



**Illicit Iranian
Financial Flows**

Exploiting Corruption within the Iraqi Banking Sector

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August 30, 2021



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Illicit Iranian Financial Flows was prepared for the International Republican Institute

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Executive Summary

Illicit Iranian Financial Flows (IF2) (pronounced if-two) is an initiative supported by the International Republican Institute (IRI) to explore how Iranian-controlled elements and Shia militia use the Iraqi banking sector to circumvent international sanctions. The project is divided into six parts—three focused on schemes and three focused on perpetrators.

The three reports focused on perpetrators include one identifying the proxy network facilitating IRGC surrogates (The Network); one discussing Iranian-influenced generals in the anti-corruption sphere (The Generals); and one discussing the role of the judiciary in protecting Iranian-controlled elements (The Buy Out).

Evasion techniques employed by Iranian surrogates in the transfer of billions of dollars per week in support of Iranian Revolutionary Guard Corps (IRGC) plans, operations, and proxies. The methods employed by surrogate banks include a complex check-kiting scheme (Flying Checks); foreign exchange rate fraud (Easy Money); and the focus of this report: the exploitation of currency auctions at the Central Bank of Iraq to facilitate invoice fraud (CIBER).

The Al-Huda Centre for Islamic Banking and Economics (CIBE) is headquartered in Pakistan and is deeply ensconced in Iranian surrogate banking. The focus of this report, however, is solely on Al-Huda Bank Baghdad.

The Iraqi Central Bank is the gateway through which Iran uses the banking system in Iraq, Jordan, and Lebanon to launder local currency, convert that currency into U.S. dollars, and deposit the U.S. dollars into formal transfer networks that support Iranian interests and fund the Islamic Revolutionary Guard Corps (IRGC), its affiliates, and proxy forces. This network of banking relationships relies heavily on the international banking transfer messaging system known as SWIFT (The Society for Worldwide Interbank Financial Telecommunication). This allows the banks to transfer money in a secure and standardized way.

One style of Iranian Illicit finance flow uses the daily currency auction held by the Central Bank of Iraq. This approach begins with the presentation of (often falsified) invoices for the importation of goods into Iraq. Thereby allowing the holder of the invoice to convert Iraqi dinar through the Central Bank into U.S. dollars to satisfy the terms of the contract. The conversion takes place, the U.S. dollars are transferred out of Iraq (to Jordan and then Lebanon), and ultimately no goods are imported and the funds are used to support Iranian political and military objectives.

Our investigation centers on the use of Iraqi “private banks” to access the daily currency auction at the Central Bank of Iraq. These private banks serve one purpose, to convert Iraqi

dinar into U.S. dollars for their clients. The Al-Huda Bank, Baghdad, Iraq is central to this process and is profiled in this report.

Background

From an anti-corruption perspective, the most important and lasting event enabling corruption in Iraq today was the *London Conference of Iraqi Opposition* which convened on December 14, 2002. It was at this conference that the nature, structure, and people participating in the post-Saddam government were agreed. Although there were more than 300 people in attendance, a *Group of 6* controlled the agenda and final communiques of the conference¹. Understanding that Iraq was fragmented along religious lines, the opposition wanted to achieve political stability through inclusivity. Consequently, at the behest of the Special Projects Office at the Pentagon, the opposition agreed to create a **consociational**² state known as the **muhasasa system**³.

While a consociational government addressed the interests of national stakeholders, there were regional stakeholders with legitimate concerns which also needed to be addressed. Although many volumes can be written on the Conference, in the end, the major division of power was as follows:

- The Iraq Presidency was reserved for the PUK⁴ faction of the Kurds, subject to assent from the Turkish government.
- The Iraq Prime Minister was reserved for the Shia, subject to assent from the Iranian government.
- The Speaker of Parliament (Council of Representatives - COR) was reserved for the Sunni, subject to assent from the Saudi government.
- The Presidency of the KRG⁵ was reserved for the KDP⁶ faction of the Kurds, subject to assent from the U.S., Turkey, and Iran.

¹ Chalabi, Barzani, Talabani, Hakim, Pachachi, and Al-Yawer

² Encyclopaedia Britannica (accessed July 6th, 2021) <https://www.britannica.com/topic/consociationalism>

³ 'Managing Religious Diversity in the Middle East: The Muhasasa Ta'ifia in Iraq, 2003–2018', London School of Economics and Political Science, (accessed July 6th, 2021) <https://www.lse.ac.uk/middle-east-centre/research/muhasasa-taifia>

⁴ The Patriotic Union of Kurdistan, Encyclopaedia Britannica, (accessed July 6th, 2021) <https://www.britannica.com/topic/Patriotic-Union-of-Kurdistan>

⁵ Kurdistan Regional Government, *ibid.*

⁶ Kurdish Democratic Party, *ibid.*

- Prime Minister of the KRG was reserved to the KDP faction of the Kurds , subject to assent from the U.S., Turkish, and Iranian governments.
- The Deputy Prime Minister of the KRG was reserved for the PUK faction of the Kurds, subject to assent from the U.S., Turkish, and Iranian governments.

Similar allotments were made across the government, providing some element of power to nearly all of Iraq's various national stakeholders. In so doing, a few ministries and senior positions were specifically reserved for certain groups but most positions would be appointed by the Prime Minister and confirmed by the parliament, subject to the assent of certain international stakeholders.

Without enumerating the entire Iraqi government, some of the salient ones include:

- The Ministry of Defense would be selected by the Prime Minister and approved by the COR, subject to assent from the UAE⁷ government.
- The Ministry of Interior would be selected by the Prime Minister and approved by the COR, subject to assent from the Qatari government; and
- The Ministry of Foreign Affairs would be selected by the Prime Minister and approved by the COR, subject to assent from the Jordanian government.

There were some anomalies. The Ministry of Justice, for example, was reserved for Al Fadhila Party who sends the name of their selectee to the Prime Minister. The Prime Minister, in turn, makes the appointment with the consent of the COR and subject to assent from the Iranian government.

In a very, very few instances specific individuals were named. One of these very rare exceptions was Ms. Taif Al-Sami ([Iraq's Graft-Busting Budget Baroness](#)), who has been the General Director of Budget at the Ministry of Finance since 2003 and will remain in that position by agreement of all parties. Taif Al-Sami was originally selected and is supported by the World Bank.

According to some authors, positions within the various ministries are divided based on a quota of 54% to Shia; 24% to Sunni; 18% to Kurds; and 4% to other minorities with Christians having a least one ministry⁸. UNISHKA believes this statistical breakdown to be an example of overfitting, however, we agree to some extent with the underlying premise.

⁷ United Arab Emirates

⁸ Iraq's Adolescent Democracy by Al-Shadeedi & van Veen, June 1, 2020.

