

# Tracking the Money Trail: Islamic Terror Groups in South Asia

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# Tracking the Money Trail: Islamic Terror Groups in South Asia

*“Armed conflict cannot be waged until it has been financed.”*

- Sun Tzu

## **Abstract**

South Asia has been plagued by Islamic terrorism for decades. An increasingly hostile political environment and the prolonged conflict in Afghanistan, Pakistan and Jammu & Kashmir has enabled terror organisations to thrive because of the complicity of governments and corruption. The tenacious endurance of such terror groups would not be possible without financial systems. Money is described as ‘the lifeblood’ of terrorist organisations. As terrorism becomes an enduring feature of modern life there is an increasing need to examine the ‘New Economy of Terror’. Rooted in globalisation the terror groups exploit all forms of financial systems as they engage in legal and illegal activities. South Asian terror groups sustain themselves financially by relying on state-sponsorship, extortion, kidnapping, drug trafficking, smuggling networks, and charities. The emergence of the terror-crime nexus in South Asia and the collaboration of certain groups such as the Taliban, Al-Qaeda and Lashkar-e-Taiba with each other and with criminal syndicates creates terrorist networks which aid and abet each other, either financially or logistically - thus, amplifying the terrorist threat in South Asia.

This paper aims to give an overview of financing of Islamic radical groups in South Asia and sheds light on the interconnected and global nature of the financial networks. The 'BIPA corridor' (Bangladesh, India, Pakistan, Afghanistan) is the foremost breeding ground for the Islamic terror groups as the region is home to the highest concentration of Muslims in the world. The Humanity at Risk report, published in 2018 estimated that 86% of global terrorist group combatants are located in South Asia. Thus, making an examination of the financial support for jihadists is crucial for the greater stability and security of the South Asian region. Through the examples of terror groups like the Afghan Taliban, al-Qaeda, Jaish-e-Mohammed (JeM), Hizbul Mujahideen(HM) and Lashkar-e-Taiba (LeT) the paper aims to highlight the astonishingly high interdependence between Western capitalist financial systems and the New Terror Economy. Furthermore, indigenous money transfer systems like the *Hawala* and *Hundi* pose a great challenge in the region. Although the traditional methods continue to be a significant part of Terror Financing, they are evolving and simultaneously new financing techniques are being adopted. All of which undermine the current counter-terror financing mechanisms in South Asia. There are limitations in the existing measures as oversea financing is exploited, indicating that the international counter finance strategies are not sufficiently rigorous. The international community needs to come together to form binding measures with the help of concrete evidence and tracing mechanisms to pressurize states which are facilitating the flow of sources.

## Introduction

Money is ‘the lifeblood’ of terrorist organisations. Although driven by ideology, terrorist groups cannot make much headway without finance. With terrorism becoming an enduring feature of modern political life, the ‘New Economy of Terror’ poses a major challenge to states and security agencies around the world. The collapse of the Soviet Union and the West’s lack of involvement in certain regions, gave modern terrorism a new momentum. According to Loretta Napoleoni the “New Economy of Terror is in fact a product of globalisation”<sup>1</sup> as it has “allowed non-state entities to promote a variety of liberal causes, social change and economic advancement but also facilitated the networking of terrorist movements like al-Qaeda and the growing sophistication of the ‘terror economy’”<sup>2</sup>. She estimates the size of the new terror economy to be approximately 5% of the world GDP. To support this economy today there are a variety of sources ranging from state sponsorship, petty theft, international smuggling of drugs, extortion from local businesses, smuggling, human trafficking, kidnapping, dispersed local and diaspora communities giving charitable donations and wealthy individuals using their personal wealth to fund such organisations. The transnational character of Islamist armed groups only adds to the complexity of the problem as terrorists and their funds move freely from one weak state to another. Present day example is Al-Qaeda whose affiliates exist from Algeria to the Philippines.

While ideology and identity are important in understanding jihadist behaviour, these alone cannot explain why certain groups succeed over other groups with similar religious and cultural endowments. “Military victory

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1 “LORETTA NAPOLEONI, Modern Jihad: Tracing the Dollars behind the Terror Networks.” *International Journal of Middle East Studies* 37, no. 3 (2005): 444–45. doi:10.1017/S0020743805362143

2 Ibid.

and political power cannot be won on sentiments alone and without material resources, even the most zealous believers will starve in the trenches”<sup>3</sup>. In South Asia as there is increasing convergence of terror networks, and an ever growing collaboration between groups which risks increasing flows of income destined to be used for malicious purposes. In order to combat the funding of terrorism, the authorities would not only have to effectively track and thwart the flow of money to terrorist groups, but would also have to dismantle a well-integrated network of terrorist organisations in order to prevent them from supporting each other.

