
An overview of Terrorism Financing in South Asia

The region of South Asia has been plagued by militant and terrorist organizations for decades, and their notorious proliferation, violent activities and continuous violation of basic human rights show no sign of ceasing. The tumultuous political environment and the prolongation of conflict in Afghanistan, Pakistan and Jammu & Kashmir has engendered weak governance, corruption and instability, and created an atmosphere where terror organizations are able to thrive and pursue their destructive agendas. It is important to point out that the tenacious endurance of such terror organizations would not be possible without the system of financing they have established in order to carry out their nefarious activities. From drug trafficking to extortion, South Asian terror organizations have managed to financially sustain their operations, and hence persist in plaguing the region with terror.

Certainly, the dark side of globalization has and continues to be exploited by terror organizations and international criminal networks, hence giving such illicit groups means to covertly earn funds. Furthermore, the emergence of a terror-crime nexus in certain regions, notably South Asia, has created a new wave of concern for policy makers. It is clear that the convergence of such networks, or even growing collaboration between groups, risks increasing flows of income destined to be used for malicious purposes. Moreover, the collaboration of certain groups such as the Taliban, Al-Qaeda and Lashkar-e-Taiba, creates terrorist networks which aid and abet each other, either financially or logistically - thus, amplifying the terrorist threat in South Asia. In order to tackle terrorism financing, authorities would have to not only effectively trace and halt flows of money to terror organizations, but also dismantle a well-embedded network of terror organizations to prevent them from aiding each other.

This paper aims to describe and explain the phenomena of terrorism financing in South Asia. Firstly, concepts and theories will be contrasted with and illustrated with examples from the methods of financing used by three major active terror groups in South Asia: The Afghan Taliban, Jaish-e-Mohammed (JeM) and Lashkar-e-Taiba (LeT). Then, legal mechanisms created to tackle terror financing and their efficiency will be explored.

Understanding Terror Financing

Acquiring financial sources and moving them in an undetectable fashion, such as through the hawala system, is key for the sustainability of terror groups. The methods and means through which this is achieved depends on various factors such as the size of the group, the cost of their operations, their geographical locations, and the law enforcement capacity of the States in which they operate. Needless to say, the opacity and secrecy surrounding terror organizations make it difficult to identify specific transactions and how the funds are

allocated. In order to clarify the complexities of terror financing, Freeman, in his paper *'The Sources of Terrorist Financing: Theory and Typology'*, published in 2011, developed a typology that precisely describes this phenomenon.

Firstly, Freeman describes how terror organizations choose a method of financing and highlights six criteria: *Quantity* (the source that provides the largest sum of money), *Legitimacy* (the source does not contradict the group's ideology), *Security* (the ability to acquire the funds without government detection), *Reliability* (predictable and consistent sources of revenue), *Control* (the source ensures wholesome influence and power), and *Simplicity* (acquiring the source does not require advanced or specialized skills). An income source that satisfies these criteria maximizes a group's capacity to sustain itself financially, and as such gain independence and control. Aside from these criteria, Freeman illustrates four primary sources of income for terror organizations: State-sponsorship, illegal activities, legal activities, and popular support.

State-sponsorship

State-sponsorship of militant groups, insurgencies and terror organizations was particularly common during the Cold War when both the Eastern and Western camps provided funds, training and logistical support to militias whose armed struggle fell in line with the interest of a foreign State. As such, the United States (US) supported the Mujahideen in the war against the Soviets in Afghanistan, and the Soviet Union gave support to the Palestine Liberation Organization (PLO). While the phenomenon of State-sponsorship of terrorism subdued after the collapse of the Soviet Union and the end of the Cold War, it still occurs today. The most notorious example of this occurrence in South Asia is the Pakistani Intelligence Services' (ISI) sponsorship of various anti-India insurgencies in Jammu & Kashmir and its dubious relationship with the Taliban and the Haqqani network in Afghanistan. During the Soviet war in Afghanistan, Pakistan received millions of dollars from the Central Intelligence Agency (CIA) to train and assist Afghan Mujahideen fighters. However, at the end of the war in 1989, Pakistan diverted these militants towards Jammu & Kashmir, to wage a proxy war against India. It is estimated that in the 1990s, Pakistan spent up to \$50 million on anti-India jihadist organizations such as Lashkar-e-Taiba, Jaish-e-Mohammed and Hizbul-Muhjahideen. Having the backing of the ISI enhanced these groups' abilities to raise funds and recruit individuals. Aside from providing financial support, Pakistan is internationally known for being a terrorist *'safe haven'* where certain groups are able to open training camps, recruit and train individuals, collect funds, transit and operate because of the State's political agenda.

