



## FINANCIAL SERVICE PROVIDERS AND TRANSFER MECHANISMS MAPPING IN IRAQ

# Financial Service Providers Assessment Iraq 2020

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### ACRONYMS

AML - Anti-Money Laundering

CBI - Central Bank of Iraq

CDD - Customer Due Diligence

CFT - Combatting the Financial Terrorism

CVA - Cash and voucher assistance

CWG - Cash Working Group

FSP - Financial Service Providers

GDPR - General Data Protection Regulation

HRP – Humanitarian Response Plan

ICCG - Inter-Cluster Coordination Group

IIC - Iraq information center

KII - Key informant Interview

KRI - Kurdistan Region of Iraq

KYC - Know Your Customer

MC - Mercy Corps

MoDM - Ministry of Displacement and Migration

MoLSA - Ministry of Labour and Social Affairs

MPCA – Multi-purpose Cash Assistance

PMT - Proxy Means testing

SMEB - Survival Minimum Expenditure Basket

UNHCR – United Nations High Commissioner for Refugees

WFP – World Food Program

### EXECUTIVE SUMMARY

Globally, humanitarian agencies are using cash based intervention as a modality to transfer assistance to vulnerable households. Cash and voucher assistance (CVA) has the potential to strengthen sector and multi-sector strategies to respond to multiple needs of the vulnerable populations. It is widely acknowledged that cash transfers provide the flexibility needed by vulnerable population and benefits the local economies.

Cash is considered as a preferred response modality in the Humanitarian Response Plan 2020 for Iraq as well as being one of the modalities adopted to mitigate COVID-19 impacts. Given the trend towards longer-term protracted humanitarian crises, cash has been recognized for its role in supporting local economies and linking humanitarian assistance to longer-term assistance and social protection systems. Therefore, understanding the financial landscape, available financial services and transfer mechanisms, presence, experience, fees and capacity as well as challenges, risks, and recommendations to ensure the delivery of cash in a timely, safely, and cost-effectively manner is of paramount importance.

The mapping shows that mobile money service providers, hawala services, E-vouchers, such as RedRose and SCOPE, and pre-paid cards, such as SWITCH and NassPay, are the most commonly used transfer mechanisms. An electronic cash transfer mechanism called QI card is used by the Ministry of Displacement and Migration (MoDMs) to transfer cash to citizens. Other modalities like NassPay<sup>1</sup> and bank accounts do exist in Iraq; however, there is no such evidence on their suitability to humanitarian cash assistance and requires further assessment. While the Financial Service Providers (FSP) landscape is challenged by limited coverage and liquidity issues. The CWG will continue to work with the partners, donors, and the private sector to strengthen the financial infrastructure. There is also a need for strong financial regulations to minimize risk of fraud and corruption.

The study shows there is a wide coverage of service providers at governorate level. However, it is worth noting that FSPs only keep a physical presence in the form of branches in areas of high population density, specifically at the district level relying on agents to enhance their reach across the other remaining districts. While coverage varies between providers, their weekly capacity ranged around 300 customers with the ability to expand on short notice.

Among the key challenges identified are the increased transfer fees and withdrawal limits due to the liquidity shortage and imposed cash-out fees on beneficiaries, which requires a more coordinated effort to regularly monitor the liquidity status, and regulate monitoring and contractual issues, including harmonizing transfer fees, standardizing FSP selection and negotiation procedures.

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<sup>1</sup> A multipurpose contactless MasterCard for offline and online use

### OBJECTIVE

The Financial Service Providers Mapping aimed at identifying and highlighting available delivery options tailored to different groups, regulatory frameworks in place, and the capacity of FSPs to deliver cash at scale. Findings to support the development of standards and protocols on cash delivery mechanisms to support negotiations and decisions around contracts and selection of services to distribute cash timely, safely and cost-effectively. The information should also be used to inform the 2021 HRP CVA plan and will help shape-up the ongoing discussions on durable solutions and common cash delivery mechanism platform.

Specifically, the FSP mapping would:

- Identify and compare available delivery options tailored to different groups of people.
- Assess regulatory framework, capacity, and presence of FSPs at the district level to deliver cash at scale.
- Establish standards and protocols on cash delivery mechanisms to increase the negotiation power of agencies.
- Provide support decisions around contract and selection of services to distribute cash timely, safely, and cost-effectively.
- Inform discussion and dialogue around durable solution/linkage with social protection and common cash delivery platform.
- Establish an entry point for clusters, FSPs, and other relevant Private sector participation/engagement in the CWG discussions.

The scope of the FSP mapping covered all Governorates in Iraq and would serve to have a broader understanding of the financial environment and infrastructure. The mapping exercise also explored the experience and capacity of FSPs to respond to different shocks and the available payment options.

### METHODOLOGY

The Key Informant Interview (KII) tool was developed based on the already existing tools in the CaLP toolbox. The KII tool was shared with task force members and all CWG partners for comments and inputs. The KII was conducted for selected ten FSPs, and two banks from the list of FSPs contracted by CWG partners based on their interest to participate in the assessment. Tearfund conducted the KII through phone calls. CWG visited two banks and two mobile service agents in Erbil to assess their financial structure and services. A tool was designed to understand perspectives of implementing partners and households on the different modalities that the cash programming has been using. The analysis is incorporated into this report.

Secondary data sources, including reports from IOM, the World Bank, and the Anti-money laundering and countering financing of Terrorism office, were also used as a reference. Draft analysis is compiled by the CWG, and the final report is produced in consultation with members of the task force.

### LIMITATIONS

An attempt was made to get district level FSPs list and the services they provide in Iraq from the Ministry of Finance in Kurdistan; however, this requires approvals at different Government offices and the time allocated to finalize this report was not sufficient. Similarly, the FSPs expressed their concern to share information related to costs and fees asso-

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ciated with setting up and running a payment system due to the confidentiality of the information. The CWG is working to establish a contact with the Central Bank of Iraq (CBI) to get a complete list of FSPs at the district level, and would also continue to explore cash modalities that are not yet in use by Humanitarian agencies in Iraq.

