

## TERRORISM FINANCING IN SOUTH ASIA

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### ABSTRACT

*A major part of funding for terrorism from external sources comes through counterfeit currency, drug trafficking, charities, Non-governmental organizations (NGOs) and finally as a result of state sponsorship by Pakistan. In the case of counterfeit currency and drugs, the funding process starts with production. The initialisation is different for NGOs and charities, where it begins with the collection of funds. This can be open and legal as done through zakat, or clandestine and illegal. The next stage sees the transferring of funds into India. Finally, once the transfer has been completed, money is received by terrorist groups and their front organisations. These stages have been discussed individually for each source, to illustrate the nature and cycle of funding.*

**KEY WORDS:** Terrorism, Funding, Zakat, NGO,

In the wake of the 9/11 terrorist attacks on the US, South Asia attracted world attention due to the extent and spread of terrorist networks operating there. Besides the myriad indigenous groups present, the region is home to AlQaeda, currently located inside Pakistan's autonomous tribal areas. The terrorist threats emanating from this region are of local, regional and global concern.

Several historical and structural factors contribute to an environment conducive for terrorist activities. The relatively recent statehood of South Asian states (India and Pakistan were both founded in 1947) has provided only a thin veneer of cohesion among an extraordinary heterogeneous grouping of old nations and ethno linguistic groups. Secessionist tendencies remain strong. In addition, inter-state border and territorial disputes create geopolitical uncertainty that drains state resources, and porous and undefined borders along with sharp ideological contests and vast inequalities of wealth all remain perennial concerns. The convergence of these factors helps create the right environment for terrorist groups to not only organize and stage plots, but more importantly to gain access to the funds necessary for carrying out their local, regional and global terrorist campaigns. The South Asian terrorist groups can be broadly divided into Islamist groups like al-Qaida, Lashkar-e Tayyiba (LeT), Tehrik-i-Taliban Pakistan (TTP), Jammatt-ulMujahideen Bangladesh (JMB), and separatist and nationalist groups including the United Liberation Force of Assam (ULFA), Liberation Tigers of Tamil Eelam (LTTE) and Maoist groups operating in India. The general fundraising techniques of these groups are more or less similar. While these groups vary

in their size, objectives, tactics and strategies, their financing strategies can broadly be defined under the following categories.

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### SOURCES OF TERRORISM FINANCE:

A major part of funding for terrorism from external sources comes through counterfeit currency, drug trafficking, charities, Non-governmental organizations (NGOs) and finally as a result of state sponsorship by Pakistan. In the case of counterfeit currency and drugs, the funding process starts with production. The initialisation is different for NGOs and charities, where it begins with the collection of funds. This can be open and legal as done through *zakat*, or clandestine and illegal. The next stage sees the transferring of funds into India. Finally, once the transfer has been completed, money is received by terrorist groups and their front organisations. These stages have been discussed individually for each source, to illustrate the nature and cycle of funding.

### NGOs, CHARITIES AND DONATIONS

The sourcing of funds for terrorism is often accompanied by religious appeals, coercion and peddling fears of Islam's victimisation. These trends have been witnessed both at the global and regional level. In Pakistan, the government has limited control over charities and NGOs. (dawn.com retrieved 12 Dec 2012) A similar challenge is faced in countries like Saudi Arabia. Terrorism finance is generated from NGOs and charities within Pakistan and through its coordinating role in West Asia. Workers from India are also radicalised and encouraged to fund terrorist groups. Non-profit organisations can be divided into "complicit" and "exploited" ( <http://issuu.com/world.bank.publications/docs/9780821385470>) While the former willingly function as a front for terrorist organisations, the latter are abused. Charities, through acts of omission or commission become a part of this funding effort, and money is transferred through international channels to terrorist groups. The funding of charities like *Jamaat-ud-Dawa* (JuD) in Pakistan continues unabated. (The Guardian, December 05, 2010) Despite the ban on JuD, an affiliate organisation named *Falah-e-Insaniyat* (FeF) Foundation was established to continue terrorism finance. This has since been banned by the US government. Even though the organisation has been banned, it raises questions regarding the ability of terrorist groups to create fronts for financing terrorism.

