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Anti-Money Laundering (AML) Regulations in Pakistan and Afghanistan: Challenges, Legal Frameworks, and Policy Recommendations

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Abstract: This paper critically examines the Anti-Money Laundering (AML) frameworks in Pakistan and Afghanistan, analyzing their compliance with international standards, institutional capabilities, and legal reforms. It explores the historical and contemporary challenges posed by money laundering and its nexus with terrorism financing, with a focus on sociopolitical and economic dimensions. This study identifies key gaps in policy implementation, institutional weaknesses, and political interferences using qualitative methodologies, including thematic content analysis and case studies. Comparative analyses reveal unique deficiencies in both nations, compounded by porous borders and corruption. The paper concludes with actionable recommendations aimed at enhancing institutional independence, fostering cross-border cooperation, and aligning domestic AML efforts with international best practices.

Key Words: Anti-Money Laundering (AML), Financial Action Task Force (FATF), Drug Trafficking, Drug Trade, Terrorism Financing, Tax Evasion.

1. Introduction

Money laundering is the exchange of ill-gotten money through foreign banking systems and other legal business channels. It conceals the origin of money i.e., how and from where the money is derived. It is a transaction that occurs at any time in respect of any form of property, whether tangible or intangible. It is mainly concerned with finance-related crimes (Levison, 2002) and is comprised of three stages i.e., Placement, layering and integration (Lippman, p. 2009). The first stage is pre-washing and involves the placement or concealment of the money derived from criminal activities. The second stage is based on layering, conversion or decanting the illicit proceeds. The third stage is the integration and reinvestment of the illegal proceeds to

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make them ready to circulate freely in the economic system. Money laundering undermines global economic stability and facilitates organized crime. In Pakistan and Afghanistan, these issues are compounded by geopolitical vulnerabilities and fragile institutions. The states of Afghanistan and Pakistan, being signatories to international treaties, have taken certain steps to bring harmony with international legal standards. Nonetheless, despite the steps taken by the national and international regimes to curb money laundering, the dilemma remains. Domestically, Afghanistan and Pakistan face certain serious challenges in combating predicate crimes which leads to money laundering. The offence of money laundering in Pakistan is dealt with by different agencies including the Federal Investigation Agency (FIA), the National Accountability Bureau (NAB), the Counter Terrorism Department CTD, the Anti-Narcotic Force ANF, the State Bank of Pakistan and Customs authorities. The special laws pertaining to AML are the Anti-Money Laundering Act 2010, Anti-Terrorism Act 1997, and Control Narcotics Substance Act 1997, however, other laws like the NAB Ordinance 1999, Income Tax Ordinance 2001 and Customs Act 1969 also deal with AML. In Afghanistan, the President of Afghanistan issued two legislative decrees, namely the "Anti-Money Laundering and Proceeds of Crime Law" (Law No.840) and the "Law on Combating the Financing of Terrorism" (Law No. 839) in 2004. However, despite the steps taken by the international community, "mentioned earlier "in the context of the anti-money laundering campaign, there are challenges for both Pakistan and Afghanistan to combat the menace of money laundering. The states of Afghanistan and Pakistan face certain serious problems i.e. fragile economy, corruption, drug, human and weapon trafficking, tax evasion terrorism etc. which further minimizes the chances of success in this fight against the menace of AML. Vague legislation, capacity issues of the concerned agencies, the culture of the undocumented economy and the high graph of predicate crimes are the main causes of the failure to curb money laundering. The interrelationship between money laundering, undocumented economy and predicate crimes cannot be overlooked**.** This study evaluates the AML regimes of both countries, emphasizing compliance with Financial Action Task Force (FATF) standards and the economic and social impacts of money laundering.