Religious Sectarianism vs. Official Religious Discrimination

Although it may be a matter of semantics, prior to 2003 until the present there has been very little **religious sectarianism** within Iraqi society despite perceptions perpetuated by the United States and its allies. However, there has been and continues to be, **official religious discrimination**⁹. This is a subtle but important difference. Religious sectarianism is manifest amongst the people as ‘*excessive attachment to a particular sect*’ (i.e. Sunni or Shia). Sectarianism is a bottom-up problem. In point of fact, however, Iraqis are not any more excessive in their attachment to their religion than U.S. citizens, in many cases even less so. On the other hand, official religious discrimination is the top-down prejudicial treatment of people based on religion.

Since before the Ottoman Empire, Shia shunned participation in government and the military and tended to excel in commerce and trade. However, with the British colonization of the latter 19th and early 20th Century, Shia found themselves subject to economic exploitation. The British, like the Turks before them, had balanced the economic power of the Shia by placing administrative government in the hands of the Sunni. This manifest within the government as official religious discrimination in favor of the Sunni. This system was perfected by Saddam Hussein and the Ba’athist.

The policy developed by the Special Projects Office, sought to counter the official religious discrimination not through the eradication of discrimination, but by giving various factions a share of government and allowing them to discriminate within their respective fiefdoms in favor of their constituency. This perpetuated religious discrimination and resulted in the rise of a new **sectarian elite**. Some of the new elite were anointed to their positions by the United States but had very little public support (e.g. Ahmed Chalabi); while others had massive public support but were completely ignored by the United States (e.g. Moqtada al Sadr).

After the invasion and establishment of Iraqi Reconstruction Management Office (IRMO)¹⁰, immense sums of money were allocated to the various ministries that did not have the infrastructure or capacity to absorb it. Not surprisingly, financial corruption exploded across the country. As the new sectarian elite faced democratic elections, they used their wealth to buy support (clientelism), necessitating ministerial corruption to support their powerbase. Contract fraud underpins most government corruption and provides the resources to fund the

⁹ Discrimination authorized and supported by the government.

¹⁰ Iraq Reconstruction Management Office, Council on Foreign Relations, (accessed July 6th, 2021) <https://www.cfr.org/backgrounder/iraq-reconstruction>

ruling political parties and maintain the cohesion of the elite pact¹¹. Today, this “steal and spend” cycle continues as a primary political pillar of Iraqi politics.

Administrative Corruption

As sectarian appointments were made pursuant to the elite settlement of the London Conference, “Special Grades” were filled through favouritism, nepotism, cronyism, tribalism, and political patronage, in a system known as *wikala*¹². In *wikala*, there is a tacit quid pro quo that the first loyalty is to the network and not the state or people that they are ostensibly representing. The “Special Grades” are directly responsible for government contracting and, thus, contracting fraud. This contract fraud provides the resources to fund the ruling political parties in a cycle of never-ending corruption. Equally as important, pledges to support diversity and inclusion (e.g. gender and religious minorities) is generally disingenuous and made solely to ensure the continued flow of donor funds. Despite *ad hoc* initiatives to address specific manifestations of corruption, there has been no realistic strategic anti-corruption initiative to strengthen the existing kleptocratic consociational government. This has resulted in diminishing security and will eventually pose an existential threat to the Iraqi government (perhaps as early as Q4 2021). Economically, systematic corruption in the Iraqi bureaucracy significantly increases ‘corruption risks’ in **foreign direct investment**. Consequently, countries providing less oversight of their international organizations (i.e. China, Russia, Iran, etc.) can exploit bureaucratic corruption to develop a strategic economic position within the country. Finally, administrative corruption can be (and is) a rallying cry for demagogues who use it for their own political aggrandizement (i.e. Moqtada al Sadr).

Counter Corruption Institutions and Activities

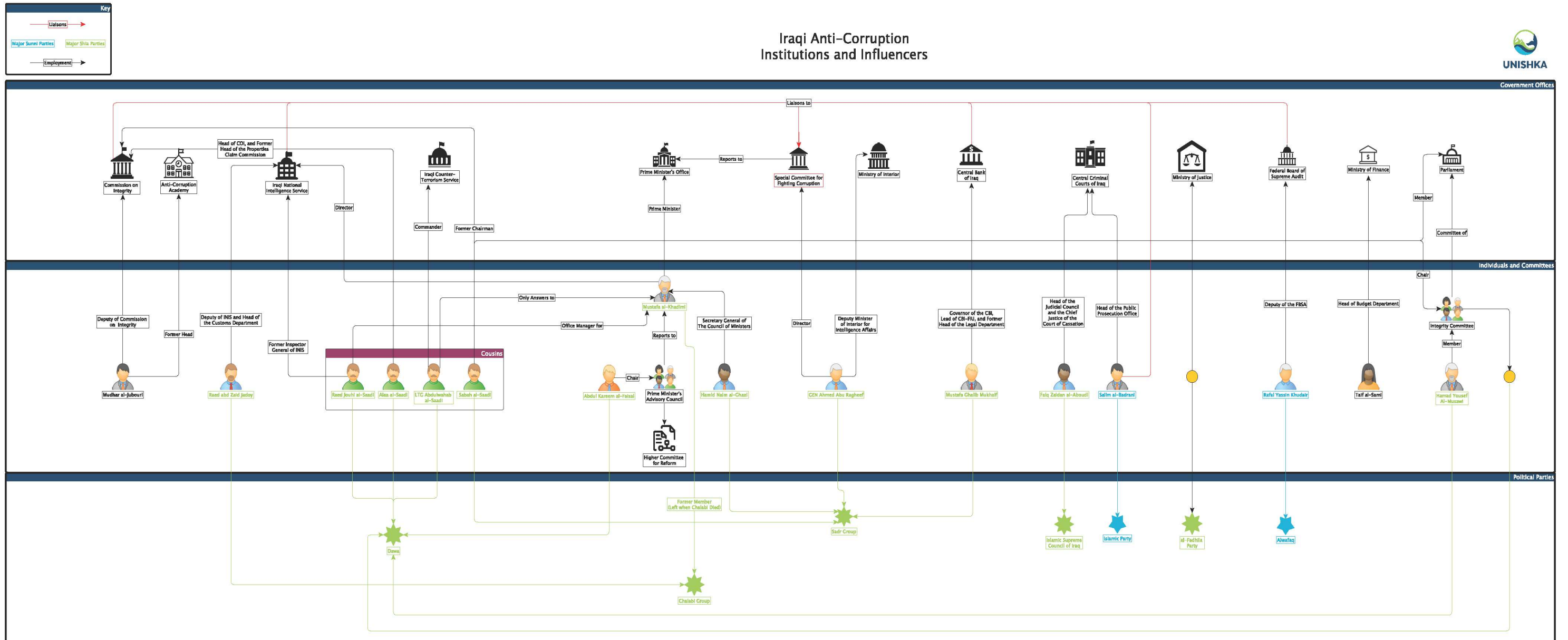
The parochial nature of Iraq’s sectarian elite and the tenuous nature of a consociational government, tends to indulge corrupt actors for fear of upsetting the status quo. Consequently, countering corruption in Iraq is a conundrum requiring deep contextualized knowledge to insure that the cure does not kill the patient. To that end, Iraq has created more than ten organizations to address corruption, all of which have foundered in the face of the sectarian elite.