## Sources of Terror Financing (TF)

- **State Sponsorship**

This is one of the primary sources of funding and was common during the Cold War years when Marxist groups across the globe were supported by the Soviet Union, Cuba and North Korea. The United States also supported terrorist groups like the Mujahideen in Afghanistan and the Contras in Nicaragua. Presently, the modal type has changed from Communist to Islamist. The most notorious example of state sponsorship in South Asia is Pakistan. Its intelligence agency the Inter-Services Intelligence (ISI) sponsors various anti-India insurgencies in Jammu & Kashmir and is known for its dubious relationship with the Haqqani network and the Taliban in Afghanistan. As per reports, the “yearly expenditure of ISI towards the terrorist organizations runs between 125-250 million USD, covering salaries, cash incentives for high-risk operations and retainers for guides, porters and

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3 AHMAD, AISHA. JIHAD & CO.: *Black Markets and Islamist Power*. OXFORD UNIV Press US, 2019.

informers”<sup>4</sup>.

Pakistan has been known for its perennial support of the Taliban in Afghanistan and other terrorist organizations in Jammu and Kashmir. ISI is also known to be involved in running several military intelligence programs in India like supplying arms to insurgents in North-East India, supporting pro-Khalistan terrorist groups in Punjab and actively printing and supplying counterfeit Indian currency notes. An example of this is Pakistani support to Lashkar-e-Toiba (LeT), a group that has evolved from a local to a global jihadist threat. As noted by many “LeT receives support from Pakistan’s military and intelligence services”<sup>5</sup> Thus, “the conflict in J&K became less of a local insurgency and more of a campaign sponsored by Pakistan through its many proxies. The growing reputation of LeT as a jihadi force fighting to liberate Kashmir enhanced its ability to recruit and raise funds”<sup>6</sup>. Apart from providing direct funding, states like Pakistan provide logistical support as it functions as a safe haven for many terror groups and also give impunity to the group’s fund collection exercises. Observers like Ashley Tellis believe, ‘it is important to end the farce of treating these entities as if they are truly free agents, acting on their own accord, un-tethered to the state organs from which they derive protection, succor, and support’.

“Inside Pakistan’s military and intelligence services, which are the real powers in Pakistan, groups like Jaish-e-Mohammed and Lashkar-e-Taiba are seen as “strategic” forces against India, and

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4 “Pakistan Army and Terrorism; an Unholy Alliance.” *EFSAS: Study Papers*, *EFSAS*, [www.efsas.org/publications/study-papers/?page=7](http://www.efsas.org/publications/study-papers/?page=7).

5 Kambere, Geoffrey, et al. “The Financing of Lashkar-e-Taiba.” *Globalecco*, [globalecco.org/ctx-v1n1/lashkar-e-taiba](http://globalecco.org/ctx-v1n1/lashkar-e-taiba).

6 Ibid.



are used as instruments of foreign policy”<sup>7</sup>. State sponsorship can prove advantageous for terrorist groups as it is reliable, secure and provides a large size of funds. For states it is an inexpensive proposition as they can achieve their strategic goals by funding such groups. However, the disadvantages are that it limits the group’s control over its own operations and the funding’s conditionality could be subject to the state’s policy which is susceptible to change.

- **Illegal Activities**

Armed terror groups in contrast to criminal enterprises largely focus on concealment and redistribution of wealth rather than the accumulation of it. Their focus is primarily on money manipulation, the ability to transfer large sums of money without being detected. What distinguishes terrorist groups from organised crime is that their goal is political and not monetary i.e. to substitute one form of government with another or to defend the existing regime. Asides of state-sponsorship, terror groups have increasingly relied on illegal activities like kidnapping and ransom, theft, smuggling, petty crime and pirating or counterfeiting goods. The emergence of a terror-crime nexus amplifies two transnational threats, terrorism and organized crime and continues to weaken governance, especially in South Asia.

A prime example of this is the Taliban insurgency in Afghanistan. The organisation has managed to take control in Afghanistan and has a steady flow of income, notably from the opium trade. Afghanistan lies in the Golden Crescent; a euphemism used to describe the foothold of opium production and trafficking (Afghanistan, Iran and Pakistan) and is “responsible for 90% of

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7 Kambere, Geoffrey, et al. “The Financing of Lashkar-e-Taiba.” *Globalecco*, [globalecco.org/ctx-v1n1/lashkar-e-taiba](http://globalecco.org/ctx-v1n1/lashkar-e-taiba).

the global opium production. The estimated annual export value of opium poppy is around \$1.5-£3 billion<sup>8</sup> and through “taxing various stages of the opium production process, the Taliban annually earn profits worth \$100-\$140 million<sup>9</sup>. Using *Haram* money for a *Halal* cause is increasingly justified within jihadist groups like the Taliban in their ‘holy war’ against the West. The drug trade is now “Afghanistan’s leading cash-generating economic activity and represents about 10-15% of the country’s GDP”<sup>10</sup>.

