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Illicit Financing in Afghanistan

Methods, mechanisms, and threat-agnostic disruption opportunities

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Contents

Acronyms and abbreviations	5
Summary	6
Introduction	7
Financing illicit activity in Afghanistan	10
2.1. Raising funds	10
2.2. Using, storing, and managing funds	14
2.3. Moving and obscuring funds	16
2.3.1. Professional enablers	17
Exploiting jurisdictions and global finance vulnerabilities	19
Threat-agnostic capabilities and policy options	21
4.1. Aid and donor funding	21
4.2. Foreign assets	22
4.3. Hawala and banking	23
4.4. Impact of sanctions	25
Conclusion	27
References	29

Acronyms and abbreviations

AQ	Al Qaeda
FATF	Financial Action Task Force
FinTRACA	Financial Transactions and Reports Analysis Center of Afghanistan
HiG	Hezb-e Islami Gulbuddin
ISI	(Pakistan) Inter-Services Intelligence
ISIL-KP	Islamic State Khorasan Province
NGO	Non-governmental organisation
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TTP	Tehrik-e Taliban Pakistan

Summary

Illicit actors in Afghanistan, including drug traffickers, warlords, terrorist groups, and even former government officials, exploit the country to achieve their own political and economic objectives. Historical and contemporary sources demonstrate that there are patterns in how these actors raise, manage, store, move, and obscure money.

To raise funds, illicit actors engage in the production and trafficking of narcotics, taxation and extortion activities, illegal mining and timber production, and any other activities that can generate revenues. Depending on the actor in question, management of the acquired funds might be centralised, within the purview of a financial head, or decentralised, with control vested within several stakeholders. Illicit actors store some of their funds in cash within Afghanistan and use hawalas and banks to both store and transfer wealth out of the country. Since the Taliban takeover, international sanctions have largely ended the ability of banks to transact with most aspects of the global financial sector, with the exception of regional banking relationships that remain intact. Therefore, in addition to hawalas, common methods of moving money out of Afghanistan include bulk cash couriers, the transfer of precious metals and stones, and trade-based money laundering schemes. Wealth is moved out of Afghanistan to several key jurisdictions. Much of it makes its way to the United Arab Emirates (UAE) where funds are invested in businesses and real estate. Funds are also moved to Pakistan, Turkey, and to a lesser extent Iran and other neighbouring or proximate countries.

The stability of illicit financing mechanisms over time and across illicit actors presents opportunities for detection and disruption. However, this also applies to limitations of disruption opportunities. Since illicit actors in Afghanistan raise most of their funds within the country, there are few opportunities to disrupt internal Afghan revenue sources in the post-August 2021 context. As such, other detection and disruption opportunities that can be used to combat illicit financing with a nexus to Afghanistan must be examined. The policy options elaborated in this report include: enhancing the monitoring of aid and donor funding entering the country, facilitating the adoption of foreign asset and beneficial ownership tracing, introducing reforms to the hawala and banking sectors, and addressing deficiencies in international sanctions regimes.

A regionally coordinated policy approach to counter illicit financing from Afghanistan can reduce the ability of illicit actors to access their wealth and fund their activities. However, without access to a cooperative government in Afghanistan, there are limits to what can be achieved. Nonetheless, many of the policy and disruption opportunities available to counter illicit Afghan finance also serve to strengthen the integrity of the global financial system, address existing policy gaps in other jurisdictions, and can generally serve to enhance international cooperation on counter-illicit financing.

Introduction

Illicit actors in Afghanistan undertake a variety of activities and can be categorised in many different (and overlapping) ways: they include drug traffickers, warlords, insurgent and terrorist groups, and in some cases, members of the former Afghan government (Anonymous2, 2022; Sharifi, 2022). What these actors have in common is the interest and ability to exploit Afghanistan's resources for their own aims, whether that be political or economic objectives, or a combination of both.

Most illicit actors in Afghanistan raise funds through the exploitation of the country's limited economic activity. This includes the production and trafficking of narcotics, taxation and extortion activities (such as road taxes), illegal mining and timber production, and any other activities that can generate revenues. However, within Afghanistan, there is significant variation in how, economic activities are taxed and who by (Amiri & Jackson, 2022). The vast majority of illicit actors store some of their wealth in cash within Afghanistan, and in some cases use the services of deposit-taking hawalas¹ to store funds. Illicit actors also use the hawala sector to move money into, around, and out of Afghanistan. Other common methods of moving money out of Afghanistan include bulk cash couriers, either through land borders or on aeroplanes, bank transfers (making use of correspondent banking relationships – primarily with Pakistan), the movement of precious metals and stones, and trade-based money laundering schemes (Anonymous3, 2022). Since the Taliban takeover, international sanctions have largely ended the ability of banks to transact with most aspects of the global financial sector (Anonymous1, 2022).

However, some experts dispute the role of hawala in Afghan illicit financing, arguing that the sector is not capable of conducting the large volume transactions that most illicit activity requires; instead, prior to the Taliban's takeover in August 2021, bank transfers were used, both due to logistical limits on hawala transactions and for security reasons (Anonymous1, 2022). This issue illustrates a key point about Afghanistan and illicit finance: there is limited (and often competing) evidence about how funds are raised, used, moved, stored, managed, and obscured by these actors. While this research aims to corroborate and triangulate claims about illicit financing in Afghanistan, in many circumstances there is limited information outlining methods and mechanisms. As such, whenever possible, clarifying language expressing uncertainty or a balance of probabilities is used.

Illicit actors move funds (and more broadly, wealth) out of Afghanistan to several key jurisdictions. Much of it makes its way to the UAE where funds are invested in businesses and real estate. Funds are also moved to Pakistan, Turkey, and to a lesser

¹ Hawala is a system used to move money around the world, and is particularly popular in non-Western countries. A lot of descriptions of hawala rely on tropes like 'untraceability' and 'ancient'. To a certain extent, both of these things are true, but sensationalise some of the routine aspects of hawala. Hawala transactions involve the movement of money between two locations, generally without the physical transfer of funds, and they operate domestically and internationally. Hawalas are used to move money around the world because they are fast and inexpensive, provided that the sending and receiving parties can get to the physical location of the hawaladar.

extent Iran and other neighbouring or proximate countries. These jurisdictions have several things in common: geographic proximity to Afghanistan and weak anti-money laundering and counter-terrorist financing regimes. Illicit Afghan actors make use of these jurisdictions to hide the source of their wealth, and in some cases to procure goods and materials for militant activity.

Most criminal, terrorist, and insurgent groups adapt their activities in response to disruption activities and competition between groups (Kenney, 2007). But for illicit financial activity in Afghanistan, there has been little in the way of external pressure and disruption over the last two decades. As such, many of the financing mechanisms used by illicit actors with a nexus to Afghanistan have undergone very little change. Even the adoption of new technologies like cryptocurrency has been slow, and the adoption by illicit actors appears even more limited.

