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Terror-Financing in Pakistan

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The Indian sub-continent has been plagued by various terror and extremist outfits, tracing their route to Af-Pak region and the Mujahideen cause, which further escalated into the Kashmir dispute. It is interesting to note that while Pakistan is actively financing terror activities in other countries of the sub-continent, the State Bank of Pakistan (SBP) has been devising policies to curb the menace of fake currency in its own country. As part of its campaign “Rupay ko Pehchano,” the SBP is trying to curb fake currency circulation in Pakistan. In addition, the SBP has launched a mobile application to inspect and identify counterfeit currency.

Earlier, on October 6, 2015, SBP had stated that the presence of counterfeit currency notes was an undeniable fact and primary responsibility to check their influx lies with law enforcement agencies. The SBP said it had adopted a three-pronged strategy: ensuring state-of-the-art security features in banknotes that are difficult to imitate; developing necessary capacity and infrastructure with banks to ensure that genuine and authenticated bank notes issue are issued to the public; and creating awareness among the general public.

The problem of terror funding is not only crippling the economy of the sub-continent but financial fraud has become an important constituent of terrorism. Pakistan, on the one hand, is trying to spread the menace to other countries of the region but there is no denying the fact that, on the other hand on its domestic turf, the situation is gradually becoming unmanageable. Pakistan has been facing the fallout of its decision to use terrorism as an instrument of state policy, but now it is facing an equally dangerous consequence of its decision, terror finance.¹

Channels of Terror-Finance

Terror finance, like finance itself has adopted various means and channels to be effective. The various ‘methods’ of terror-finance as specific to Pakistan are discussed in the following paragraphs.

Money Laundering in form of Hawala

The word hawala comes from the Arabic root *h-w-l*, which has the basic meanings “to change” or “to transform,” and is defined as a bill of exchange or a promissory note.² The ancient system of money transfer has taken the shape of illegal money laundering over a period of time. It is widely believed that hawala system emerged during the 12th-13th centuries to facilitate trade along the famous Silk Road.³ Hawala facilitates money laundering in three stages: (1) discreetly introducing criminals’ funds into the financial system, (2) manipulating those funds so that they cannot be easily traced and thus appear legitimate, and (3) making the “clean” funds available for further use.⁴

Terrorist groups and criminal gangs have thoroughly infiltrated the hawala system in order to illegally transfer funds for their activities, especially from the Middle East to Pakistan, and to other parts of the Indian subcontinent. Militant organizations in Pakistan have tended to depend heavily on the informal hawala system, for bypassing governmental scrutiny.⁵ One of the most well-established terror cohorts, Lashkar-e-Taiba (LeT) and its front group Jamaat-ud-Dawa (JuD), are infamous for siphoning terror money. Hawala networks maintain a loose association

of hawaladars conducting business with each other, without any formal agreements. Hawala became particularly important for al Qaeda after the August 1998 East Africa bombings increased worldwide scrutiny of the formal financial system.⁶

The Pakistan-Afghanistan border area, especially Pakistan's provinces of Khyber Pakhtunkhwa (KP) and the Federally Administered Tribal Areas (FATA), is ethnically contiguous and porous, which is to the advantage of the various militant groups that channel funds using hawala networks. In a March 2012 report citing Executive Order 13,224, the US Department of the Treasury designated two hawala companies working in the border region as Specially Designated Global Terrorists: Haji Khairullah Haji Satar Money Exchange (HKHS) and the Roshan Money Exchange (RMX).⁷ Both HKHS and RMX have been used by the Taliban to facilitate money transfers. On 21 August 2014, the United States targeted the financial and leadership networks of the Taliban by officially designating one entity and two individuals as terrorists. The Pakistan-based hawala group Haji Basir and Zarjmil Company (aka Basir Zarjmil Hawala) and its owner Haji Abdul Basir were given this designation for providing financial services or other support to the Taliban in Afghanistan, according to the US Department of the Treasury.⁸

The amount of such transactions is consistently increasing. According to December, 2015 report the illegal money transaction and laundering account in Pakistan has crossed USD 15 billion. "In our assessment as much as \$15bn has been transacted through hundi and hawala in a year. The actual volume could actually be double the projected figure as reliable data is not available," said Secretary General of Exchange Companies Association of Pakistan, Zafar Pracha.⁹

The "trust factor", a vital aspect of the hawala system is well exploited by those hawala agents who deal in illicit money transfers. The easy availability and accessibility of these dealers have made Pakistan's hawala network stable and resilient. The situation is further complicated because common people without any links to terrorists also prefer hawala to banks; hawala is quick and avoids the difficult, tedious, and more expensive process of legal remittance.