Furthermore, in recent years, the Taliban managed to secure control over Afghanistan’s rich mineral deposits, from lapis lazuli mines in northern Badakhshan to gold, lead, and zinc in Helmand and vast talc and marble deposits in southern Nangarhar. The Taliban, who already control most of the country’s mineral wealth, “are banking on further developing the sector to make it the bedrock of the country’s postwar economy—or theirs, at least”<sup>11</sup>. Extractive industries like mining are the Taliban’s second-largest revenue stream after narcotics.

Another major heroin refining and smuggling hub in the region is Pakistan which has a large scale *hawala* system enabling the transfer of drug profits. It “suffers from financial crimes associated with tax evasion, fraud, corruption, trade in counterfeit goods, contraband smuggling, narcotics trafficking, human smuggling/

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8 “‘Narco-Jihad’ – Haram Money for a Halal Cause?” *EFSSAS*, [www.efsas.org/publications/study-papers/%E2%80%98narco-jihad%E2%80%99-%E2%80%93-haram-money-for-a-halal-cause/](http://www.efsas.org/publications/study-papers/%E2%80%98narco-jihad%E2%80%99-%E2%80%93-haram-money-for-a-halal-cause/).

9 Ibid.

10 Ibid.

11 Replication-Receiver. “Afghanistan Human Development Report 2020.” *UNDP*, UNDP, 25 Aug. 2020, [www.af.undp.org/content/afghanistan/en/home/presscenter/pressreleases/2020/NHDR-2020.html?s=08#.X0TXU2X\\_sAo.twitter](http://www.af.undp.org/content/afghanistan/en/home/presscenter/pressreleases/2020/NHDR-2020.html?s=08#.X0TXU2X_sAo.twitter).

trafficking, terrorism and terrorist financing”<sup>12</sup>. The Khanani group is an example of the exploitation of weak financial systems in Pakistan wherein the firm was responsible for laundering billions of dollars in organised crime proceeds annually. The Khanani MLO offered money laundering services to a diverse clientele, including Chinese, Colombian, and Mexican organised crime groups and individuals associated with designated terrorist organisations”<sup>13</sup>.

The country bears a history of growing opium and during the heydays of illicit poppy cultivation in the 1980s it was grown in FATA and the North-West Frontier Province (NWFP; now renamed Khyber-Pakhtunkhwa). “Many prominent and official actors, such as Pakistan’s military and intelligence services are deeply involved in the heroin trade. Furthermore, the drug trade across the Afghanistan-Pakistan border is not only weakening state control but also cementing linkages among drug traffickers throughout the larger region, Taliban, insurgents, and criminal groups”<sup>14</sup>.

Revenue from such illegal activities not only enriches the terror organisations but also diminishes the authority of the State as citizens lose faith in them due to their failure in protecting the population from crime. On the other hand, the organisation may face a disadvantage as illegal activities are not always a secure

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12 Anwardawn. “Khanani Group Launders Billions of Dollars: US Report.” *DAWN.COM*, Dawn, 4 Mar. 2017, [www.dawn.com/news/1318333](http://www.dawn.com/news/1318333).

13 “‘Narco-Jihad’ – Haram Money for a Halal Cause?” *EFSSAS*, [www.efsas.org/publications/study-papers/%E2%80%98narco-jihad%E2%80%99-%E2%80%93-haram-money-for-a-halal-cause/](http://www.efsas.org/publications/study-papers/%E2%80%98narco-jihad%E2%80%99-%E2%80%93-haram-money-for-a-halal-cause/).

14 AHMAD, AISHA. *JIHAD & CO.: Black Markets and Islamist Power*. OXFORD UNIV Press US, 2019.

method of accumulation funds. These activities also give rise to the conflict with the traditional religious culture of the smuggling community and to resolve this moral dilemma, some traders “sought special Islamic rulings (*fatawas*) justifying their activities. To counter criticism the traders who have transitioned into the narcotics industry have made particularly generous charitable donations to Islamic and humanitarian causes”<sup>15</sup>. Drug trafficking continues to be the most lucrative form of business for criminals and terrorists alike, however the region faces challenges of human trafficking, extortions and kidnappings as well. The terror-crime nexus is strong in South Asia. One of the main the criminal cog that links organized crime and terrorism in South Asia has been the notorious D-Company. Led by the underworld boss Dawood Ibrahim is the ‘second richest criminal after fellow drug lord late Pablo Escobar.