The stability of illicit financing mechanisms over time and across illicit actors presents opportunities for detection and disruption. The same capability that can be used to disrupt, for example, Islamic State Khorasan Province (ISIL-KP) financing in Afghanistan, might also serve to disrupt some aspects of illicit financing tied to the drugs trade. However, this stability also limits disruption opportunities. Since illicit actors in Afghanistan raise most of their funds within the country, there are few opportunities to disrupt internal Afghan revenue sources in the post-August 2021 context. The Taliban's control of the country makes them the only actor capable of disrupting this activity, but also a key beneficiary of it. As such, this report focuses on other detection and disruption opportunities that can be brought to bear against other aspects of illicit financing with a nexus to Afghanistan.

Countering illicit financing with a nexus to Afghanistan requires a regional approach, and a clear assessment of what those disruption opportunities can achieve. While a coordinated approach to countering illicit financing from Afghanistan can achieve some aims and reduce illicit actors' ability to access their wealth and fund their activities, without access to a cooperative government in Afghanistan, there are limits to what can be achieved. However, many of the policy and disruption opportunities available to counter illicit Afghan finance also serve to strengthen the integrity of the global financial system, address existing policy gaps in other jurisdictions, and can generally serve to enhance international cooperation on counter-illicit financing.

The evidence base for this report was created through a review of the literature relevant to illicit financing in Afghanistan. This literature was identified using a Google scholar search, and was augmented by citation tracing where appropriate (Pacheco-Vega, n.d.). While there is a large body of research relating to this topic, particularly with respect to the drug trade, there were significant gaps in the research, and many areas where important details or corroborating evidence was lacking. Specific information on illicit financing mechanisms were often missing in the literature. These areas were targeted for further investigation through semi-structured interviews with subject matter experts. The experts interviewed were identified through the author's existing network, and a snowball approach was used to identify further individuals relevant to this research. The experts were offered a choice of a fully-attributed interview (chosen by seven interview subjects) or an anonymous interview (requested by four interview subjects). In some cases, the interviews yielded additional literature for review and

inclusion. The interview notes were coded using qualitative analysis software to extract key themes, corroborate information, and to nuance particular elements of the analysis.

This report proceeds in three parts. The first part provides a historical and contemporary overview of illicit financing activities in Afghanistan. This section relies on a terrorist financing framework to explain the various mechanisms involved in how illicit actors raise, use, move, store, manage, and obscure their funds (Davis, 2021a). The second part of this report discusses the specific jurisdictions used for illicit finance and global financial vulnerabilities that illicit actors with a nexus to Afghanistan exploit in their financial activities. The third part of the report outlines the threat-agnostic capabilities that could tackle some of these illicit financial challenges.

Financing illicit activity in Afghanistan

Illicit financial activity with a nexus to Afghanistan emanates from a variety of activities and actors, and there is a great deal of fluidity among and between these actors. Illicit actors in Afghanistan include drug traffickers, warlords, terrorist entities and corrupt government officials (Sharifi, 2022). Much of the actors' illicit financial activity originates from the drugs trade in the country, but often extends far beyond that into a variety of other criminal (and sometimes legal) economic activities like timber smuggling, mining, extortion and protection rackets, and much more. While the drugs trade features prominently, some estimates suggest that the so-called taxation of these other economic activities might be even more important (Mansfield, 2021).

The distinctions between the different actors are often difficult to parse. Political leaders in Afghanistan often have deep ties to drug trafficking networks, warlords, and insurgent groups (Vittori, 2022). What all these groups and illicit actors have in common is that they finance their activities in similar ways. They raise funds from the economic activity of Afghanistan (including through the drug trade and extortion), they move money through cash couriers, banks, and the hawala network, and they invest their funds outside Afghanistan, primarily in the UAE and Turkey.

2.1. Raising funds

The structure of the Afghan economy shapes much of the revenue generation for illicit actors. The persistence of decades of war has had a significant effect on economic activity and financial systems in the country. The economy is characterised by mining activities (talc, precious stones and metals), poppy and methamphetamine production, refinement of base agricultural products into other drugs, some agricultural activities, and government services (Mirdad, 2020; The World Bank, 2021).

Most illicit actors use these economic activities to raise funds through extortion, control, and taxation, and in some cases direct involvement in the sectors. The informal and lightly regulated nature of the Afghan economy and financial sector is also exploited by illicit actors. Ultimately, illicit actors and the nature of the Afghan economy interact with each other: neither one is directly responsible for the other, but they are mutually reinforcing and edge out other forms of economic development. In fact, Afghanistan's legal economy is pervaded with criminal behaviour, and actors regularly float between the legal and illicit economies and financial systems (Bewley-Taylor, 2013). For example, the high cost of doing business during the civil war era in Afghanistan directly precipitated the rise of the Taliban (Ahmad, 2017). Traders sought out alternatives to the heavy security prices along the main roads, and the Taliban was seen as a cost-effective alternative to the ethnic warlords (Ahmad, 2017). Even today, the return of the Taliban has in some cases probably simplified taxation schemes, facilitating some aspects of life for Afghans involved in trade and the movement of goods (whether licit or illicit) (Anonymous1, 2022). The illicit economy in Afghanistan has a strong economic

effect: it provides the basic and sometimes only livelihood for segments of the population, and displaces legal production activities (Felbab-Brown, 2009).

Taxation and extortion are the main sources of funds for a variety of groups operating in Afghanistan, including state actors and illicit actors aligned to the state. For instance, the Tehrik-e Taliban Pakistan (TTP) and the Taliban have both taxed illicit and licit trade. Terrorist groups and other illicit actors charge fees and in return provide security on roads and for shipments, an arrangement that grew out of the 1980s war economy (Solomon, 2008a).

Illicit trade most often refers to the production and trafficking of narcotics. Many groups operating in and around Afghanistan have some involvement in this activity, although that level of involvement varies significantly. As Goodhand and Pain (2021) note, the Afghan economy is best conceived of as a ‘drugs assemblage’ – constructed through the interweaving of plants, institutions, actors, processes and resources through which drug journeys are managed and facilitated (p. 1). This has the concrete effect of creating opportunities for different levels of involvement in various aspects of this assemblage by illicit actors. For instance, the TTP has taxed both drug laboratories and distributors (Solomon, 2008a). For their part, the Taliban’s role in the narcotics business has ebbed and flowed. In the late 2000s and early 2010s, this involved a focus on taxing the processing and export end of the business, and a move away from taxing poppy farmers. There is also evidence of a more serious collaboration between drug-trafficking networks and the Taliban (Peters & Ressler, 2010). As Maloney (2009) describes it, the Taliban is in a cooperative security arrangement with poppy cultivators and refiners. The Taliban provides security for people in the production areas and takes a cut from that endeavour rather than controlling cultivation areas directly. Other groups also engage in this type of cooperative security arrangement (Maloney, 2009).

Groups also engage in other illicit activities to raise funds. For instance, the Taliban has raised funds from other revenue streams such as mining, kidnapping for ransom, and the extortion of non-governmental organisations (DuPée, 2017). As of 2017, the Taliban’s exploitation of mining sites was earning them hundreds of millions of dollars annually, and was estimated by some to be the second largest revenue stream for the group after narcotics (DuPée, 2017). While actual Taliban revenues (and specifically drug revenues) are contested amongst experts, illegal mining is found to be an important source of funds for groups and actors operating in Afghanistan. In some cases, groups tax the transport of minerals and charge mining operators a license to excavate (DuPée, 2017). Organisations like ISIL-KP have also profited from illegal mining activities, particularly in the Nangarhar province (DuPée, 2017).