Narco-money

Narco-money is also a vital element of terrorist funding. Pakistan, along with Iran and Afghanistan, constitute the Golden Crescent, one of the world's biggest drug-producing regions. Afghanistan produces 90 percent of the global supply of opium, from which heroin is processed, and roughly 40 percent of Afghan opium is smuggled through Pakistan.¹⁰ Because the opium trade remains a major source of financing for the jihad led by the Taliban and al Qaeda in the Afghanistan-Pakistan region, and also for the "holy" cause of defeating the Western "crusaders" and returning Afghanistan to an Islamic government, the struggle itself has been characterized as "narco-jihad."¹¹ The so-called "golden route" that runs from Afghanistan through Pakistan and into Iran, from where the Golden Crescent's narcotics reach Western markets, has become established as one of the world's most lucrative illicit drug thoroughfares.¹²

According to the United Nations Office on Drugs and Crime (UNODC), 2015 Report, Pakistan has been mentioned 3,216 times as in transit points in individual seizures. The global increase in quantities of cannabis resin seized in 2013 was mainly driven by the rise in Pakistan, from 166 tons in 2012 to 314 tons in 2013, which counteracted the marked decrease in the quantities of cannabis resin reported as seized in Afghanistan.¹³

The narcotics trade through Pakistan has principally been used for funding terrorism. General Muhammad Zia-ul-Haq, during his tenure (1978 to 1988), encouraged the cultivation of poppy and cannabis to finance terrorist activities in India.

General Zia's support for the cultivation of narcotic crops gave a new dimension to both international drug trafficking and terrorism in India, but in the process he failed to anticipate its repercussions on Pakistan. Heroin addiction spread like an epidemic during his martial administration, while drug traffickers operated freely and within a short span of time, had organized themselves into syndicates along the same lines as the Latin American drug cartels. Pakistani political figures such as Lieutenant General Fazle Haque, Haji Iqbal Beg, Sohail But, Shaukat Ali Bhatti, and Malik Waris Khan Afridi, among others, gained notoriety and political importance thanks to funds generated by narcotics trafficking.¹⁴ Eventually, drug mafias established contacts within the government at both the political and administrative levels.¹⁵

Abduction for Ransom

Kidnapping is a centuries-old scourge in parts of Pakistan, from the tribesmen who snatched British colonists in the nineteenth century to the slum gangs that have preyed on Karachi business families since the 1980s. Moreover, the Pakistani Taliban are unapologetic. "We are targeting foreigners in reaction to government demands that we expel the foreign mujahedeen," said the deputy leader of the Pakistani Taliban, Waliur-Rehman, during an interview at his North Waziristan stronghold. Ransom demands typically range between \$500,000 and \$2.2 million, although the final price is often one-tenth of the initial asking amount. The kidnapers' methods are sophisticated: surveillance of targets that can last for months; sedative injections to subdue victims after abduction; video demands via Skype; and the use of different gangs, who often operate with little knowledge of one another, for different tasks.¹⁶ The report, "Terrorist Financing Risk Assessment", 2015, notes that the Haqqani Network generates funds by a wide range of sources including businesses and proceeds derived from criminal activities such as smuggling, extortion, and kidnapping for ransom in Afghanistan and Pakistan.¹⁷

Pakistani police estimate that kidnapping is now the single largest source of revenue for the Taliban factions located in Pakistan. A report from the Canadian-based insurance brokerage Burns and Wilcox titled, *Kidnap and Ransom: Global Overview* suggests that the risk is high for businessmen, corporate executives, wealthy people (and their families), foreigners, aid workers (especially in health services), and diplomats. Moreover, cases of extortion have spread, mainly in Karachi, Lahore, Islamabad, and other major cities of Punjab and Sindh Provinces, but also in high-risk areas with militant activity such as Peshawar in KP, Quetta in Balochistan, and the FATA.¹⁸

Between 2000 and 2010, official data showed a 153 percent increase in kidnapping/ abduction. Police in Balochistan reported that kidnapping for ransom (many incidents of which are never reported to the police) was a growing problem in the province. The cause is a complex mix of profit-seeking, rivalry between groups engaged in smuggling, and fundraising for terrorist activities. Reports indicate that all of Pakistan's provinces are now under attack from armed abductors, with women and children being the easiest targets, along with foreigners and members of the Shi'a minority.