¹¹ ‘Politically sanctioned corruption and barriers to reform in Iraq’, Chatham House (accessed July 6th, 2021) <https://www.chathamhouse.org/2021/06/politically-sanctioned-corruption-and-barriers-reform-iraq/04-expansion-special-grades>

¹² ‘Politically sanctioned corruption and barriers to reform in Iraq’, Chatham House (accessed July 6th, 2021) <https://www.chathamhouse.org/2021/06/politically-sanctioned-corruption-and-barriers-reform-iraq/04-expansion-special-grades>

From a strategic perspective, the state's current counter-corruption apparatus is highly flawed. It is largely developed around two spheres of power: the al-Saadi cousins and GEN Ahmed Abu Rageef (see Figure 1 below).

Figure 1



Special Committee for Fighting Corruption (The Abu Ragheef Committee)

Created in 2020, the Special Committee for Fighting Corruption (commonly called the Abu Ragheef Committee) has extensive powers to collect evidence, investigate corruption, make arrests, and incarcerate suspects. However, the Committee has some significant challenges. From a rule of law perspective, the Committee was created by Executive Order and not established by law. Perhaps as a result, the Committee is viewed by rival political parties as the ‘iron hand’ of the Prime Minister and not the government. This also creates questions of “legal authority.” Politically, the Committee is perceived as an instrument of the Sadr Group to pave the way for Moqtada al Sadr to win the next election. Thus, the Committee is reviled by most political parties although they are fairly muted in the public forum because the Committee’s immense popularity. Across the political spectrum, the Committee enjoys strong public support and strong media support. One of the primary strengths of the Committee is that it wields the power of the Commander-in-Chief of the armed forces; therefore, it represents all anti-corruption organizations of the Executive Branch.

From an operational perspective, the Committee is headed by GEN Ahmed Taha Hashim (aka Abu Ragheef). General Ragheef is the Deputy Minister of Interior for Intelligence Affairs and sits as the Chairman of the Special Committee for Fighting Corruption. The Committee has five other members including liaisons from the Commission on Integrity, the Central Bank (AML), the Iraqi National Intelligence Service (INIS)¹³, the Federal Board of Supreme Audit (FBSA)¹⁴, and the Public Prosecutors office. Since the Committee can issue administrative search warrants without a judge, Ragheef conducts his collection in a fashion more akin to his intelligence training than law enforcement. Ragheef is not trained on the law; hence, he does not fully appreciate the subtle differences between *information*, *intelligence*, and *evidence*. As a result, much of the information the Committee collects, while true and accurate, is not admissible in court. This was most recently demonstrated with the recent arrest of political luminaries like Deputy Minister of Electricity Raad al-Haris and the Director General of the General Pension Authority Ahmed Al-Saadi. While the Committee provided the court with sufficient information and intelligence to convict in the *court of public opinion*, they did not provide sufficient “evidence” to convict in a court of law. Therefore, charges against both men were dismissed for “lack of evidence.” In fact, of the 32 arrests made by the Committee through

¹³ Iraqi National Intelligence Service, <https://fas.org/irp/world/iraq/inis.pdf>

¹⁴ The Federal Board of Supreme Audit, <https://www.fbsa.gov.iq/en>

July 2021, 29 have been dismissed for insufficient evidence. Obviously, this stirs public emotion in a way that also supports Moqtada al Sadr.

Commission on Integrity (i.e. Federal Commission on Integrity)

Created in 2004 under CPA¹⁵ Order 55 as the Commission on Public Integrity (CPI) and currently known as the Commission on Integrity, the COI is the primary counter-corruption organization in the country. Owing to its longevity, the COI enjoys some significant strengths:

- They operate under the power of law;
- They have the power to recommend changes directly to the COR to amend current laws;
- They have the legal authority to investigate any Iraqi official;
- They enjoy international recognition and support; and,
- They have the support of parliament and the various political parties.

Despite these positive attributes, they suffer from some significant challenges, especially in the areas of technical capacity in relation to Stolen Asset Recovery (StAR)¹⁶, international agreements, and anti-corruption approaches other than law enforcement. Despite its standing as an independent commission, the Commissioner can be removed by the Prime Minister at any time. Other challenges include the fact that the COI cannot issue administrative warrants like the Ragheef Committee and is, therefore, dependent on investigative judges of the Central Criminal Courts of Iraq (CCC-I) for evidence collection. Operationally, the COI is headed by Judge Alaa Al-Saadi (close cousins of Raed Jouhi al-Saadi (Office Manager for the PM and former Inspector General (IG) for MOFA and the INIS); LTG Abdulwahab al-Saadi (Commander, Iraqi Counter-Terrorism Service); and Sabah al-Saadi (Member of Parliament and Chair of the Parliamentary Integrity Committee). These four cousins enjoy a disproportionately large sphere of influence within the anti-corruption arena while simultaneously filling major roles within the Da'wa Party. The Deputy of the COI is Mudhar al-Jubouri, former Head of the Iraq Anti-Corruption Academy and current head the asset recovery initiative. Mr. al-Jubouri came up through the administrative bureaucracy and is politically unaffiliated. The work of the COI is methodical, slow, and subject to degrees of administrative corruption. As a result, the COI does not have significant public support and is generally distrusted.

¹⁵ Coalition Provisional Authority, Encyclopaedia Britannica, <https://www.britannica.com/topic/Coalition-Provisional-Authority>

¹⁶ Stolen Asset Recovery (StAR)

Central Bank of Iraq - AML

The Central Bank of Iraq (CBI) was created in 1947 and was re-established by the Central Bank of Iraq Law issued in 2004. Its stated objective is to achieve domestic price stability and promoting a competitive financial system. Currently, the CBI is headed by Governor Mustafa Ghaleb Mukaif who also heads its Anti-Money laundering (AML) unit. Mukaif, who is supported by the Sadr Group, was appointed as General Counsel in 2008 and elevated to Governor in 2020. As has been the case since its inception, the two greatest challenges within the CBI are: 1) ethically challenged leadership; and 2) weak internal controls. Operationally, the CBI-AML lacks technical capacity as well as organizational capacity, leaving the banking sector weak and undeveloped.