Courtesy to the D-Company, the collaboration between criminal and senior leadership in terrorist organisations is profound in the region. It has been responsible for the trafficking of drugs, humans and weapons.

- **Legal Activities**

Security is the primary advantage of engaging in legal activities, terror groups use the profits to fund themselves and there is very little the state can do to target the group’s finances. The most basic means to acquire funds legally is if a member of the organisation uses his or her legitimate salary either by donating or by purchasing materials on their behalf. Legitimate business

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15 Gohel , Sajjan, and David Winston . “Long Read: The TERRORIST-CRIME Nexus Connecting South Asia to Southeast Asia.” *South Asia@LSE*, 21 Jan. 2020, [blogs.lse.ac.uk/southasia/2019/10/02/long-read-the-terrorist-crime-nexus-connecting-south-asia-to-southeast-asia/](https://blogs.lse.ac.uk/southasia/2019/10/02/long-read-the-terrorist-crime-nexus-connecting-south-asia-to-southeast-asia/).

is also a way of financing terror. It is well known that Al-Qaeda has honey stores across the Middle East, which is not only used as a source of licit income, but the “shipments of honey were also used to traffic arms, money and drugs”<sup>20</sup>. September attacks by al-Qaeda were financed with clean money. Bin Laden’s portfolio was sophisticated as it consisted of companies across the globe for example, “in Africa a holding company, Wadi al-Aqiq, a Sudanese construction firm, Al-Hiraj, an ostrich farm and shrimp boats in Kenya; in the Middle East, shares in the Al-Shamil Islamic Bank and large tracts of forests in Turkey; in Asia, agricultural holdings in Tajikistan; in Europe and the United States, holding companies, venture capital firms, banks and import-export companies”<sup>16</sup>. Lashkar-e-Taiba also owns licit businesses in the food production sector such as fish farms and agricultural tracts. It is also involved in the health sector as they run hospitals and provide ambulance services. It is through such services that LeT provides basic facilities to regions where the government cannot deliver. “This helps the LeT garner support from the population and creates a sense of legitimacy”<sup>17</sup>.

Groups like the Haqqani Network have been associated with and/or controlled public services that include hospitals and a network of madrassas in southeastern Afghanistan and the Waziristan region. “The group is also believed to own real estate from Kabul

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16 “LORETTA NAPOLEONI, Modern Jihad: Tracing the Dollars behind the Terror Networks.” *International Journal of Middle East Studies* 37, no. 3 (2005): 444–45. doi:10.1017/S0020743805362143.

17 Peters, Gretchen. “Haqqani Network Financing: The Evolution of an Industry.” *THE COMBATING TERRORISM CENTER AT WEST POINT, THE COMBATING TERRORISM CENTER AT WEST POINT*, July 2012, etc. [usma.edu/wp-content/uploads/2012/07/CTC\\_Haqqani\\_Network\\_Financing-Report\\_Final.pdf](http://usma.edu/wp-content/uploads/2012/07/CTC_Haqqani_Network_Financing-Report_Final.pdf).

to Dubai, and to run transport and trucking firms, construction companies and import-export operations. Some of these activities likely emerged organically out of the network's need to supply itself with commodities for the war effort, and to build roads and buildings that support network operations"<sup>18</sup>. The Haqqani licit business portfolio focuses on construction, import-export and transport which is similar to typical mafia operations. "Some of these legal business operations appear to exist mainly in order for the network to launder illicit profits"<sup>19</sup>. The evolution of the Haqqani network from a localized jihadi outfit into a sophisticated, diversified and transnational crime network is indicative of the threat the region faces.

An investigation in India on the funding of Hizb-ul-Mujahideen (HM) alleges that the group had been receiving financial support from Pakistan through banking to support its terrorist activities in India. "HM managed to raise INR 800 million"<sup>20</sup>, as "the banking sector was extensively used for transfer of funds to various bank accounts for the aforementioned activities. Funds have also been moved via money value transfer services (MVTs)"<sup>21</sup>.