### HUMANITARIAN CASH INTERVENTIONS IN IRAQ

The effective and appropriate use of cash and voucher assistance (CVA) requires strong coordination and communication with various stakeholders across different sectors, working groups, and private sector engagement. For this purpose, the CWG in Iraq is planning to expand its scope beyond MPCA coordination to a more sectorial CVA coordination and technical support in 2021; aiming at harmonizing and improving the quality, timeliness, and appropriateness of cash interventions and ensuring systematic and evidence-based cash and market programming in the response.

The humanitarian response in Iraq has seen an uptake of cash and voucher assistance (CVA) since 2014, with the formation of the Cash Working Group (CWG) in 2014, chaired by UNHCR (currently WFP) and Mercy Corps (MC), which saw the membership grow to over 200 to date. The CWG in Iraq focuses mostly on technical aspects, coordination, and harmonization of Multipurpose Cash Assistance (MPCA). In 2019, the CWG scope was expanded to include the provision of technical support to other clusters to ensure the inclusion of cash transfer in their respective response strategy acknowledging that cash interventions amounted to 30 percent of the HRP 2019 response. In line with this, structural changes to the CWG occurred where CWG is the custodian of the HRP 1.3 section, which outlines the role of CWG including coordination of MPCA, as well as technical support to clusters under the HRP 2020. The absence of a centralized cash transfer reporting system across clusters has made it difficult to track the overall value of assistance delivered through cash transfers in Iraq. Most cash interventions are not being reported under CWG but rather under relevant clusters.

The CWG provides MPCA in different geographical locations such as in Al Anbar, Diyala, Duhok, Erbil, Kirkuk, Ninewa, Salahaddin, and Sulaymaniya Governorates. MPCA is provided to vulnerable IDP and Returnee households residing out of camps. Under the COVID-19 CWG response plan, the CWG has introduced a cash assistance package to cover hygiene items along with MPCA. CWG has requested USD 86 million (50 percent to cover COVID-19 cash response and the remaining 50 percent to cover MPCA under the HNO 2020) to assist around 65,000 HHs through MPCA and one-off cash assistance for hygiene items with USD 11,794,014 currently covered. The uptake of cash assistance in Iraq lead to the formalization of a coordination structure, the CWG, that is recognized with a section for MPCA the Iraq Humanitarian Response Plans (HRP), and the placement of CWG under the Inter-Cluster Coordination Group (ICCG) since 2016.

Socio-economic vulnerability assessment is used to identify vulnerable households living under the poverty with an estimated consumption of less than 110,000 IQD eligible for cash assistance. This targeting tool is largely aligned with MoLSA's and World Bank methodology through using the proxy means testing (PMT) for poverty targeting, which allows referrals between sectors, agencies, and ministries, though some fine-tuning is required. This model minimizes inclusion and exclusion errors by ensuring that those most in need are targeted. The MPCA transfer value is based on Survival Minimum Expenditure Basket (SMEB) analysis to cover basics such as food, water, Non-Food Items (consumables, and hygiene items, such as sanitary pads, toothpaste, toothbrush, and so on), communication, transportation, and rent. Currently, the MPCA value is 400USD (per month) per household of a family of six, to cover basic expenses for two months.<sup>2</sup> The one-off hygiene items cash assistance package is set at 200 USD for vulnerable households who

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<sup>2</sup> [https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/iraq-cash-and-voucher-assistance-guidance-covid-19 .pdf](https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/iraq-cash-and-voucher-assistance-guidance-covid-19.pdf)

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are at high risk to Covid-19 including the elderly and people with chronic diseases. Among the major contributors to The CWG interventions, specifically, MPCA, are USAID BHA, DFID, and the German Government.

### FINDINGS

#### Overall Financial Environment and Infrastructure

Oil production and export is the main source of income and revenue for Iraq, which has the fifth-largest proven crude oil reserves in the world with 141.4 billion barrels. With the rapid increase in production in 2015 and 2016, the country is now the world's third-largest and OPEC's second-largest oil exporter<sup>3</sup>. The oil sector accounts for over 65 percent of GDP, 90 percent of central government revenue, and nearly 100 percent of the country's exports. The economy is limited in expanding to other industries because Iraq's economy is hugely driven by the oil sector. The recent global Oil market collapse, has resulted in countries like Iraq, whose economy heavily depends on the oil sector facing challenges, including cash liquidity, as export revenues decrease significantly.

Iraq has an established social transfer system and for this reason Iraq is conducive to cash transfer programming. Although basic services and infrastructure have been badly affected by the conflict and by the government's fiscal situation, markets have continued to function and there is a strong import-export trade with neighbouring countries, mainly Turkey. Financial services are available and functional throughout the country except for areas close to the borders, especially Mosul. However, the services are outdated and unable to keep up with the pace of modern international banking systems. Humanitarian agencies and the government alike have used cash transfers to deliver critical humanitarian assistance to IDPs, returnees, refugees, and the host community. Sixty percent of the interviewed FSPs mentioned that they need support on improved cash transfer technologies, eased movement restrictions as well as human resources.

The central bank of Iraq (CBI) is the entity that regulates banking and non-banking financial institutions in Iraq including facilitating payment transfer, issues license (banking and non-banking financial services). It is responsible for ensuring domestic price stability, implement monetary policy (including exchange rate policies), issuance and management of the national currency and gold reserves, as well as developing and monitoring the infrastructure of the local banking system. In general, to start-up and operate as an FSPs in Iraq, the FSP needs to present initial investment capital that could run up to IQD 200 million, proof of registration from the CBI and the Ministry of Finance, civil documents, tax clearance, and proof that the investor is not a shareholder of another similar service.

