

The Iraqi Islamic Financial Institutions and Anti-Money Laundering Regulation

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Abstract

Money laundering represents a persistent challenge to Iraq's financial system, especially for Islamic financial institutions, as it undermines public confidence and institutional integrity. The Central Bank of Iraq (CBI) oversees Islamic banks and enforces the Anti-Money Laundering and Counter-Terrorism Financing Law No. 39 of 2015 to address this issue. Despite ongoing efforts to shift from cash to electronic payments, money laundering remains prevalent due to Iraq's limited adoption of digital transactions. This study employs a qualitative and analytical research design to examine money laundering issues within Iraqi Islamic financial institutions and to assess the effectiveness of the existing anti-money laundering (AML) framework. The qualitative approach enables an in-depth understanding of how AML laws are implemented and interpreted within Sharia-based banking systems, while also exploring institutional challenges and the interaction between Islamic jurisprudence and modern financial regulation. Data are collected from primary and secondary sources, including relevant laws, CBI regulations, and guidelines from AAOIFI and IFSB, as well as academic and institutional publications. Using qualitative content and comparative legal analysis, the study identifies gaps in Iraq's AML framework and evaluates its alignment with international standards, drawing insights from more developed Islamic finance systems such as Malaysia and Saudi Arabia. The findings emphasize the need for greater awareness, tailored preventive mechanisms, and enhanced compliance measures to strengthen the integrity and resilience of Iraq's Islamic financial institutions against money laundering threats.

Keywords: Iraqi Islamic Financial Institutions, Anti-Money Laundering, The Central Bank of Iraq, Legal and Regulatory Approach.

Introduction

Islamic financial institutions conduct financial operations based on Islamic jurisprudence (*Sharia*). Islamic financial institutions operate in many Muslim and non-Muslim countries, including the Middle East and Southeast Asia, Sub-Saharan Africa, and Central Asia, and play an important role in many jurisdictions and regions (IMF 2017a; Kammer and others 2015). Islamic financial institutions are part of the modern financial system and are subject to the same financial and economic laws as traditional financial market participants. In practice, the role of Islamic finance is increasing every year. Consider some of the reasons for this phenomenon (Srebnik, 2010). In Iraq, Islamic financial institutions play an important role in developing the financial sector. Several Islamic financial institutions in the country are working under the supervision of the Central Bank of Iraq (CBI). The Iraqi government attempts to control money laundering by Islamic financial institutions through some laws and regulations. The Iraqi Anti-Money Laundering and Counter-Terrorism Financing Law 2015 is the main act to control money laundering in the country. In addition, the Islamic Banking Law 2015 is another act in Iraq to reduce money laundering in Iraq. However, anti-money laundering (AML) is still a critical issue in Iraq due to several reasons, such as the weakening of the Islamic financial institutions, political issues in Iraq, and corruption. In this case, the Iraqi government attempted to control money laundering by using some methods, such as opening training courses for Islamic financial institutions and adopting international standards.

The purpose of this paper is to find out the reasons for money laundering in Iraqi Islamic financial institutions and then find out the forms of money laundering in Iraq. In addition, finding methods for resolving money laundering in the Islamic financial institutions in Iraq. It is worth mentioning here that the qualitative method is applied for this study, as qualitative research is a proper method for conducting this type of research. In this paper, both primary and secondary resources are part of the data collection. Hence, Acts, related books, and academic journals are part of this research's data collection. In addition, it is found that money laundering in Iraqi Islamic financial institutions affects the industry. Therefore, the Iraqi government should take some steps to AML of Islamic financial institutions, such as public awareness and cooperation with related international organizations. In addition, monitoring the Islamic financial institutions by the CBI could be a significant method.

Method

The study adopts a qualitative and analytical research design to examine money laundering issues of Islamic financial institutions in Iraq. Hence, the study assesses the efficiency of the current AML framework in Iraq. In this context, the qualitative approach enables an in-depth understanding of how AML laws are implemented and interpreted according to the Sharia-based banking systems. Furthermore, the study allows the researcher to explore institutional challenges and

the interaction between Islamic jurisprudence and modern financial laws and regulations.