2. Causes and Methods of Money Laundering

2.1 Causes

Several factors give rise to money laundering, and they may be present within a country or state or might operate transnationally. Key drivers include corruption, tax evasion, and informal financial systems like Hawala and Hundi. The critical factors that lead to money laundering are discussed below:

2.1.2 Tax Evasion

Tax evasion has a profound connection with money laundering, often acting as its own form of laundering due to its intricate nature (Ahmed, 2021). This dual role manifests through two primary components: first, tax evasion produces illicit proceeds by avoiding due tax payments; second, it involves laundering these criminally derived savings by concealing their illegal origin (Nyreröd et al., 2023). This duality underscores how tax evasion seamlessly integrates into the broader framework of money laundering, demonstrating its intrinsic alignment with the core principles of concealing and legitimizing illicit funds (Kemsley et al., 2022). Tax evasion generates illicit savings that are eventually reintegrated into the financial system, ultimately enriching the accounts of the evaders. Through a series of complex transactions and multiple stages, these evaded funds transition seamlessly into the formal economy (Islam et al., 2017). Once this process is complete, the tax evader gains unrestricted access to these funds, free from penalties, as they effectively obtain tacit approval from tax authorities, thereby legitimizing their illicit origins (Korejo et al., 2021).

In Pakistan, only 6.2 million out of 220 million people have a National Tax Number, and the Federal Board of Revenue received only 2.25 million tax returns for 2023 (Sarfaraz,2023). The primary reason for tax evasion is the prevalence of the informal economy. Tax evasion typically occurs by underreporting actual income to tax authorities, creating a discrepancy between the true income and the reported income - commonly referred to as the “tax gap” (S. H. Raza & Naqvi, 2016). Tax evasion qualifies as a predicate offence for money laundering under the AMLA 2010 if the evaded amount is Rs. 10 million or more. Consequently, tax evasion of Rs. 10 million or above falls within the scope of money laundering under the AMLA (Munawar, 2023). The Task Force's definition suggests that all tax evasion constitutes money laundering, as it involves both the offence itself and the act of disguising its criminal origin. In both narrow and broader terms, tax evasion is inherently a form of money laundering (Khuhro, 2024).

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Before the 2015 amendments to the AMLA 2010, tax matters were not included in money laundering proceedings. However, the amendments introduced certain tax crimes as predicate offences. Schedule 1 of the AMLA specifies that cases under sections 192, 192A, 194, and 199 of the Income Tax Ordinance 2001 are predicate offences. Therefore, tax-related matters under these sections are now considered predicate offences under the AMLA 2010 (Sarfraz, 2023).

The AMLA has an overriding effect on other laws, including the Income Tax Ordinance 2001, without imposing any limitations or obstructions. The purpose of the AMLA and the inclusion of specific tax offences as predicate offences is to combat financial crimes and address tax evasion of Rs. 10 million or more (Constitution Petition no D- 516/ 2020).

Tax amnesty schemes benefit tax evaders and holders of illicit proceeds, resulting in significant revenue loss for the state. Over 100,000 wealthy individuals did not file tax returns after the Panama leaks, anticipating amnesty (A. Khan et al., 2021). The schemes facilitated tax evasion, with 7,720 companies withholding tax returns in expectation of future amnesties, which the government subsequently announced (A. Khan et al., 2021). The inclusion of tax evasion as a predicate offence under AMLA 2010 conflicts with tax amnesty schemes, which effectively decriminalize money laundering by granting immunity and confidentiality to participants. These schemes undermine Customer Due Diligence (CDD) processes, a key component of AML policy. Recommendation No. 09 of the Financial Action Task Force (FATF) explicitly states that financial secrecy laws must not obstruct the implementation of its recommendations. Moreover, Recommendation No. 10 emphasizes the importance of robust CDD for identifying and mitigating money laundering risks. However, tax amnesty schemes bypass these principles by offering confidentiality to participants, compromising the transparency and integrity of AML measures (J. A. J. Ali, 2022). Tax amnesty schemes undermine policies related to politically exposed persons (PEPs). Although the Government of Pakistan follows Task Force recommendations concerning PEPs, the current tax amnesty schemes provide exemptions for those who held office up to ten years ago. This means that current officeholders are subject to scrutiny, while former officeholders escape accountability under these policies (Section 4 “Foreign Assets (Declaration and Repatriation) Act” 2018). These amnesty schemes impose significant limitations, as the confidentiality clauses prevent the Financial Monitoring Unit

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(FMU) from sharing declarant information for further investigation (FATF, 2023b). This confidentiality effectively halts transaction monitoring and oversight, creating opportunities for financial crimes to go unchecked (Haq, 2023).