Federal Board of Supreme Audit

Federal Board of Supreme Audit of Iraq (FBSA) had a long distinguished history until Saddam Hussein came to power in 1979. From 1979 until the present, the FBSA has been generally weak and ineffectual but they enjoy both public support and the support of parliament, although they do not have a political party benefactor. The current President of the FBSA is Rafal Yassin Khudair. Organizationally, the FBSA reports directly to the parliament; and, despite claims of independence, the President of the FBSA can be replaced by the Prime Minister. Based on its long existing legal authorities, capabilities, and capacity, the FBSA is perhaps the best positioned organization in the country to identify fraud, waste and abuse of funds including financial corruption. As is required by law, any indication of corruption must be referred to the COI for investigation.

Iraqi National Intelligence Service

The Iraqi National Intelligence Service (INIS) is designed to ensure the security of the Iraqi state and its people by analyzing threats to national security. From an anti-corruption perspective, the INIS focuses on corruption as part of an under-developed **threat finance** program. Prime Minister Mustafa Al-Kadhimi was previously the head of the INIS and remains as its helm although Deputy Raed abd Zaid Jadoy has current operational command.

Central Criminal Courts of Iraq

The Central Criminal Courts of Iraq (CCCI) was established in 2003 and is comprised of two departments: 1) The Felony Court headed by Judge Ahmed Mohamed Khalaf Al-Ameeri; and 2) The Investigation Court which is headed by Judge Ahmed AbdulSada.

Public Prosecutors

Public prosecution office is a branch of the higher Judicial council and represent the Public interests at the courts . The current head of the prosecution office is Judge Salim al-Badrani.

Parliamentary Committee on Integrity

The Parliamentary Committee on Integrity is comprised of 23 MPs whose primary focus is to oversight the various anti-corruption agencies. Owing to the enormous expense associated with political campaigns, the members are part of the **sectarian elite** as discussed above. The committee is chaired by Sabah al-Saadi, who was formerly the head of the Commission on Integrity. Sabah al-Saadi is the fourth Al-Saadi cousin who, together, form a powerful cabal controlling much of the anti-corruption space in Iraq. Another notable member of the committee is Hamad Yasser Mohsen Ghaleb (aka Hamad al-Moussawi). Moussawi owns Al-Huda Bank and facilitates many of the illicit transactions for the sectarian elite (discussed in Case Study below).

Higher Committee for Reform (aka Economic Reform Committee)¹⁷

Of somewhat minor importance in terms of anti-corruption despite its strong public relations, is the Economic Reform Committee under the Prime Minister's Advisory Council (PMAC). The Economic Reform Committee was originally chaired by Alaa Al-Saadi, although he resigned in September 2020 to assume the leadership position of the Commission on Integrity. Current members of the Economic Reform Committee are:

- The Minister of Finance (Vice Chairman)
- The Minister of Planning
- The Minister of Oil
- The Secretary General of the Council of Ministers
- The Governor of the Central Bank of Iraq
- The Executive Director of the Higher Committee for Reform
- The Advisor to the Prime Minister for Strategic Affairs
- The Advisor to the Prime Minister for Economic Affairs
- The Head of the Legal Department at the General Secretariat of the Council of Ministers
- Two experts nominated by the Prime Minister

¹⁷ <https://gds.gov.iq/cabinet-establishes-higher-committee-for-reform/>

- Representatives from the Iraq Economic Contact Group and the World Bank Group who will attend as observers without the right to vote

One issue of notable importance relating to the Economic Reform Committee is its publication of a 95-page White Paper providing recommendations on stimulating Iraq's economy and ensuring long-term development. Most importantly among the recommendations was the necessity to diversify the economy to move Iraq away from a **rentier economy**. Although the recommendations of the committee would be very good for Iraq if they were carried out, the belief among PMAC professionals is that the Economic Reform Committee was established as a public relations tool more than an economic leadership tool.

Rentier Economy

The Iraqi economy derives nearly all its national revenue from “rents” paid by foreign corporations for the extraction of natural resources (*e.g.* oil and gas). These rents are paid directly to the national government. Since the government is not reliant on the people for revenue, the fiscal connection between the government and the people is non-existent. When combined with elite capture of the political process, the government has only to keep the people from rebelling in order to collect the oil rents.

Leadership – Thumbnail Sketches

With two possible exceptions, every major anti-corruption influencer in Iraq has significant integrity challenges. Examples from the two primary spheres of power (and their financiers) include:

GEN Ahmed Abu Ragheef (Deputy Minister of Interior for Intelligence Affairs)

In 2003, GEN Ahmed Abu Ragheef served as a police captain in Sadr City. Just as he does today, Ragheef supported Moqtada al Sadr and the Sadr Group. The head of the national police, MG Ahmed Khadam, recruited Ragheef to join the leadership of the Ministry of Interior (MOI). The following year, Ragheef received a promotion to Inspector General of the MOI. In 2013, the office of the Prime Minister removed Ragheef from his role as IG, citing corruption allegations relating to a scheme involving the Housing Bank of Trade and Finance. In 2018, Prime Minister Adil Abdul-Mahdi reinstated Ragheef in his former position where he stayed until 2020. In September 2020, Ragheef was appointed as the Deputy Minister of Interior for Intelligence. A few months later, Prime Minister Kadhimi appointed Ragheef to head of the Special Committee for Fighting Corruption (sometimes referred to as the *Ragheef Committee*). This Committee reports directly to the Prime Minister's office. [A full profile of GEN Ragheef will appear in a subsequent paper: “The Generals”].

LTG Abdulwahab al-Saadi (Commander, Iraqi Counter-Terrorism Service)

Just after the U.S. invaded Iraq in 2003, Abdulwahab al-Saadi was appointed to the MOI Civil Disturbance Force. By 2009, al-Saadi was a high-ranking officer within the Anti-Terrorism Forces. During the conflict with ISIS in 2018, al-Saadi received special media attention and they alluded to him as the hero that liberated Mosul. In 2019, Prime Minister Abdul-Mahdi removed al-Saadi, forcing him into retirement. This action was precipitated by troop movements that Abdul-Mahdi interpreted to be the precursor to a possible coup d'état. A year later, newly elected Prime Minister Kadhimi recalled al-Saadi to active duty as head of the Anti-Terrorism Forces; this includes Green Zone security. Despite his military faux pas, there are no open-source corruption allegations against LTG Abdulwahab al-Saadi. [A full profile of LTG al-Saadi will appear in a subsequent paper: "The Generals"].

MP Sabah al-Saadi (MP and Chair of the Parliamentary Integrity Committee)

In 2003, Sabah al-Saadi was already a high-ranking member of the Sadr Group, serving as the head of the Economics Committee. Two years later, he was elected to the Council of Representatives. In 2007, while serving on the Council of Representatives, al-Saadi was accused of stealing oil from the country's pipelines. Purportedly, he built a building over the top of an underground pipeline (which flowed from Basra to Umm Qasr) and installed a valve that allowed him to siphon-off oil. Later, operating under a warrant from the CCC-I, the building was searched and the crime was validated. Notwithstanding, he remained on the Council of Representatives and no charges were preferred. In 2014, during the next election cycle, al-Saadi was not reelected; however, in 2018 he was re-elected and went on to become a member of the Integrity Committee (CoI). Although still close with Sadr, al-Saadi is currently the leader of the Islah Party. This does not reflect a change in ideology but only political expediency.