Data collection relies on both primary and secondary sources. Thus, the data collection for this study includes laws and regulations, comprising the Anti-Money Laundering and Counter-Terrorism Financing Law (2015), the Islamic Banking Law (2015), the Central Bank of Iraq's regulatory frameworks, and reports from the guidelines of the AAOIFI and IFSB. Relevant academic books, journal articles, and institutional publications are also part of the data collection to provide a comprehensive view of AML practices and Sharia compliance.

The study follows qualitative content and comparative legal analysis to find gaps in Iraq's AML system and evaluate its consistency with international standards of AAOIFI and IFSB. Comparative insights are drawn from countries with advanced Islamic financial systems, such as Malaysia and Saudi Arabia, to highlight possible reform directions.

Discussion

Islamic Financial System of Iraq

The Islamic financial system of Iraq mostly depends on Islamic banks, which have a crucial role in developing the country's economic sector. The banking industry started operating in 1993, and the first Islamic bank was the Iraqi Islamic Bank. (Safwan Q. A. and Iman H. O. 2019). Currently, thirty-one Islamic banks in Iraq operate under the supervision of the CBI. A special act for the Islamic banks in Iraq was enacted in 2015, which is the Islamic Bank Law 2015. Islamic banks in Iraq provide several services, such as *Musharaka*, *Mudharaba*, and *Murabaha*. (CIBIQ 2025) The laws that are applied to Islamic banks are the Central Bank of Iraq Law No. 56 of 2004, the Banking Law No. 94 of 2004, and the Islamic Bank Law of 2015. (IIB 2021). The main issue of Islamic banks in Iraq is trust. Iraqi people do not trust banks in general and Islamic banks in particular. Due to the lack of awareness, the public in Iraq does not deposit widely in Islamic banks. In addition, due to the lack of information about the Islamic banking system, people in Iraq avoid dealing with Islamic banks. Most people believe that Islamic banks operate the same as conventional banks. However, Islamic banks should follow the rules and regulations that are applied to them by the CBI. Moreover, each Islamic bank in Iraq should have its own Sharia supervisory committee. The committee's responsibility is to ensure these banks operate according to the Sharia principles. (Salh and Hyland, 2021). Therefore, there is a significant difference between Islamic banks and conventional banks. Thus, Islamic banks in Iraq have their liabilities toward their customers and the public to show that the transactions are run according to the Sharia principles.

The Islamic banking sector in Iraq is governed by the CBI, which is the only regulator and supervisor of the country's banking sector. All banking institutions in Iraq are subject to the same rules and regulations. (Suad A. 2010) The CBI's

authority was invested by law through the CBI Law 2004, which came into effect in March 2004. (Robert L. 2005) The CBI Law 2004 provided the CBI with several functions, such as establishing, supervising, and promoting an effective payment system. Furthermore, the CBI is also responsible for regulating Iraq's monetary policy and exchange rate policy, which are considered the most important elements in the country's economy. Moreover, this body functions to license and supervise all banks in Iraq, conventional and Islamic banks, according to the licensing instructions of the Banking Law 2004. It is also the CBI's responsibility to be an agent for the government to perform financial operations as necessary and according to the economic situation. (CBI 205)

Money Laundering

Money laundering is considered a crime according to the current laws and regulations in the world. This crime has recently received attention from all over the world, and all governments are attempting to control it. Many countries enacted AML laws to face money laundering in their countries. However, controlling this crime is not easy due to the development of technology and digital coins. Money laundering is considered a serious threat to the national and international financial system. Money laundering crime causes currency instability, inflation, and financial instability in the world. Money laundering is a crime directly linked to the activities of transnational criminal organizations, the number of which cannot be determined with certainty today. (Natasha G. 2020)

Anti-money laundering involves a variety of laws, regulations, and measures designed to prevent the practice of making illicitly gained money from activities such as corruption, terrorism, and fraud that appear to be legitimate. Money laundering seriously threatens the integrity of financial systems, global trade, and national security. Money laundering remains a significant challenge for Iraq, and the crime affects the financial institutions. (K24 2024) Thus, in Iraq, a nation overwhelmed by political instability and corruption, the application of strong AML mechanisms is a critical concern. Here, the researcher focuses on the Islamic financial system of Iraq's current efforts to combat money laundering, evaluating the obstacles faced, the progress achieved, and the necessary steps to improve the framework.