The National Assembly enacted the Foreign Assets (Declaration and Repatriation) Ordinance 2018, the Voluntary Declaration of Domestic Assets Ordinance 2018, and the Assets Declaration Ordinance 2019, later converted into Finance Acts. These laws grant full immunity to tax evaders and those who plunder national wealth (Munawar, 2023).

Section 2(h) and Section 4(a) specify that the law applies to all citizens except public officeholders, their spouses, and children. Additionally, Section 4(2) excludes proceeds of crime from the law's application. However, Section 13 of the Foreign Assets (Declaration and Repatriation) Act 2018 ensures complete confidentiality for declarations, while Section 14 grants blanket immunity, prohibiting the use of declarants' information in subsequent cases or as evidence in the prosecution (Ahmed, 2019).

2.1.3 Corruption

Corruption and money laundering are intricately linked, forming a mutually reinforcing cycle that undermines governance, economic stability, and societal trust (Bergeron et al., 2022). Corruption generates substantial illicit wealth through practices like bribery, embezzlement, and misuse of power, while money laundering provides the means to disguise these ill-gotten gains as legitimate asset. This relationship not only facilitates the concealment of corrupt activities but also perpetuates them by creating avenues for reinvestment into further illegal ventures. It has been considered the driving force behind every failure of policies in the developing world (Palgrave Macmillan, 2016). The interplay between these two, poses significant challenges to transparency and accountability, necessitating comprehensive efforts to address them together (Rose-Ackerman & Palifka, 2018).

High levels of corruption in both the public and private sectors create systemic vulnerabilities. Officials may be involved in or disregard illicit financial activities. Corruption undermines the enforcement of AMLA regulations, making it harder to hold offenders accountable and ensure compliance.

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Corruption in Pakistan not only undermines governance and public trust but also often intersects with legal complexities, such as the principle of double jeopardy. In Pakistan, cases of corruption frequently involve overlapping jurisdictions and multiple investigative agencies, such as the National Accountability Bureau (NAB) and the Federal Investigation Agency (FIA) (Ali, 2020). This overlap can lead to procedural delays and questions about whether subsequent trials or investigations violate the principle of double jeopardy. While Pakistan has made strides in establishing anti-corruption frameworks and aligning with international standards, ensuring legal clarity and upholding the rule of law remains critical. Addressing corruption effectively requires robust enforcement mechanisms and adherence to legal principles like double jeopardy, which safeguard individual rights while ensuring accountability.

The Afghan poppy cultivation is directly linked with poverty and insurgency. Entrenched elites, drug barons and insurgent groups are involved in the opium trade which is chained together with poor governance, corruption and narcotics(Talpur & Geaoge,2014) The revenue generated from the poppy trade infiltrated various layers of governance and law enforcement, enriching hundreds of government officials, police elites, and judges. Along its journey, these illicit funds also found their way to customs officers and other individuals holding authority along the trafficking routes, creating a network of corruption that perpetuates and protects the drug trade. This systemic corruption enables the uninterrupted flow of illicit profits while undermining institutional integrity and the rule of law (Passes, 2017).

The pervasive opium trade not only sustains organized crime networks but also facilitates broader illegal financial practices, including tax evasion and terrorism financing. Utilizing informal systems such as hawala complicates monitoring and regulation efforts, offering perpetrators a low-risk avenue for laundering illicit proceeds. Afghanistan's role in the global drug trade underscores how localized illicit activities can have far-reaching consequences. Policymakers and researchers can identify vulnerabilities in governance and regulatory systems by examining specific instances of financial crime within Afghanistan, thus offering targeted solutions to enhance financial transparency and stability in the region(Lind, Moene& Willumsen, 2017).