Funds from NGOs and charities can potentially flow into India in a similar way, as any other source of funding. This includes *hawala*, cash, legal financial routes and trade. Once received in India, its distribution is carried out based on the nature of transfer, which could be legal through financial channels, or illegal in case of *hawala*. While legal funding can be funnelled through Indian NGOs, illegal funds are handed over to terrorist supporters and groups in cash. An assessment of, some of the specific sources of terrorism finance have been discussed to further elaborate the nature of funding.

## ZAKAT

The primary source of traditional funding in Islam is based on *zakat*. This is an accepted and legal system of almsgiving. Considered as one of the five pillars of Islam, *zakat* is compulsory and has sanction in the holy Koran. The scale of collection of *zakat* funds only in Saudi Arabia was US\$ 10 billion in the early years of the previous decade. When this figure is extrapolated for the entire Gulf region and countries like Pakistan, the figure is likely to be multiplied substantially. It does not imply that this entire amount is siphoned for terrorism finance. However, of the three

uses that *zakat* can be put to, "Feesabeelillah (in the way of Allah), Lil-Fuqara (for the poor), and Lil-Masakeen (for the needy)", it is the first, which has often been misinterpreted by radical elements to channel funding for spreading terror in the name of *Jihad*. ( [www.investigativeproject.org/documents/testimony/22.pdf](http://www.investigativeproject.org/documents/testimony/22.pdf)) A percentage of this element of *zakat*, finds its way into terrorism finance in countries like India.

## CHARITIES AND DIASPORA

Besides *zakat*, which is state regulated in Saudi Arabia and Pakistan, charities have mushroomed in a number of countries which have a very strong radical component. Some of the charities, despite being banned internationally, continued with their campaign after the 2005 earthquake in Pakistan Occupied Kashmir (POK). These include the JuD, LeT and HizbulMujahidden (HM) in Pakistan, and this trend is also widespread in the Middle East. The funding received through charities and NGOs is also interlinked with the support for some of the movements amongst the diaspora. The outbreak of the insurgency in J&K, especially during the early nineties, saw the Jammu and Kashmir Liberation Front (JKLF), receiving substantial support from this community. The Kashmiri diaspora, from both sides of the Line of Control (LoC), supportive of the clarion call for independence, contributed generously. One of the prominent areas of support was the United Kingdom (UK). There is a large segment of the Mirpuri population from POK, which has settled there. This group constituted almost half of the Pakistani migrants and became a strong support base for the movement.

## REMITANCES

Links between former Students Islamic Movement of India (SIMI) and Indian Mujahideen (IM) cadres in India have also been established with financiers from the Gulf. Sarfaraz Nawaz, a former SIMI operative who subsequently joined the LeT, revealed his links with Ummar Haji, a key IM cadre who was planning strikes in Chennai and Bangalore, as well as in training of radicalised youth from Kerala in POK. The large flow of foreign remittances into Kerala has also become a source of concern for agencies. This legit inflow from West Asia provides a suitable cover for funds meant for groups like the IM. Amongst groups assisting with funding is the Jamayyat-ul-Ansar, the new avatar of Harkat-ul-Ansar in Saudi Arabia. The challenges posed by this source of funding include:

- Limited control on the collection of funds by local governments and the international community,

since it is difficult to establish culpability, despite intelligence on involvement of certain groups.

- Charities and NGOs are not controlled by the regulatory bodies in many countries. This leads to both their exploitation and establishment for the sole reason of terrorism finance.

- Given the large number of charities and NGOs, it is difficult to focus attention on all of them, which makes the role of the enforcement and intelligence agencies quite challenging.

- This in turn leads to the inability to freeze assets, as building of legally sustainable cases remains a challenge in the face of inadequate evidence.

- Charities have multiple ways of moving funds to include legal channels, *hawala*, and cash and through trade routes. This makes it difficult to track and trace funding.

- The location of sources outside the country, limits the ability of enforcement and intelligence agencies to trace funding and take legal action, unless the donor country is willing to cooperate with the legal efforts.