Challenges in Enforcing Anti-Money Laundering Measures in Iraq

Iraq faces several obstacles to successfully implementing the AML initiatives. Several factors affect the Iraqi financial system, including the Islamic financial system. Thus, it is difficult for the Iraqi government to control money laundering through the current financial system. However, the Iraqi government attempts to establish a system for anti-money laundering to reduce the impact of this crime on the financial system in the country. The following are the main forms of money laundering in Iraq:

Political Instability

Current political instability in Iraq, driven by denominationalism and unstable governance, makes establishing long-term, effective AML measures difficult. This instability also deters potential international investors. Although the AML law exists in Iraq, the law is not applied as necessary. The application of the law needs an active authority to monitor all financial institutions in the country. The Iraqi Islamic financial institutions are influenced by the political situation, An Assessment Study of Financial Inclusion in Iraq: Barriers and Prospects (Fadi H. J., 2019), by the many political parties in the country (Bertelsmann Stiftung's Transformation Index (BTI) 2024). Hence, political instability in Iraq is one of the main forms of money laundering in the current situation.

Corruption

Corruption remains a significant challenge, with high-level government officials and business leaders often involved in illegal financial activities that support money laundering. Corruption widely spreads in the public sector in Iraq, including the financial institutions. (Mayamin K. A. Al-dinouri, 2022) The lack of clear, transparent systems for holding these individuals responsible exacerbates the issue. Through corruption, the Islamic institutions in Iraq face money laundering, which affects these institutions and reduces the number of customers of these institutions. Thus, corruption as a part of money laundering impacts the entire financial system of Iraq negatively. Islamic financial institutions should operate their transactions with full transparency. Having a clear, transparent method for Islamic financial institutions could assist these institutions in avoiding corruption.

Lack of Public Awareness and Trust Issues

The public and businesses are widely unaware of the risks of money laundering. This ignorance preserves illegal financial practices and hinders AML efforts. Due to the many issues that Iraqi people face, the public is not aware of money laundering. In addition, the financial system of Iraq, especially the Islamic financial system, is a new sector; people do not have sufficient knowledge about these institutions and their transactions. Furthermore, due to political issues and an unstable situation, the Iraqi people do not trust their banking institutions, nor do they view them as a safe place to shelter their finances (KAPITA, 2022).

Weak Islamic Financial Institutions

According to the World Bank report, the Iraqi financial system is weak due to several reasons, such as transparency and public trust issues. (World Bank, 2023). Iraq's Islamic financial sector is still in its early stages compared to the conventional financial sector, and many Islamic financial institutions lack the capacity and resources to detect and prevent money laundering. Incomplete funding and insufficient staff training hinder the identification of suspicious transactions. The

incomplete Iraqi Islamic Banking Law 2015 is another reason behind the weakness of the Islamic financial institutions in Iraq.