2.1.4 Informal Financial Systems

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The widespread use of informal financial systems, such as hawala networks, presents a significant challenge for regulation. These systems, which operate outside the formal banking structure, are often used for money laundering and terrorist financing due to their lack of transparency and oversight. Regulating and monitoring informal financial activities remains difficult despite efforts to bring them into the formal system. These economic distortions impede sustainable development, widen inequality, and discourage foreign investment. The Hawala system provides rapid services to the customer, which is speedy and cost-effective 80% to 90% of the Afghani population (IMF, 2011). The Hawala system has been in operation in the region for centuries but got more flourished during the Taliban's first regime as the international community-imposed sanctions on Afghanistan (Hakimi,2015). In Afghanistan, financial institutions, including the Central Bank – Da Afghanistan Bank (DAB), were suffering from these deficiencies, namely: an outdated legal, regulatory, and operational framework for banking activities; unqualified managerial and technical staff; absence of banking hardware and software, and worse payments telecommunications networks". These constraints constrain the delivery of the formal banks and institutions to provide financial services to several clients: the companies' unilateral agencies, bilateral agencies, and payment services to domestic and international clients. These deficiencies in formal financial institutions opened the way for the hawala system to take the market. These hawaladars provide robust services not only to the ordinary person who reviews remittances from abroad but also provide services to international dinners the humanitarian services provider. In short, their services are up to the mark; well-connected system These linkages include religion, kinship, ethnic, linguistic, close and remote family relationships, which helps in trust building, which made the Hawala system popular among a significant number of people across the world as it is not limited only to Afghanistan or Pakistan (Hayadu - Din 2003). During the Taliban period, the Banking system was not operative. The six licensed banks were not adequately equipped with human resources and technology to cope with the needs of today's financial activities. The only viable solution was Hawaladar, which offered diversified financial and non-financial services to local and international markets. A group of more than 300 registered hawaladars became organized and offered services such as funds transfer and foreign currency exchange, besides these non-financial services, i.e., depositing bills, fax and telephone services, and internet services. As in the informal system, there is

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relaxation for documentation, etc.; neither are their complex rules for identifying the sender or the receiver. Laundering money through formal banking leaves a money trail, while the Hawala system lacks the same. Hawala minimizes detection of the money's origin as the hawaladar has multiple business relations in different jurisdictions where only the pre-determined code is needed. In the Halawa network, there is no need for an account or debit card to interact with lawyers or accountants; hence, the transaction trail is missing. Hence, the apprehension of abuse is ablute, but the Afghan culture has its peculiarities. The existence of hawala is a cultural norm. The paper trail is crucial for connecting the three stages of ML. On the contrary, the transaction conducted through Hawala lacks a paper trail. Even the basic hawala transaction cannot be traced. Afghan finances ran on such flows well before the Taliban coup, whether for criminal activity such as drug trafficking, or regular business. Even with significant international support, the Republic's Anti-Money Laundering/Countering Finance for Terrorism (AML/CFT) regime is weak (Passas, 2017). The government used hawala (informal money transfer) services in districts without formal banks.

Inadequate governance structures, pervasive corruption, and political instability significantly impeded the efficacy of AML measures and their practical implementation. Informal financial systems continued to predominate, frequently undermining formal regulatory mechanisms. Moreover, the prevalence of the opium trade and its integration into the economy generated a parallel financial system resistant to regulation.

2.2 Methods

Money laundering methods in Pakistan and Afghanistan are diverse and reflect the unique sociopolitical and economic contexts of the region. Methods such as trade-based money laundering, property transactions, and smuggling dominate in both countries. These techniques enable offenders to obscure illicit financial flows.

2.2.1 Trade-Based Money Laundering

Trade-based money laundering is one of the most prevalent techniques, involving the manipulation of trade invoices to move illicit funds across borders. Under-invoicing, over-invoicing, and the use of fictitious trade transactions are common practices. Smuggling is

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another significant method, with porous borders facilitating the transport of contraband goods and cash. The use of informal financial systems such as Hawala and Hundi bypasses formal banking channels, allowing for untraceable money transfers that are difficult to regulate(Hakimi, 2015).

2.2.2 Property Transactions

Property transactions also play a major role in laundering illicit funds. Criminals often invest in real estate, purchasing properties at inflated prices to disguise the origins of their wealth. Additionally, shell companies and fake accounts are frequently used to obscure financial trails and legitimize proceeds from illegal activities.

2.2.3 Cyber Crime & Cryptocurrencies

The digital age has introduced new complexities, with cybercrime and cryptocurrencies emerging as tools for money laundering. The lack of regulatory oversight in digital financial systems allows for anonymous transactions that challenge traditional law enforcement methods.