Judge Alaa Al-Saadi (Chairman of the Committee on Integrity)

In 2003, Alaa al-Saadi, serving as a lawyer, was appointed to be a judge of Iraq's High Tribunal. At that time, Al-Saadi's brother was serving as head of the Prime Minister's legal team. Al-Saadi left the High Tribunal a month after his appointment to work under his brother. In 2006, al-Saadi was appointed to be head of the real estate dispute committee, hearing cases regarding illegal land seizures and other such matters. In this position, he was accused of accepting bribes to influence the Committee's work. In 2008, Prime Minister al-Maliki appointed him Deputy Commissioner of the COI. For two years he held both positions. In 2010, al-Maliki appointed him Commissioner. In 2014, following bribery allegations for embezzlement, Prime Minister

Haider al-Abadi removed al-Saadi as Commissioner. In 2020, Alaa al-Saadi was reappointed as head of the CPI where he remains to this day.

Raed Jouhi al-Saadi (Office Manager for the PM and former IG for INIS)

Raed Jouhi al-Saadi was an investigative judge in 2003. Soon after this, he was selected to join the Central Criminal Courts of Iraq as a judge. From there, he joined the Iraqi Special Tribunal and gained fame for performing the preliminary investigation into Saddam Hussein. For his fame, he was appointed as the spokesman for the Special Tribunal. In 2008, he was accused of accepting bribes to hide evidence from the Special Tribunal. Having become a U.S. citizen, al-Saadi fled the country to Texas where he remained until 2010. Al-Saadi returned to Iraq when Prime Minister Al-Maliki appointed him to be the Inspector General of the Ministry of Foreign Affairs. In 2014 al-Saadi was appointed Inspector General for the Iraqi Intelligence Service and in 2016, when the IG system was cancelled, he was appointed to lead the Legal Affairs Office. In 2020, Prime Minister Kadimi appointed al-Saadi to the head of the Prime Minister's offices, where he remains today.

Hamad Yasser Mohsen Ghaleb (aka Hamad al-Moussawi) (Owner of al-Huda Bank)

An Iraqi engineer who was born in 1970, Hamad al-Moussawi made his fortune following the U.S. invasion of Iraq. His cousin, Bahaa al-Araji, former Deputy Prime Minister for Energy Affairs, facilitated the approval of a bank license for Moussawi from the Central Bank of Iraq (CBI) in 2007. Funding for the bank reportedly came from Talib Zughayr Al-Rawi, whose son Mushtaq was sanctioned in 2019 by the U.S. Treasury's Office of Foreign Assets Control (OFAC) for supervising the transfer of funds to ISIS using a remittance network across Iraq and Turkey.¹⁸ Al-Huda Bank is deeply involved in money laundering and terrorist finance (see case study below). Since becoming a billionaire as the owner of Al-Huda Bank of Baghdad, Moussawi ran for and was elected as a member of parliament where he sits on the Integrity Committee with Sabah al-Saadi. Al-Moussawi also has close ties to former Prime Minister Nouri Al-Maliki.

Mustafa Ghaleb Mukaif (Central Bank Governor and Head of Iraq AML)

Mustafa Ghaleb Mukaif was a member of the economics committee in Sadr Group at the same time as Sabah al-Saadi was its Chairman. In 2006, with the assistance of Sabah al-Saadi,

¹⁸ 'Notice of OFAC Sanctions,' Federal Register, April 19, 2019 (accessed July 20, 2021)
<https://www.federalregister.gov/documents/2019/04/19/2019-07849/notice-of-ofac-sanctions-actions>

Mustafa Ghaleb Mukaif was appointed to lead the legal department at the Central Bank. As part of his responsibilities, he was responsible for granting banking licenses and, in fact, facilitated the licensing of Al-Huda Bank as part of the Sadr Group network (at the request of Bahaa al-Araji)¹⁹. In his role at the CBI, Mukaif reportedly accepted numerous bribes to grant bank licenses. Notwithstanding, Mukaif was appointed as head of the CBI in 2020 and serves as head of the Anti-Money Laundering Unit.

¹⁹ Bahaa al-Araji is the brother of Sadrist Cleric Hazem al-Araji.

HOW IRAN USES IRAQI BANKS AS SURROGATES

Chapter 1. CIBER (Center for Islamic Banking and Economics Report)

Invoice Fraud as a Tool for Money Laundering in Iraq's Banking Sector

The fact that Iran uses Iraqi banks for currency smuggling and money laundering is not new; however, a detailed description of the processes and individuals involved has not, heretofore, been available through open source research. The value of this report is in the analysis of the transactions, processes, and officials engaged in the money laundering. The network identified in this report handles a disproportionate number of illegal transactions for the **sectarian elite** with the corollary of facilitating terrorist finance including state-sponsored organizations such as the IRGC. While this report focuses on corruption through invoice fraud, there are several other methods employed by Iranian-controlled elements and Shia Militia that exploit Iraq's corrupt and fragile banking system—those are anticipated to be discussed in subsequent reports.

Dollar Auctions – “The Sewage System of Iraqi Corruption”

Currency auctions at the Central Bank began in 2003 under the Coalition Provisional Authority to provide hard currency to a starving Iraqi economy.

The American occupation authorities established [the currency auction] in 2003 to serve two purposes: collecting enough dinars to pay salaries in cash to Iraq's vast armada of government employees and helping the country pay for badly needed imports in dollars.²⁰

Over time, however, the currency auction became a conduit for economic corruption. “The currency auction has become a means of smuggling money from Iraq,” literally in the billions of dollars.²¹ According to the former President of the Board of Supreme Audit (BSA), in terms of foreign currency transfers, the Iraqi economy requires approximately \$500 million dollars per week. Any dollar amount above that is “currency smuggling and money laundering.”²² It is

²⁰ ‘Inside the Iraqi Kleptocracy’, New York Times (accessed July 20, 2021)

<https://www.nytimes.com/2020/07/29/magazine/iraq-corruption.html>

²¹ Is the Currency Auction at Gateway to Corruption in Iraq? (accessed July 20, 2021)

<https://www.abacademies.org/articles/is-the-currency-auction-at-gateway-to-corruption-in-iraq-9875.html>

²² ‘Iraq is Listed on Europe's List of High-Risk Countries in Money Laundering Crimes: Reasons and Consequences’ (accessed July 2, 2021) <https://epc.ae/topic/iraq-is-listed-on-europes-list-of-high-risk-countries-in-money-laundering-crimes-reasons-and-consequences>

currently estimated that at least one third of all Iraqi financial transfers service money laundering operations.²³

