



Informal Economies And Strategic Survival: Iran's Hawala System In The Face Of Sanctions

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Abstract

Iran has faced a succession of international sanctions, primarily from the United States and which have restricted the country's global access to the financial system. In conjunction with this, Iran has been using informal financial networks more than in the past, including the hawala system, to help its economy remain resilient and politically outspoken. The work at hand seeks to understand in-depth the hawala networks set up by Iran for its survival and resistance, basing its assessment on their structure and modalities of operation and the geopolitical significance thereof. By analysing literature, cases, and expert opinions, the article assesses in detail how hawala aids Iran with its regional and international transactions in avoiding financial sanctions and exerting its influence in the Middle East and beyond. It finally ends with the implication of this on global financial governance and sanction regimes.

Keywords: Iran, Hawala, Informal Economy, Sanctions, Economic Resilience, Geopolitics, Shadow Networks

Introduction

International sanctions are used more as tools of statecraft. This weapon has been used widely by the Western powers to exert pressure on or contain those regimes they perceive as adversarial. Iran, a prime target of such sanctions for its nuclear program, regional policies, and human rights record, has constructed adaptive mechanisms for overcoming economic isolation. One of them is the hawala system: an informal mode for transferring money that dates back to centuries and is commonly used in South Asia, the Middle East, and North Africa (El-Qorchi, Maimbo, and Wilson 2003). This paper explores how hawala acts as an instrument in the economic and geopolitical strategy of Iran. The research proceeds to focus on the evolution of hawala with the confidentiality of its operation and how this may intersect with Iran's needs for financial fluidity in sanction situations. The findings demonstrate that Iran's interaction with shadow networks is not merely an economic necessity but a carefully calculated geopolitical move.

Historical and Structural Overview of Hawala

This is called Hawala and means "transfer" in Arabic. It predates the very existence of modern banks. It was used to transfer money across borders long before physical transportation took place. This is an example of trust, where a close-knit network of brokers (hawaladars) would settle accounts vis-a-vis one another rather than through formal financial institutions (Passas, 2006).

Hawala is legal in many countries, but it is generally underregulated and can be exploited to further illegal acts. Indeed, its efficiency, anonymity, and the minimal documentation required attract actors who operate under financial constraints or seek to avoid scrutiny.

Sanctions and Economic Isolation of Iran

Since the time of the revolution in 1979, Iran has always felt different layers of sanctions, which became much more intense post the UN sanctions of 2006 and pre-empted by the measures imposed by the US and EU in 2010 against various Iranian banking, oil, and shipping activities (Katzman, 2023). The most recent and intensifying isolation was done when the reinstatement of US sanctions was implemented after the Trump administration's renunciation of the Joint Comprehensive Plan of Action (JCPOA) in 2018.

It stopped the country from carrying out any financial transaction with the rest of the world and forced it to look for other avenues. Reports have it that the Central Bank of Iran and its respective institutions have begun acting through hawala networks to ensure that trade and money transfers continue apace (Shahabi, 2020).

Iran's Operational Use of the Hawala System

Hawala in Iran is both functional and strategic. It helps in remittances and financial services in areas where there is little or no formal banking domestically. Internationally, the hawala system also allows Iran to carry out covert payments, procurement of goods, and funding of allied groups such as Hezbollah and militias in Iraq and Syria (Levitt, 2013). This framework operationalizes multiple layers of hawaladars across the Gulf, South Asia, and the Levant. Thus, it creates a much dispersed but cohesive network. The total transfers could be completed via Dubai-based hawaladars for a final recipient in Lebanon or Pakistan, beyond the traditional banking systems (Maimbo, 2003). Its opaque nature makes it difficult for regulatory bodies to trace these transactions or intercept them.

Shadow Networks and Strategic Resilience

Iran's use of hawala networks can also be considered an act of strategic resilience. They are lifelines for Iran, providing some isolation from sanctions while giving the possibility of maintaining some regional

power. Kfir (2021) states that Iran's use of informal currency exchange is just one element in a continuum of actions taken by sanctioned states to promote alternative economic configurations in opposition to the Western-centric financial architecture. Furthermore, Iran's shadow network includes barter trade, crypto-assets, and regional banks—other forms that create a semi-covert economic structure. This multidimensional approach bolsters Iran's political power and persistent resistance to external pressure.

Regulatory and Legal Implications

Hawala presents various challenges to state and non-state actors, which are certainly real pressing global issues in terms of financial governance. On the one hand, countries are urged by the FATF to bring informal money transfer systems under regulation; in practice, enforcement is rather weak (FATF, 2019). Iran is a typical case in this regard, illustrating, inter alia, the rather obvious failure of deterrent laws from pressuring states into making facilitation use of informal networks.

Weakening such networks requires an understanding of how the systems operate across jurisdictions in conjunction with cooperation. Understanding would give way to monitoring; outlawing it just exposes it further into the underground and creates more potential complications for actual monitoring. Drawing from the scenario of hawala through the control regulatory lens might present a pathway into transparency and regulation.