2.2.4 Drug trade

Afghanistan's illicit drug trade, primarily centered on the production and trafficking of opium and its derivatives, constitutes a significant driver of financial crime. As the world's foremost producer of opium, the country generates substantial revenue annually from this illegal industry. This considerable influx of illicit funds necessitates sophisticated laundering mechanisms to integrate these profits into the legitimate financial system(Lind, Moene &Willumsen, 2014) .

The drug trade influences financial crime through multiple channels. Firstly, it fosters a parallel underground economy wherein drug lords and traffickers use corruption to secure political and institutional protection. The bribery of officials undermines law enforcement and regulatory efforts, facilitating unchecked financial crime. Secondly, the proceeds from drug sales frequently enter the formal economy through methods such as trade-based money laundering, where falsified invoices are used to obscure the origins of funds.

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Opium production and trafficking lie at the heart of Afghanistan's financial crime ecosystem, fueling corruption, money laundering, and organized criminal networks. As the world's largest producer of opium, Afghanistan supplies an estimated 80–90% of global opiates, generating billions in illicit revenue annually. These profits, often termed "dirty money," require systematic laundering to appear legitimate, contributing to widespread financial crimes(Mercille, 2011).

The opium trade perpetuates corruption by incentivizing bribes to law enforcement, judicial, and government officials, undermining institutional integrity. Criminal networks involved in opium trafficking exploit these corrupt practices to evade prosecution and protect their operations (Talpur & George 2014). Furthermore, opium profits often find their way into formal financial channels through trade-based money laundering, real estate investments, and front companies. These activities distort legitimate markets and hinder economic development. Moreover, funds generated by the opium trade are frequently funneled into terrorism financing, creating broader security concerns.

The drug industry operates in chains where multiple players fulfill roles from cultivation to distribution. The entire supply chain functions in an organized manner. The Afghan opium trade businesses have, at times, maintained social stability better than the government. Every commodity requires a supply channel to reach the consumer; in the opium market, every participant—from the farmer to the laborer, broker, and agent—plays a crucial role. The process encompasses cultivation, harvesting, processing, storage, and delivery to the consumer or wholesale retailer. Afghan heroin reaches Europe via Iran and Turkey. The illicit drug also circulates within Afghanistan, which possesses a well-organized transportation system. Global drug user statistics from the years 2000 and 2024 illustrate the extensive reach of this trade(Kreutzmann, 2007).

3. Legal and Institutional Frameworks

The legal and institutional frameworks in Pakistan and Afghanistan reflect a mix of progress and challenges in addressing money laundering and associated crimes. Pakistan's framework is built upon the Anti-Money Laundering Act (AMLA) 2010, which defines predicate offences, reporting requirements, and penalties for violations. Subsequent amendments in 2018 and 2020 aimed to

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align with the Financial Action Task Force (FATF) recommendations. Institutions such as the Financial Monitoring Unit (FMU), the State Bank of Pakistan (SBP), and the National Accountability Bureau (NAB) play key roles in combating money laundering. The FMU analyzes Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs), while the SBP enforces compliance with Know Your Customer (KYC) and Customer Due Diligence (CDD) guidelines. However, enforcement remains inconsistent due to overlapping jurisdictions and political interference, which hinder effective prosecution and asset recovery.

In Afghanistan, the Anti-Money Laundering and Proceeds of Crime Act 2014 forms the core of the AML framework. The Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) serves as the primary Financial Intelligence Unit (FIU), responsible for gathering and analyzing financial intelligence. Despite these efforts, systemic weaknesses, such as pervasive corruption and a lack of technical expertise, significantly undermine enforcement. The Kabul Bank Scandal, for instance, highlighted glaring deficiencies in the country's regulatory mechanisms, including inadequate oversight and accountability.

Both countries face common challenges, including porous borders that facilitate smuggling and illicit financial flows. Additionally, informal financial systems like Hawala and Hundi remain pervasive, undermining formal banking systems and regulations. While both nations have made strides in legislative reforms, particularly in response to FATF grey-listing pressures, institutional fragility and limited cross-border collaboration continue to impede progress. Strengthening governance, enhancing inter-agency coordination, and aligning with global AML standards are critical to overcoming these challenges.

