants (46) support integrating Hawala into formal regulatory frameworks; proposals: direct central bank supervision (18), digital transparency standards (22), office/staff authorisation (4)
Role of Government Authorities	-	Low role according to 16 participants, present according to 13, absent according to 11; responsible authorities: Central Bank (25), Ministry of Finance (12), Hawala institutions (10), universities/research institutes (2)
Economic Impact	-	Significant impact according to 21 participants, moderate 10, no impact 9; support for small projects: yes 28, no 12
Proposals to Improve the System	-	Enact a specific law for Hawala (36), grant official authorisation (17), strengthen security oversight (15), raise awareness (14), employ/train staff (9), establish a national database (10)

2.2 Regulatory Frameworks

Law No. 39 of 2015 and supervisory procedures are two important tools the Central Bank of Iraq (CBI) uses to fight money laundering; however, political unpredictability and a lack of transparency make it difficult to enforce these laws effectively (Al Rubaie, 2024; Abdullah, 2025). The hazardous potential for financial abuse that informal Hawala systems face in the Middle East and South Asia creates serious regulatory challenges (El Qorchi et al, 2003). In Iraq, Hawala regulations are very primitive and do not even benefit from any occupational license or oversight in the Kurdistan Region (KRG) (Pathak, 2003). This lack of regulation creates challenges for enforcement actions designed to prevent illegal acts while following the rules with respect to money laundering and terrorist financing, and heightened risks of minimal transparency and vague laws. A challenge of supervision unique to Hawala is the decentralised and socially accountable methods these informal systems utilize. Political fragmentation, security issues, and institutional capacity are additional burdens to any policy designed to regulate Hawala. Ehrich (2010), Abdullah (2025), and Pathak (2003) recommend developing culturally based institutional alternatives to informal social networks; implementing reporting regulations; improving investigation; and improving coordination measures internationally.

2.3 International Legal Perspectives & Difficulties for Regulators

A range of international organisations, including those that are reviewing details in regard to informal financial systems, such as Hawala, have produced procedures and guidance that could assist in reducing risks related to illicit financial flows. Overall, the Financial Action Task Force (FATF) is arguably the most dominant framework, as it is an intergovernmental organisation tasked with combating money laundering, terrorist financing, and other threats to the integrity of the international financial system (Al Rubaie, 2024; Abdullah, 2025). As efforts to combat money laundering and terrorism financing continue to grow internationally, Informal Fund Transfer (IFT) systems, such as Hawala, are receiving increased scrutiny. Regulatory frameworks present unique challenges since these systems are based on deeply rooted cultural beliefs and cross-border, often anonymous communications. While a global regulatory framework is unlikely due to different legal, economic, and social conditions in different countries, Hawala is illegal in some jurisdictions, so at least the regulation is a legally and politically complex conundrum. In other jurisdictions, laws that may be too stringent may drive the practice into the underground market, making regulation harder. Attempts to establish some form of regulation in the system, without derailing its ability to be a functional alternative channel, often advocate a more pragmatic course, such as licensing or registering Hawaladars. In an informal sense, regulations can never reduce the demand for Hawala. Some significant and viable contributors to continuity of use for Hawala are the costs of doing business in the formal financial sector, limited access to financial services, and bureaucratic inefficiency. Lastly, long-term solutions should consider any effort to strengthen formal banking systems to create competitive alternatives to Hawala networks, primarily through lower-cost financial transactions, access to financial services, and trust in transactions (El Qorchi, 2003).

3. Security and Socioeconomic Impacts

3.1 Advantages of Hawala in the Kurdistan Region of Iraq (KRG)

The Hawala system remains a vital financing tool in the Kurdistan Region of Iraq, despite concerns about potential misuse, especially given the financial turmoil caused by regional conflicts (Lina Abdullah Said Abdullah et al., 2015; Dina Shehata et al., 2021). Survey results from 50 participants indicate that the system is widely known, with 23 reporting high knowledge, 17 medium, 7 low, and 3 partial knowledge. Key advantages include:

1. Convenience and speed: 36 respondents mentioned that Hawala is quicker than the normal commercial bank procedure, which is crucial for respondents in an emergency.
2. Accessibility: Hawala is accessible to individuals living in rural and remote areas where there are generally few, if any, banking facilities.
3. Low cost: 17 participants indicated that the transaction fees associated with Hawala were cheaper than those in transactions with formal banking means.
4. Cultural and social integration: The network relied on ethnic identity or networks of community, which created trust among the people who were sending and receiving the money.
5. Flexibility: Hawala is not Standardised and can provide more informal credit that is not regulated or is conducted in a context of conflict.
6. Privacy and confidentiality: The payor is not named in the transaction, and the identity is unknown.
7. Get around banking controls: Hawala does not depend on formal transfer bans or controls.

Local, regional, and international connections: Networks connect the Kurdistan Region to its neighborhood and other markets worldwide.

Survey quotes provide further evidence of these benefits. One individual stated, "During the floods last year, the Hawala transfers were completed in hours, while the banks had been shut for days." Another noted, "Even in remote villages away from the city, we can send and receive money in a matter of hours and at a low cost."

3.2 Risks and Threats Associated with Hawala

The informal nature of Hawala, although having some benefits, also has some challenges in the Kurdistan Region. The survey information and empirical field observations of the risk are as follows:

1. No code and documentation: With very little coding and even less documentation around, it compounds the audit process to work out where the money has gone. As one respondent put it, "There are no receipts to show where the money is going."
2. Money laundering: The secrecy of the system could facilitate Hawala networks pushing illicit money.
3. Funding of suspect individuals and noncontrolled groups: 32 respondents reported that there is the possibility of noncontrolled groups receiving funds in conflict-abusive areas (Al-Qurashi et al., 2003).
4. Corruption and black-market trading: Hawala facilitates bribes or other corrupt payments, black-market trading, and smuggling.
5. Regulation circumvention: Operating outside the formal banking sector means doing anti-money laundering and anti-terrorism measures become just that bit more difficult.
6. No legal recourse/dispute resolution: When there are informal agreements and informal structures, it complicates the situation when disputes arise.

Several quotes from survey responses confirm these findings: "We hear sometimes of money getting sent to groups nobody knows, or can monitor," and "if there is a dispute, there is no formal way to get your money back". The functional or present story data captured during field research, along with the literature, leads to a more balanced evidential perspective of Hawala in the KRG.

3.3 Economic Implications of Hawala Use in Iraq and KRG

Despite operating informally, Hawala's macroeconomic implications could prove difficult to measure in monetary terms. While Hawala systems operate outside of the formal economic structure, they have a large impact on fiscal revenue, monetary control, and regulatory practices (Mohammad al-Qurashi et al., 2003). By working outside the formal banking system, Hawala clearly and willfully changes the money supply. Estimates, tax revenue diminish, and net cash (or non-fiscal) flows increase. It is reasonable to suggest that globally, this 'non-traceable' consumption and economic activity exists in billions of dollars and has quantifiable and measurable linkages to tax evasion, capital flight, and informal economy (Adrian & Shin, 2010). In the case of the Kurdistan Region of Iraq, the imprints of political and economic fragility are well absorbed (Hashmati & Khayat, 2012).

The massive wave of economic expansion post-2003 was stunted mostly by the economic collapse (Fallout of the ISIS crisis), restricted income from the Iraqi Government (reduction of fiscal transfers), and the decline of oil market prices (Sommer & Joseph, 2018). The independent referendums of 2017 and the measures to conduct oil shipments provided challenges to a rapidly established state heavily dependent on unconventional forms of transferring oil across borders (Sommer & Joseph, 2018). At least a majority of the KRI's economic activity takes the form of an increasingly institutionalised and controlled Hawala system that, in many situations, eclipses the formal banking system and its development (Gunningham, 2019).