Thus, Iraq's Islamic Banking Law No. (43) of 2015 establishes licensing requirements, defines permitted and prohibited activities, and is under the supervision of the CBI. Despite these positive landscapes, significant weaknesses arise when the law is evaluated through an AML aspect. First, the law emphasizes Sharia compliance and operational standards but gives limited attention to risk-based AML frameworks. Provisions on customer due diligence, suspicious transaction reporting, and enhanced monitoring for high-risk clients are either underdeveloped or delegated broadly to the CBI without detailed guidance. This regulatory gap creates inconsistent implementation across Islamic banks and challenges Iraq's ability to meet international standards such as the Financial Action Task Force (FATF) recommendations. Second, the law lacks a strong mechanism for cooperation between Islamic banks, the CBI, and Iraq's Anti-Money Laundering and Counter-Terrorism Financing Office, which hampers timely intelligence sharing. Third, limited emphasis on compliance technology and staff training contributes to inadequate internal controls in many institutions. Since Islamic banking products, such as *mudarabah*, *murabaha*, and *wakalah*, often involve complex contractual arrangements and multiple intermediaries, the absence of strong AML provisions increases vulnerability to misuse by unlawful performers seeking to ambiguous financial tracks under the appearance of Sharia-compliant structures. Finally, weak enforcement capacity and the absence of significant penalties for noncompliance reduce deterrence. These shortages collectively expose Iraq's Islamic banking sector to reputational and systemic risks, undermining both financial stability and international correspondent relationships. Therefore, strengthening AML obligations, enhancing supervision, and integrating international standards are critical steps for resolving these weaknesses.

Lack of Sharia-Compliant Technical Tools

Iraqi Islamic financial institutions remain hampered by a shortage of Sharia-compliant technical tools for AML monitoring and compliance. Most AML software platforms in Iraq are either introduced from conventional banking sellers or adapted from general compliance tools, creating gaps in screening for Sharia-specific transaction structures such as *murabaha* or *ijara* contracts. Studies from developed Islamic finance markets, particularly Malaysia and Saudi Arabia, highlight the benefits of tailored analytics, including real-time monitoring modules calibrated to Islamic contracts and customer profiles (Alswailem & Saudagar, 2020; FATF, 2018).

Therefore, for Sharia-compliant Islamic institutions in Iraq to move forward, there is a necessity for technical tools tailored to local jurisprudential standards. In addition, better cooperation with scholars to define prohibited transaction patterns and capacity building is also necessary. In this context, both compliance officers and Sharia boards can audit, understand, and verify AML software operations.

Iraq's Legal and Regulatory Approach for Anti-Money Laundering

Owing to the increasing money laundering in the world in general and Iraq especially, Iraq has made considerable efforts to strengthen its legal and regulatory framework for combating money laundering. In 2015, Iraq enacted the Anti-Money Laundering and Counter-Terrorism Financing Law 2015, which provides the basis for undertaking these crimes by international conventions, including those put forth by the FATF, the United Nations, and the World Bank.

The CBI, as the main regulatory authority, supervises AML enforcement in the financial sector, including Islamic financial institutions. The CBI has introduced a set of rules that require financial institutions to conduct proper customer due diligence. (Samah H. Al R. 2024)

Islamic banks are regulated under the Islamic Banking Law 2025, and all Islamic banks operate their transactions according to the current laws and regulations as stated in Article 7 of the Islamic Banking Law 2015:

‘The Islamic Banks established under this law shall be subject to the Central Bank of Iraq Law No. 56 of 2004, Banks Law No. 94 of 2004, Anti-Money Laundering Law No. 93 of 2004 in force, Companies Law No. 21 of 1997 and Public Companies Law No. 22 of 1997 and the International Accounting Standards, Shariah and Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in all cases not provided for in this Law’.

Additionally, Iraq set up a Financial Intelligence Unit (FIU) in 2006, which plays a crucial part in monitoring financial transactions for suspicious activity, assisting in the detection and prosecution of money laundering schemes. The FIU works closely with international bodies like the United Nations Office on Drugs and Crime (UNODC) and the U.S. Department of the Treasury to improve Iraq's AML abilities.

However, despite these legal developments, Iraq's implementation of AML laws is still hindered by systemic corruption, insufficiencies, and a lack of coordination between various government agencies. The main reason for preventing the implementation of AML laws is political issues in Iraq. The competition among political parties in Iraq is a core obstacle to the application of the laws.

The Necessity for Anti-Money Laundering Efforts in Iraq

Money laundering in Iraq is driven by several factors, including the country's determined security issues, widespread corruption, and the involvement of political problems. Financial institutions, especially banks and non-banking financial entities, are often affected by these illegal activities, whether through weak supervision or the active participation of corrupt officials. Iraq's wealth of natural resources, notably its oil reserves, increases the probability that illegal financial

flows will pass through the banking system. Furthermore, there is instability in the country's political situation, as there are several different political parties.