The Taliban also provides security for the processing labs and for the shipments of chemicals required to make heroin. The group has been known to help drug lords fight poppy eradication efforts. Some of these funds are believed to have made their way to the Quetta Shura – the Taliban’s council of leaders (Rollins & Rosen, 2010). Reporting from July 2021 suggests that the Taliban is diversifying from heroin into methamphetamine, a development that has been ongoing since at least 2020 (O’Donnell, 2021; EU4MD, 2020).

Support networks also fund illicit and insurgent activity in Afghanistan. For instance, the Taliban received voluntary contributions from businesses and individuals, in exchange for or as a reward for improved security conditions (Solomon, 2008a). Instead of focusing on extortion, the early Taliban relied primarily on donations (Ahmad, 2017). Other groups like ISIL-KP are also believed to have received support from their networks, particularly related terrorist groups (Global Witness, 2018; *Twenty-Second Report of the Analytic Support and Sanctions Monitoring Team*, 2018).

Historically, the Taliban is believed to have received significant funds from foreign state sponsors including Iran, Russia, and Pakistan (Davis, 2021a). Private citizens from Saudi Arabia, the UAE, and Qatar are also believed to provide the group with funds, although specific details on these transfers are rare (Reese, 2012). From the mid to late 1990s, the group received support from sponsors such as Pakistan and Saudi Arabia. Prior to 9/11, Pakistan provided the group with political recognition, and was a significant contributor of people, guns and money. As Reese (2012) notes, in 1997 alone, Pakistan gave the Taliban 18,000 Kalashnikov rifles, dozens of artillery pieces, large quantities of ammunition, and vehicles. Between 1997 and 1998, Pakistan provided the Taliban with \$30 million in aid, of which \$6 million was earmarked to pay the salaries of the group's leadership (Reese, 2012). Current levels of foreign support for the Taliban are unknown, but it is likely that many of these donors (both state and private) continue to support the group to some extent. Some estimates suggest that these donations continue to provide the Taliban with over a third of its funds (Anonymous4, 2022).

The Haqqani Network, which continues to work closely with the current Taliban government, has historically also received funds from donations, including from influential citizens / wealthy donors from Gulf states, as well as from foreign governments including the US, Saudi Arabia, and Pakistan's Inter-Services Intelligence (ISI), as well as the UAE (Stanford Center for International Security and Cooperation, 2017; Rassler, 2018). Furthermore, the group is believed to have received funds from Al Qaeda (AQ) (Brown & Rassler, 2013).

The Haqqani Network has a close working relationship with the Pakistani Taliban, particularly in regards to kidnappings, and some research suggests that the group collaborates closely with the Taliban and AQ on fundraising activities including kidnappings, taxation, and extortion activities (Peters & Rassler, 2010a). The Haqqani Network additionally raises money through: extortion and taxation on local, regional, and international businesses in its area of control; by providing protection to narcotics traffickers; and from robbery (Davis, 2021). The group might also be involved in the smuggling of drug precursor chemicals, as well as smuggling timber, stone, marble, and weapons ('Haqqani Network (Afghanistan/Pakistan)', 2019; Brown & Rassler, 2013). Not all of the Haqqani Network's businesses are illicit. The Haqqanis are believed to have a scrap metal business that helped give them the financial ability to remain independent from other insurgent / criminal groups during the 1990s (Bell, 2013).

There are an estimated seventeen insurgent / terrorist groups operating in Afghanistan, in addition to other criminal actors, and they all play a role in the extortion and taxation economy (Zerden, 2021). For instance, Hezb-e Islami Gulbuddin (HiG) is believed to engage in taxation and extortion activities, particularly of the loot-able resources in the east of Afghanistan. Furthermore, HiG probably relies on smuggling activities to raise

funds locally (Peters & Rassler, 2010). In addition to taxing narcotics activities, HiG taxes other agricultural products, and protects smugglers. Finally, HiG is believed to work closely with drug gangs to protect shipments (Peters & Rassler, 2010).

Some groups have also engaged in more straightforward criminal activity, such as bank robberies to raise funds, although this activity is rare. For instance, in the late 2000s, the TTP deployed recruits as bank robbers (Solomon, 2008a).

In Afghanistan, ISIL-KP generally clashes with the Taliban in terms of funding and resources. ISIL struggles financially in the country, but still generates most of its funds from taxing and extorting the local population in its area of control and influence. This taxation / extortion activity includes control of mining sites, including talc, chromite, precious and semi-precious stones as well as agriculture (Global Witness, 2018; *Twelfth Report of the Analytical Support and Sanctions Monitoring Team*, 2021). Prior to being taken over by ISIL-KP, the mining sites had been held by the Taliban who profited from them, but did not mine them directly (Global Witness, 2018). ISIL-KP is also reported to raise funds from timber smuggling, and kidnapping for ransom (Jadoon & Mines, 2020). In the past, the group received support of up to \$100,000 per month from ISIL in Syria/Iraq ('Islamic State Still Active and Undefeated in Afghanistan: Paper', 2020). However, reporting from 2020 suggests that ISIL-core no longer plays a key role in ISIL-KP decision-making, which further suggests that their support for the Afghanistan branch has stopped (*Twenty-Sixth Report of the Analytical Support and Sanctions Monitoring Team*, 2017).

As a general rule, ISIL-KP does not raise funds from the opium trade / economy, however, as with all illicit actors in Afghanistan, they have been known to raise funds in whatever way is expedient, potentially also including occasional taxation of drug routes. The group is reported to have burned poppy fields rather than fund themselves this way; however, the group might also be burning poppy fields as a way of denying its adversaries access to this as a funding source, given that the group does not control the smuggling routes and refinement methods (Global Witness, 2018).

The UAE, Saudi Arabia, Kuwait, and Qatar might have provided financial support for ISIL-KP through state support and through donor networks ('S Arabia, UAE Deploy 7k ISIL Terrorists in Afghanistan: Military Official', n.d.). Although with ISIL-core's loss of territory in Iraq and Syria, the aforementioned donors may have redirected funds to the main organisation. No updated information is available on whether these actors are still providing funds to ISIL-KP, and in what quantities. As with many other groups in the region, there are allegations that ISIL-KP is in part funded by the ISI, but little information corroborates these assertions, and in fact other reporting argues the opposite. However, the group's leader, Shihab al-Muhajir, is previously believed to have been affiliated with the Haqqani Network, which might be another source of funds (Routray, 2020; Abdul Sayed, 2020; PTI, 2021).

Regardless of whether they are drug-trafficking organisations, terrorist groups, or other criminal entities, illicit actors' fundraising in Afghanistan relies on exploiting the economic activity (both legal and illegal) in Afghanistan, as well as through foreign donations. The state of those foreign donations, and the specific identities of the foreign donors, remain unknown. It is also unclear what role those donations have in terms of

sustaining illicit actors – whether they are small influxes of funds, or more significant line items in illicit actors’ budgets. While there remains some disagreement between experts on the role of drugs in funding illicit activity in Afghanistan, and exactly what activities make up the bulk of their budgets, what is clear is that most illicit actors benefit from the drug trade in whole or in part. Illicit actors further exploit economic activity within Afghanistan regardless of whether that activity is licit or illicit, or part of the formal or informal economy. Ultimately, these actors profit from economic activity within Afghanistan, and move much of those funds outside the country to hide the origins of their profits and integrate them into the global financial system.