While having financial ties to a government's intelligence agency can prove to be a secure, reliable and large source of income, it also limits the group's control over its own activities and the funding's conditionality could be subject to a government's change in policies if it succumbs to international pressure.

Illegal activities

Illegal activities as a source of revenue for terrorist organizations is a growing concern for governments, scholars and international institutions. The emergence of a terror-crime nexus amplifies two transnational threats, terrorism and organized crime, and continues to weaken governance. A prime example of this is the case of the Taliban insurgency in Afghanistan.

When the Taliban rose to power in Afghanistan in 1996, it became known for its widespread imposition of strict Sharia law and human rights violations. Following the United States' invasion in 2001, the Taliban were ousted from power but continued to conduct an insurgency that is active to this day. The organization has managed to retake control of approximately half the Afghan territory, and have a steady flow of income, notably through opium production. Afghanistan lies in the Golden Crescent, a euphemism that describes the foothold of opium production and trafficking: Afghanistan, Iran and Pakistan. Afghanistan is responsible for 90% of the global opium production, and as such the abundance of the poppy plant in the country is easily accessible to the Taliban. Furthermore, opium poppy has an estimated annual export value of \$1.5-\$3 billion. It is believed that through taxing the various stages of the opium production process, the Taliban turn a profit of approximately \$100-\$400 million annually.

Hence, the profits of opium production, taxation and trafficking satisfy most, if not all, the criteria above. Even in regards to *legitimacy*, the Taliban have managed to market drugs, which are considered *Haram* (meaning unholy) in the Muslim world, as a legitimate source of finance as drugs are consumed by *kafirs* (non-believers), as explained in EFSAS study paper, [‘Narco-Jihad’ – Haram money for a Halal cause?](#), and hence justify this illicit and destructive endeavour.

As such, revenue from illegal activities such as drug trafficking, extortion, kidnappings for ransom and illegal taxation not only enriches the wallets of terror organizations but also denigrates the authority of the State. If the State is not able to protect its citizens from crime, its own population may lose faith in its institutions. However, this presents some disadvantages for the organization. Firstly, organized criminal operations are very risky, hence this is not always a secure method to gather funds. Secondly, if a group's illegal activities affect the population around them too highly (for example extortion or kidnappings), they may lose popular support. Lastly, the profitable bounty acquired from illicit activities may attract members more than the ideology of a terror organization, thus causing the group to lose (ideological) members.

Legal activities

Terror organizations may also acquire funds through legal means. One of the simplest examples of this is a member of an organization using his or her legitimate salary for the benefit of the organization, either by donating it or buying materials for the group. Moreover, terror organizations could also establish licit businesses as a way to acquire means. One well

known example of this is the honey stores owned by Al-Qaeda throughout the Middle East, which not only provided a licit source of income, but the shipments of honey were also used to traffic arms, money and drugs. Lashkar-e-Taiba also owns legitimate businesses in the food production sector, such as fish farms and agricultural tracks, but also in the health sector, such as hospitals and ambulance services. Through these services, LeT provides the public with basic needs where the government is not always able to deliver. This creates a sense of legitimacy for the group and can further rally individuals to LeT's cause.

Raising funds through legal businesses is a secure source for terror organizations; as their revenue is legal, this might divert attention from the State. However, if the finances of the business were to be audited, this would require a skillful disguise of funds, transfers and expenditures in order to evade judicial pursuit. Moreover, in order for the legal activity to provide sustainable funds, it requires a high level of skill and the business in question could be subject to (genuine) competition and as such may render less profits than illegal trade (as the risk involved in criminal activities allows for a greater profit margin).