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18 FATF (2015), *Emerging Terrorist Financing Risks*, FATF, Paris [www.fatf-gafi.org/publications/methodsandtrends/documents/emerging-terrorist-financing-risks.htm](http://www.fatf-gafi.org/publications/methodsandtrends/documents/emerging-terrorist-financing-risks.htm)

19 FATF (2015), *Emerging Terrorist Financing Risks*, FATF, Paris [www.fatf-gafi.org/publications/methodsandtrends/documents/emerging-terrorist-financing-risks.htm](http://www.fatf-gafi.org/publications/methodsandtrends/documents/emerging-terrorist-financing-risks.htm)

20 Kambere, Geoffrey, et al. "The Financing of Lashkar-e-Taiba ." *Globalecco*, [globalecco.org/ctx-v1n1/lashkar-e-taiba](http://globalecco.org/ctx-v1n1/lashkar-e-taiba).

21 Ibid.

- **Charities and Fundraisers**

Terrorist organisations use a core of local and global fundraisers to solicit money from various donors. The LeT is known to utilize Juwat-ud-Dawa (JuD), a missionary group started by Hafiz Saeed and Zafar Iqbal. The group has over 50,000 registered members which help with expanding its influence and raising funds. “Within Pakistan, donation boxes are placed in many JuD offices and shops spread out all over the country, and at public gatherings, where money is solicited for the continuation of the LeT’s ideology and to celebrate the martyrdom of fighters”<sup>22</sup>. Donors also directly provide charitable aid to the LeT from Saudi Arabia and other Gulf countries. “Saudi Arabia covertly supports and promotes the Saudi-Wahabbi political and religious influence in the Sunni Muslim world through its worldwide network of charities”<sup>23</sup>. LeT is amongst the many beneficiaries, the “Revival of Islamic Society has also provided direct support to al-Qaeda and LeT”<sup>24</sup> in Kuwait.

The South Asian diaspora notably in Europe actively engages with charities and mosques. The UK is particularly vulnerable to misuse of charitable donations due to its large Pakistani community. An example of this is when a devastating 7.1 magnitude earthquake hit Pakistan-Administered Jammu and Kashmir in 2005. A stupendous £5million was donated by the diaspora to charities, primarily JuD for relief efforts “however, an investigation into

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22 Kambere, Geoffrey, et al. “The Financing of Lashkar-e-Taiba.” *Globalecco*, [globalecco.org/ctx-v1n1/lashkar-e-taiba](http://globalecco.org/ctx-v1n1/lashkar-e-taiba).

23 “EFSAS Study Paper: An Overview of Terrorism Financing in South Asia.” *EFSAS*, [www.efsas.org/news-and-cases/2020/02/24/efsas-study-paper-an-overview-of-terrorism-financing-in-south-asia/](http://www.efsas.org/news-and-cases/2020/02/24/efsas-study-paper-an-overview-of-terrorism-financing-in-south-asia/).

24 Ibid.

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”<sup>25</sup>. The Afghan Taliban also receive money from “charities located in the Gulf countries estimated at between \$150 million and \$200 million per year”<sup>26</sup>.

This form of fundraising, operating under the pretense of humanitarianism and religion, is difficult for governments to identify and regulate. The Stanford Innovation Review published a study in May 2018, claiming that Pakistan was among the most charitable nations in the world. “The contribution pushed it into the ranks of far wealthier countries like the United Kingdom (1.3% GDP to charity) Canada (1.2% of GDP), and even India. The study showed that Pakistanis give around Rs240 billion (more than \$2 billion) annually to charity”<sup>27</sup>. In Pakistan contributions have sky-rocketed historically, in crisis situations. Prime example of this is the 2005 earthquake in northern Pakistan. Majority of such charitable donations go to religious organisations, albeit not all such organisations are involved in terror financing, there are many that directly or indirectly divert funds for propagating jihadist ideology and propaganda. As Jayshree Bajoria notes “about \$10 million was transferred to Pakistan in 2005, and more

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25 Kabir, Usman. “There Is Something to Be Said for the Charitable Spirit of Pakistanis in Crisis Situations.” *Geo.tv: Latest News Breaking Pakistan, World, Live Videos*, Geo News, 10 Apr. 2020, [www.geo.tv/latest/281858-there-is-something-to-be-said-for-the-charitable-spirit-of-pakistanis-in-crisis-situations](http://www.geo.tv/latest/281858-there-is-something-to-be-said-for-the-charitable-spirit-of-pakistanis-in-crisis-situations).

26 Kambere, Geoffrey, et al. “The Financing of Lashkar-e-Taiba .” *Globalecco*, [globalecco.org/ctx-v1n1/lashkar-e-taiba](http://globalecco.org/ctx-v1n1/lashkar-e-taiba).