2.2. Using, storing, and managing funds

In addition to fundraising activities, illicit actors in Afghanistan employ other financing mechanisms to use, store, and manage their funds. Much of this is done in cash. Illicit actors in Afghanistan maintain significant amounts of cash for local use, a requirement in a largely cash-based economy like Afghanistan, but also move any surplus out of the country for safer storage and longer-term investments (Anonymous1, 2022; Sharifi, 2022; Vittori, 2022). For example, the Haqqani Network stores its funds in cash, as well in the accounts of front companies. The group also has business investments in communications, construction, import-export, natural resources, and transportations sectors, as well as real estate (commercial and residential) (Gretchen Peters, 2012).

These funds are primarily used to acquire goods, weapons, and device components, pay salaries and other quotidian needs. There is little information available on how illicit actors manage their funds, although some information suggests that illicit actors make use of professional enablers such as lawyers. While some enablers are located inside Afghanistan, illicit actors primarily employ professional enablers in other jurisdictions like Dubai (Anonymous1, 2022; Templeton, 2022).

Illicit actors use funds in Afghanistan to advance their organisational and political objectives. For instance, the Haqqani Network uses funds to conduct complex, high-profile attacks such as suicide bombings, and to pay for things like weapons, equipment, and training (Stanford Center for International Security and Cooperation, 2017). Some researchers also suggest that the Haqqani Network has financially supported Al Qaeda’s training camps (Brown & Ressler, 2013). Moreover, the group provides salary payments to operatives, spends considerable sums on media operations, and provides family support payments for deceased fighters (Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), 2018; Gretchen Peters, 2012). The Haqqani Network also has licit and illicit business operational costs, including those associated with the running of madrassas (Gretchen Peters, 2012).

ISIL-KP uses its funds to pay fighters, and to acquire weapons such as military-grade explosives (Gretchen Peters, 2012). ISIL-KP also uses funds to buy general equipment and security. Operational security remains an ongoing expense for the group. The group has acquired flats and houses to conduct financial operations and to host leaders in North Waziristan, Qatar, the UAE, and Saudi Arabia, although many of these locations are probably closed. ISIL-KP operatives also tend to face inflated costs in terms of food and rent, and the group spends money on training camps in Afghanistan (Giustozzi, 2018).

Given that much of the Afghan economy is cash-based, it is likely that ISIL-KP stores much of its funds in cash. This suggests the existence of cash storage sites in its main operating areas such as Nangarhar (Khan, 2021). One arrest of an ISIL-KP member carrying \$80,000 further corroborates the use of cash storage sites (Jadoon & Mines, 2020). ISIL-KP might also store money in banks in Pakistan and is reported to have investments in Dubai (Giustozzi, 2018). Additionally, the group probably relies on hawaladars to store funds, amounts of which are estimated to be in the 'tens of thousands of dollars', (Department of the Treasury, 2021, p. 4).

The Taliban spends money on similar items to those that other illicit actors in Afghanistan spend money on, including labour. Historically, the group first tried to offer no salaries to officials or soldiers, and instead just provided food, clothes, shoes and weapons (Rollins & Rosen, 2010). To manage their funds, the Taliban established provincial commissions in Afghanistan that helped the Quetta Shura maintain control over funds that were raised in provinces (Peters & Rassler, 2010). The Maali Comisyoon oversaw and managed the financial flow of the Taliban's revenue streams (DuPée, 2017). The Dabaro Comisyoon (Stones Commission) managed the taxation of extracted minerals and ores while issuing official Taliban-sanctioned mining licenses (DuPée, 2017). There are also some reports that the Taliban has used professional enablers to manage their funds. For instance, the Taliban is believed to have transferred some of their assets to businessmen in anticipation of sanctions (Solomon, 2008a).

For its part, the Haqqani Network manages funds through its senior leadership who control different divisions of resources (Stanford Center for International Security and Cooperation, 2017). Nasiruddin Haqqani ran the network's financial operations prior to his death in 2013 (Rassler, 2018). Sirajuddin Haqqani, the current leader of the Haqqani Network, has a considerable stake in financial decision-making. Ibrahim Haqqani oversees many of the network's real estate holdings in Pakistan and the UAE, while Khalil al-Rahman Haqqani serves as a main fundraiser, working in Dubai, Saudi Arabia, Iran, China, and Pakistan to solicit donations. He also operates front companies to facilitate operations in Pakistan (Stanford Center for International Security and Cooperation, 2017).

To manage its funds, ISIL-KP is reported to maintain a financial commission (Baytulmal Commission) with offices in Qatar, the UAE, and Saudi Arabia (Giustozzi, 2018). The group has also been subject to inspection visits by the Iraq/Syria branch of the Islamic State to ensure that the group's finances were being managed appropriately, and that they had all the right receipts and invoices (Giustozzi, 2018). The group operates a decentralised financial structure, where individual operational units have far fewer financial resources and exist more at a subsistence level. Counter-terrorism action in the late 2010s might have also kinetically targeted some of the leaders responsible for the management of ISIL-KP's funds, although the decentralised management of these funds probably gives the group redundancy and resilience from a fiscal perspective (Jadoon & Mines, 2020).

What all these illicit actors have in common is a high reliance on cash (and presumably cash storage sites, although some of these funds might be deposited with hawaladars), some sort of management system for their revenues, and offsite storage of wealth, often in Dubai, Pakistan, Turkey, and elsewhere. However, significant information gaps

remain about the specifics of the storage of their wealth and the individuals and techniques used to manage and invest their funds. Addressing these information gaps could provide opportunities to disrupt illicit management of funds in Afghanistan and in surrounding jurisdictions.

2.3. Moving and obscuring funds

The movement of funds in Afghanistan usually happens in one of three ways: through the hawala network (ending with funds disseminated in cash), cash couriers, or the formal banking system (Anonymous1, 2022). Some illicit actors have also taken advantage of Afghanistan's limited correspondent banking relationships with other countries (primarily Pakistan) to move money through the banking sector. Furthermore, there is information suggesting that illicit actors have made use of trade-based money laundering techniques to move money across borders and throughout the region (Solomon, 2008b). In some cases, this probably involves the trade of low-grade commodities throughout central Asia and in China (Marsden, 2016). While short on details, these trade-based money laundering schemes usually involve over- or under-invoicing goods transiting from Pakistan, and corresponding transfers of funds either through banks or hawala (Templeton, 2022).

Hawala plays a major role in the movement of funds in, around, and out of Afghanistan. For instance, the Haqqani Network is believed to move substantial funds through hawala transfers from Afghan traders who live in the UAE (Peters & Rassler, 2010b). The group is believed to avoid using local banks, and instead relies on both hawaladars and local shop owners for their financing needs (Peters & Rassler, 2010). This is true for other illicit actors as well. The Taliban has used the hawala network to move funds in, around, and out of Afghanistan. Indeed, some consider hawalas to be the Taliban's primary financial lifeline, and several money exchange businesses have been sanctioned for their role in facilitating Taliban finance (Zerden, 2021). However, there are different opinions about whether or not hawala transfers are responsible for the bulk of illicit financing out of Afghanistan. While some suggest this is the main way that actors move funds to Dubai (Anonymous2, 2022; Anonymous3, 2022), others believe that banks play a more important role, particularly for large transactions that require more security and that would be a challenge for a hawaladar to cash out (Anonymous1, 2022).