Popular support

Finally, popular support is a common source of revenue for terrorist organizations based in Pakistan. Groups such as Lashkar-e-Taiba and Jaish-e-Mohammed have been known to target sympathetic populations, including the diaspora, for donations and using charitable foundations to amass funds for terror activities. This is an abuse of one of the 5 pillars of Islam, *Zakat*. In accordance with Islamic law, Muslims are required to donate a part of their income to those in need. In the following paragraphs, a closer look will be taken at the ways through which LeT finances its terror activities through popular support.

The inception of Lashkar-e-Taiba dates back to the late 1980s, when the group Markaz-ud-Dawat-wal-Irshad (MDI) was created upon the merger of an anti-Soviet militia and Jamaat-ud-Dawa (JuD), a proselyte organization formed to spread the Ahl-i-Hadith doctrine (a branch of Islam which claims to uphold the 'purest' form of the faith). The MDI created multiple branches and sub-organizations in order to fulfill its objectives. Lashkar-e-Taiba was formed as the group's militant wing in order to carry out jihad. The names of MDI, JuD and LeT are virtually interchangeable, and it is important to retain that these groups function as branches of one group, following one ideology. The United Nations recognizes this, as it lists LeT, JuD and the Falah Insaniat Foundation (a charitable front) under one entity on the United Nations Security Council Consolidated List.

LeT's use of its various branches to exploit welfare, conduct terrorist operations and acquire legitimacy creates an entangled web that renders the tracing of funds to and from the organization even more complicated. Money can be collected in the simplest ways, such as placing donation boxes in JuD offices and shops, or at public gatherings. This not only embroils accountability for terrorism financing, but also sheds light on LeT's embedded ability of rallying people to their cause, to the point of willingly donating parts of their income to it. This not only occurs in South Asia, but also amongst the South Asian diaspora in other parts

of the world, notably Europe. Researchers have shown that the United Kingdom is particularly vulnerable to this, due to its large Pakistani community. For example, when a devastating 7.1 magnitude earthquake hit Pakistan-Administered Jammu & Kashmir in 2005, a stupendous £5 million was donated by the diaspora in Britain to charities, notably JuD, in Pakistan for relief efforts. However, an investigation into a foiled terrorist plot to plant bombs in transatlantic flights in 2006 showed that at least half the funds donated by unsuspecting citizens were deviated to fund the LeT plot. The South Asian diaspora in Britain is not the only source of foreign donations for the LeT. Saudi Arabia, which has a history of promoting '*Saudi-Wahhabi political and religious influence in the Sunni Muslim world*' and other Gulf States have been known to provide LeT's charitable wings with aid.

Acquiring funds through supporters gives a dangerous sense of legitimacy to terror organizations. This can be emphasized if the terror organization, Lashkar-e-Taiba for example, sets up welfare services in parallel in order to provide for their supporters where the government is failing to do so. However, popular support cannot always be considered a reliable and steady source of income. The amounts donated may fluctuate based on the health of the national economy, and the public perception of the group may affect its behavior and activity. If its supporters are dissatisfied with it, they may choose to stop donating or donate less, meaning the group might not be ready to carry out its terrorist activities, both in financial terms and for fear of losing their support base. However, if the public expresses outrage at an issue and calls for action on behalf of the terror organization, this might escalate their operations. Furthermore, a group may be in competition with another for the same support base, hence this might also influence their operations.

[The primary expenditures of terror organizations](#)

According to the Humanity at Risk report published by the Strategic Foresight Group and the Centre for the Resolution of Intractable Conflicts in 2018, 86% of global terrorist group combatants are located in South Asia. The proliferation of terrorist organizations in the region certainly explains this high number, however it means that these groups have to financially support their members. Salaries, food and medicine are as such listed as a terror organization's primary expenditure. According to the same report, Lashkar-e-Taiba comprises of an approximate 40,000 to 120,000 combatants, Jaish-e-Mohammed has around 75,000 and the Taliban are roughly 25,000 to 60,000 strong. Joining a terror organization and receiving a salary for it is highly attractive in regions where job security is relatively low, and poverty is rampant. However, the capacity to attract members for financial reasons has to be maintained, especially in cases where another group arises and seeks to recruit another group's militants. This was seen when the Islamic State (IS) made advances in Afghanistan in 2015 and was able to recruit disgruntled Taliban members and civilians by offering a monthly salary of approximately USD 500 (three times the wage of a government soldier). At that time, the IS had amassed an estimated \$1 billion, mostly through its advanced financial mechanisms that closely resembled that of an organized crime group, as explained in EFSAS Study Paper: ['Dissecting ISIS after al-Baghdadi and an introduction to its proliferation in South Asia'](#). The IS'

budget made it difficult for the Taliban, whose worth is estimated to be around \$400-500 million, to compete.