27 EFSAS Study Paper: An Overview of Terrorism Financing in South Asia.” *EFSAS*, [www.efsas.org/news-and-cases/2020/02/24/efsas-study-paper-an-overview-of-terrorism-financing-in-south-asia/](http://www.efsas.org/news-and-cases/2020/02/24/efsas-study-paper-an-overview-of-terrorism-financing-in-south-asia/).



than half of it channeled to LeT activities”<sup>28</sup>.

Another important tool of propaganda and indoctrinations are the madrassas in South Asia. Therefore, it is easy to understand why most madrassas in Pakistan and Afghanistan are run by the Taliban, LeT and JeM which are primarily funded by donations. The correlation between funding madrassas and the abuse of the charitable sector can be seen in the following example. In 2010, the US under the Executive Order 13224 proscribed the Al-Rehmat Trust which is a front used by JeM for fundraising activities after being banned by the Pakistani government in 2002. The funds gathered through donation programmes were not only used for recruitment, militant training and indoctrination of madrasa 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”<sup>29</sup>. This emphasizes the dangers of terrorist financing and the interconnectivity of terrorist groups in South Asia. “NGOs and charities have also been linked to the rise of Islamic extremism in the Bangladesh , with the Kuwait-based Revival of Islamic Heritage Society (RIHS) and the Saudi Arabian organization Hayatul Igachha (HI) connected to funding for some 650 mosques that have been used by terrorist organizations such as Ahle Hadith Andolon Bangladesh (AHAB) and the Jagrata Muslim Janata Bangladesh”<sup>30</sup>. It is estimated that

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28 Authors: Paul Cochrane. “The Funding Methods of Bangladeshi Terrorist Groups.” *Combating Terrorism Center at West Point*, 16 Nov. 2017, [ctc.usma.edu/the-funding-methods-of-bangladeshi-terrorist-groups/](http://ctc.usma.edu/the-funding-methods-of-bangladeshi-terrorist-groups/).

29 Kambere, Geoffrey, et al. “The Financing of Lashkar-e-Taiba.” *Globalecco*, [globalecco.org/ctx-v1n1/lashkar-e-taiba](http://globalecco.org/ctx-v1n1/lashkar-e-taiba).

30 Ibid.

in Pakistan alone there are 4.1 million young people enrolled in madrassas; misuse of such organisations magnifies the threat of radicalization, especially in the volatile ‘AfPak’ region.

Charitable entities enjoy the confidence of the public and have significant access to cash. These also have a transnational presence which enables them to use their infrastructure for national and international transactions. These are subject to limited or no regulation, and no background checks on the employees are made. No initial capital is required to start these and because of their presence in the social sector, they enjoy good linkages among the political, bureaucratic and economic elites of the countries of operation. Described as ‘reverse money laundering’, charity-based financing of terrorism is concerned with using legal assets for an illegal activity, namely terrorist attacks. Charitable organizations are also attractive targets for terrorist entities because of the reluctance of many outside nations to rigorously monitor and scrutinize their activities.

Terror organisations activities that require a substantial amount of funds like providing remuneration to the fighters and the families of dead jihadists are also supported via generous donations. US intelligence revealed that in “2009 LeT military operations budget totalled around \$5 million per year”<sup>31</sup>. According to various estimations LeT spends “on average Rs.3 lakhs on funding a Kashmiri terrorist and up to 5 lakhs on funding a foreign terrorist, the estimated staggering amount of \$33 million is spent on incentives for operatives”<sup>32</sup>.

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31 *Benevolent Blood Money: Terrorist Exploitation of Zakat ...* scholarship.law.unc.edu/cgi/viewcontent.cgi?article=1889&context=ncilj.

32 *Ibid.*

- **Popular Support and the Mosque Network**

Fundraisers increase their activity during the month of Ramadan and approach Imams as Muslims pay zakat making mosques a good source for collecting funds. Legitimate charitable organisations, front organisations and even legitimate businesses help act as a cover for such fundraisers. The al-Qaeda like many other terror groups has been able to create a web of sophisticated fundraisers throughout the Muslim world and in foreign diaspora. “With the spread of awareness about the global Islamic movement through social media and a rapid increase in the Tablighi activity, the zakat donations have increased across the globe, including the hitherto un-approached and remote places like the small villages of North India”<sup>33</sup>.