Data collated from Criminal Statistics of Sindh Province suggest that, between 2003 and 2012, a total of 12,311 cases of “kidnapping for abduction” and 933 cases of “kidnapping for ransom” were recorded in the province.¹⁹ According to Global Incident Map, since January 1, 2013 till December 31, 2015 a total of 163 cases have been recorded in Sindh.²⁰ The lack of official sincerity about dealing with the problem is evident in the fact that, apart from Sindh, no chronological data regarding abduction in other Pakistani provinces are available on the official websites of the respective provincial police.²¹

Religious Donations and Organisations

Various Islamist formations in Pakistan, along with their respective terror offshoots, collect fund in the name of Islam and use the donations amount for various violent activities. Harkat-ul-Mujahedeen, led by Maulana Fazlur Rehman Khalil, and Jammat-ul-Furqan, led by Maulana Abdullah Shah Mazhar, two banned militant outfits linked to the TTP and al Qaeda, have set themselves up as charities under the new names Ansar-ul-Umma and Tehreek-e-Ghalba Islam, as an easy way to get more funds.²² These organizations take advantage of the generosity of Pakistani Muslims, who annually contribute billions of rupees as part of *zakat* (an Islamic tithe) and *fitrana/fitra*, a gift of food or money paid on Eid-al-Fitr.²³ The funds are utilized for *dawa* (preaching), *khidmat-e-khalq* (provision of social services), and *jihad*, including recruitment and training, and the procurement of equipment and weapons. In addition to these funding streams, JuD’s “Farmers and Labor” wing is responsible for the collection of *ushr* (an Islamic land tax).²⁴

Fundraising in the garb of charitable trusts is another principal source of money for terror outfits. For instance, Al Akhtar, an offshoot of the terrorist group JeM, has been designated by the US Treasury Department as a Foreign Terrorist Organization (FTO) since 2003 and by the UN since 2005. It has been operating under a multiple identities, including the Pakistan Relief Foundation, Pakistani Relief Foundation, Azmat-e-Pakistan Trust, and Azmat Pakistan Trust. Saud Memon, a financier of Al Akhtar Trust, was found to be involved in the kidnapping and murder of Wall Street Journal reporter Daniel Pearl.²⁵ Al Rasheed Trust (ART) also deserves mention in this context; it was listed by the US Treasury Department as an FTO on 23 September 2001 and by the UN on 6 October 2001.

The Saudi angle to such underhanded activities is manifest in the example of Al-Haramain Foundation (Pakistan), a branch of the Saudi Arabia-based Al-Haramain Islamic Foundation founded by Aqeel Abdulaziz Aqeel al-Aqeel. This organization, which is also associated with Maktab al-Khidamat, an organization financed by Osama bin Laden, was listed by the UN on 26 January 2004.²⁶

Ray of Hope

As the international community’s focus on terrorism increased, and Pakistan’s own security situation continued to worsen post 2002, the government responded by setting up Anti-Money Laundering (AML) Act of 2010. Clearly, the Act focuses on the unregulated real estate market, which often thrives on criminal proceeds. But, it does not define money laundering in broader terms. It was this Act that established the Financial Monitoring Unit (FMU) at the State Bank to counter money launderers and terrorism financiers. To do so, the FMU has been asked to specify procedures for financial transactions and report authorities about suspicious transactions. Another important legislation, the Anti-Terrorism Act of 1997, amended in 2013, criminalizes

handling of terrorist property, due to which terrorist financing like funds transfer can be dealt with in the Anti-Terrorism Court.²⁷

Despite these measures, as stated in the introductory section, Pakistan has not been able to change the terror financing scenario for better. The situation has hardly changed in this context and the terror elements are shamelessly taking active part in the domain of generating terror activities in and outside Pakistan.

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The views expressed are personal

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Endnotes

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