According to the study by the IOM, there are 55 banks. Seven state-owned banks with 479 branches, eight of which are located abroad, and 48 private banks that are divided into 23 commercial banks, eight Islamic banks, and 17 foreign banks. In total, they own 515 branches, four of which are located abroad. According to the World Bank, there is low banking density, wherein the ratio of commercial banks to people is four banks per 100,000 people, compared to the banking density standard of one bank per 10,000 people. Only around 23 percent<sup>4</sup> of the population possess bank accounts. This is believed to be due to the lack of deposit insurance institutions to guarantee customers deposits back in the event of a bank failure and lack of awareness on banks. Most ATMs are not connected to the national switch and, as such, customers of one bank cannot access their funds from ATMs of another bank. The National Development Plan of Iraq 2018-2022 includes the need for improving the banking sector and services.

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<sup>3</sup> <http://documents1.worldbank.org/curated/en/771451524124058858/pdf/125406-WP-PUBLIC-P163016-Iraq-Economic-Monitor-text-Spring-2018-4-18-18web.pdf>

<sup>4</sup> <https://cbi.iq/static/uploads/up/file-158020241220721.pdf>

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Humanitarian agencies are using vouchers, cash in hand, Hawala and mobile money transfer systems. Mobile phones are popular in Iraq, and the mobile money transfer system is interoperable with other banking systems. Asia cell and Zain are the two major mobile network platforms supporting mobile money transfer mechanisms used by Humanitarian agencies to transfer cash through AsiaHawala and IraqWallet respectively. Network coverage is good across the country, and cash can be withdrawn at forex offices located across districts. The Hawala system is cheap, easy and widely used in Iraq for money transfer. No credible information is available on the number of hawala dealers currently operating in Iraq. Other services that are not widely used by humanitarian agencies are pre-paid cards such as Qi-card.

### Anti-money Laundering/Combatting the Financial Terrorism (AML/CFT)

Financial Service Providers in Iraq are expected to follow rigorous due diligence by the law to be able to conduct financial transactions and open accounts for customers. They must verify customers' identity and anyone acting on their behalf, nature of the business relationship, understand the ownership and control structure of legal persons and arrangements, and examine transactions. The aforementioned measures should take place at account opening and business establishment exceeding a specific threshold, suspicion of money laundering, or terrorism financing. In the case of FSPs unable to comply with Customer Due Diligence (CDD) obligations and measures, FSPs should refrain from carrying business with the customer in question.<sup>5</sup>The records that must be kept by the FSPs include the customers' identification documents, beneficial owners, accounting files, and business correspondences. Records must be sufficiently detailed to permit the reconstruction of each transaction.

Agencies operating cash transfer should undertake risk analysis to identify actual and perceived risks and mitigation measures to counterterrorism financing along with monitoring guidance. Donors, Government stakeholders, and humanitarian actors should be consulted in seeking guidance on counterterrorism measures for safe delivery of humanitarian cash assistance. Similarly, attempts are made by some donors to minimize the risk of cash supporting entities that are sanctioned. Thresholds should be set to detect suspicious activity, especially for cash deposits and wire transfers. Thresholds will have to be determined considering the average cash assistance amounts offered by international agencies.

### Area Coverage

The study covers the availability of financial services at the governorate level, the information includes coverage of FSPs that are in contract with implementing agencies at the district level. Out of the interviewed 10 FSPs, 40 percent reported that they keep presence across all governorates.

Available transfer mechanisms in all locations include; Electronic system, physical cash, cash in envelop, cheque, bank accounts, and mobile money transfers. Zain mobile money transfer has the largest number of agents and covers all the Governorates in Iraq.

The mobile coverage and network stability is adequate in all areas except in some rural locations and around borders close to Mosul. Mobile money transfers are managed through a network of agents and ATMs across Iraq. Similarly,

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<sup>5</sup> <https://www.aml.iq/wp-content/uploads/2017/09/AMLCFT-Law-of-Iraq.pdf>

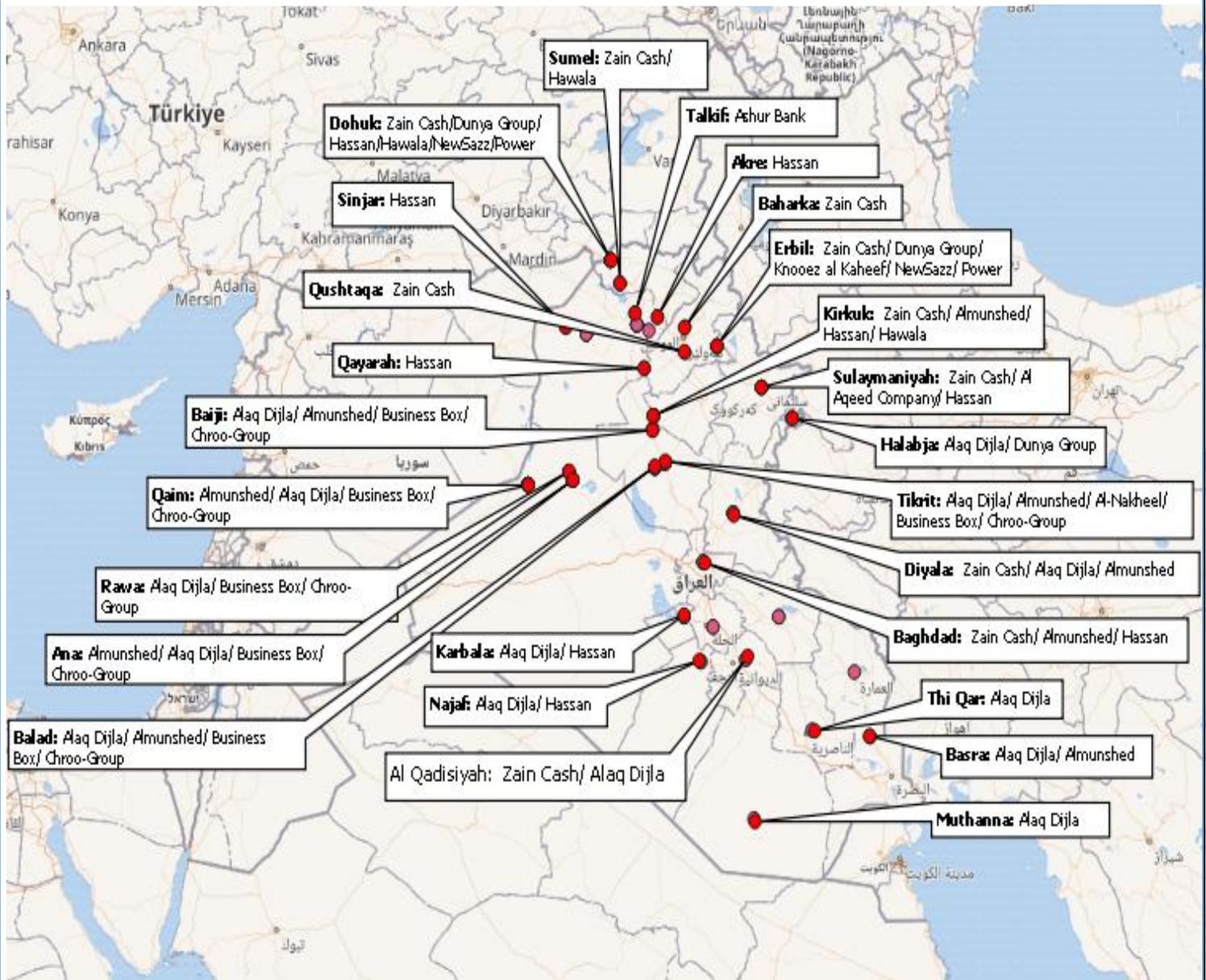
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according to IOM's report, QI card service is available in all Governorates in Iraq, several Government bank branches and private bank branches are providing service to QI cardholders.