4. Key Challenges

The challenges faced by Pakistan and Afghanistan in combating money laundering are deeply rooted in their political, economic, and geographical contexts. Systemic corruption, fragile institutions, and external pressures exacerbate the difficulties in implementing effective Anti-Money Laundering (AML) measures. Despite these shared challenges, significant differences exist in the institutional strength and political will of the two nations.

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In Pakistan, legislative reforms following the Financial Action Task Force (FATF) grey-listing demonstrate a more responsive approach. For instance, the 2020 amendments to the Anti-Money Laundering Act (AMLA) reflect efforts to strengthen the legal framework, although issues of implementation persist. On the other hand, Afghanistan struggles with a fragile governance structure, which hinders progress despite international assistance and the establishment of key institutions such as the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA). The country's reliance on external aid to develop its AML framework highlights its vulnerability and dependency on foreign resources.

While Pakistan has made strides with legislative amendments, such as those seen in the 2020 revisions to the AMLA, these efforts require rigorous enforcement to translate into tangible results. Conversely, Afghanistan's governance challenges, coupled with widespread corruption and reliance on the informal economy, undermine its ability to combat money laundering effectively. In both contexts, addressing systemic corruption and ensuring sustainable enforcement of AML measures are critical to making meaningful progress.

4.1 Political and Institutional Barriers

Both countries grapple with systemic corruption, judicial inefficiencies, and political interference. Systemic corruption remains a fundamental issue in both countries, undermining the capacity of institutions to enforce AML regulations effectively. Political interference in law enforcement and judicial processes further weakens the ability to prosecute high-profile cases, leading to a lack of accountability. For instance, overlapping jurisdictions between agencies such as Pakistan's National Accountability Bureau (NAB) and the Federal Investigation Agency (FIA) create confusion and inefficiencies. Afghanistan, on the other hand, suffers from fragile governance and institutional capacity, compounded by ongoing conflict and instability, which hinder the enforcement of AML laws.

4.2 Economic Impacts

Illicit financial flows erode economic stability, discourage foreign investment and exacerbate inequality. The economic consequences of money laundering are profound, affecting both macroeconomic stability and equitable development. Illicit financial flows drain resources that

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could be utilized for social and economic development, leading to capital flight and reduced tax revenues. In Pakistan, for example, trade-based money laundering through under-invoicing and over-invoicing contributes to inflated trade deficits and reduced foreign investment. Similarly, Afghanistan's informal economy, including the pervasive use of Hawala systems, exacerbates economic inequalities and undermines formal financial systems.

4.3 Porous Borders

Cross-border smuggling and weak enforcement at borders facilitate money laundering. The illicit drugs generated by Afghanistan are transported through Pakistan and Iran to other destinations across the world. The most vulnerable is Pakistan, as it shares a long border of 2500 km. The bordering provinces of Afghanistan with Pakistan produced 90% of opium, according to the UNODC Report 2019. The trafficking occurs via Baluchistan to Iran and then to Western Europe. The other destinations are Thailand and Sri Lanka (Talpur &George, 2014). Afghanistan, Pakistan, and Iran have millions of people with addiction. Pakistan has around 5 million addicts. According to the UNODC World Drug Report, the annual turnover of the global opiate market is recorded at 65 billion USD, out of which only 3 to 5% is estimated to be laundered by informal means. In contrast, the formal banking system laundered 90%. Furthermore, UNODC Chief Marai Costa asserted that the drug money has rescued some of the failing banks. Inter loans were awarded to banks with funds generated from the illicit drug trade (Mercille, 2011)—the prevalence of one criminal behaviour opens the way to other criminal enterprises. Afghanistan's status as a narco-state has regional and global implications. Factors involved reap financial benefits from cultivation to local and regional drug distribution (UNODC research, 2022).

5. Policy Recommendations

In light of the findings from this study, the following detailed policy measures are proposed to address the deficiencies and challenges faced by the AML frameworks in Pakistan and Afghanistan. These measures aim to strengthen governance structures, enhance institutional capacity, foster regional and international cooperation, and address systemic corruption effectively.

