

# Illicit Financing in Afghanistan: Methods, mechanisms, and threat-agnostic disruption opportunities<sup>1</sup>

Jessica Davis<sup>2</sup>

## Summary

This research explores the financial profiles of actors such as drug traffickers, warlords, terrorist groups, and corrupt government officials in Afghanistan and identifies threat-agnostic capabilities that can be brought to bear against these actors and their financing. After exploring the methods and mechanisms that these actors use to raise, manage, store, move, use, and obscure money, the report proposes actions by which the illicit financial flows might be disrupted. 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 are described as potential policy options. These recommended actions would help combat illicit financing in Afghanistan, as well as strengthen the integrity of the global financial system writ large.

1 For the full research paper, see Davis, J (2022), *Illicit financing in Afghanistan: Methods, mechanisms and threat-agnostic disruption opportunities*. SOC ACE Research Paper No. 11. Birmingham, UK: University of Birmingham.

2 Jessica Davis is President of Insight Threat Intelligence and an Associate Fellow at RUSI's Centre for Financial Crime & Security Studies. She began her career in intelligence analysis with the Canadian Armed Forces, followed by a policy role at Global Affairs Canada before becoming a team leader with Canada's financial intelligence unit, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). Jessica's last role in government was as senior strategic analyst at the Canadian Security Intelligence Service responsible for threat financing. Jessica is also PhD candidate at the Norman Paterson School of International Affairs at Carleton University. She is the author of *Women in Modern Terrorism: From Liberation Wars to Global Terrorism and the Islamic State* (2017), and *Illicit Money: Financing Terrorism in the 21<sup>st</sup> Century* (2021). All correspondence to [jmd@insightthreatintel.com](mailto:jmd@insightthreatintel.com).

## Background

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 with a financial head, or decentralised, with control vested with 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. 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, but there are still significant limitations. 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 explored. 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 are some potential options.

A regionally and internationally 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.

## Key findings

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. Targeting specific illicit financing methods and mechanisms with existing policy tools could have the greatest impact in countering illicit financing from Afghanistan:

- **Aid and donor funding:** Aid and donor funding to Afghanistan is critical for stabilising the Afghan economy. 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. While there are few 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.<sup>3</sup> Direct donations to aid organisations,<sup>4</sup> or to individuals through remittance channels, are some options for delivering aid in Afghanistan. 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.<sup>5</sup> 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. 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.

- 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. 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.

- 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. Illicit 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.<sup>6</sup> 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) to reform and increase transparency and reporting requirements for both banks and hawalas could yield some benefits in terms of making illicit funds movement out of Afghanistan more difficult for illicit actors.

3 Brookings, S (2022). 'How to Prevent Afghan Humanitarian Aid Money From Reaching Terrorists'. Foreign Policy, January 20, 2022. <https://foreignpolicy.com/2022/01/20/afghanistan-aid-money-taliban-terrorists/>.

4 Sharifi, SOC-ACE Afghanistan Project Interview.

5 Anonymous4, SOC-ACE Afghanistan Project Interview.

6 Zerden, SOC-ACE Afghanistan Project Interview.

## Implications

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 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 remain 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),<sup>7</sup> opportunities might exist for law enforcement and intelligence agencies to collect intelligence that can in turn illuminate both the networks and the associated assets. 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.<sup>8</sup>

Ultimately, combatting illicit financing with a nexus to Afghanistan will require a regional and international approach,<sup>9</sup> and international support for such an approach. 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 improve 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 Financial Action Task Force (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.

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 actors 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

7 Anonymous4, SOC-ACE Afghanistan Project Interview.

8 U.S. Department of the Treasury, (n.d.). 'Terrorist Finance Tracking Program (TFTP)' <https://home.treasury.gov/policy-issues/terrorism-and-illicit-finance/terrorist-finance-tracking-program-tftp>; Connorton, PM (2007). 'Tracking Terrorist Financing Through SWIFT: When U.S. Subpoenas and Foreign Privacy Law Collide'. *Fordham Law Review*, 76. 283. <https://ir.lawnet.fordham.edu/flr/vol76/iss1/7>.

9 Zerden, A (2021). 'Reassessing Counter Terrorism Financing in a Taliban-Controlled Afghanistan'. Just Security. September 17, 2021. <https://www.justsecurity.org/78221/reassessing-counter-terrorism-financing-in-a-taliban-controlled-afghanistan/>.



area are likely to be 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.