Based on these dynamics, the anticipated economic consequences of Hawala in the Kurdistan Region include:

1. Undermining formal banking contracts, the formal money supply was constricted by credit and financial development.
2. Undermining monetary authority, weakening the ability to supervise capital flows and the money supply.
3. Reducing public revenue through untaxed transactions.
4. Excluding users from regulated financial protection.
5. Increasing economic vulnerability during crises due to a lack of transparency.
6. Influencing exchange rates via unregulated currency flows

4. Methodology

The current research employed a qualitative study approach and sought to gain a deeper understanding of the operation of the Hawala system in the Kurdistan Region of Iraq and the context in which those engaged with Hawala interact with the system. The data to answer the research questions were collected via semi-structured interviews with a diversity of stakeholders, including:

1. Hawala intermediaries: to understand their processes of working, the challenges they face, and their motivations for using Hawala.
2. Local regulatory authority, government official: to understand the current regulating framework and what challenges they face in implementing regulations.
3. Financial sector representatives: to understand the relationship between the two forms of finance, formal and informal.
4. Trading companies: to understand how Hawala transactions and commercial activity, like the commercial movement of goods and services, exist alongside each other.
5. In-depth interviews were conducted with private customers who had recently used the Hawala system to seek their experiences, reasons, and perceptions of the benefits and disadvantages of the non-bank remittance channel.

The interviews were largely aimed at gaining insights into the nature of stakeholder views on the issues of regulation, security, and economic implications in relation to Hawala activity, as well as the pragmatics of operation. Observational data were also collected from Hawala offices and other informal money transfer settings, which provided a context for understanding.

4.1. Research Design and Data Analysis:

To get relevant participants, the sampling method, purposive sampling, was used to select informants with experience and knowledge in the system and from a diverse range of stakeholders. Interviews were conducted, recorded, transcribed, and coded thematically to identify consistent patterns and themes of importance surrounding regulators, economics, and security. Data analysis was an iterative process and allowed for each subsequent interview to be informed by prior interview insights that shaped the study's understanding of the system of operations.

4.2. Ethical Considerations:

The participants gave informed consent to conduct interviews; it was made clear to the participants that their responses would be confidential and that they would remain anonymous. Sensitive information as to the identity of the participants themselves, and regarding the transactions (esp. the part involved), was kept to a minimum. The researcher had to make a trade-off between being transparent and ensuring the safety of the participants who operate in an informal financial environment.

5. Survey on the Hawala System in Kurdistan

Based on 50 respondents representing diverse backgrounds and educational levels, knowledge, use, and attitudes to the informal Hawala system (or 'cash-based system') in the Kurdistan Region of Iraq were studied within the field survey. The data collection also focused on regulatory, security, technological, and economic aspects, which allowed us to gather relevant information on challenges (or obstacles) and risks, along with possible solutions or enhancements for the informal Hawala system.

Table 2
Academic Qualifications of the Participants

Academic Qualification	No.
Diploma or Bachelor's degree	32
Master's degree	9
Primary	2
Secondary	4
Preparatory	3

As the table indicates, most participants possess a diploma or bachelor's degree (32), with a master's degree (9). Those with Primary were 2, Secondary were 4, and Preparatory were 3 for a total of 50 participants.

Table 3
Type of Workplace of Participants

Type of Workplace	No.
Company	23
Academic / Researcher	6
Bank	11
Citizen (Individual)	3
Money Transfer Office	7

The table regarding the type of workplace indicates that most participants worked in companies (23), followed by banks (11), money transfer offices (7), academics/researchers (6), and individual citizens (3). The total number of participants was 50.

Table 4
Background of Participants on the Hawala System

Level of Knowledge of the Traditional Hawala System	Number
High	23
Medium	17
Low	7
Limited / Partial	3

The survey results regarding participants' knowledge of the traditional Hawala system indicate that 23 participants have high knowledge, 17 medium, 7 low, and 3 limited or partial knowledge, making a total of 50 participants.

Table 5
Reasons to Prefer the Informal Hawala System

Main Reason	Number	Additional Notes
Speed of transfer	36	Transfers are faster compared to government and private banks
Lower fees / lower cost	17	Costs are lower than the official banking system
Personal trust	15	Some people trust acquaintances more than banks
Lack of trust in the official banking system	17	Due to bank restrictions, lengthy official procedures, or the closure of some banks
Other reasons	5	Privacy protection, ease for people without a bank account, transactions outside working hours, and mitigating banking restrictions

The reasons to utilize the informal Hawala system include speed of transfer, with 36 selections, lower fees/costs (17), lack of trust in the official banking system (17), and trust on a personal basis (15). Some reasons, such as the protection of privacy, make it easy for people with no bank account to buy and send money outside the hours of banking, were selected 5 times.