In that regard, establishing active AML strategies is crucial for Iraq's financial sector, as it would help reduce corruption and enhance the nation's financial stability. Additionally, Iraq must align its financial system with international standards, such as those advocated by the FATF, to prevent sanctions and foster a welcoming environment for foreign investment. The Iraqi government, through the Central Bank and the Ministry of Finance, shall monitor the financial institutions, including Islamic banks and conventional banks, to avoid money laundering. The Anti-Money Laundering and Counter-Terrorism Financing Law 2015 shall be applied completely to protect financial institutions from money laundering. The law states that anyone who establishes a shell bank should be punished; that is to prevent financial institutions from money laundering, as is stated in Article 42 of the Anti-Money Laundering and Counter-Terrorism Financing Law:

“Any person who establishes or attempts to establish a shell bank in Iraq shall be punished with imprisonment for no less than three (3) years and a fine of no less than ten million (ID 10,000,000) and up to one hundred million (ID 100,000,000), or either one of both sanctions.”

In addition, the law states that there should be an Anti-Money Laundering and Counter-Terrorism Financing Office in Iraq, as stated in S4 Article 8, ‘An office known as the Anti-Money Laundering and Counter-Financing of Terrorism Office shall be established at the Bank at the level of Public Department.’ The responsibility of this office is to monitor financial institutions and report on transactions suspected of including predicate offenses or linked to money laundering or terrorism financing from reporting entities.

Furthermore, there is a heavy punishment for a person who commits a money laundering crime, as stated in Article 36 of the Anti-Money Laundering and Counter-Terrorism Financing Law.

“Any person who commits a money laundering offense shall be punished by imprisonment for up to 15 years and a fine of no less than the full amount and up to five times the value of the funds that were the objects of the offense.”

Besides the Anti-Money Laundering and Counter-Terrorism Financing Law 2015, the Iraqi Banking Law 2004 also emphasizes money laundering in Article 2, which states that:

“The primary regulatory objective of this law is to maintain confidence in the banking system. Other regulatory objectives include those of promoting public understanding of the banking system by providing appropriate information, maintaining an appropriate degree of protection

for depositors, and helping to reduce financial crime, including fraud, money laundering, and terrorist financing.”

Iraqi Methods for Resolving Money Laundering

However, there are challenges faced by Iraqi financial institutions. Iraq attempts to reduce and resolve the money laundering impact on the economic system. Despite the many challenges, Iraq has initiated several crucial actions to address money laundering in the Islamic financial institutions:

1. Enhancing financial regulations in the country is the most important step for AML in Iraq. In this context, CBI has associated some of its regulations with global standards (Mohammed K. and Osama T. 2023). The CBI introduced customer due diligence guidelines, reporting requirements for suspicious activities, and regular training for financial institutions. In addition, penalties for money laundering crimes have also been strengthened.
2. International cooperation is one of the vital methods for reducing money laundering in the country. Thus, Iraq collaborates with organizations such as the International Monetary Fund (IMF) to improve its AML capabilities. Hence, technical assistance, including opening training courses for the financial staff and regulators, could help strengthen Iraq’s AML framework. The staff and managers of the financial institutions in Iraq can be part of the training courses opened by the IMF or any international organization via the CBI. In this context, countries with developed Islamic financial systems, such as Saudi Arabia or Malaysia, could be the best examples for training Iraqi Islamic financial staff.