Point Spread Scheme

When currency auctions began in 2004, businesses as well as banks could participate. Specifically, businesses could buy dollars to support international invoices. It wasn't long before corrupt businessmen and their surrogates learned that they could make a significant profit on the rate spread. That is, they would buy U.S. dollars at the official rate set by the Central Bank. They would then immediately sell their dollars at the market rate that was always significantly higher. While the spread was not huge for each dollar, with vast sums of money businessmen could make large profits with essentially zero risk.²⁴ This scheme made millions for banks and businessmen. Owing to the vast amounts of money that were available, the banking sector was a lucrative target for the sectarian elite and their political parties. Beginning as early as 2005, political parties and their elite actors began acquiring or establishing banks in Iraq. Today, they virtually control the banking sector in Iraq. In 2008, banks successfully squeezed businessmen out of the dollar auction by forcing the CBI to adopt a rule limiting participation in the auctions to banks and money exchange houses only. In 2012, under international political pressure, the rules for currency auctions changed again. This time the rules required all dollars acquired at auction be transferred directly out of Iraq. These rule changes effectively ended the Point Spread Scheme.

Invoice Fraud

The Central Bank acquires most of its U.S. dollars from “oil revenues.”²⁵ Typically, the CBI sells its dollars to private Iraqi banks in exchange for Iraqi dinar. The Iraqi banks then sell the

²³ ‘Iraq is Listed on Europe’s List of High-Risk Countries in Money Laundering Crimes: Reasons and Consequences’ (accessed July 2, 2021) <https://epc.ae/topic/iraq-is-listed-on-europes-list-of-high-risk-countries-in-money-laundering-crimes-reasons-and-consequences>

²⁴ ‘Inside the Iraqi Kleptocracy’, New York Times (accessed July 20, 2021) <https://www.nytimes.com/2020/07/29/magazine/iraq-corruption.html>

²⁵ ‘With documents and names, Iranian militias control Iraqi oil funds’ (accessed June 23, 2021) [https://www.alarabiya.net/aswaq/special-stories/2020/09/20/%D9%85%D9%8A%D9%84%D9%8A%D8%B4%D9%8A%D8%A7%D8%AA-%D8%A7%D9%8A%D8%B1%D8%A7%D9%86-%D8%AA%D8%B3%D9%8A%D8%B7%D8%B1-%D8%A8%D8%A7%D9%84%D9%88%D8%AB%D8%A7%D8%A6%D9%82-%D9%88%D8%A7%D9%84%D8%A3%D8%B3%D9%85%D8%A7%D8%A1-%D9%85%D9%8A%D9%84%D9%8A%D8%B4%D9%8A%D8%A7%D8%AA-%D8%A7%D9%8A%D8%B1%D8%A7%D9%86-%D8%AA%D8%B3%D9%8A%D8%B7%D8%B1-%D8%B9%D9%84%D9%89-%D8%A3%D9%85%D9%88%D8%A7%D9%84-](https://www.alarabiya.net/aswaq/special-stories/2020/09/20/%D9%85%D9%8A%D9%84%D9%8A%D8%B4%D9%8A%D8%A7%D8%AA-%D8%A7%D9%8A%D8%B1%D8%A7%D9%86-%D8%AA%D8%B3%D9%8A%D8%B7%D8%B1-%D8%A8%D8%A7%D9%84%D9%88%D8%AB%D8%A7%D8%A6%D9%82-%D9%88%D8%A7%D9%84%D8%A3%D8%B3%D9%85%D8%A7%D8%A1-%D9%85%D9%8A%D9%84%D9%8A%D8%B4%D9%8A%D8%A7%D8%AA-%D8%A7%D9%8A%D8%B1%D8%A7%D9%86-%D8%AA%D8%B3%D9%8A%D8%B7%D8%B1-%D8%B9%D9%84%D9%89-%D8%A3%D9%85%D9%88%D8%A7%D9%84-%)

dollars to Iraqi companies under requests to import goods and merchandise. The principle behind the dollar auction is straightforward.

The auction was meant to work like this:

*"A company intending to import shoes from India, for instance, would go its local Iraqi bank with an invoice from the Indian shoe company. The local bank would authenticate the transaction and deposit the required amount in Iraqi dinars with the central bank, which would wire dollars to a correspondent account belonging, ostensibly, to the exporter."*²⁶

It wasn't too long before unscrupulous individuals learned that they could set-up (or have a family member set-up) a business in a third-country. That company would then send a fake invoice to the businessman who would then use it as a method for moving currency out of the country. This scheme was not confined to businessmen but also included surrogates for political parties, militias, and terrorist organizations such as the IRGC.

When the rules changed in 2012, process changes helped reduce petty invoice fraud—forcing out corrupt businessmen. Two years later, petty invoice fraud was virtually eliminated with the adoption of new rules. The impetus for the 2014 rule changes came when the Islamic State (IS) occupying Mosul were found to have generated as much as \$25 million per month from currency auctions at the Central Bank.²⁷ As a result, the Iraqi government banned 142 different money-exchange houses²⁸ and required that the Iraqi embassy in the country from which goods were to be exported, authenticate all invoices. The authenticated invoices were then to be taken by the importing company and submitted to local banks in Iraq. The bank, in turn, would send the invoice to the CBI who would forward it to the Iraqi General Tax Commission for import authorization. After securing import authorization, the bank was authorized to participate in the currency auction up to the amount of the combined approved invoices.

<https://www.nytimes.com/2020/07/29/magazine/iraq-corruption.html>

²⁶ 'Inside the Iraqi Kleptocracy', New York Times (accessed July 20, 2021)

²⁷ <https://www.odni.gov/files/PE/Documents/ISIL-Finances-Team-Intelligence.pdf> p.4-5.

²⁸ <https://www.washingtoninstitute.org/policy-analysis/denying-islamic-state-access-money-exchange-houses>

While the rule changes effectively eliminated petty invoice fraud, it did little to impede grand invoice fraud involving the sectarian elite and their political allies, including Iranian-controlled elements and Shia militia.

Case Study: Al-Huda Bank, Baghdad

Al-Huda Bank (SWIFT Code: **BHDAIQBA**) was founded and is owned by Hamad Al-Moussawi, currently a member of parliament and a member of the Integrity Committee.²⁹ Until 2018, four primary banks represented a lion's share of Iran's banking interests in Iraq: 1) Al-Huda Bank, 2) Al-Bilad Bank, 3) Bank of the Middle East, and 4) Trans Iraq Bank (and its affiliates)³⁰.