Table 6
Questions Regarding the Hawala System Monitoring Program

Question	Option	No.	Notes / Examples of Obstacles
1. Do you think there should be full oversight of informal Hawala institutions?	Yes	21	Some participants mentioned issues with transfer speed, official registration, and coordination with security authorities
	No	11	Some believe the system operates without major problems
	Partial / Limited	14	Oversight is weak or limited
2. Do you support integrating these systems into the formal regulatory framework?	Yes	46	The majority support integration within a legal framework
	No	3	Some participants do not agree with integration
3. What are the main obstacles from your perspective?	Lack of a clear law	28	The most frequently mentioned obstacle
	Weak oversight	15	Weak monitoring of financial activities
	Lack of coordination with security authorities	7	Some participants noted difficulty coordinating with security

The survey results regarding the regulatory aspect indicate that 21 participants believe full oversight of informal Hawala institutions is necessary, while 14 think oversight should be partial or limited, and 11 consider it unnecessary. Regarding support for integrating these systems into the formal regulatory framework, the vast majority of 46 participants expressed support, compared to 3 opponents. Regarding the main obstacles, 28 participants cited the lack of clear laws, 15 mentioned weak oversight, and 7 noted a lack of coordination with security authorities.

Table 7
Questions Regarding the Illegal Use of the Hawala System

Question	Option	Number	Notes / Examples of Risks
1. Do you think the Hawala system can be used for illegal purposes?	Yes	32	Some participants mentioned potential illegal use, such as tax evasion or illegal financing
	No	8	Some believe the system is not used for illegal purposes
	I don't know	4	Some participants had no specific opinion
2. What are the main security risks associated with informal Hawala?	Money laundering/smuggling	23	The most frequently mentioned risk
	Tax evasion	16	A commonly cited risk
	Harm to the economy	7	Some participants noted negative economic impacts
	Management of informal groups	8	Risk linked to organising transfers outside the official system

The survey results indicate that most participants, 32 in total, believe the Hawala system could be used for illegal purposes, while 8 think it is not used for such purposes, and 4 had no specific opinion. The main security risks associated with informal Hawala were money laundering and smuggling (23), tax evasion (16), management of informal groups (8), and harm to the economy (7 participants).

Table 8

Questions Regarding the Integration of the Hawala System with the Formal System

Question	Option / Method	No.	Notes / Examples
1. Do you think it is possible to integrate Hawala with a formal banking system without affecting ease of use?	Yes	40	Most participants believe integration is possible while maintaining ease of use if there is central supervision and a clear structure
	No	6	Some participants believe integration may complicate the process and reduce system flexibility
2. What are the proposed methods for integrating Hawala with a formal financial system?	Direct central bank supervision	18	Linking Hawala to the official banking system under central oversight to ensure transparency
	Adoption of transparency standards (online)	22	Providing clear conditions for disclosure and online transactions
	Office/staff authorisation	4	Supervision at the institutional level to facilitate transactions

The survey results indicate that most participants, 40 in total, believe it is possible to integrate the Hawala system with the formal banking system without affecting ease of use, while 6 think integration may reduce system flexibility. The proposed methods for integration included direct central bank supervision (18), adoption of online transparency standards (22), and office or staff authorisation (4 participants).