In this context, evaluating the situation of Malaysia and Saudi Arabia relating to the AML aspect is crucial. These countries offer valuable standards for assessing Iraq’s AML weaknesses in Islamic banking, particularly in relation to international standards set by FATF and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The Malaysian mutual evaluation reports by FATF and the Asia/Pacific Group on Money Laundering (APG) (2015, 2018) confirm that while the country has strong laws and institutional frameworks, challenges remain in operational effectiveness, especially in law enforcement, misuse of non-financial sectors, and beneficial ownership transparency (FATF, 2015; FATF, 2018). Studies on Malaysian Islamic banks also point out that corporate criminal liability provisions (under IFSA 2013) are used to hold institutions accountable, while board oversight, internal audit, and management of Sharia and legal risk remain essential to AML compliance (Yusoff & Hassan, 2022).

Regarding Saudi Arabia, the study “Anti-money laundering systems: a systematic literature review,” by Alsuwailem & Saudagar (2020), examines

AML techniques applied in Saudi contexts and identifies gaps in effectiveness and in the regulation of non-financial businesses and professions. Complementing this, a dissertation, “Financial Institutions in Saudi Arabia: Compliance with Domestic and International Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations” (Reem Makhfor, 2024), discovers how banks in Saudi Arabia comply with legal and international standards, noting generally strong formal compliance but divergence in practical implementation. On the fintech side, “FinTech in Islamic finance literature: A review” (2022) highlights that while areas such as blockchain, peer-to-peer lending, and alternative payment systems are promising, they remain under-regulated and under-researched in many jurisdictions, including Saudi Arabia. These studies from Saudi Arabia and comparatively mature markets show both progress in aligning with global AML standards and persistent challenges, especially in regulatory effectiveness, technology adoption, disclosure, and oversight of “Shariah-compliant” intermediaries. Saudi Arabia’s 2018 FATF Mutual Evaluation showed significant alignment with the FATF Recommendations but also identified gaps, such as in tracing large-scale illicit flows, asset confiscation, and non-financial business regulation (FATF, 2018).

On the standards side, AAOIFI’s role has been widely examined: a systematic literature review by El-Halaby, Aboul-Dahab, & Bin Qoud (2021) shows that while AAOIFI standards offer authoritative guidance on Sharia governance, financial accounting, and auditing, empirical studies on their application in AML contexts remain limited. The FATF Recommendations set out detailed requirements for robust AML/CFT frameworks: preventive measures (CDD, STRs), institutional regulation, beneficial ownership, international cooperation, and risk-based approaches (FATF, 2025).

Positioning Iraq within this global context reveals that while Iraq’s Islamic Banking Law No. (43) 2015 establishes Sharia principles and basic bank regulation, it lacks comparable depth in AML risk assessment, corporate criminal liability, oversight mechanisms, beneficial ownership transparency, and technology or non-financial sector regulation.

Hence, lessons from Malaysia and Saudi Arabia suggest that for Iraq to comply with FATF’s standards and strengthen alignment with AAOIFI, it should develop:

Firstly, stronger statutory AML/CFT obligations specifically tailored to Islamic finance products.

Second, enhanced institutional capacity such as internal audits, board oversight, and Sharia governance boards engaging with AML issues.

Thirdly, clearer rules around transparency of beneficial ownership and risk-based customer profiling.

Fourthly, incorporation of corporate liability and punitive measures.

Thus, these steps, evidenced in Malaysia and Saudi Arabia, would assist Iraq in reducing weaknesses to money laundering in its Islamic banking sector while meeting internationally accepted standards.

3. Anti-money laundering training programs are dynamic methods for preventing Islamic financial institutions from money laundering. In this context, workshops for the government staff, financial institutions, and the public have been launched. (Anti-Money Laundering and Countering Financing of Terrorism Office 2024) The programs and workshops concentrate on identifying suspicious transactions of financial institutions and understanding the risks of money laundering in Iraq.

Recommendations to Strengthen Anti-Money Laundering Efforts in Iraq

There are several ways to strengthen Iraqi AML efforts, including protecting Islamic financial institutions. The following are several recommendations to enhance AML in Iraq.