QI card<sup>6</sup> was established in 2007 as a joint venture between a private sector, which is represented by the Iraqi electronic system, and the largest bank in Iraq, the Rafidain bank, which is the company issue biometric identification cards for citizens and also provide electronic financial services in Iraq. The payment system is most suitable for Iraqi citizens who possess required civil documents.

The FSPs reported that they currently reach around 300 customers on average per week through the different available services.

Figure 1 Areas Coverage



<sup>6</sup> <https://qi.iq/english/services>

## Payment Approval Process and Cash Flow Analysis

Different cash transfer modalities require different cash-flow and, hence, a different approval process. The CBI has the overall responsibility of payment transaction approval, as well as setting withdrawal limits in Iraq. FSPs reported that locally initiated transactions occur within three days from the day a payment request is placed. Transfers into Iraq are timely, which takes at best three business days through intermediary banks, but sometimes this chain could be disrupted, resulting in delays. In general, banks can transfer money outside their networks, but sometimes banks could refuse to do so. The Hawala agents that use banks different from the bank that the contracting agency uses may experience transfers delay or transfer failure.

The cash distribution process to beneficiaries and end users varies by type of delivery mechanism. For mobile money transfer, a mobile wallet should first be set up to beneficiaries' sim card, and a temporary pin code is set up for beneficiaries to change within one week. The paying agent will validate the information before transferring money to a beneficiary. Once validation is approved, a beneficiary will collect their cash from a designated point of sale. Beneficiaries do not necessarily have to collect the full amount at once. Once the cash reaches the beneficiary, the FSP will provide a cash-out report to the implementing agency. For Hawala transfer, once cash is transferred to the hawala dealer's account, the Hawala dealer will withdraw cash and distribute it to beneficiaries as per the list received by an implementing agency. While this is the standard cash transfer chain, FSPs are open to distribute cash without receiving an advance from implementing agencies and can distribute cash using their reserves and get reimbursed afterwards. It is common for payments to be made through reimbursements.

Table 1: cash transfer chain <sup>7</sup>

Transfer from	Transfer to	Transfer to	Transfer to
International bank	Iraqi bank	Hawala/Mobile Money agent or any FSP contracted	Consumer
Hand carry from international location	NGO in Iraq	NGO office in distribution location	Consumer
International money transfer Agent	NGO in Iraq	NGO office in distribution location	Consumer

## Transaction Limits, Transfer and Associated Fees

Banks, at the moment, are charging a transfer fee rate of 0.7 percent. There is no standard fee applied by Hawala dealers; however, Hawala dealers are present in all big markets and charge between 2-4 USD per transaction for money transfer within Iraq. Usually, the fee charged by mobile money services ranges between 1.5 percent and 2 percent depending on locations. The transfer fees are charged to the sender and not beneficiaries. The transfer fee charged by the Mobile money service providers and Hawala services can be higher if the service providers contracts point of sale. In such a case, the implementing agency will reimburse, and the fees will be cheaper if the implementing agency is

<sup>7</sup> Cash liquidity scenario analysis

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paying in advance to the Mobile money service contracted point of sale. After the outbreak of the COVID-19, the CBI has issued a directive allowing only 75 percent of international transactions to be paid in USD from Iraqi banks, organizations, and companies while the remaining 25 percent will be in IQD; this restriction is introduced following the recent USD cash liquidity crisis. FSPs reported that, there is no limit in the amount of cash withdrawal per day for individuals as well as corporate clients. Similarly, an end-user account can receive up to 200 transactions per day.

Other costs, such as the maintenance costs, are not mentioned by partners for any of the delivery mechanisms in use. An attempt was made to collect information on the pricing models that each delivery mechanism requires, including information on start-up/set up costs, fixed costs, and other costs. However, FSPs were not willing to share the information, due to a degree of competition. However, information received from mobile money transfer operators shows that services, such as beneficiary registration (wallet on their sim), training of beneficiaries, cash-out monthly report, and report through the online portal are free of charge. Whereas, cash transfer charges are 1.5 percent in all Governorates, except in Nineveh, where it is 1.75 percent of the total transfer with no cash-out fee is applied. Asia cell reports cash out fees range between 0.5 – 1.2 percent of total transfer.

## Available Delivery Mechanisms and Required Documentations

Different cash transfer mechanisms require different documentation and regulations. Below is a table showing the different documentation required per transfer modalities, timeliness, and cost-efficiency.