Zakat (means to purify) is an Islamic concept of alms or charity and its obligatory nature is well established in the Quran and the Hadith. It requires Muslims to pay two and one-half percent of their wealth if and when it exceeds a minimum level. Most Muslims pay these contributions to the mosques for humanitarian and social causes, so it is easy to deceptively divert the money to terrorist activities. “This generous unexacting benevolence opens its doors to deception and criminalization, two practices one would hope would never be connected to charity”<sup>34</sup>. Since Zakat and Sadaqah are viewed as religious responsibilities, governments are reluctant to scrutinize their usage. This is especially prevalent in Muslim nations where authorities face challenges in discerning

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33 *Benevolent Blood Money: Terrorist Exploitation of Zakat ...* scholarship.law.unc.edu/cgi/viewcontent.cgi?article=1889&context=ncilj.

34 “LORETTA NAPOLEONI, Modern Jihad: Tracing the Dollars behind the Terror Networks.” *International Journal of Middle East Studies* 37, no. 3 (2005): 444–45. doi:10.1017/S0020743805362143.

between legitimate charities and those that are unknowingly or knowingly being used to divert funds to terrorists.

The Mosque Network, especially abroad, provides financial support for Jihad. This network is “the ideological partner of the terror financial network; it complements it and is as complex and comprehensive a web as its monetary counterpart”<sup>35</sup>. The Mosque Network handles the majority of the funds, collects them and makes sure it reaches the right places i.e. an armed group of their choice. For terrorist groups, acquiring funds through popular support can be tremendously advantageous. First of all, it can be a clear signal of their legitimacy. By providing a concrete demonstration that people support the cause, widespread financial backing is both a boon for the organization and a blow to the state. Moreover, some terror groups use the contributions they receive to conduct social welfare activities, thereby further undermining the legitimacy of the state and gaining supporters for their own cause.

- **Illicit Remittances and Hawala Network**

Remittances are an important element of terror financing. These contributions may not be entirely illegal. It depends on the laws of the country as charities are not prohibited from collecting ‘donations’ for armed groups and it is not a crime for an individual or organisation to affiliate themselves with it. Many countries like the US and India and international organisations like the UN Security Council have an official list of terror groups and entities that support them. Affiliation with organisations on such lists can lead to scrutiny. Such lists however, vary according to the mood of the policy makers and geopolitical landscape. For example, prior to September 11 the FBI had attempted an unsuccessful

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35 Ibid.

investigation into a Muslim charity organisation, the World Assembly of Muslim Youth (WAMY)”<sup>36</sup>. It was established in 1972, to block ‘Western corrupt ideas’ and was headed by Osama bin Laden’s brothers Abdullah and Omar bin Laden. By 2002 it was acting as a channel for Saudi donations to radical Islamist groups. Among them was the Student Islamic Movement of India, which supports Islamic armed groups in Kashmir and seeks to transform India into an Islamists state<sup>37</sup>. The FBI investigation however, was repeatedly blocked by the US administration due to the Saudi connection to the point “where under the Bush administration agents were specifically told to ‘back off’”<sup>38</sup>.

The *Hawala* continues to be the best option for most immigrants and the only one for those trying to access regions devastated by civil conflict. Afghanistan is an example where the absence of traditional financial institutions makes such practices thrive. Even after the ousting of the Taliban, the banks there, “were plagued by significant weaknesses, among them, weak corporate governance ... unskilled human resources, outdated technology . . . , and grave problems of liquidity and solvency, not to mention corruption and outright theft”<sup>39</sup>. Furthermore, traditional banks and wire services are simply reluctant to risk the capital and personnel required to set up in unstable regions like Afghanistan and tribal areas of

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36 LORETTA NAPOLEONI, Modern Jihad: Tracing the Dollars behind the Terror Networks.” *International Journal of Middle East Studies* 37, no. 3 (2005): 444–45. doi:10.1017/S0020743805362143.

37 *Benevolent Blood Money: Terrorist Exploitation of Zakat ...* scholarship.law.unc.edu/cgi/viewcontent.cgi?article=1889&context=ncilj.

38 Ibid.

39 LORETTA NAPOLEONI, Modern Jihad: Tracing the Dollars behind the Terror Networks.” *International Journal of Middle East Studies* 37, no. 3 (2005): 444–45. doi:10.1017/S0020743805362143.

Pakistan. “In Pakistan alone, officials estimate that more than \$7 billion flow into the nation through *hawala* channels each year. To put these numbers into perspective, the sum of formal and informal remittance flows is somewhere around \$350 billion per year”<sup>40</sup>. “A senior Indian law enforcement official even went so far as to say that all terrorist attacks in India are financed through *hawala*”<sup>41</sup>. In Bangladesh it is “estimated that \$7 Billion enters illegally through the *hundi* system, an illegal alternative remittance system similar to the *hawala* network that operates in the Middle East”<sup>42</sup>.