### COUNTERFEITING OF CURRENCY

Counterfeiting of Indian currency not only funds terrorism, but what is more important, is used as a tool by Pakistan to destabilise the Indian economy. The existing threat from counterfeit currency emanates at three levels. *First*, the relative ease with which Indian currency is counterfeited. This has been aided by improving technologies available with counterfeiting agencies, and is partly a result of state sponsorship by Pakistan. (The Indian Express, June 10, 2012.) Fake Indian currency notes are largely produced in Pakistan and to a much smaller extent locally in India. (According to the Minister of State for Home, R.P.N. Singh, as part of question 694 in the Rajya Sabha, answered on December 11, 2013, all fake currency noted seized in India are printed only in Pakistan) While the Pakistani counterfeits are of very high quality, making them difficult to distinguish from the real, Indian notes are scanned copies, making them easier to detect. Fake Indian currency is used to fund groups like LeT, Al-Badr, Harkat-ul-Jihad-e-Islami (HuJI), Khalistan Commando Force (KCF) and Dawood Ibrahim run operations. *Second*, terrorist and criminal groups have developed the ability to introduce the fake currency into the Indian and world markets with relative ease. It is difficult to estimate the scale of counterfeit currency in the Indian market, however one estimate suggests that approximately Rs 300 crores introduced into India every year as counterfeit currency. (DNA, November 03,

2012) The Financial Intelligence Unit (FIU) received 3,27,382 counterfeit currency reports in 2011-12. The total amount reported until March, 2012 amounted to Rs 60 crores. (Annual Report 2011-12) Dubai, which is the melting pot of international financial business, found the Indian rupee to be the most counterfeited currency of 2011, overtaking the US dollar. During the year, 10,700 Indian currency notes were seized by the Dubai police, as compared to 9,000 US dollar notes. (Gulfnews.com, February 23, 2012) *Third*, the limited ability to detect circulation and bring down the growing trend of counterfeit currency in the country has remained a challenge. The percentage of detection of counterfeit currency is lower than the actual. (Lifeblood of Terrorism inflow with the Central Bureau of Investigation (CBI), FIU and the National Investigation Agency (NIA) estimating as 28 to 30 per cent of the total amount)

### NARCO-FINANCE

Drugs are a major source for terrorism finance. Similar to counterfeit currency, the threat can be evaluated in three stages; production, transfer of drugs or its financial proceeds into the country, and its circulation to terrorist groups. Afghanistan has emerged as the hub for the global production of opiates. "In 2009, the Afghan Taliban was estimated to have earned around US\$ 150 million from the opiate trade, Afghan drug traffickers US\$ 2.2 billion, and Afghan farmers US\$ 440 million." ([http://www.unodc.org/documents/data-and-analysis/Studies/Global Afghan Opium Trade 2011-2012.pdf](http://www.unodc.org/documents/data-and-analysis/Studies/Global%20Afghan%20Opium%20Trade%202011-2012.pdf)) 8) There is evidence of terrorist groups in Pakistan gaining access to the proceeds of drug trafficking. (Ibid) This has been used by the ISI to spread terrorism (Kukreja, 2003 p213-219) and fight Pakistan's proxy war against India. ([http://www.idsa-india.org/analysis/Global Afghan Opium Trade 2011-2012.html](http://www.idsa-india.org/analysis/Global%20Afghan%20Opium%20Trade%202011-2012.pdf)) The ISI is also using the network of terrorist groups in India for drug trafficking, thereby creating a link between external sourcing and internal trafficking (see Map 1). (Mail Online India, September 11, 2012) This threat has been exploited in the Indian context, as a result of porous borders with states like Nepal. ([http://www.idsa.in/system/files/OP\\_DrugTraffickinginIndia.pdf](http://www.idsa.in/system/files/OP_DrugTraffickinginIndia.pdf))

It is further aggravated since countries like Myanmar have limited writ on their border areas. Criminal and terrorist groups from Bangladesh have also exploited the drug trade to fund terrorism. (The Daily Star, October 06, 2012, ) In the case of Pakistan, besides criminals, state sponsorship of terrorism leads to the exploitation of the lucrative drug trafficking business.

This has led criminal gangs, terrorist groups and state intelligence agencies to exploit vulnerabilities on the borders for drug trafficking. The porous and disputed borders as well as extensive coastlines need considerable force levels to guard the areas effectively. As will be covered under the section on manpower, shortages have proved to be a severe limitation for border guarding forces. These shortages are aggravated by limitations imposed by the absence of technological aids, which can effectively carry out checking of human and large vehicular as well as container based traffic. The cases of Jawaharlal Nehru Port Trust (JNPT) and Mumbai Port are useful case studies. While the Mumbai port does not have any scanners, the JNPT has only two scanners, which scan 10 per cent of containers coming into the country, 61 despite JNPT handling 60 per cent of the total containers received by major ports in the country.