In 2018 Al-Bilad Bank was sanctioned by the United States. This was followed by the Middle East Bank in 2020. Trans Iraq Bank and affiliated banks were subjected to CBI administrative action and are under close scrutiny, leaving Al-Huda Bank as Iran's primary banking surrogate.³¹ According to a report published by *Al-Faraena* (alfaraena.com), Al-Huda Bank is among the most important institutions that serve Iran's banking interests in Iraq.³² Notwithstanding, the ability of Al-Huda Bank to support Iranian interests is also somewhat circumscribed owing to Ahmed Chalabi who, as Chairman of the Finance Committee in the Iraqi parliament, released documentation showing Al-Huda Bank's complicity in a multi-billion dollar transfer that

²⁹ 'SWIFT Code : BHDAIQBA, Baghdad, Al-Huda Bank, Iraq' (Accessed July 20, 2021)

<https://swiftcode.nin.nz/swift/bank/Iraq/Al-Huda-Bank/Baghdad/BHDAIQBA>

³⁰ Trans Iraq Bank includes affiliates Al-Warka Bank, Gulf Commercial Bank, Commercial Bank of Iraq, Noor Islamic Bank, and United Bank for Investment.

³¹ 'Iran's claws in the body of Iraq's collapsed economy', (accessed June 29, 2021)

<https://www.alfaraena.com/%D9%85%D8%AE%D8%A7%D9%84%D8%A8-%D8%A5%D9%8A%D8%B1%D8%A7%D9%86-%D9%81%D9%8A-%D8%AC%D8%B3%D8%AF-%D8%A7%D9%82%D8%AA%D8%B5%D8%A7%D8%AF-%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%A7%D9%84%D9%85%D9%86%D9%87/>

[With the support of Iraqi banks and financial credit, fictitious companies of the IRGC invest and obtain special customs facilities for the import process so that they are allocated separate transactions and are exempted from paying any taxes and customs duties. There are officials and leaders of the militias, including Abu Mahdi Al-Muhandis and Hadi Al-Amiri, as well as the former security adviser, Muwaffaq Al-Rubaie, who are among the most important figures who cooperate with influential parties in the IRGC and the Iranian government in trade and financial exchanges. The Iranian regime had managed until December 2011 through the Al-Maliki government's economic department to illegally extract \$800-900 million from Iraq to Iran per week through the Central Bank of Iraq currency auction and from other sources.]

³² 'Iran's claws in the body of Iraq's collapsed economy' (Accessed June 23, 2021)

<https://www.alfaraena.com/%D9%85%D8%AE%D8%A7%D9%84%D8%A8-%D8%A5%D9%8A%D8%B1%D8%A7%D9%86-%D9%81%D9%8A-%D8%AC%D8%B3%D8%AF-%D8%A7%D9%82%D8%AA%D8%B5%D8%A7%D8%AF-%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%A7%D9%84%D9%85%D9%86%D9%87/>

supported Iranian-controlled elements and Shia militia. The documents purported to prove that Al-Huda Bank purchased billions of dollars at CBI auctions. These funds were then funneled through three financial transfer companies: Al-Tayyib Financial Transfer Company, Al-Mahaj Financial Transfer Company, and Iraqna for Financial Transfers (e.g. see Attachment 1). Further investigation found that Al-Moussawi (the owner of Al-Huda Bank) also owned Al-Tayyib Financial Transfer Company and was a primary stockholder in Iraqna for Financial Transfers, which later became Al Rawahel Investment and Finance Company.³³ The third company, Al-Mahaj for Financial Transfers was shown to be owned by Hassan Nasser Jaafar Al-Lami (aka Abu Rami) with Al-Moussawi having a minority interest. Abu Rami owns Trans Iraq Bank and has well-documented connections to Iran generally and the IRGC specifically. In January 2020, Lebanese Satellite MTV aired an interview with a former CBI employee. She called Abu Rami “the financial Qassem Soleimani of Iraq.” According to the former CBI employee, CBI documents (of which she has copies) demonstrate “Abu Rami is among the key figures that facilitate the financing of Iran and Hezbollah through his many companies and through his banks’ exploitation of the daily currency auctions.”³⁴



Figure 1 Hamad Al-Moussawi and former Prime Minister Nouri Al-Maliki.



For this case study we will detail a representative transaction involving the alleged import of red meat from Sudan. Before we detail this transaction, however, we must understand the background and context.

³³ ‘The decline in GDP increases Iraq's financial crisis’ (accessed June 29, 2021)

https://alssaa.com/news/%D8%AA%D8%B1%D8%A7%D8%AC%D8%B9_%D8%A7%D9%84%D9%86%D8%A7%D8%AA%D8%AC_%D8%A7%D9%84%D9%85%D8%AD%D9%84%D9%8A_%D9%8A%D8%B2%D9%8A%D8%AF_%D9%85%D9%86_%D8%A3%D8%B2%D9%85%D8%A9_%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82_%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8A%D8%A9

³⁴ <https://www.ifmat.org/03/01/irans-exploitation-of-the-central-bank-of-iraq-and-banking-sector/>

Al-Huda Bank was established in November 2007 for the sole purpose of money laundering. It was one of several banks opened at the behest of the Sadr Group. Sadrist cleric Hazem al-Araji and his brother Bahaa al-Araji, former Deputy Prime Minister and parliamentarian, turned to their cousin Hamad Al-Moussawi to establish the bank. Bahaa al-Araji was able to secure a banking license for Moussawi through fellow Sadrist Mustafa Ghaleb Mukaif, then General Council and now Governor of the Central Bank and head of its Anti-Money Laundering Unit. To fund the new bank, Moussawi was guided to terrorist financier Talib Zughayr Al-Rawi who provided the initial funding. Al-Huda Bank began its money laundering conspiracy by procuring a copy of burial records from the Valley of Peace cemetery in Najaf (the world's largest cemetery). These records were subsequently provided to Mushtaq Talib Zughayr Al-Rawi (Talib's son); a terrorist finance kingpin in his own right.³⁵ Mushtaq, who lives in Belgium, took advantage of Western technology to create records of fictitious companies from around the world. Outfitted with stamps, electronic signatures, fonts in multiple languages, and high-speed internet, Mushtaq used names from

Brothers	
	
Bahaa al-Araji (left) and Hazem al-Araji (right)	
<p>Sadrist cleric Hazem al-Araji and his younger brother Bahaa al-Araji control the Kadhimiyah shrine in Baghdad, which generates millions of dollars annually. Both brothers have worked in service of Moqtada al-Sadr for most of their adult life. Sheik Hazem has been a senior advisor and official representative of Moqtada al-Sadr. Additionally, since 2003 he has also been in charge of recruiting and sits as Chairman of the Recruiting Committee. Prior to the invasion of Iraq, Hazem al-Araji made his home in Canada and is a Canadian citizen. Less influential but equally as important to the Sadr Group, Bahaa al-Araji serves on the political side, serving as Deputy Prime Minister as well as a Member of Parliament. Informally, he also served as a legal and business advisor to the Sadr Group during the peak of the Iraq War. Bahaa is a graduate of Baghdad University Law school, class of 1996, and is a UK citizen.</p>	