1. The CBI should oversee Islamic financial institutions in the aspect of corruption. Efforts to fight money laundering cannot succeed without addressing the corruption type. The CBI should prioritize improving transparency, strengthening anti-corruption actions, and holding high-ranking officials accountable for illegal activities of financial institutions. Accordingly, detecting corruption in Islamic financial institutions leads to finding solutions for money laundering in this sector. In this context, establishing a special office to monitor Islamic financial institutions should be the best decision. The office shall consist of professionals and regulators with sufficient knowledge about Islamic finance and money laundering approaches.
2. A public awareness movement is necessary in Iraq, as people in Iraq do not have sufficient information about money laundering and its impact on financial institutions. Therefore, increasing the level of awareness about the risks of money laundering is crucial, especially in the financial sector, including Islamic financial institutions. Educating people and businesses about the risks of money laundering will help build a reliable society. Consequently, Iraqi Islamic financial institutions could provide seminars to educate the public about money laundering.
3. The Iraqi government should continue enhancing the capacity of its financial institutions and regulatory bodies by investing in training and providing resources to improve their ability to detect and combat money laundering. In this context, Islamic financial institutions shall provide money to train their staff and managers to face money laundering. Islamic financial staff should know how to face money laundering, and they should

know the technical methods of AM. Furthermore, there should be heavier penalties for those who commit money laundering crimes.

4. Creating a fully Sharia-compliant technical tool to enhance AML efforts in Iraq should be treated as a priority by the CBI. This tool improves detection and prevention of illicit financial activities. In addition, the tool ensures that the unique operational and jurisprudential aspects of Islamic finance are followed. Hence, the CBI, in cooperation with Islamic financial institutions and expert Sharia scholars, could establish a dedicated supervisory office tasked with designing and monitoring these tools. This office serves as a national center for ensuring that AML mechanisms comply with both global best practices and Islamic legal principles. Furthermore, the development of specialized software capable of screening, flagging, and analyzing suspicious transactions specific to Islamic financial products would be a critical step forward. This software should incorporate parameters reflecting Islamic prohibitions to distinguish legitimate Sharia-compliant operations from illegal movements. Therefore, the CBI will need to train a staff of technical experts in data science, compliance, and Islamic finance who can design, run, and maintain the special office and its systems, ensuring transparency and accuracy in Iraq's Islamic financial sector.

Although money laundering continues to be a significant issue for Iraq, the country has made efforts to improve its legal and regulatory framework to reduce the risk of this crime and has enacted special AML laws. With further steps to strengthen institutions, increase transparency, and block corruption, Iraq can enhance its ability to face money laundering in Islamic financial institutions. Furthermore, Iraq can avoid money laundering by applying global standards and developing international cooperation. Iraq can reduce the risks posed by illegal financial activities to its economy and security with cooperation with global financial organizations such as the IMF and AAOIFI.

Conclusion

Money laundering has a negative impact on the Islamic financial institutions in Iraq. There are many reasons behind money laundering in the financial sector in Iraq. The political issue is one of the most noticeable reasons for money laundering in the country, as there are many political parties. In addition, corruption is another reason for money laundering in Iraq, as corruption widely appears in financial institutions. Lack of public awareness and trust issues are reasons for money laundering in the Iraqi Islamic financial structure. Furthermore, weakened Islamic financial institutions could be a cause for money laundering in Iraq. Thus, these challenges impact Islamic financial institutions in Iraq and hinder the development of the country's economic system. In this context, the Iraqi government attempts to reduce AML by enacting a new law, the Anti-Money Laundering and Counter-Terrorism Financing Law 2015. The Act set a punishment for those who committed

money laundering in Iraq of up to 15 years of imprisonment. In addition, the CBI has associated some of its regulations with global standards to enhance financial institutions in Iraq. Besides, the Iraqi government cooperates with organizations such as the UNODC and the IMF to improve its AML capabilities. Additionally, the CBI, in cooperation with Islamic financial institutions, could open training courses for the staff of the financial institutions to strengthen the ability of the AML mechanism. It is worth mentioning that increasing public awareness about the risks of money laundering is vital, especially in the financial sector. Lastly, Islamic financial institutions should provide sufficient funds to combat money laundering and offer seminars for their customers about AM.

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