The speed and secrecy of transactions is what appeals to the terrorist groups. In addition it is very convenient as they do not have to go through any paper work unlike the banks. “Investigations by India’s intelligence agencies after Mumbai attacks in November in 2008 revealed that Let used *Hawala* operatives and businessmen to move money from Gulf countries to LeT cells”<sup>43</sup>. Furthermore, the Bangalore bombings in July 2008 “exposed *hawala* operators from Bangladesh and Oman”<sup>44</sup>. These examples demonstrates how the Indian counter-terrorism measures are challenged as these well-built relations between *hawala* dealers are transnational and have deep seated networks in South Asia. What is interesting

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40 Authors: Paul Cochrane. “The Funding Methods of Bangladeshi Terrorist Groups.” *Combating Terrorism Center at West Point*, 16 Nov. 2017, [ctc.usma.edu/the-funding-methods-of-bangladeshi-terrorist-groups/](http://ctc.usma.edu/the-funding-methods-of-bangladeshi-terrorist-groups/).

41 Kambere, Geoffrey, et al. “The Financing of Lashkar-e-Taiba .” *Globalecco*, [globalecco.org/ctx-v1n1/lashkar-e-taiba](http://globalecco.org/ctx-v1n1/lashkar-e-taiba).

42 Ibid.

43 “LORETTA NAPOLEONI, Modern Jihad: Tracing the Dollars behind the Terror Networks.” *International Journal of Middle East Studies* 37, no. 3 (2005): 444–45. doi:10.1017/S0020743805362143.

44 Ibid.

about the *Halawa* network is that it is not controlled “by the Saudis but by Pakistanis and Indians who have migrated to the Gulf”<sup>45</sup>. The *hawala* serves as a valuable remittance tool and also a nefarious vehicle to terrorists and money launderers. This duality makes regulation tricky and poorer nations are reluctant to close the tap through which vital monies flows.

## Conclusion

The Terror Economy is interdependent on the current market economies while being in a state of tension with them. It is an economic system that is a byproduct of the evolution of political violence during the last half-century: from state-sponsored terrorism to the privatisation of terror. “Today the contemporary version of Jihad, is one of the most important manifestations of political violence on earth and primary engine of the New Economy of Terror”<sup>51</sup>. Fuelled by an economic engine, Islamic terror is a revolutionary force like any other. Furthermore, this form of ‘Modern Jihad’ no longer distinguishes between infidels and People of the Book Jews, Christians and Muslims - against whom it is prohibited to wage war. America and its Western allies are the enemies however; their primary targets are traditional Muslim states and any other government that thwarts the formation of Islamic nations for example, Indian democracy in Kashmir. Political and economic aspirations are conveniently concealed in the name of religion.

As discussed above, terror groups in the region have a pan-South Asian presence and their financial networks are interconnected and transnational. Terror groups from Pakistan pose a significant threat to stability in South Asia given their vast network which enables them to strike at home, in

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45 “LORETTA NAPOLEONI, Modern Jihad: Tracing the Dollars behind the Terror Networks.” *International Journal of Middle East Studies* 37, no. 3 (2005): 444–45. doi:10.1017/S0020743805362143.

India and beyond. What prevents the implementation of counter-terror financing efforts is a lack of a clear and universal definition of terrorism. What further hinders the process is that international treaties can often be circumvented by domestic laws. Regional cooperation is the need of the hour apart from adopting laws that effectively prosecute terror-related crime. Unfortunately, in South Asia regional tensions and complex geopolitics render any regional cooperation incredibly difficult, hence weakening the counter-terrorism mechanisms. An example of this is the fall of the South Asian Association for Regional Cooperation (SAARC). The dissemination of terror organisations and their radical ideology is only possible by cutting the financial bloodline. As of now in South Asia terrorist groups 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.

The existing measures undertaken by the international actors such as the United Nations and Financial Action Task Force (FATF) constrain or counter the financing instruments of terrorist groups by either freezing or seizing their assets. Such measures are limited as they only target the movement of money. As the paper outlines, jihadist groups have a variety of methods which also coincide with each other and are facilitated via the global financial systems. Another major limitation of international counter measures is that the measures and recommendations are non-binding in nature making it difficult for member states to implement, prevent and cooperate in counter-financing measures. The international community needs to come together to form binding measures with the help of concrete evidence and tracing mechanisms and put pressure on those states which are facilitating the flow of sources. For India and its immediate neighbourhood, it is important to strengthen diplomatic measures as India's primary terror issues are funded and supported by external sources. This is crucial as these are limitations in the existing



measures as various oversea sources continue to exploit the system, indicating that the international counter finance strategies are not sufficiently effective.

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