5.1 Strengthening Governance

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Governance in the context of AML frameworks requires not just legislative changes but also practical reforms. Strengthening governance is an essential component of an effective Anti-Money Laundering (AML) regime. In both Pakistan and Afghanistan, this requires a combination of legislative improvements and practical reforms to enhance the operational efficiency and autonomy of regulatory and enforcement bodies. One critical step is to ensure the operational independence of Financial Intelligence Units (FIUs), which should function free from political influence to allow unbiased investigation and analysis of financial crimes. Furthermore, accountability mechanisms must be introduced to evaluate the performance of these agencies and ensure that they operate transparently and efficiently.

Adequate resource allocation is also crucial for governance improvements. Law enforcement agencies and the judiciary require sufficient financial and human resources to manage the complexities of money laundering cases. This includes targeted training and recruitment to build technical expertise within these institutions. In addition, the establishment of dedicated AML courts can expedite the judicial process for financial crimes, reducing delays and ensuring timely justice.

Enhanced inter-agency coordination is another key element of governance reform. Agencies such as the National Accountability Bureau (NAB), Federal Investigation Agency (FIA), and other relevant bodies must work cohesively to avoid duplication of efforts and jurisdictional conflicts. Finally, public sector institutions must adopt transparent practices in procurement, budgeting, and asset management to limit opportunities for corruption, which often facilitates money laundering.

5.2 Regional Cooperation

Given the cross-border nature of money laundering, fostering cooperation between Pakistan and Afghanistan, as well as neighbouring states, is vital. Given the cross-border nature of money laundering, fostering robust regional cooperation between Pakistan and Afghanistan, as well as with neighbouring states, is of paramount importance. One significant measure would involve the establishment of cross-border joint task forces capable of operating under shared jurisdiction to monitor and control illicit financial flows. These task forces can play a crucial role in pooling

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resources, expertise, and intelligence to disrupt transnational money laundering networks effectively.

Additionally, strengthening information-sharing mechanisms with international bodies, such as the Financial Action Task Force (FATF), INTERPOL, and the United Nations Office on Drugs and Crime (UNODC), is vital. By enhancing communication channels and ensuring timely exchange of data, authorities can address cross-border crimes more efficiently and ensure that financial intelligence is leveraged effectively to trace and recover illicit funds.

The development of bilateral and multilateral agreements to streamline extradition processes and facilitate mutual legal assistance is another critical step. These agreements should include clear frameworks for the identification, apprehension, and prosecution of individuals involved in money laundering activities, regardless of their location. Such legal instruments not only expedite cooperation between nations but also strengthen the enforcement of AML regulations on a broader regional scale.

In addition, promoting regional forums and dialogues can help build trust and collaboration between stakeholders, enabling better policy alignment and unified strategies against money laundering. Together, these measures would foster a more cohesive approach to combating financial crimes across borders, thereby strengthening the AML regimes in Pakistan, Afghanistan, and beyond.

5.3 Capacity Building

Institutional capacity is essential for the effective enforcement of AML laws and forms the backbone of an effective Anti-Money Laundering (AML) framework. To strengthen enforcement, regular training programs should be implemented for financial institutions to ensure compliance with reporting obligations and enhance their ability to detect suspicious transactions. Such programs should be tailored to address regional challenges, focusing on educating financial professionals about global AML standards and emerging laundering techniques.

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The integration of advanced technologies, such as artificial intelligence (AI) and blockchain, is another critical initiative. AI systems can analyze vast datasets to identify patterns indicative of money laundering activities, while blockchain can provide a secure and transparent means of tracing financial transactions in real-time. These technologies not only increase efficiency but also reduce human error, a key factor in enforcement gaps.

Public awareness campaigns are equally vital in fostering a culture of compliance. By educating businesses and individuals about their roles and responsibilities under AML regulations, these campaigns can enhance the overall effectiveness of the legal framework. Increased awareness also helps deter money laundering by creating an environment where suspicious activities are more likely to be reported. Collectively, these initiatives form a comprehensive approach to building institutional capacity that aligns with international best practices.

5.4 Tackling Corruption

Systemic corruption serves as a fundamental enabler of money laundering, undermining the effectiveness of AML frameworks and eroding public trust in governance. Addressing this issue requires the establishment of robust, independent anti-corruption bodies empowered to investigate and prosecute high-profile cases without political interference. These bodies must be insulated from external pressures to ensure impartiality and effectiveness in addressing entrenched corruption.