**Table 2: Delivery mechanisms and documentations**

Type of modality	Description	Documentations and infrastructure required	Timeliness	Cost Efficiency	Suitability	Service providers
Mobile money transfer	Entails using a basic or smart mobile phone to carry out financial and commercial transactions such as cash deposits, withdrawals and payments.	Valid civil documentations(ID, passports, photo, residency card...), registered sim card, mobile wallet, mobile phones, Mobile money cash out agents/POs, beneficiaries phone numbers	The system will take at least 40 days to tender it and sign a contract, then the SIM card distribution will depend of the caseload once account is creased the transfer is easy and quick process	smallest transfer fees, but may have higher costs for monitoring at cash out	Once sim card is distributed, beneficiaries can withdraw cash from designated POs every month. Remaining balance in the wallet can be withdrawn any-time within a month	Asia Hawala and Zain Cash (Iraq Wallet)
Hawala system	Informal channel for transferring funds from one location to another through service providers— known as hawalas.	Registered with the Government, Requires authorization for activities	Quick to establish and distribute cash in 24 hours once a suitable FSP is identified	There is a competition within the service providers and the prices are competitive based on location. Transfer fee is not standardized.	Most suitable for one-off but could also be for multiple use	Hawala dealers

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Type of modality	Description	Documentations and infrastructure required	Timeliness	Cost efficient	Suitability	Service providers
QI card international smart card(ISC)	A smart card used for issuing Biometric verified smart cards for citizens in Iraq. The Qi Card is an Iraqi debit card. Mainly used by Government safety net program to pay salaries and pensions. Types include master card and prepaid cards.	Registration of service requires PDS, Iraqi ID and personal ID and collection of biometric data (fingerprints).	Relatively quicker as compared to the other modalities	Costs not shared at the time of reporting	Suitable for multiple use	Banks, post banks, FSPs and retailers

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Type of modality	Description	Documentations and infrastructure required	Timeliness	Cost efficient	Suitability	Service providers
Vouchers (paper voucher and E-voucher)	E-vouchers involve a complete data verification system that provides an end-to-end solution for voucher modalities of <b>cash</b> transfer programming. Works offline. The E-voucher can either be a commodity or value based.	beneficiary phone number, android devices, Identify and contract eligible vendors that are willing to work with the organization through this modality, RedRose platform/SCOPE, Smart cards, Contracted vendors	Paper vouchers take time to print and prepare. E-vouchers could take time to establish a system and create a wallet; once a system is established top-ups are easy and system is suitable for multiple use	E-vouchers are cost efficient but paper voucher requires heavy administration	Suitable to restrict use of cash and achieve intended objective of the response, minimize level of fraud, ensure quality purchase of items; one time and multiple use	Red Rose CPS LTD
	Paper vouchers could be Cash or commodity, designed for restrictive use of cash					WFP - SCOPE System
Physical cash or cash in hand	Cash delivered to recipients through a formal or informal institution that acts as an intermediary. Does not require recipients to hold an account.	Official ID, registration list	Relatively quicker	Requires logistics	Most suitable for one-off but could also be for multiple use	WFP  Implementing agencies  Implementing agencies and Hawalas

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Type of modality	Description	Documentations and infrastructure required	Timeliness	Cost efficient	Suitability	Service providers
Bank cheque	A document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued. It requires to contain signature of the issuer and at the bank of the check, the receiver should fill in their name, phone number, date and sign.	Requires ID (BNFs) and authorized money request (Supplier) , signature of the one issuing a cheque	Quick	Cost depends on type of banks	One-time use	Banks
Bank accounts	An account mostly used for saving where financial transaction is recorded by an institution. Accounts could be saving, current, checking account...	Civil documentations, Photo, signature, minimum deposit amount of 50 USD, 25 USD yearly maintenance fee	Quick	N/A	Multiple	Banks
Pre-paid cards (Nasspay, SWITCH etc.)	A multipurpose contactless MasterCard on USD currency/IQD	USD/IQD currency, no bank account is required, ID	N/A	N/A	Multiple	Cihan bank, Korek telcom,
						SWITCH (Iraq E-Gate)

### Preference of and Suitability to Households

Cash in hand followed by Mobile money and Hawala are the preferred modality, as per the analysis made on partner's experience and perspectives summary note. Vouchers, in general, are reported the least preferred as it restricts the use of cash to some extent.

Hawala system is the most popular means of cash transfer used by many people for sending remittance. Hawala is reported to be flexible and possess an easy process to receive money; Operational flexibility also exists for implementing partners adding and removing recipients. Hawala dealers use both Arabic and Kurdish languages, and in case of people who can't read and write, staff could verbally explain, and beneficiaries can receive cash and thumb sign. Following the outbreak of COVID-19, Hawala dealers and mobile money service providers were not able to distribute cash timely. The absence of standard transfer fee is another problem identified with Hawala services; Hawala service providers charge different transfer fees based on the negotiation power of an agency and locations, which poses a challenge to predict the total cash liquidity required for cash distributions using the hawala system.

Mobile money transfer provided by Asia hawala and Zain Cash is the second widely used cash transfer mechanism by humanitarian agencies. According to a report from IOM in 2019, Mobile phones are very popular in Iraq with 78 percent penetration in central and southern Iraq and 90 percent in the Kurdistan Region of Iraq (KRI). One of the common challenges mentioned with the use of mobile to receive cash is basic digital financial literacy is needed for beneficiaries to receive, understand SMS messages, and withdraw their cash. Mobile money transfer is easy to establish and send cash to beneficiaries who already own a mobile phone and an active sim-card. Recently the government has also adopted the use of mobile money transfer for their COVID response.

QI card is not a system yet adopted by humanitarian agencies. However, the system is widely used by the Government to pay salaries and transfer social safety nets for Iraqi citizens. The system is electronic and scalable. The use of QI cards by humanitarian agencies could pave a way to link humanitarian cash transfers with the social protection system.