Cash couriers are frequently used to move money both into and out of Afghanistan, particularly between Afghanistan, Iran and Pakistan (Templeton, 2022). Bulk cash shipments, particular of US dollars, have also long been an important part of the Afghan economy (Anonymous1, 2022; Zerden, 2022). In the past, foreign aid and illicit donations to criminal and militant actors have been transported as bulk cash shipments. Illicit actors make extensive use of the vulnerabilities associated with cash to hide their activities. In the 1990s, western intelligence agencies suspected that some Persian Gulf royals were using flights to export Afghan heroin, and that Taliban-controlled Ariana Afghan Airlines was also used to move product (Maloney, 2009). These flights might have also been used to move bulk cash into and out of Afghanistan, and flights are also believed to have been used to move money out of Afghanistan in relation to the Kabul Bank scandal (*Dubai's Role in Facilitating Corruption and Global Illicit Financial Flows*,

2020). Other cash courier methods involve building traps in cars to move cash without detection in the vehicles (Templeton, 2022).

In some cases, local criminal actors have established control over currency exchange, such as the case of Mullah Ghafoor and his establishment of the Kefayat market (Giustozzi, 2007). This allows greater flexibility for illicit actors in terms of moving money in, around, and out of Afghanistan, and ensures greater security of their funds both in Afghanistan and for their foreign investments.

Many illicit actors make use of all three methods of moving funds in the region and in Afghanistan. For instance, the Haqqani Network moves money through the formal sector, such as through banks, and local financial institutions, as well as through the informal sector through hawalas and vendors at Bazaars (FINTRAC, 2018). Some reports also suggest that religious schools are used as a conduit for cash couriers moving funds in and out of Afghanistan, and to send monthly salary payments to operatives in the country (Stanford Center for International Security and Cooperation, 2017).

ISIL-KP has received funds from ISIL in Syria/Iraq through cash couriers, hawala, particularly in Kabul and Jalalabad, and through bank transfers (Giustozzi, 2018; Department of the Treasury, 2021). Some of these funds might be routed through Turkey, China, and the Gulf (Jadoon & Mines, 2020). The group is also likely to use cash couriers to move money throughout Afghanistan and regionally (Jadoon & Mines, 2020). ISIL-KP makes use of the charitable sector for the movement of funds as well. For instance, the United States designated the Nejaat Social Welfare Organization and the organisation's director Sayed Habib Ahmad Khan for facilitating the transfer of funds to the group (U.S. Department of the Treasury, 2020). Charitable organisations are often used by terrorist groups as both a way to generate revenue and to move funds regionally, and as part of their financial tradecraft (Davis, 2021a).

2.3.1. Professional enablers

Information on the use of professional enablers by illicit actors in Afghanistan is limited, but what is available is suggestive of some use of these services both within Afghanistan and in jurisdictions where illicit actors store and hide their funds. Professional enablers like accountants, company formation agents, and lawyers allow terrorist and insurgent groups, as well as criminal actors, to move money out of Afghanistan and store and invest it in other jurisdictions, hiding the true beneficial owner. For example, lawyers have been used to falsify real estate transactions in Afghanistan, and have also served as intermediaries for individuals who have had their accounts frozen by FinTRACA, Afghanistan's financial intelligence unit (Templeton, 2022). In another example, the Haqqani Network hides the source and destination of funds through a vast number of front companies and legal businesses across a wide variety of sectors including real estate, communications, construction, import-export businesses, and natural resources, as well as transportation (FINTRAC, 2018). The group also owns and controls religious schools that are used to conceal and launder legal and illegal profits (Stanford Center for International Security and Cooperation, 2017).

However, the lack of empirical evidence relating to illicit actors in Afghanistan using enablers raises questions about how widespread the tactic is. For instance, if professional enablers like accounting firms were widely used to hide funds for Afghan actors, it increases the possibility that disruptive action against these actors would be taken. To date, information on enabler use and associated examples of disruption are lacking (Rassler, 2022). Conversely, the role of accounting firms in the Kabul Bank scandal is well documented and could conceivably be a method that other illicit actors use to hide their funds (Vittori, 2022). Enablers like company formation agents (and associated shell companies) are reported to be used to facilitate illicit finance from Afghanistan, but there is little concrete evidence to support these assertions (Vittori, 2022).

Exploiting jurisdictions and global finance vulnerabilities

Illicit actors in Afghanistan use a variety of different jurisdictions to facilitate, hide, store, and invest the proceeds of their illicit activity. The main jurisdictions used for these purposes include Pakistan, the UAE (specifically Dubai), and Turkey. However, other jurisdictions in geographic proximity to Afghanistan are also exploited to a lesser extent, including Iran, Qatar, and possibly Russia and China as well. Turkmenistan and Tajikistan are also used, and funds are also transferred to western countries like Australia to purchase real estate (Anonymous1, 2022).

Pakistan is used by illicit actors in Afghanistan for a variety of purposes, including to procure goods, weapons, and components. Pakistan is a common destination for bulk cash shipments and is also potentially used for trade-based money laundering schemes. For instance, trucks crossing the border between Afghanistan and Pakistan have often been used to transport bulk cash (Clarke, 2022). The exploitation of Pakistan as a jurisdiction to hide and store funds is usually based on whether or not the illicit actor has familial relationships or close business ties in the country (Templeton, 2022). Some research also suggests that Pakistan might be a jurisdiction used for Taliban storage and management of funds, particularly through professional enablers (Solomon, 2008a). Furthermore, Pakistan is an important trans-shipment point for the drugs trade in Afghanistan, with the Taliban having facilitated the movement of drugs across the border into Pakistan (Peters & Rassler, 2010). Pakistan's long, porous border with Afghanistan provides a natural destination for illicit funds, and while some of the funds are probably stored in Pakistan, it is also likely to be used as an access point to the global financial system.

Experts agree that the UAE provides significant financial capability to illicit actors in Afghanistan, and is used as a destination for illicit funds, as an access point to the global financial system, and as an investment location in its own right (Anonymous2, 2022). The hawala sector in Dubai, which has extensive links to Afghanistan and Afghan hawaladars, provides the ability to move funds in and out of Afghanistan with ease. Hawaladars that operate in the UAE are believed to provide a significant financial lifeline, particularly to groups such as the Haqqani network, who want to hold some of their funds outside Afghanistan (Peters & Rassler, 2010).

Historically, Dubai has been a centre for illicit Afghan financial activity. For instance, the Taliban and Al Qaeda are reported to have moved gold out of Afghanistan and into Dubai (*Dubai's Role in Facilitating Corruption and Global Illicit Financial Flows*, 2020). Some of these movements also include illicit funds tied to corruption. In 2009, \$600 million was moved from the country's banks by various individuals, including Sher Khan Farnood, a co-founder of Kabul Bank (*Dubai's Role in Facilitating Corruption and Global Illicit Financial Flows*, 2020). Much of the funds embezzled from Afghanistan have become tied up in Dubai real estate (George, 2020). The extensive linkages between hawaladars in Afghanistan and Dubai provide illicit actors in Afghanistan with an easy location to

which they can move funds, store funds with hawalas, and then use other sectors, including banks and real estate, to consolidate their wealth and hide it from view.