A visit to the foreign post office in New Delhi, presented a similar scenario. The post office receives and dispatches packages to foreign destinations. It does not have any scanners for evaluating the contents of packages. Manpower constraints limit its ability to check only 10 per cent of the packages. In the past, this has led to attempts at smuggling out and getting drugs into the country. The second limitation relates to the inadequate enforcement of Know Your Customer (KYC) norms, which can result in the use of fake identities to receive and book packages.

### STATE SPONSORSHIP

Besides the use of charities and NGOs, Pakistan has employed its intelligence agency, the ISI to directly fund terrorist activities in India. Addressing the Hindustan Times Leadership Summit, Home Minister Rajnath Singh said<sup>84</sup> The Hindu, November 23, 2014(The Hindu, November 23, 2014) Terrorism here is not home grown. It is externally aided. Pakistan blames non-state actors for it. I ask them whether the Inter Services Intelligence (ISI) is a non-state actor. If anyone is fully helping terrorists, it is the ISI. This is not only employed as part of the proxy war in J&K, as is widely known, but also in the north east.(<http://www.rediff.com/news/slide-show/slide-show-1-isifunding-insurgency-in-north-east-says-ex-isi-chief/20120320.htm>) Pakistan's embassy in Saudi Arabia was involved in sending funds through charities like Kashmir Medicare Trust and Muslim Welfare Society. It was also discovered by the J&K Police, that Mohammad Nazir, an ethnic Kashmiri in the embassy was transferring funding through a businessman, Muhammad Shafi Mir in Dubai. Maloy Krishna Dhar,

highlights the links between Pakistan, Bangladesh and Indian terror organisations. "Pakistan had exported jihad to the mainland India from Kashmir and it was ably assisted by the Directorate General of Forces Intelligence (DGFI) from Bangladesh... SIMI's umbilical growth, the Indian Mujahideen and other *tanzeems* in different parts of India have emerged as the open faces of hidden international Islamic Jihad. They may change names but the kernel of SIMI-Lashkar-ISI-DGFI linkages would remain intact."

### MEANS OF TRANSFER HAWALA SYSTEM

*Hawalais* an age old system of money transfers. Roger Ballard, in his background report on the system, explains that a system of 'transfer of debt' functioned during the 11th century, as described by the Egyptian scholar Sarakhshi.<sup>84</sup> It is interesting to see that *hawala* began as a system, which merely envisaged transfer of value and not physical currency, to keep trading revenues safe during transfers. Therefore, an ideal system did not envisage any transfer of funds. However, even though this system was based on implicit trust, and was prevalent amongst a very close circle of associates, who were very often family members, there was an elaborate method of record keeping. Promissory notes called *hundi*, were provided to indicate the nature of indebtedness. Wilson gives a practical explanation for its continued popularity. "*Hawala*-type informal transfers are often faster, more reliable, reach more destinations, sometimes benefit from a better exchangerate, and can be much cheaper than transfers through established, licensed financial institutions." The *hawala* route has traditionally been the medium of choice for providing funds for terrorist operations. However, it needs to be emphasised that *hawalais* not a source, but merely a medium. While it is used for terrorism, however, there is far greater reliance on the system for transfer of funds, by small time workers to their native places, given the convenience and cost effectiveness associated with it.

### TRADE-BASED MONEY LAUNDERING/ TERRORISM FINANCE

Trade-Based Money Laundering (TBML) can be defined as "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins." The limited focus on TBML has been further impacted by large trade volumes, diverse financial arrangements and limited customs officials focusing on such issues.