### Capacity of Services to Current and Increased Demand

Most of the widely adopted delivery mechanisms are quickly scalable. Once programs are implemented and predictability ensured, existing FSPs can scale-up CBI to and create economies of scale and cost-savings. Ninety percent of interviewed FSPs reported that they do not want to get advance from implementing agencies and can distribute cash using their reserves and get reimbursed afterward, which indicates that most of the FSPs have the financial capacity to meet demand. Most of the interviewed FSPs have worked with multiple NGOs and UN agencies and have experience dealing with a greater number of case-loads. All the FSPs interviewed reported that it will take up to 24 hours to re-structure/ scale up their system to respond to an increased demand once they sign a contract with an implementing agency.

However, the general sentiment by implementing agencies is that this doesn't reflect recent experience and is partially untested and unreliable systems. A lack of human resources with most of the FSPs has been fairly constant in certain locations. Additionally, partners report that different information and unreliable timelines are given out by the FSPs when issues due to capacity occur as they don't want to appear weak in the current competitive bidding war.

Sixty percent of the FSPs reported that they are well equipped to provide hotline services and other trainings to customers. All the FSPs interviewed have the culture of providing payment proof either paper based or through text messages confirming a beneficiary has withdrawn certain amount of money at a given time; mobile money providers send

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payment confirmation text to both the sender and the beneficiary. Most, if not all, responded they have no cash insurance in case of money loss.

### Delivery mechanisms Advantages and Disadvantages

Delivery mechanism	Advantages	Disadvantages
Hawala System also physical cash	<p>No training is required as hawala system is popular among the population</p> <p>Flexible and easy to establish and operationalize</p> <p>Flexible to replace fake currency if they are thought to have been distributed</p> <p>Less transport cost incurred as distributions can be organized within the communities</p> <p>Flexibility regarding ID and other family documentations to process payments</p>	<p>Security issues as beneficiaries are receiving cash at once, particularly for women and other vulnerable population</p> <p>Movement restrictions by Government could affect effective operations of cash distributions</p> <p>Prone to cash liquidity crisis, when it comes huge amount of transfers</p> <p>High level of monitoring and cash redemption system required by implementing agencies, beneficiaries might be charged cash out fees</p> <p>Less mobile team/ less human resource to make distributions at different locations concurrently</p>
Mobile money transfer	<p>Beneficiaries can withdraw and access cash at any time within a month period of time, money is kept safe in the wallet</p> <p>Less physical contacts, signing papers etc.</p> <p>E-Wallet system can be linked with other banking system</p> <p>Can be accessed through most basic mobile phones</p> <p>Most suitable for multiple cash transfers</p> <p>Once accounts are set-up for beneficiaries, transfer process is fast</p> <p>Easy to manage crowd during the account opening process</p> <p>Service include sending payment confirmation SMS messages to both the sender and receiver; makes monitoring more forward</p> <p>Ability to directly pay for goods and services using mobile money.</p>	<p>Not feasible for areas without functioning mobile networks</p> <p>Beneficiary (with limited or no literacy) may not be able to read the messages</p> <p>Beneficiary could forget pin codes or pass on pin code to another person posing cash out protection threats</p> <p>Monitoring system is required. Cash out points could charge beneficiaries cash out fees.</p>

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Delivery mechanism	Advantages	Disadvantages
QI card	<p>Cash out can be done through most banks</p> <p>Already widely in use by the Government for safety net programs and if adopted by humanitarian cash community, this could facilitate the link between social protection and humanitarian cash</p> <p>Electronic cash transfer system which is helpful in contexts needed to avoid/limit physical contacts; COVID-19</p> <p>Available for deposit, rapid disburse, balance enquiry, shopping without physical cash exchanges</p>	<p>Not suitable for refugees and people with no proper civil documentations as the system requires biometric identification</p> <p>Local regulations may exclude some people (Know Your Customer - KYC)</p>
Vouchers	<p>A systematic end to end cash monitoring and control; makes coordination easier</p> <p>Restrict the use of cash</p> <p>Allows withdrawal/ the use of cash in multiple rounds within a specified period of time</p>	<p>Unavailability of willing vendors to work through E-vouchers in the targeted area</p> <p>Paper Vouchers can be exchanged for cash at lower rate to cover needs that a voucher is not covering</p> <p>For paper vouchers, heavy administrative works including printing of and reconciliation</p> <p>E-vouchers pose a challenge for some people with no basic reading knowledge</p>

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Delivery mechanism	Advantages	Disadvantages
cheques	<p>No need to have bank accounts</p> <p>Cash can be withdrawn anytime</p>	<p>Mostly suitable for suppliers and not for large number of humanitarian beneficiaries</p> <p>Only applicable in areas where banks are present</p>
Bank accounts	<p>Could be linked to various electronic systems; mobile money transfers, smart cards</p> <p>Could encourage the culture of saving</p>	<p>An account could be deactivated if remains inactive for a certain period of time</p> <p>Suitable for people with physical access to banks</p> <p>Not suitable for groups below the age of 18</p>
Pre-paid cards (Nasspay, SWITCH)	Not been used yet to transfer cash to beneficiaries	Not been used yet to transfer cash to beneficiaries

### Impact of Covid-19 and Mitigation Plans by FSPs

The recent developments of the COVID19 and the mitigation measures implemented by the Federal Government of Iraq and the Government of Kurdistan in an attempt to control the spreading of the virus earlier this year adversely affected humanitarian activities. Cash payments in Iraq had come to an abrupt stop and considerably delayed distribution of entitlements through cash where experience in some cases for more than two months (March and April mainly). The mitigation measures, mainly the curfew and banks closure, drained liquidity of and affected Financial Service Providers capacity to distribute cash to targeted households.

The recent cash liquidity crisis as a result of the fall in demand and price oil on the global market, resulted in the introduction of a cash withdrawal limit, increased transaction fee to 0.7 percent, and challenged the effective cash transaction in Iraq. Payments for salaries and other operations were affected. The Central Bank of Iraq has issued directives allowing only 75 percent of international transactions to be paid in USD to Iraqi banks and organizations/companies and the remaining 25 percent of the transfer will automatically be exchanged into IQD at the prevailing official bank rate.