Mandating public officials to declare their assets regularly and subjecting them to random, transparent audits can deter illicit activities and promote accountability. By creating a system of checks and balances, these measures discourage the abuse of power and ensure that public resources are used appropriately. Additionally, these audits should be publicly accessible to foster greater transparency and public scrutiny.

Strengthening whistleblower protection laws is another critical measure to combat corruption. Encouraging individuals to report corrupt practices and financial crimes requires robust safeguards to protect them from retaliation. Whistleblowers should be provided with legal

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protections, financial incentives, and anonymity to ensure their safety and encourage participation in anti-corruption initiatives.

Furthermore, implementing transparent procurement and budgeting practices in public sector institutions can limit opportunities for the misappropriation of funds. This involves adopting digital platforms for procurement and budgeting processes, enabling real-time monitoring and reducing the scope for manipulation. Establishing independent oversight committees to review large-scale transactions can further enhance the integrity of public financial management.

Collectively, these measures can strengthen the overall governance framework, reduce systemic corruption, and create an environment conducive to effective AML enforcement. Tackling corruption comprehensively is essential for fostering economic stability, building public trust, and aligning with international standards on financial transparency.

5.5 Leveraging Technological Innovations

Technological advancements provide significant opportunities to enhance the effectiveness of Anti-Money Laundering (AML) frameworks in Pakistan and Afghanistan. Blockchain technology, for example, offers secure and traceable solutions for financial transactions. By creating immutable records, blockchain allows authorities to monitor and verify transactions in real-time, thereby reducing the scope for money laundering. This technology also minimizes the risk of data manipulation, making it a critical tool in combating illicit financial flows.

The deployment of artificial intelligence (AI) systems further strengthens AML efforts by enabling the detection of complex patterns and trends associated with money laundering. AI-powered analytics can process vast datasets from financial institutions to identify suspicious activities and predict potential crimes. This proactive approach not only enhances the speed of investigations but also ensures a higher degree of accuracy in detecting illicit activities.

Mobile-based applications represent another innovative solution, offering real-time tools for financial reporting. These applications can facilitate the swift submission of Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs), thereby improving compliance and reducing delays in reporting processes. Financial institutions and regulatory bodies can utilize such platforms to foster a more responsive and efficient AML ecosystem.

By leveraging these technological innovations, Pakistan and Afghanistan can address both traditional and emerging money laundering challenges. The integration of blockchain, AI, and mobile-based tools into existing frameworks will not only enhance transparency and efficiency but also align these countries with global best practices in AML enforcement.

By addressing these areas, both Pakistan and Afghanistan can move toward more robust AML frameworks that not only meet international standards but also protect their economic systems from exploitation by criminal networks.

Conclusion

The fight against money laundering in Pakistan and Afghanistan has seen notable legislative advancements, particularly in response to international pressure and FATF recommendations. However, enforcement remains a critical challenge, often impeded by systemic corruption, institutional weaknesses, and political interference. The persistent use of informal financial systems like Hawala and porous borders between the two countries exacerbates the issue, enabling the unchecked flow of illicit funds and the financing of criminal networks.

To build effective AML regimes, a multifaceted approach is essential. Strengthening governance frameworks, fostering regional cooperation, and integrating advanced technologies are foundational measures. These efforts must be complemented by robust anti-corruption strategies that prioritize institutional transparency and accountability. Enhanced capacity-building initiatives for financial institutions and law enforcement agencies will ensure compliance with reporting obligations and improve the detection and prosecution of money laundering cases.

Regional cooperation is particularly crucial, as transnational financial crimes require collective action and shared resources. By forming joint task forces, streamlining extradition processes, and enhancing data-sharing mechanisms, both countries can address shared vulnerabilities and strengthen cross-border enforcement capabilities.

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The implementation of these measures will not only align Pakistan and Afghanistan with global AML standards but also bolster economic stability and governance in the region. Sustainable development and regional security hinge on the ability of these nations to dismantle money laundering networks and curb financial crimes. The path forward demands concerted effort, political will, and long-term commitment to fostering transparency and resilience in financial systems.

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