Financial Action Task Force (FATF) has studied the available typologies to come up with the common methods that are employed. According to FATF, "The most basic schemes involve fraudulent trade practices such as: over and under-invoicing of goods and services, multiple invoicing of goods and services, over- and under-shipment of goods and services, and falsely describing goods and services." Trade-based money laundering/terrorism finance is likely to emerge as one of the most challenging forms of terrorism finance in the future. This is primarily because of the complexity involved in detection, and the difficulty in linking it with terrorism finance. Finance of terrorism through trade includes two important facets. The first is the trading company and second, the legal channel through which money is transferred. Since trade is considered as an engine of economic growth, and banks as lubricants, it is often difficult to assess the degree of regulation and control. The difficulty also increases since it requires wide ranging domestic and international coordination to include intelligence organisations, regulators and enforcement agencies.

#### **EXPLOITATION OF LEGAL FINANCIAL CHANNELS**

Enforcement and intelligence agencies will continue to face challenges of tracing and tracking clean transactions through legal financial institutions, since characteristically terrorism finance is also funnelled through these channels. The use of legal channels to withdraw large amounts of cash by Al Qaeda for the 9/11 attack, reinforced this reality.

The 1993 Mumbai blasts saw the Dawood and Tiger Memon networks clinically plan and execute an extensive series of bomb blasts in Mumbai, which resulted in the death of 257 innocent people. It has now been established that financial support for conducting training for the attack and the subsequent bomb blasts was organised through firms in Dubai, on behalf of the Dawood gang and their Pakistani handlers. The Pakistani connection was confirmed when the absence of immigration formalities at the Islamabad airport came to light.<sup>108</sup> Funding, specifically meant for the attack, was routed through a legal NRI account of Yakub Memon in Bandra. The use of credit and debit cards is yet another way of exploiting legal financial channels. An account opened in a bank in a particular country, with multiple international debit cards, can without raising any suspicion, be used for drawing money anywhere else in the world.

#### **CASH TRANSFERS**

India remains essentially a cash based economy. According to an AssochamDeloitte report of 2011, 65 per cent of all retail transactions were made in cash.<sup>118</sup> Overall, 67 per cent of transactions are made in cash, while 33 per cent are done electronically. Credit and debit cards, despite their increasing proliferation, still account for only 13 per cent of the electronic transactions. This is because large sections of the population, are not being exposed to banking and e-transactions. The fear of frauds, besides slow adoption of technology, remains a deterrent for most. This makes it difficult to screen illegal cash transactions, given their large volumes.

#### **STEPS NEEDED TO COUNTER TERROR FINANCING:**

1. The scope and scale of money transfer in the international economy is overbearingly large. Within that system, terrorist financing is a minutely small part. The cost of financing terrorism is small, even relative to everyday business expenses. For example, the cost of carrying out a terrorist attack is estimated to be in the range of \$10,000 to \$2,000,000.<sup>7</sup> In contrast, the estimated amount of money laundered each year worldwide is between \$500 billion and \$1 trillion.<sup>(Stana,2004)</sup> As in many other areas, the lack of human intelligence makes the problem more difficult. Flows of terrorist money could be better identified through specific information from within terrorist cells rather than using 'brute force' algorithms and record keeping.

2. The problem of competing imperatives is compounded by the diffuse responsibility that exists within the area of terrorist financing. Multiple agencies operate under different paradigms and different sources of authority, including legislation and executive orders.

There is no single chain of command to evaluate issues concerning terrorist financing. Further, each agency is likely to reflexively operate according to its core competency. For example, intelligence agencies are likely to trace money and law enforcement agencies are likely to freeze assets and attempt to bring criminal charges. There is no process or structure for cross-agency decision making and in the absence of such a process decisions about tactics and strategy, such as whether to trace or freeze, the best way to monitor money flows, etc, will be done in a piecemeal manner, according to which agency first identifies terrorist moneys, rather than systematically and in keeping with a coherent national strategy. The complex nature of the

problem requires multiple competencies, information sharing and joint problem solving.

3. There is a need for international cooperation and information sharing in combating terrorist finance. All the problems of inter-agency cooperation and information sharing exist also on an international scale, but with further difficulties and fewer mechanisms for resolving the problem.

4. The countries of South Asia should spearhead the international anti-money laundering strategy.

5. Alongside stronger international banking standards, a means of regulating the hawala and charitable organizations should be created, including a "white" and "black" list of charities.

6. Industrialized nations should promote sharing of information regarding terrorist financing and give technical and financial assistance to underdeveloped nations who are attempting to create secure financial systems.

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