Aside from paying their combatants, some terror organizations also provide the families of the 'martyred' with monthly compensations, such as the Taliban and Lashkar-e-Taiba. Of course, the most important expenditure for such groups remains their actual terror activities, however, the cost of weaponry remains relatively low. Terror organizations in South Asia commonly use guns or explosives, including improvised explosive devices (IED). Naturally, the cost of weaponry would of course escalate in proportion with the frequency of terror attacks, but many groups have demonstrated that sophisticated weaponry is not required to carry out devastating attacks.

Taking for example the Pulwama attack committed on 14 February 2019 in Jammu & Kashmir by the terror organization Jaish-e-Mohammed; a radicalized 22-year-old Kashmiri drove a van filled with explosives into a convoy of 78 buses transporting members of the Indian Central Reserve Police Force (CRPF). The blast killed 40 personnel of the CRPF, making it the deadliest attack in Jammu & Kashmir since the beginning of the insurgency against the Indian State in 1989. Upon further investigation, the National Investigation Agency (NIA) of India deduced that two types of explosives, together weighing not less than 200kg, had been used to weaponize the JeM militant's vehicle: RDX and ammonium nitrate. While ammonium nitrate is a chemical commonly used as a fertilizer in agriculture, and can be bought in stores, RDX is a military-grade explosive and its access is heavily restricted. Investigators speculate that the ammonium nitrate was bought locally and gathered over at least a month, while the RDX was obtained through terrorist and criminal networks in the region. The quantity of ammonium nitrate surpassed that of RDX used; the NIA stated that had the RDX amount been higher, so would have been the impact of the blast. Hence, the material required for the attack consisted of a secondhand SUV (the car had been sold and resold a few times before falling into the hands of JeM), fuel, easily accessible ammonium nitrate and likely illegally obtained RDX. This shows that a relatively low-cost operation was able to cause an impact that resonated throughout the region and brought India and Pakistan to the brink of war.

Another expenditure of terror organizations is recruitment and training. A steady flow of followers ensures the growth and survival of the group, but does require them to invest in the training, be it religious or militant, of recruits. This explains why the Taliban, LeT and JeM all run madrassas (religious educational institutions) in Pakistan and Afghanistan, that are mostly supported by donations. This presents a double opportunity for terrorist organizations; Firstly, donations for the madrassa can be diverted for terror activities and secondly, the collected funds can also be used to pursue the indoctrination of students.

The correlation between funding madrassas and the abuse of the charitable sector can be seen in the following example. In 2010 the Al-Rehmat Trust, a non-profit organization operating in Pakistan, was proscribed by the United States under Executive Order 13224 for providing financial support to designated terrorist organizations, including Al Qaeda and its

affiliates, in Afghanistan and Pakistan. Jaish-e-Mohammed had begun using Al-Rehmat as a front for its fundraising activities after being banned by the Pakistani government in 2002. The funds gathered through donation programs were not only used for recruitment, militant training and indoctrination of madrassa students, but also to provide financial support to families of killed or arrested militants. Aside from providing funds for JeM, Al-Rehmat also provided services and financial aid to the Taliban. This emphasizes the dangers of terrorist financing and the interconnectivity of terrorist groups in South Asia.