## References

- Abdul, S (2020). 'Who Is the New Leader of Islamic State-Khorasan Province?' *Lawfare* (blog), September 2, 2020. <https://www.lawfareblog.com/who-new-leader-islamic-state-khorasan-province>.
- Ahmad, A (2017). *Jihad and Co.: Black Markets and Islamist Power*. Illustrated edition. New York, NY: Oxford University Press, 2017.
- Amiri, R, & Jackson, A (2022). 'Taliban Taxation in Afghanistan: (2006-2021)'. Institute of Development Studies (IDS), February 28, 2022. <https://doi.org/10.19088/ICTD.2022.004>.
- Brookings, S (2022). 'How to Prevent Afghan Humanitarian Aid Money From Reaching Terrorists'. *Foreign Policy*, January 20, 2022. <https://foreignpolicy.com/2022/01/20/afghanistan-aid-money-taliban-terrorists/>.
- Connorton, PM (2007). 'Tracking Terrorist Financing Through SWIFT: When U.S. Subpoenas and Foreign Privacy Law Collide'. *Fordham Law Review*, 76. 283. <https://ir.lawnet.fordham.edu/flr/vol76/iss1/7>.
- Davis, J (2021). *Illicit Money: Financing Terrorism in the 21st Century*. Lynne Rienner Publishers, 2021.
- Felbab-Brown, V (2009). 'Peacekeepers Among Poppies: Afghanistan, Illicit Economies and Intervention'. *International Peacekeeping* 16(1), (February 2009): 100–114. <https://doi.org/10.1080/13533310802485575>.
- Giustozzi, A (2018). *The Islamic State in Khorasan: Afghanistan, Pakistan and the New Central Asian Jihad*. Oxford University Press, 2018.
- Giustozza, A. (2007). 'War and Peace Economies of Afghanistan's Strongmen'. *International Peacekeeping* 14(1), (January 2007): 75–89. <https://doi.org/10.1080/13533310601114285>.
- Goodhand, J, & Pain, A (2021). 'Entangled Lives: Drug Assemblages in Afghanistan's Badakhshan'. *Third World Quarterly* (November 29, 2021): 1–20. <https://doi.org/10.1080/01436597.2021.2002139>.
- Jadoon, A, & Mines, A. (2020). 'Broken, but Not Defeated: An Examination of State-Led Operations against Islamic State Khorasan in Afghanistan and Pakistan (2015-2018)'. Combating Terrorism Center at West Point, March 2020. <https://ctc.usma.edu/wp-content/uploads/2020/03/Broken-but-Not-Defeated.pdf>.
- Reese, JY (2012). 'Financing the Taliban'. In Freeman, M (Ed.) *Financing Terrorism: Case Studies*. Ashgate: Surrey, 2012.
- Koehler, J, Bhatia, J & Mosakhel GR (2022). 'Modes of Governance and the Everyday Lives of Illicit Drug Producers in Afghanistan'. *Third World Quarterly* (January 19, 2022): 1–21. <https://doi.org/10.1080/01436597.2021.2003702>.
- Maloney, SM (2009). 'On a Pale Horse? Conceptualizing Narcotics Production in Southern Afghanistan and Its Relationship to the Narcoterror Nexus'. *Small Wars & Insurgencies* 20(1) (March 2009): 203–14. <https://doi.org/10.1080/09592310802573640>.
- Mansfield, D (2015). 'A Taxing Narrative: Miscalculating Revenues and Misunderstanding the Conflict in Afghanistan'. Afghanistan Research and Evaluation Unit, October 13, 2021. <https://areu.org.af/publication/2105/>.
- Marsden, M (2016). 'Crossing Eurasia: Trans-Regional Afghan Trading Networks in China and Beyond.' *Central Asian Survey* 35(1) (January 2, 2016): 1–15. <https://doi.org/10.1080/02634937.2015.1070516>.
- DuPée, MC (2017). 'The Taliban Stones Commission and the Insurgent Windfall from Illegal Mining'. *CTC Sentinel* 10(3) (March 2017): 37.
- Mirdad, MA (2020). 'Taliban Insurgency and Transnational Organized Crime Nexus'. *Masyarakat, Kebudayaan Dan Politik* 33(3) (August 31, 2020): 266. <https://doi.org/10.20473/mkp.V33I32020.266-277>.
- Rassler, D (2018). 'Multinational Mujahidin: The Haqqani Network between South Asia and the Arabian Peninsula'. In Jaffrelot, C & Louer L. *Pan-Islamic Connections*. Oxford University Press. <https://doi.org/10.1093/oso/9780190862985.003.0006>.
- Solomon, J (2008). 'The Funding Methods of FATA's Terrorists and Insurgents'. *CTC Sentinel* 1(6) (May 2008): 3.

U.S. Department of the Treasury, (n.d.). 'Terrorist Finance Tracking Program (TFTP)' <https://home.treasury.gov/policy-issues/terrorism-and-illicit-finance/terrorist-finance-tracking-program-tftp>

Zerden, A (2021). 'Reassessing Counter Terrorism Financing in a Taliban-Controlled Afghanistan'. Just Security. September 17, 2021. <https://www.justsecurity.org/78221/reassessing-counter-terrorism-financing-in-a-taliban-controlled-afghanistan/>.

The Serious Organised Crime & Anti-Corruption Evidence (SOC ACE) research programme aims to help 'unlock the black box of political will' for tackling serious organised crime, illicit finance and transnational corruption through research that informs politically feasible, technically sound interventions and strategies. Funded by the UK's Foreign, Commonwealth & Development Office (FCDO), SOC ACE is a new component in the Anti-Corruption Evidence (ACE) research programme, alongside Global Integrity ACE and SOAS ACE. SOC ACE is managed by the University of Birmingham, working in collaboration with a number of leading research organisations and through consultation and engagement with key stakeholders.

SOC ACE is funded by the UK Foreign, Commonwealth, & Development Office. The views expressed here do not necessarily reflect the UK Government's official policies.

© Crown Copyright 2022.

## Find out more

[www.socace-research.org.uk](http://www.socace-research.org.uk)

 @SOCACE\_research

SOC ACE | University of Birmingham | Birmingham | B15 2TT | United Kingdom