During the COVID 19 related restriction, banks were allowed to open for a limited number of days in a week and this slowed down payment processing and approval procedures. Banks have differing levels of liquidity, and in some instances, banks had imposed restrictions on withdrawal amounts that have ranged from no withdrawals to very low daily limits, to a percentage of balances held. Thus, the FSPs, particularly Hawala agents, were the most affected and

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were prevented from drawing down the full balance transferred in cash to make payment and effect service fees. Some Hawalas could get cash from international banks but airport closure and movement restrictions imposed coupled with security threats affected the movement of cash within the country especially across governorates.

The situation has gradually improved, and currently, all FSPs are reporting to have access to cash liquidity. Interviewed FSPs, both Mobile money service providers and Hawalas reported movement restrictions and cash liquidity are major challenges that they faced hampering the timely distribution of cash in the past. The withdrawal amount limit and increased transfer fees are used as a mitigation plan to maintain the cash reserve in Iraq. Interviewed banks reported that cash liquidity will not be a challenge for a foreseeable future and operations can continue at current capacity. The Government had adopted a Strategy for 2016-2020<sup>8</sup> detailing a plan to diversify investment options outside the oil investment business, as well as a plan to support the financial system in the country. This could address some of the challenges affecting the current financial trade performance of the country.

### Complaint and Feedback Mechanism

The Iraq Information Center (IIC) that is operated by UNOPS serves as the main complaint and feedback mechanism for humanitarian response in Iraq. As part of the IIC, the CWG has developed a database connected to the IIC system for planned and ongoing MPCA. The CWG's database includes information on implementing agencies, including hot-line number, name of organization, timeline, and locations. Once a beneficiary contacts the IIC to make a complaint, the IIC reaches the CWG to refer complaints. Some Implementing agencies have their internal process to monitor and investigate complaints, including issues related to charging beneficiaries at cash out. Feedbacks received concerning cash transfer activities are summarized below.

Issue	Service provider	Action taken
Beneficiaries were charged a fee at cash out	Hawala	The FSP reimbursed beneficiaries
Beneficiaries being charged commission by agents	Mobile money service	Investigation commenced and action was taken. The FSP reimbursed beneficiaries

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<sup>8</sup> [https://www.cbi.iq/documents/CBI\\_Strategic\\_Plan\\_E.pdf](https://www.cbi.iq/documents/CBI_Strategic_Plan_E.pdf)

### Challenges and Risks

Agencies providing cash were limited by the lack of financial service providers that are capable of effectively delivering cash assistance and had to rely on money transfer companies. Building practical links with government systems has proved challenging, and there are fundamental disparities between humanitarian agencies and the government around targeting. The CWG adopted SEVAT as a targeting model to serve as an entry point to facilitate the referral pathway and to ease linkages between humanitarian cash interventions and the social protection system. Within the operational environment, there is limited harmonized technical guidance available to agencies for programming cash across clusters.

The cash liquidity crisis was a challenge characterised by delays in cash transfers across prioritized locations. The formal banking financial infrastructure in place is not favourable for electronic cash transfers, except for the QI card that is available for Iraqi citizens. The QI card could be one other option that the Humanitarian agencies could explore as a delivery option but the modality is more suitable for host community with civil documentation. Humanitarian agencies targeting refugees and IDPs may not be able to employ the system unless they assist beneficiaries acquire civil documentations.

In general, the following were challenges identified:

- Movement restriction, Cash liquidity, and withdrawal limit resulting in insufficient currency and delayed cash distributions; lack of sufficient local currency at distribution places and the use of USD at a lower rate, Lower amount of cash due to the new withdrawal rate regulations (25 percent IQD and 75 percent in USD);
- Difficulties to implement the Anti-money Laundering/combating the financial terrorism policy in line with donor anti-terrorism policies;
- Low digital financial literacy level;
- Limited number of effective financial service providers (FSPs) capable of delivering cash at a scale, particularly the availability of electronic system;
- Official language barrier with certain groups, including refugees during electronic communication; in case of targeting Syrian refugees using hawala or Mobile money transfer;
- Lack of available branches resulting in beneficiaries travelling long-distance travels /not available agents at sub-district level especially in rural areas;
- Poor mobile network in some areas around borders;
- Fraud and corruption including the distribution of fake money

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Delivery mechanism	Risk	Recommendations
Hawala service /direct cash	Cash out charges	Always inform beneficiaries that they are not supposed to pay any extra amount when taking out their cash. Establish strong monitoring system; randomly call beneficiaries and ask how much they have received; encourage beneficiaries to report using the IIC call center
	Movement of large sum of cash by cash vendors present a potential threat for robbery or attack	Spread the timing of cash disbursement to minimize carrying large sums of cash for reach distribution. Work closely with security forces and community leaders
	Liquidity issue resulting in Less number of beneficiary to serve and delay in transfers	Regularly monitor liquidity status in country, document how much is needed for disbursement. Mapping the number of agents per beneficiary (I.e. one agent per 200 to 400 beneficiaries)
	protection risks (for all types of delivery mechanisms)	Include in the contract a general data protection (GDPR) where gives individuals the right to decide when they no longer want their data to be processed. Ensure all contracts include clauses for data protection and beneficiary privacy. Encourage encrypted passwords to access data...
Mobile Money transfer	Cash out charges	Always inform beneficiaries that they are not supposed to pay any extra amount when taking out their cash. Establish strong monitoring system; randomly call beneficiaries and ask how much they have received; encourage beneficiaries to report using the IIC call center
	Beneficiaries might share their pin numbers or lose sim cards	Always inform beneficiaries of confidentiality of pin code details. Also, inform beneficiaries to report loss of a sim/pin code
	Late hours cash out practices by beneficiaries or long distance travels to cash out	Proper timing of disbursements to ensure safe travels and the security of beneficiaries. Messaging and communications with communities
	Liquidity issues resulting in less beneficiaries to serve and delay in cash transfers	Regularly monitor liquidity status in country, document how much is needed for disbursement. Mapping the number of agents per beneficiary (I.e. one agent per 200 to 400 beneficiaries)
	Old people or physically impaired/disabled foster parent having difficulty to access payment points	Discuss with beneficiaries and identify the most suitable mode of cash delivery for specific groups of people and facilitate cash delivery to their home locations
	Data protection risks (for all types of delivery mechanisms)	Ensure all contracts include clauses for data protection and beneficiary privacy. Encourage encrypted passwords to access data... Include in the contract a general data protection General Data Protection (GDPR) where gives individuals the right to decide when they no longer want their data to be processed.