The Future of the Hawala System in Iran

Probably, the future of the hawala system in Iran will be shaped by a dynamic play of internal economic imperatives, international regulatory pressure, technological change, and the overall political alignment of different regions. Currently, the system is being used as a tool of circumvention under the purview of sanctions; however, many trends and possibilities will define how hawala continues to evolve in the Iranian context. Hawala system in Iran holds a complex fate in the future that would be decided by dynamic play of internal economic imperatives, international regulatory pressures, technological changes, and the overall political alignment of different countries in the region. Right now, it becomes a useful tool under sanctions, but it will change how hawala further evolves in the Iranian context under many trends and possibilities.

Firstly, the persistence of international sanctions will continue to incentivize Iran to invest in and refine its hawala networks. As long as Iran remains excluded from the global financial mainstream—particularly the SWIFT network and major banking institutions—informal systems like hawala will remain critical. Iranian financial institutions and policymakers may further institutionalize hybrid models that blend informal financial tools with state oversight to optimize both secrecy and control.

Iran is expected to take digital technology and merge them with traditional operational hawala. Immediate use of cryptocurrencies and blockchain technologies can bring extra layers of anonymity and other advantages to hawala-like transactions. With state-endorsed cryptocurrencies and blockchain technologies

already being used by Iran for some bypassing of international trade, setting hawala alongside it will be the birth of a more agile and decentralized financial architecture. Such a consolidation will also allow Iran to better connect with other non-Western partners who are themselves looking for alternatives from the U.S. in order to dominate the financial system.

In a regional geopolitical context, that'll determine the third consideration of the situation. The relationship with Iraq, Syria, Lebanon, Pakistan, and Afghanistan is thus set to continue as key transit countries for hawala-type operations. These are countries in which informal economies and financial infrastructures have existed for a long time. The consolidation of alliances in these regions will allow Iran to garner logistical support from, and political cover for, keeping and expanding these networks.

Yet, the road ahead will be difficult. Intensified scrutiny from international organizations like the FATF and pressure exerted by Western powers on Iran's regional allies could disturb the hawala channels. On top of that, if regional instability deepens or if there are regime changes, hawala nodes critical to Iran may be lost. A collapse of trust or a breakdown of cooperation with key hawaladars could impede the flow of funds in the system, thereby making it less reliable.

Iran, meanwhile, must grapple with dues on its own if it were to lean too much on informal mechanisms. While offering that flexibility, hawala also contradicts state revenue via tax evasion and decreases transparency in financial transactions. Such issues could only further jeopardize an already weak Iranian economy and instigate internal confrontation between formal regulatory institutions and informal financial actors. Hence, for the sake of geostrategic necessity, the Iranian state might be forced to consider a dual-track policy: supporting the hawala for now while seriously attempting to better regulate and monitor its operations.

The generational and technological dynamics within Iran are changing apparently economic behaviour. Many young, tech-savvy Iranians are more attracted to modern financial tools like digital payment systems and peer-to-peer platforms. On the other hand, should the old personal trust and physical networks hawala die out? Instead, the hawala itself could be reconstructed through digitalization, creating a kind of hawala ecosystem capable of being advanced into technological change while still holding on to the basic principles of hawala.

On an international front, there is now generating discussions on informal financial systems embracing a much wider framework of economic inclusion and financial justice. Even the World Bank and the IMF have taken a stance wherein they accept informal systems (and there may be risks involved) but at the same time, acknowledge the contribution of such systems to the socio-economic functioning in underbanked areas. Any view growing stronger in this perspective will probably indicate some possible openness of viewing hawala, including its form of use in already sanctioned states like Iran, as having more nuanced interpretations and thus paving the way for selective engagement-supervision rather than blanket criminalization.

Internationally, it has become a developing talk to cater informal financial systems into a much wider framework of economic inclusion together with financial justice. Even the World Bank and the IMF have a stance where they accept informal systems (and there may be risks involved) but at the same time, acknowledge the contribution of such systems towards the socio-economic functioning in underbanked areas. Any view growing stronger in this perspective probably indicates some possible opening regarding hawala-including the use of hawala in already sanctioned states like Iran-as having more nuanced interpretations and thus paving the way for selective engagement-supervision rather than blanket criminalization.

Any such rapprochement will probably dramatically alter the previously significant role of hawala. Easing of sanctions, particularly after some important diplomacy or an agreement similar to the JCPOA, would have reinstated Iran in the world financial system. The importance of hawala is more likely to decline and revert to its old roles of servicing migrant remittances and rural communities. However, with the deep and embedded nature of hawala, and with lessons learned by Iran toward building financial resilience, it would not be completely abandoned. Rather, the system could remain in operation as a supplementary mechanism, strategically kept in reserve.

Its future yet is not predetermined but is going to depend on many geopolitical, technological, regulatory, and societal variables. What is clear is that hawala, as a financial mechanism, is likely to remain a key component of Iran's adaptive economic strategy in the foreseeable future: whether it continues to exist as a necessity under the sanctions regime or begins to thrive as an option in a new multipolar financial world.

Conclusion

In context, it suffices to say that the way hawala is being manipulated in Iran becomes extremely patient and good when shadow networks have to be put into play around economic resilience and geopolitics. It is based on a very deep, highly culturally embedded, and very informal financial system, all of which defy conventional regulatory paradigms. That has put informal networks in place to keep an economy running and to create this kind of interaction that is sustaining Iran globally and regionally, strengthening this character as a pretty tough customer in the international system. To understand the implications of such practices, financial governance has to be revisited so that the methodology is adaptable, inclusive, and culturally contextual.