In such poverty ridden regions, the free schooling offered by madrassas is seen as the only possible means of acquiring education. It is estimated that, in Pakistan alone, 4.1 million young people are enrolled in the thousands of madrassas spread throughout the country. The majority of these madrassas operate entirely out of the government's control and are privately funded, which does create a pathway for radicalization, as madrassas run by terrorist entities are well equipped to disseminate radical Islamist ideology. Students of madrassas, once indoctrinated, ensure a successor generation for terrorist organizations. As illustrated in EFSAS study paper: [‘How Pakistani Madrassas Contribute to Radicalization Dynamics and Religious Terrorism in Indian Administered Jammu & Kashmir’](#), madrassas have gained significant influence in South Asia, notably in Pakistan, however the misuse of such institutions by terror organizations magnifies the threat of radicalization and perpetuates the cycle of terror. The Pakistani government announced in April 2019 that it planned to bring 30,000 madrassas under government control, but such efforts to mainstream religious seminaries have previously been rejected by leaders of madrassas. Furthermore, the genuineness of the Pakistani government's declaration and dedication to modernizing madrassa education can be brought into question, as this occurred amidst international pressure for Pakistan to crackdown on terror organizations and terrorist financing. This point will be elaborated upon later on in the paper.

[Legal framework to tackle terror financing](#)

In 1999, the United Nations passed the International Convention for the Suppression of the Financing of Terrorism. This treaty not only criminalizes acts of terrorism and its financing, but also promotes international judicial cooperation in the prevention, investigation and prosecution of terrorism. It is a groundbreaking legal text, as it is the first of its kind, and is amongst one of the most successful international treaties, as 189 nation-States are party to it. However, the convention has two major limits; firstly, it does not offer a strong legal definition of terrorism nor acts of terrorism. Considering the political sensitivity that revolves around terrorism, States have difficulty in forming a consensus as to which groups and which causes would qualify as terrorism. The infamous slogan *“one man's terrorist is another's freedom fighter”* perfectly illustrates this dilemma. However, this slogan took legal form in the 1999 Convention of the Organization of the Islamic Conference on Combatting International Terrorism.

Article 1, paragraph 1 of the convention states that:

“‘Terrorism’ means any act of violence or threat thereof notwithstanding its motives or intentions perpetrated to carry out an individual or collective criminal plan with the aim of terrorizing people or threatening to harm them or imperiling their lives, honour, freedoms, security or rights or exposing the environment or any facility or public or private property to hazards or occupying or seizing them, or endangering a national resource, or international facilities, or threatening the stability, territorial integrity, political unity or sovereignty of independent States”.

Article 2a of the same convention seems to provide an exemption clause:

“Peoples’ struggle including armed struggle against foreign occupation, aggression, colonialism, and hegemony, aimed at liberation and self-determination in accordance with the principles of international law shall not be considered a terrorist crime”.

These two articles appear to contradict each other. Furthermore, they make distinctions between armed struggles and could potentially legitimize the aims of certain terror organizations and further facilitate the politicization of terrorism. The Taliban, Lashkar-e-Taiba and Jaish-e-Mohammed are listed as terrorist organizations by the United Nations, and article 103 of the UN Charter states that the UN obligations of member States take precedence over other international agreements, and as such it seems unlikely that member States of the OIC, such as Pakistan for example, would be able to justify de-criminalizing said groups under article 2 of the OIC’s convention.

That being said, the room for interpretation left by the broad and vague international definitions of terrorism and the absence of a universal definition of the term brings about the second limit of the convention: the interpretation and application of the treaty into national law is left to the discretion of the State. If provisions from the 1999 Convention are applied to national laws but fashioned as to create loopholes for the State’s own political agenda, this risks further politicizing the issue and could allow States to pick and choose which group is of a terrorist nature and which is not, and these consequences could continue to impede the fight against terrorism financing. This can also have repercussions on international law-making, as was seen during the process of designating Masood Azhar, the leader and founder of JeM, an international terrorist.

Masood Azhar has been wanted by the Indian government for more than a decade for his role in various terrorist attacks against India, such as the 2001 Indian Parliament attack and the 2019 Pulwama attacks, both claimed by JeM. While JeM itself was added to the United Nations Security Council Consolidated List in 2001, a list which registers all groups or individuals subject to UN measures and sanctions in response to the threat they cause, Masood Azhar was not included in the Consolidated List until 1 May 2019. India had been lobbying to add Azhar to the list and had attracted the support of permanent members of the Security Council such as the United Kingdom and France, however the requests to sanction

Azhar were consecutively blocked by the People's Republic of China, Pakistan's "all-weather" friend. The fourth and final time China vetoed the request, in March 2019, it claimed that India did not provide enough evidence against Azhar. However, as Pakistan received international pressure and threats of sanctions by the Financial Action Task Force (FATF) for being "too soft" on terror groups, China broke its streak of continuously blocking the request as to relieve some of the pressure. Had Pakistan been blacklisted by the FATF, this could have seriously impacted the multi-billion investments made by China in Pakistan under the flag of the China Pakistan Economic Corridor (CPEC).