Real estate purchases in Dubai are a particularly popular method for storing illicit funds, as is the investment in businesses (Clarke, 2022; Ressler, 2022). Some research suggests that Afghan illicit finance actors use intermediaries like friends or family members to hide the beneficial ownership of assets in the UAE (Zerden, 2022). Other research suggests that the acquisition of assets in the UAE is much more open, with little effort used to hide the true owner of the assets (Vittori, 2022). Some experts have also indicated that falsified real estate purchases in Afghanistan have been used to move funds out of the country, probably including 'payments' to individuals or accounts in the UAE and Dubai specifically (Templeton, 2022). Moreover, the UAE's residency policy is a key enabler of Afghan illicit finance as it allows for easy establishment of residency, and the ability to purchase property and open accounts and businesses (Vittori, 2022).

The UAE is also a key destination for bulk cash. At different times in Afghanistan's history, there have been both trucks and aeroplanes moving bulk cash out of the country and into the UAE (Felbab-Brown, 2022). The cash can be deposited with relative ease at various financial institutions and hawalas in the region, and from there can be either stored or invested in the UAE, or moved through the global financial system.

While there is little concrete information about Turkey's role in illicit finance for Afghanistan, experts agree that it is an important hub (Anonymous1, 2022). Turkey's financial system is accessed through the hawala system and has been a destination for bulk cash, particularly for corrupt government officials (Anonymous2, 2022; Anonymous3, 2022). Some of these funds have also been transferred through the formal banking system, with illicit actors exploiting Turkey's lax due diligence standards (Sharifi, 2022).

Ultimately, illicit actors in Afghanistan make use of different countries in the region to facilitate their illicit financial activity. Turkey, the UAE, and Pakistan, all countries subject to increased monitoring by the FATF, feature prominently in Afghan-related illicit financing (Financial Action Task Force, 2022). The deficiencies noted in these jurisdictions' mutual evaluation reports are all areas that illicit financial actors with a nexus to Afghanistan exploit to hide the source, destination, and purpose of their funds.

Threat-agnostic capabilities and policy options

Disrupting illicit financing in and from Afghanistan is a challenging proposition, particularly after the fall of the Afghan government and the Taliban takeover in August 2021. The Taliban's control of the country limits opportunities for disrupting revenue-generating activities in Afghanistan, such as taxation and extortion activities, and the drugs trade. While the Taliban has some incentives to disrupt terrorist financing, particularly by rival groups like ISIL-KP, their willingness to disrupt financial activity by other terrorist and criminal actors is far less. However, other opportunities exist to apply threat-agnostic capabilities to illicit financing activities, such as how criminals, terrorists, and corrupt government officials store, manage, move, use, and hide their funds, some of which can support existing international efforts to disrupt illicit financing in places like Turkey, Pakistan, and the UAE.

4.1. Aid and donor funding

Aid and donor funding to Afghanistan is critical for stabilising the Afghan economy and preventing the starvation of millions of people. However, the Taliban and other illicit actors exploit that funding and aid to finance their activities. Taxation and extortion schemes are well-known for targeting aid and donor activities in the country. Since the fall of the Afghan government and the takeover by the Taliban, aid delivered by the United Nations ends up, at least in part, in the hands of Taliban-controlled organisations, and in some cases in the hands of organisations with links to other terrorist groups (Sharifi, 2022). In fact, the Taliban's ability to conduct US dollar auctions suggests that they have managed to acquire some of these aid funds to shore up their government and the country's financial system (Anonymous1, 2022). Even prior to their takeover, the Taliban is estimated to have earned almost a third of their money from extortion or protection money from aid organisations; this is likely to remain an important part of their budget (Anonymous4, 2022).

While there are few palatable policy solutions that can stop this in its entirety, it might be possible to set up a mechanism to monitor donor funding coming into Afghanistan to ensure it reaches its proper recipients (Brookings, 2022). Direct donations to aid organisations, or to individuals through remittance channels, are some options for delivering aid in Afghanistan (Sharifi, 2022). However, regardless of the efforts to monitor donor funding, the Taliban (and probably other groups, depending on the specific area of operations and aid delivery) will benefit from these funds (Anonymous4, 2022). Most aid organisations will have to pay either a tax to the Taliban, or protection money to other entities in the areas where they are operating (and perhaps both). Enhanced monitoring, international cooperation, and increased transparency of aid and donor funding could provide greater assurance that as little as possible is flowing to terrorist entities and the Taliban. Direct donation of goods instead of cash could limit some profiting from aid, although the Taliban and other groups are likely to take a portion of goods as payment in lieu of cash (Anonymous4, 2022). Negotiating a

maximum fee to be charged on international aid with the Taliban might be an option for limiting the effects of extortion, although enforcement of such an agreement would be challenging and would require the willingness to stop aid if the Taliban were to defect from such an agreement. Stopping the group from acquiring funds earmarked as aid in its entirety is unlikely, unless all aid to Afghanistan is suspended, an outcome that would have devastating effects on the Afghan economy and for the people of Afghanistan.

4.2. Foreign assets

Turkey, Pakistan, and the UAE are common jurisdictions of concern relating to Afghan illicit finance. Regardless of whether the funds are generated through insurgent or terrorist activity, by criminal elements, or by corrupt officials, illicit flows often end up in one of these locations. There, the funds are used to purchase property, businesses, or are invested in other assets. There are diverging views on whether these assets are held in the name of the ultimate beneficial owner. Some researchers suggest that, since there is little external pressure to prevent the illicit flow of funds and acquisition of assets in these countries, that assets might be held in the true name of the ultimate owner (Felbab-Brown, 2022). However, others suggest that these assets are more likely to be held in the name of extended family members or business associates, making tracing the assets to their beneficial owner more challenging (Sharifi, 2022).

Some illicit actors from Afghanistan, including the Taliban, might have accounts in the UAE that they might still have access to and where they hold assets and investments (Anonymous4, 2022; Felbab-Brown, 2022). However, the majority of illicit actors' financial resources are likely to be in real estate, barrels of cash, stocks, and other financial assets. There are some indications that sanctions have had an impact on the liquidity of some of these assets, both in the UAE and elsewhere; however, most experts suggest that illicit actors enjoy relative impunity in the UAE, Turkey, and Pakistan, particularly when it comes to acquiring or storing assets (Felbab-Brown, 2022; Anonymous1, 2022; Anonymous2, 2022).

To disrupt this activity, it might be possible to encourage these jurisdictions to identify the ultimate beneficial owner of assets, and to foster greater transparency and information sharing on financial assets. While a longer-term solution, this approach might yield some results in terms of identifying illicit assets. This is unlikely to be wholly sufficient for identifying those assets, however, and other policy options should be considered for coordinated deployment. Such an approach would require broad consensus from the international community to pursue this as a policy option, and would probably need to be led by the Financial Action Task Force (FATF), with support from the International Monetary Fund and individual states. Cooperation with and inducements for affected sectors could facilitate the adoption of such a policy tool; research on FATF 'greylisting' suggests that unofficial market enforcement encourages the private sector to advocate for reform (Morse, 2019). This means that, in the face of financial exclusion from the global financial system or restrictions or limitations on their ability to transact, sectors affected by proposed beneficial ownership legislation could be induced to cooperate or advocate for regulation.