Table 9

Participants' Opinion on the Role of Technology and Digitalisation on the Hawala System

Questions	Answers/Notes
1. Could digital remittances become a part of remittance systems?	Yes, while the vast majority think that these digital transfers are making the systems better and clearer, many highlight implementation challenges.
2. Do the institutions that help transfer money these days have apps or high technology?	Yes, some banks do leverage new apps and digital technologies to help transfers work too.
3. What are some of the big challenges in using technology in this area?	<ol style="list-style-type: none"> 1. Some customers tend to be digitally off the grid. 2. Lack of reliance in some of the services. 3. Electronic documentation and papers. 4. Bad services or delayed transfer processing. 5. Some transfers are being refused with no explanation. 6. Failure to provide services in local languages.
4. Will electronic identity verification (e-KYC) help to enhance remittance systems?	Yes, it is safer to authenticate a customer using e-KYC, and it minimizes the risk of the transaction.
5. What are the primary challenges customers encounter with banks in relation to remittances?	<ol style="list-style-type: none"> 1. Loss of faith and trust. 2. Lack of digital awareness. 3. The quality of service is bad, and transfers are always delayed. 4. Some transfers were denied for no specified reason.

The survey results indicate that most participants believe digital transformation can help regulate Hawala and increase transparency, although some challenges exist in its implementation. Some institutions are already using digital applications and technologies to facilitate transfers. The challenges presented primarily include a lack of digital awareness, weak trust and credibility, issues with electronic documentation, and delays/denials in transfers. Overall, while participants mentioned that using electronic means provided some regulatory services and mitigated risks (e.g., electronic identity verification (e-KYC)), clients faced issues with trust, quality of service, documentation, and language when dealing with banks.

Table 10
Suggested Actions to Improve the Hawala System

No.	Actions / Options	Explanation
1	Simplify procedures	Simplify the Hawala process to become more client-friendly
2	Reduce fees	Drop prices or create special discounts for more business
3	Provide easy digital services	Transfer money online or via application fast and securely.
4	Open branches in remote areas	Add locations for service to clients from underserved areas
5	Collaborating with Hawala institutions	Form alliances and cooperate with relevant authorities to ensure legal operation
6	Additional/other options	Any new facilitations that would make the platform more appealing to clients

The survey findings show that banks can make Hawala services more attractive by improving procedures, lowering fees, making digital services accessible, opening branches in remote locations, partnering with Hawala institutions, and exploring other creative options or improvements aimed at making things more convenient for clients and strengthening their potential to attract additional clients.

Table 11

Role of Authorities in Regulation of the Hawala System

Axis / Question	Option	No.
Question 7: Role of government authorities in regulating Hawala	Low	16
	Yes	13
	No	11
Responsible authorities	Central Bank	25
	Ministry of Finance	12
	Universities and research institutes	2
	Hawala institutions themselves	10
Question 8: Impact of Hawala on the local economy	Yes, significant impact	21
	Moderate impact	10
	No impact	9
Impact of Hawala on supporting small projects	Yes	28
	No	12

The survey results indicate that the role of government authorities in regulating Hawala was described as low by 16 participants, recognized by 13, and absent according to 11 participants. The responsible authorities mentioned include the Central Bank (25), the Ministry of Finance (12), Hawala institutions themselves (10), and universities and research institutes (2). Regarding the impact of Hawala on the local economy, 21 participants viewed it as significant, 10 as moderate, and 9 as having no effect. Meanwhile, 28 participants noted that Hawala supports small projects, while 12 disagreed.

Table 12
Proposed Measure to Regulate the Hawala System

Proposal	No.
Enact a specific law for Hawala (money transfers)	36
Grant official authorisation	17
Employment and training staff	9
Raise awareness	14
Strengthen security oversight	15
Establish a national database	10

The survey results indicate that most participants, 40 in total, believe it is possible to integrate the Hawala system with the formal banking system without affecting ease of use, while 6 think integration may reduce system flexibility. The proposed methods for integration included direct central bank supervision (18), adoption of online transparency standards (22), and office or staff authorisation (4 participants).

Table 13
Comments of Participants

Type of Comment	No.
The need to regulate the Hawala system with laws and register Hawaladars to protect funds, reduce economic risks, ensure cooperation with official banks, and use technology	3
The system must be legal and official under supervision to reduce risks and enhance support	2
The system should be registered, legal, and under monitoring to minimise risks	1
The need to establish a well-managed and politically neutral administration that operates transparently and serves the public interest, away from partisan interests	3
No additional comments / None	2

The additional observations on the Hawala system highlight an urgent need to regulate the system through laws and register Hawaladars to protect funds, mitigate economic risks, ensure cooperation with banks, and utilize technology (3 participants). Two emphasised that the system must be legal and official under supervision to minimise risks and enhance support. One participant stressed the importance of the system being registered and monitored, while three noted the need for politically neutral and transparent administration that serves the public interest. Two participants provided no additional comments.