The two limits presented above illustrate the political complications of defining terrorism. Thus, without a clear definition of terrorism, tackling its financing and strengthening international cooperation in this regard becomes more strenuous.

The United Nations Security Council has also passed important resolutions such as UNSC Resolution 1373 (2001) and Resolution 2178 (2014). These resolutions are legally binding upon the member States of the United Nations, and while paragraph 2e of Resolution 1373 (2001) and paragraph 6 of Resolution 2178 (2014) both state that: *"All Member States shall ensure that any person who participates in the financing, planning, preparation or perpetration of terrorist acts or in supporting terrorist acts is brought to justice, and decides that all States shall ensure that their domestic laws and regulations establish serious criminal offenses sufficient to provide the ability to prosecute and to penalize in a manner duly reflecting the seriousness of the offense"*, the problem remains that these domestic laws cannot be enforced on Member States by the United Nations.

While international legislature on the subject of terrorism continues to leave room for speculation and interpretation, the Financial Action Task Force (FATF) has employed a mechanism that allows for effective monitoring and response to international terrorist threats. The Paris-based 'watchdog', as it is often dubbed by the media, is responsible for setting international standards to combat money laundering and terrorist financing, assessing and monitoring compliance with these standards and conducting typology studies of money laundering and terrorist financing methods, trends and techniques. Pakistan is currently under FATF scrutiny for not complying with the majority of FATF recommendations that would prevent terrorist organizations in the country from acquiring funds. Pakistan has been on the FATF 'grey-list' since 2018, and narrowly avoided being 'blacklisted' twice in 2019, in June and in October, as it managed to obtain the three votes required to stay on the grey list, courtesy of China, Malaysia and Turkey. The Mutual Evaluation Report published by the Asia Pacific Group, the FATF's regional body for Asia, established that Pakistan lacked certain measures and enforcement mechanisms to target legal persons, such as trusts, and its number of terror-financing convictions did not reflect the magnitude of the issue in the country. Hence, these deficiencies in Pakistan's legal framework for combating terror financing, risk landing the country in the FATF's blacklist if the Pakistani government does not take noticeable actions to improve the situation and completely implement its national action plan by February 2020. If Pakistan were to be blacklisted, this would prove to be devastating

for its already fragile economy, as it would render any foreign investment nearly impossible. It remains to be seen how the Pakistani government will implement its action plan and whether or not its continuous policy of tolerating the operations of terrorist groups on its territory, if not supporting them, will finally catch up to Pakistan.

Conclusion

This paper examined the means through which terror organizations in South Asia seek to acquire funds, the way these funds are used and the international legal mechanisms pursuant to countering terror financing. One of the major issues that prevents the implementation of counter-terror financing efforts is the lack of a clear, universal definition of terrorism and the fact that international treaties can often be circumvented by domestic laws. The efforts of the FATF have proven to be a reasonable counterweight to these limitations, however politics and international alliances keep influencing the outcome of the process.

In order to adequately tackle terror financing, aside from adopting laws that efficiently prosecute terror-related crimes, international cooperation must be enforced as to better investigate, prevent and prosecute terrorism financing. However, in a region such as South Asia, regional tensions and complex geopolitics render international cooperation incredibly difficult, hence weakening the effect of counter-terror financing measures.

Cutting the financial bloodline of terror organizations is the only way to prevent the proliferation of terror organizations, the dissemination of their radical ideology and the occurrence of their violent activity.

However, it would seem, that for now, terrorist groups in South Asia are able to thrive financially and will continue to do so until they are taken from under the wings of States that use them as *'strategic assets'* to pursue political agendas and foreign policy.