Beneficial ownership registries could also facilitate the identification of the real owner of specific assets in Turkey, Pakistan, the UAE, and other countries with a nexus to Afghanistan. In particular, the presence of Turkey, Pakistan, and the UAE on the FATF's grey list provides leverage for the international community to encourage greater transparency of assets. While these registries will not solve the problem of the storage of assets in these locations and lack of identification of ownership, the adoption of beneficial ownership registries is an international best practice. The FATF is actively pursuing the beneficial ownership issue, meaning that this is one of the more plausible, and immediate, policy options that can be used to address illicit financing emanating from Afghanistan (Financial Action Task Force, 2014).

In terms of assets in the UAE (and elsewhere), it might be possible to encourage the UAE authorities to apply a reverse standard of proof for ownership of funds or assets, and compel defendants to prove that they are in legal possession of money used to purchase some of the real estate assets, likely to be derived from corruption or embezzlement, particularly in the UAE and Turkey (Brookings, 2022). Encouraging Emirati authorities to adopt a variation of unexplained wealth orders might also reveal assets held by the extended network of illicit actors; and while those assets might not be directly traceable to the actor, seizure orders could still degrade their capabilities. This approach would require significant international leverage and inducements for the UAE. While technically possible, adopting this approach would be likely to require years of negotiations and changes to international counter-illicit finance standards to include a requirement for states to adopt unexplained wealth orders.

4.3. Hawala and banking

The hawala system, and its network into the UAE, remains a significant global finance vulnerability that enables Afghan illicit finance while also remaining critical for the Afghan economy and the transfer of remittances. Dubai and Sharjah remain popular destinations for illicit finance where funds can be co-mingled with the vast quantities of remittances and trade from Afghanistan and the broader region. Afghanistan has a limited formal banking system, and this remains true in the post-Taliban takeover (Zerden, 2022). It is perhaps even more true, as international banks have largely restricted transfers to Afghanistan and the limited correspondent banking relationships that existed prior to August 2021 have been re-examined. However, private banks in Afghanistan probably maintain their connectivity to the global financial system through hubs such as the UAE, meaning that there are still exit routes for Afghan illicit finance into the global financial system (Sharifi, 2022).

The Afghanistan side of the hawala networks is likely to remain under-regulated and under-policed in a Taliban-controlled Afghanistan (Zerden, 2021). Prior to the Taliban's takeover of Afghanistan, the government had been in the process of reforming the hawala sector and implementing global norms; now, this work has ceased (Anonymous2, 2022). While hawalas are usually associated with the transfer of funds, in Afghanistan, they also serve a deposit-taking function for the many unbanked Afghans (Felbab-Brown, 2022). This is also likely to be true for illicit actors operating in Afghanistan that are unwilling or unable to store cash securely (Zerden, 2022). The hawaladars coordinate their transfer of funds using encrypted messaging platforms,

making the detection or interdiction of some of these activities more challenging for law enforcement and security services (Templeton, 2022).

Since the Taliban takeover in Afghanistan, the hawala system has suffered the same economic disruptions as the rest of the country, although their ability to transact with the UAE and other jurisdictions is probably intact (Zerden, 2022). Prior to the Taliban assumption of power, the hawaladars relied on their relationships with the formal banking sector in Afghanistan for access to US dollars. With sanctions, their access to US dollars has been largely curtailed, which almost certainly poses some challenges to their operations (Zerden, 2022). For instance, sanctions have created a liquidity crisis, affecting all aspects of the Afghan economy, including illicit finance and hawala transactions (Anonymous2, 2022). Many money service businesses and hawalas are in a deficit position, making the completion of financial transactions and the disbursement of cash within Afghanistan challenging (Anonymous2, 2022). However, this liquidity crisis in Afghanistan's economy (and in illicit financing in Afghanistan) might be ending; the Taliban has resumed auctioning US dollars to hawalas and banks, greatly easing this crisis (Anonymous1, personal communication, April 2022).

The banking sector is also at risk of abuse by illicit finance actors. A quarter of Afghanistan's commercial banks are state-owned, which effectively puts them under the control of the Taliban (Zerden, 2021). For the banks that are not state-owned, the Taliban's power puts these privately-owned banks well within the Taliban's sphere of influence, if not outright control.

Reforms to the hawala and banking sector in Afghanistan for alignment with international anti-money laundering and counter-terrorist financing norms are unlikely to occur under the Taliban regime. As part of a broader strategy of engagement and inducements, the international community could seek to hold the Taliban responsible for implementing the much-needed reforms to the banking and hawala sectors, including appointing independent leadership to state-owned banks and FinTRACA, the financial intelligence unit (Zerden, 2021). While negotiations over this could appear productive, the Taliban would maintain control over the financial system and any mandatory reporting, making these reports all but meaningless for actually detecting and disrupting illicit finance from Afghanistan, particularly any that related to the Taliban or its allies such as Al Qaeda.

Instead, efforts to reform, encourage registration and reporting, and general compliance with international norms are best focused on the hawala sector in other jurisdictions where states have greater chances for success. For instance, continuing to work with the UAE, and specifically Dubai, on reforms to its hawala sector, could facilitate greater transparency over transactions from Afghanistan, addressing at least one part of the transaction. Enhancing or bolstering efforts already under way in these jurisdictions of concern (Pakistan, the UAE, and Turkey) could yield some benefits in terms of making illicit funds movement out of Afghanistan more difficult for illicit actors. As with other options, this is likely to be a longer-term solution.

To date, there is little evidence of widespread cryptocurrency use in Afghanistan, although it has been discussed as both a mechanism for sanctions evasion, and as a potential aid delivery vehicle (Zerden, 2021b; Morris, 2021). Prior to the Taliban

takeover, there were some indications of a growing cryptocurrency sector in Afghanistan, including in illicit finance, dating back to 2019 (Anonymous2, 2022). In some cases, such as one bazaar in Herat, recipients of cryptocurrency can exchange it for Afghani, and they have been used by NGOs and for trade ('Crypto Provides Fix for Some in Crisis-Hit Afghanistan', 2022). While cryptocurrency could theoretically deliver aid directly to the Afghan people, the same logistical issues exist for aid delivery as they do for sanctions evasion and illicit financing in and from Afghanistan, on top of other logistical hurdles (Zitser, 2022). Lack of stable and regular access to the internet and mobile phones, combined with the widespread illiteracy and innumeracy in Afghanistan make cryptocurrency a largely unviable option in terms of aid delivery. Further, off-ramping options for cryptocurrency in Afghanistan are limited; while there are some indications that some hawaladars are adopting a cryptocurrency exchange function, this is a long way from being a regular and steady aspect of the Afghan economy. For the time being, cryptocurrency remains a speculative aspect of both illicit, and licit, finance in Afghanistan, although some experts acknowledged that more experienced or technologically advanced hawaladars could potentially see some advantages in it and be enticed to adopt cryptocurrency as a medium of exchange and payment (Templeton, 2022). Should Afghanistan become a more desirable cryptocurrency market, the same international financial vulnerabilities that plague the global cryptocurrency market would be likely to apply in the Afghan context as well.