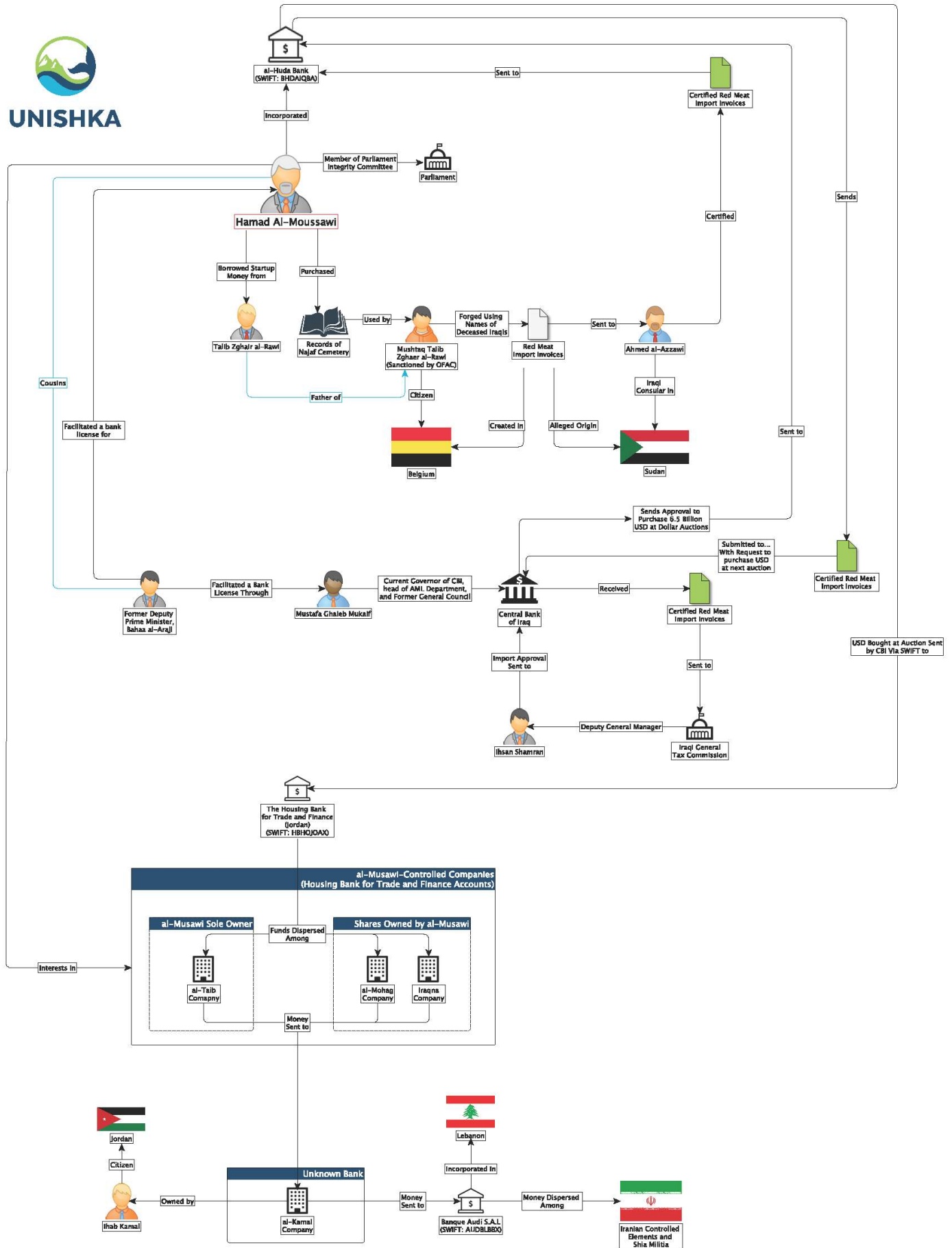
the Valley of Peace to create fictitious officers and employees of non-existent companies in Iraq. He would then affix their signatures to contracts for the purchase of goods from around the world. Using still other names, he would submit invoices to the fictitious officer in conspiracy with the Sadr network.

Consequently, our case study begins in Belgium where Mushtaq created invoices totaling \$6.5 billion from non-existent companies in Sudan, demanding payment for the importation of red meat over a one year period (see Link Chart on p. 21 below). These official looking

³⁵ Mushtaq would eventually be sanctioned by the United States for this involvement in terrorist finance.

invoices were then sent to a fellow Sadrist in Sudan, Ahmed Al-Azzawi who was serving as Consul General in Khartoum³⁶. Despite the obvious invoice fraud, Azzawi certified the invoices and forwarded them to Al-Huda Bank in Baghdad. The bank, in turn, sent the certified invoices to the Central Bank, headed by Mukaif (see discussion above), with a request to participate in the next dollar auction. In accordance with the 2016 rule changes, the CBI forwarded the invoices to the Iraqi General Tax Commission for import approval. The man representing the Sadr Network at the Tax Commission is Deputy General Manager Ihsan Shamran. In furtherance of the conspiracy, Shamran issued an import approval letter for \$6.5 billion worth of Sudanese red meat which he sent to the Central Bank. Armed with these documents, Mukaif approved the issuance of a letter from the CBI to Al-Huda Bank authorizing their participation in the next dollar auction. Within days of the letter, Al-Huda Bank purchased \$6.5 billion U.S. dollars using Iraqi dinar. Following the mandates of the 2012 rules, the funds were transferred via SWIFT to the Housing Bank for Trade and Finance (HBHOJOAX) in Amman, Jordan. The funds were dispersed among three accounts: Al-Tayyib Financial Transfer Company, Al-Mahaj Financial Transfer Company, and Iraqna for Financial Transfers; essentially giving Moussawi and Abu Rami personal control over the funds. After subtracting agreed payments to members of the network as well as retained profits, all three companies transferred the remaining billions to the al-Kamal Company, owned by billionaire Ihab Kamal. After again subtracting disbursements (the purpose of which is unclear), the funds are sent to Banque Audi S.A.L. (AUDBLBBX) in Beirut who appear to be involved simply as a matter of profit. The receiving accounts at Banque Audi S.A.L. are unknown at this time, however, from Banque Audi withdrawals are made to support Iranian-controlled elements and Shia militia including Hezbollah.

³⁶ As of 2019, total production of meat in Sudan was 994,300 tons that accounts for 100.00% of total production of meat.



Chapter 2. Flying Checks

Redacted.

Chapter 3. Easy Money

Redacted.

Chapter 4. The Buy Out

Redacted.

Chapter 5. The Network

Redacted.

Addendum

The Generals
Redacted

Attachment 1

Redacted



**Illicit Iranian
Financial Flows**