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Delivery mechanism	Risk	Recommendations
E-transfers (RedRose, E-vouchers...)	Vendor fraud	Creating alternative transaction means of verification to prevent vendor fraud
	IT challenges which could lead to delays and or loss of voucher funds.	Deployment of dedicated IT staff to support transaction process and troubleshoot issues on the field.
Vouchers	Lost, damage or theft of the card or paper voucher	A robust complaint and feedback mechanisms should be in place. Establishing processes that allow efficient blocking and replacement of cards
	Diversion of funds	Segregation of roles and responsibilities (i.e. setting up a maker-checker system that ensures there are at least two individuals involved in the completion of a transaction)
	Duplications and fake vouchers	Put stronger security features i.e. in paper vouchers: inserting hologram, barcodes, different colours, hidden numbers, or printing the vouchers from a third party.
QI card	Not being used yet by humanitarian agencies	Not being used yet by Humanitarian agencies
Pre-paid Cards (Nasspay, SWITCH)	Not being used yet by humanitarian agencies	Not being used yet by humanitarian agencies

## RECOMMENDATIONS

Cash transfers have been used in Iraq to meet the critical basic needs of vulnerable populations, providing them dignity and flexibility in a context of uncertainty and economic need. Markets have proved stable and well integrated enough to absorb the cash response at the current scale, and have provided the goods and services people need. The Government of Iraq also use cash transfer as a means of delivering assistance to vulnerable citizens of Iraq through a safety net program.

Although Iraq is an appropriate context for the use of cash transfers, factors like lack of electronic transfer systems pose challenges to cash programming on a larger scale. The use of electronic payment systems for cash disbursements have proved very effective and efficient in many other countries. With this mechanism, partners were able to scale up and reach a large number of beneficiaries effectively. The QI card is a new electronic cash delivery mechanism that is at the moment adopted by the Ministry of Displacement and migration in Iraq (MoDM) as well as the Ministry of Labour and Social Affairs (MoLSA); it could be an option to explore and assess its suitability for targets under humanitarian cash assistance, its appropriateness to facilitate referral pathways, and link to social protection services. Similarly, humanitarian actors should explore the use of prepaid cards, including Nasspay and SWITCH, which are more up to speed to international banking systems, and could pave a way for expansion of electronic cash transfer mechanisms use in Iraq.

Most of the interviewed FSPs reported having an experience working with INGOs and UN agencies to deliver humanitarian cash assistance with reporting to have had worked with around 45 NGOs and UN agencies. Most organizations

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recommend direct cash through hawala agents or directly through implementing agencies and mobile money as a preferred mode of cash transfer.

Cash transfer activities require a high level of sensitisations, messaging, and a strong monitoring system. Beneficiaries should be informed on details of the cash transfer activity, including amount, mode of transfer, protection and fraud concerns, frequency of transfer, location, and feedback mechanisms in place. A strong monitoring system should be established to monitor the use of cash, external factors, including markets, and security situations. It is reported that some FSPs charge additional cash-out fees on beneficiaries, agencies need to ensure this cost is covered in the contract with the FSPs; most implementing agencies that are contracting hawala services are present in the field during cash distributions minimizing the risk of cash-out charges.

There needs to be a more regulated approach for contractual issues, including harmonizing transfer fees among FSPs, particularly Hawala agents, and standardizing FSP selection and negotiation procedures. Following this mapping exercise, the CWG will develop a standard capacity assessment and FSP selection criteria.

Vulnerable members of the communities such as elderly, sick or disabled disaster-affected people may have mobility issues. Keeping this in mind, organizations can pick a different delivery mechanism (e.g., Help Age in Ukraine used postal service as it could be delivered directly to the door of the beneficiary) or increase the number of distribution points.<sup>9</sup> Similarly, partners need to adhere to the minimum requirements established in the CVA and COVID-19 guidance<sup>10</sup> and employ the most appropriate modality and suitable distribution arrangements during COVID-19.

This mapping exercise would serve as an entry point to increase the participation of private sectors in the CWG discussions as well as increase the negotiation power of implementing agencies when contracting FSPs. The CWG remains one of the platforms to facilitate dialogues around common cash delivery system, challenges and to exchange best practices on cash delivery mechanisms in Iraq. The CWG should continue to explore and support the use of e-transfer mechanisms for the delivery of cash assistance, including an inter-agency shared information management system for cash transfers such as sharing anonymous datasets. Donors and actors should seek ways to support and improve the financial environment and infrastructure in Iraq, including support in the implementation of the national Switch system, introduction of electronic and digital cash transfer systems.

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<sup>9</sup> [https://reliefweb.int/sites/reliefweb.int/files/resources/financial\\_service\\_and\\_transfer\\_mechanisms.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/financial_service_and_transfer_mechanisms.pdf)

<sup>10</sup> [https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/iraq-cash\\_and\\_voucher\\_assistance\\_guidance-covid-19 .pdf](https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/iraq-cash_and_voucher_assistance_guidance-covid-19.pdf)

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Cash and Voucher Assistance Guidance-COVID-19 Recommendations, Guidance, Risk mitigation Measures for Cash Response, Iraq

General Data Protection Regulation, EU

Mapping of Financial Service Providers in Cash Transfer Programming in Southern Africa