4.4. Impact of sanctions

The impact of sanctions on the Afghan economy is clear: they have resulted in a largely isolated economy with little ability to import necessary goods into the country. The result has been a widespread economic disaster, including for the Taliban (Sharifi, 2022). Economically, these sanctions have also had the effect of isolating Afghanistan from most other economies in the world. All US dollar trade has ceased, and the SWIFT messaging system removed Afghan banks from its service. While the country probably has regional banking connectivity through non-US dollar accounts, most formal financial transactions have been curtailed (Zerden, 2022). Afghanistan probably does continue to have some connectivity to the international system through private banks and specifically UAE-based banking relationships (Sharifi, 2022). Identifying and disrupting these banking relationships, and increasing the effectiveness of sanctions, will require cooperation from the main jurisdictions identified in this report. Limited intelligence-sharing with some of these jurisdictions could facilitate action by states against any sanctions evasion activity. However, without addressing the other deficiencies in these systems, renewed efforts to evade sanctions using new accounts or methods are likely to remain effective.

One area where international sanctions might be having an effect is in air travel. The lack of international air travel might be curtailing the bulk cash smuggling out of Afghanistan via air (Vittori, 2022). Instead, the funds might be stuck in Afghanistan, or be moving across the border into Pakistan.

Despite announcing a ban on opium production, there is little indication that the Taliban have taken any real action to curtail the drugs trade. Nor is this the first time that the group has announced a ban: prior to their downfall in 2001, the group implemented a

short-term but effective ban on opium production (Koehler et al., 2022). However, that ban also precipitated significant internal strife within Taliban factions (Anonymous4, 2022). In fact, as this is one of the group's only stable (and most lucrative) sources of funds, the drug trade probably persists despite any of their assertions to the contrary (Anonymous2, 2022; Anonymous3, 2022; Templeton, 2022). There is little suggestion that the Taliban leadership is likely to take any real action to curtail the drugs trade soon, as this is their economic lifeline, and there are few incentives for reducing this lucrative aspect of the economy (Zerden, 2022). In fact, some reports suggest that drug production has increased since the Taliban takeover (Sharifi, 2022). Since the Taliban takeover, and possibly influenced by the Taliban's announcement that it would be banning future opium production, the price of opium has increased substantially (Anonymous2, 2022). Prior to the Taliban's August 2021 takeover, counternarcotics efforts in Afghanistan were selectively applied, and this approach to counternarcotics is likely to continue (Koehler et al., 2022). For the time being, the likely effect of the announced ban on the Afghan economy is expected to be small: those who are cultivating opium and have already planted their 2022 crop are not expected to be affected until 2023 (Anonymous2, 2022). There is widespread scepticism among experts that the ban will be implemented fully; instead, many believe that the Taliban will use the ban to control and institutionalise the markets (Anonymous3, 2022).

Conclusion

The number of illicit actors in Afghanistan, and the ways in which they finance their activities, complicates counter-illicit finance initiatives. Of course, the takeover of Afghanistan by the Taliban regime compounds issues further. Whatever limited progress that might have been made to counter illicit financing over the last twenty years has stalled almost entirely, and might well have collapsed completely.

Despite this grim diagnosis of counter-illicit financing initiatives in Afghanistan, there remains some policy and disruption opportunities. These opportunities exist in part because disruption efforts over the last two decades have been piecemeal and inadequate; they have not forced an adaptation by illicit finance actors to change their behaviours. As such, these behaviours remain relatively well understood. While many of the details required for successful disruption activities are not in the public domain (such as the identities of the Gulf donors that have contributed significant funds to the Taliban), opportunities might exist for law enforcement and intelligence agencies to collect intelligence that can in turn illuminate both the networks and the associated assets (Anonymous4, 2022). For instance, using hawala networks as a source of intelligence could facilitate greater disruption opportunities. Several experts noted that hawaladars are increasingly using electronic communications to both keep their books and to manage transactions. While a difficult prospect both from a technical and linguistic perspective for intelligence agencies to pursue, hawaladars have significant insight into illicit financing in Afghanistan. Similarly, adopting a programme like the Terrorist Financing Tracking Program for Afghanistan and regional partners could provide greater insight into regional illicit flows, including through banks, a key financial route (U.S. Department of the Treasury, n.d.; Connorton, 2007).

Ultimately, combatting illicit financing with a nexus to Afghanistan will require a regional and international approach, and international support for such an approach (Zerden, 2021). While consensus on this issue is unlikely to be achieved, a group of likeminded countries like the G7 or a similar coalition could work in concert to address the threat of illicit financing emanating from Afghanistan. This approach will require tackling the financing mechanisms that exist for the actors inside and outside Afghanistan, particularly in terms of how they move, store, invest, and manage their funds. Leveraging existing policy networks such as the FATF to encourage change in illicit finance hubs could work to both strengthen the integrity of the international financial system and help disrupt Afghan illicit finance. Achieving consensus and action within these policy networks will require a clear elucidation of the threat posed by illicit financing from Afghanistan.

While partnership between states and the Taliban regime on counter-terrorist and counter-illicit financing might be a pragmatic (if unsavoury) policy option, it would of course require a strategic application of both leverage and inducements and would be unlikely to achieve a meaningful result (even if the Taliban were to cooperate) (Anonymous4, 2022). For instance, counter-terrorist financing activities are likely to be strategically beneficial to the Taliban if applied to ISIL-KP, as these efforts could serve to help the Taliban consolidate control and weaken ISIL-KP. Of course, the Taliban is also

likely to use counter-terrorist financing tools such as the financial intelligence unit to target political opponents; the likelihood of unintended consequences of the application of Afghanistan's counter-terrorist financing capabilities is high. Cooperating with the Taliban on countering the financing of terrorism in Afghanistan could result in extra-judicial killings by the group, the use of financial intelligence to identify and eliminate their enemies, and of course withholding of key information from international partners. As such, this type of partnership would probably need to have extremely limited aims and objectives, and the Taliban leadership might not be open to such an approach.

Ultimately, there are not a wealth of opportunities for the disruption of illicit financing from Afghanistan. However, existing policy activities such as beneficial ownership registries, reforms to the hawala and banking sector, using intelligence and specifically financial intelligence to illuminate funding networks, and general adherence to international norms can be tailored to achieve some disruptive results for illicit finance emanating from Afghanistan. Technical assistance provided in this area, particularly to jurisdictions of concern for Afghan-originating illicit financing can be prioritised by both FATF and individual states. Existing financial intelligence units or counter-terrorist financing networks (such as the US and Qatar's bilateral relationship) could be leveraged to achieve tactical successes. Technical assistance programmes should be focused on creating and enhancing investigative capabilities, regulatory strength, and international cooperation in addition to technical compliance with FATF standards and information sharing. Gains in this area are likely to be slow in coming, and hard-won. Tackling known international finance vulnerabilities such as the use of enablers to hide beneficial ownership and the anonymity of some financial transaction networks, particularly in relation to jurisdictions of concern, is likely to yield some of the most concrete results.

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