6. Conclusion

Field study data from the Kurdistan region indicate that, as a consumer payment system, the informal Hawala system is gaining popularity because of fast transfers, low costs, and good trustworthiness with clients. The dataset illustrates a good degree of consciousness about the traditional system, and while traditional finance customers have markedly different experiences based on personal experience factors such as profession and education level, the sharing of information about monetary exchange balances consumer knowledge at a national level, and is consequently the same story. The participants also noted that institutional oversight relating to Hawala is minimal in the Kurdistan Region. However, the system could potentially connect with formal banking processes if the oversight governing Hawala has adequate monitoring, the procedures are transparent, there are clear lending and borrowing procedures, and authorities approve or endorse digital transparency standards to govern the formalisation of the processes. About issues of financial instrument application, the participants indicated that digital transformation could provide some governance of processes and transparency; notwithstanding this, the consent and confidence of consumers is still on using a digital platform, which remains a challenge, whilst also noting issues of electronic documentation of identity, transfer delays, storage fees, and occasionally refused fund transfers. It was recommended by the authors to use electronic keys to identify customers (e-KYC) to ensure better regulation and reduce risk.

7. Recommendations

From the field survey that was carried out on 50 participants related to the informal Hawala system in the Kurdistan Region, the following recommendations can be presented:

1. Regulatory Measures:

1. Implement full or partial oversight of Hawala institutions under central supervision.
2. Integrate informal Hawala systems within a formal regulatory and legal framework.
3. Enact a specific law for Hawala operations and provide official authorisation.
4. Strengthen security oversight and improve coordination with relevant authorities.

2. Technological and Operational Improvements:

1. Promote transparency and efficiency through digital transformation.
2. Leverage eKYC to lower transaction risks.
3. Start easy-to-use, online transactions.

3. Financial and Service Improvements:

1. Smooth out processes and reduce fees for transferring to attract more customers.
2. Invest in opening additional branches in the underserved market areas.
3. Partner with the Hawala institutions to ensure legal compliance and successful operation.
4. Offer new and improved services for client service.

4. Organizing Capacity and Awareness:

1. Recruit and professionally train staff with expertise in operating a Hawala operation.
2. Increase public awareness about and regulate the use of Hawala, as well as the benefits.
3. Build a database and monitor better data management at the national level.
4. Governance and Administration: Ensure the governance and administration that oversees Hawala is politically neutral, transparent, and in the public interest.
5. Encourage dialogue and cooperation with Hawaladars and formal banks that ensure funds are safeguarded and lessen economic risk.

These recommendations aim to enhance regulation, security, efficiency, and accessibility while mitigating risks and promoting trust in the Hawala system.

Short-term:

1. Simplify banking procedures for using Hawala services.
2. Reduce fees and improve efficiency of digital services.
3. Promote cooperation between banks and Hawala institutions.
4. Increase awareness and trust in digital platforms among users.

Medium-term:

1. Expand bank branches and Hawala services to remote regions.
2. Delivering new improvements to ease convenience for clients and drive new customers.
3. Develop clear frameworks of public and private partnerships for Hawala Institutions (HIs) and banks.
4. Develop the commencement of e-KYC enhancements in the regulation process.

Long-term:

1. Legally and officially regulate the Hawala system based on conscious control and political neutrality.
2. Consistently document management, as appropriate mechanisms, will defend funds and lower the economic risk.
3. Facilitate enhanced cooperation with government (Central Bank, Ministry of Finance), Hawala institutions, and academic research bodies.
4. Exploit technology fully to enhance transparency, efficiency, and the overall performance of financial operations.

In conclusion, following these steps in a phased approach can help maximise the benefits of the Hawala system for consumers, banks, and the local economy, while mitigating risks and improving regulatory oversight.

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