

## **Sources of Terrorism Financing in Pakistan and Pakistan's Efforts to Stamp out those Sources**

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### **Abstract**

Terrorism is an expensive undertaking. Unlike the common perception that terrorism is the cheapest mode of violence, terrorist organizations often have complex organizational structures that require hefty amount of money to operate. Such flow of money is ensured through different sources ranging from legitimate businesses to criminal activities such as kidnapping for ransom, bank robberies and using charities as front organizations. Similarly, terrorist groups active in Pakistan have been relying on multiple internal and external financial sources to operate and sustain. This includes both legitimate and illegitimate sources. The role of foreign supporters of these groups in providing funds to them is also no less significant. Driven by a firm resolve, Pakistan has made tremendous efforts through the enactment and successful implementation of various laws to root out terrorism financing. This study based on subjective/qualitative approach methods.

**Keywords:** Money Laundering, FATF, Drugs trafficking, NAP

### **Introduction**

Terrorist groups cannot function without money. They need money for their survival and to carry out terrorist activities. Although mounting individual terrorist attacks is a low-cost undertaking but running terrorist organizations is not as terrorist organizations need to recruit new members, open training camps and acquire necessary weapons and communication devices. They may not only need to provide food and shelter for their

members but also ensure financial assistance for “the families of dead terrorists and suicide bombers.”<sup>1</sup>

Given the complex structures of terrorist organizations, it will be naïve to presume that they can operate without a steady flow of money. To ensure this flow of money, they have a variety of sources to choose from. They may be involved in petty crimes, kidnapping for ransom, bank robbery, extortion, drug smuggling and money laundering to finance their terrorist ambitions. They can use charities as front organizations to raise money.

Apart from this, they can also rely on states that willingly sponsor terrorist organizations for their own interests. These interests may be strategic, ideological or political. There are numerous examples when terrorist groups relied on state sponsorship such as the Lebanese Hizballah, the Liberation Tigers of Tamil Eelam (LTTE), the Provisional Irish Republican Army (PIRA) and the Japanese Red Army (JRA) were backed by Iran, India, Libya and Syria respectively. Al-Qaeda initially relied on Sudan and afterwards on Afghanistan for support.<sup>2</sup> Michael Freeman has given an in-depth analysis of terrorism financing and the reasons for which terrorist groups prefer one source of finance to another.<sup>3</sup> Given the substantial importance of financial sources to terrorist groups and organizations, no state can hope to succeed in its counter terrorism (CT) efforts without strangulating their flow of finance.

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<sup>1</sup> Michael Freeman, "The Sources of Terrorist Financing: Theory and Typology," *Studies in Conflict & Terrorism* 34, no. 6 (2011): 462.

<sup>2</sup> Daniel Byman, *Deadly connections: States That Sponsor Terrorism* (Cambridge University Press, 2005), 1-2.

<sup>3</sup> Freeman, "The Sources of Terrorist," 461-475.

Pakistan has been a victim of terrorism since the beginning of 1980s. Its geographical proximity with Afghanistan, a country with a long history of political instability and foreign powers military interventions, has resulted in Pakistan facing the fallout of Afghanistan's instability. Given the porous nature of Pakistan's 2,670 km border with Afghanistan, it has not been difficult for terrorist groups active in Afghanistan to operate in Pakistan. Terrorist organizations operating from Afghanistan such as Al -Qaeda and Taliban and militant groups have launched some of the vicious terrorist attacks in Pakistan. As Eamon Murphy succinctly observes that "Over 3,000 Pakistanis died as result of terrorist attacks in one year alone: 2009."<sup>4</sup> However, it is unfortunate that the world at large chose to underestimate Pakistan's losses and sacrifices at the hands of terrorist groups.

In its bid to root out terrorism from its soil, Pakistan has adopted multiple strategies including its effort to eliminate sources of terrorism financing in the country. This paper will attempt to point out the internal and external sources that have been financing terrorist groups in Pakistan. What Pakistan has done to control and exterminate these sources will also be highlighted at length.

### **Pakistan's Drift to Terrorism and Religious Militancy**

The ethos of the Pakistani society has primarily been tolerant and inclusive with a strong imprint of Sufism on its belief system. However, certain developments played their part in the country's drift to extremism and the rise of militant groups. Foremost amongst these developments was the rise

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<sup>4</sup> Eamon Murphy, *The Making of Terrorism in Pakistan: Historical and Social Roots of Extremism* (Routledge, 2012), 2.

of Gen. Zia-ul-Haq to power in 1977 who toppled the secular and socialist-leaning government of Zulfikar Ali Bhutto. The Islamic Revolution in Iran (1979) also intensified the hopes of religious extremist elements in Pakistan of bringing about a similar development in the country. Furthermore, the Soviet invasion of Afghanistan in 1979 brought disastrous consequences for Pakistan. It triggered a mushroom growth of madrassas (religious schools) in Pakistan. There were about 900 madrassas in Pakistan in 1971 whereas this number grew to an astounding 45,000-50,000 in 1980s.<sup>5</sup> Majority of these madrassas taught a highly intolerant version of Islam along with recruiting and training jihadis to fight the Soviets in Afghanistan. Saudi Arabia heavily funded and supported these madrassas to help flourish Wahhabism/Salafism in Pakistan not only during the Afghan War but well afterwards.<sup>6</sup>

Nevertheless, the right-wing extremist elements did not enjoy the support of the majority of the Pakistani society. This clearly manifested itself when "Prime Minister Zulfikar Ali Bhutto's Islamic-socialist Pakistan People's Party (PPP) twice defeated religious parties in elections in the 1970s."<sup>7</sup> However, the European states and the US conveniently chose to ignore these trends in Pakistani society and instead helped flourish extremist right wing elements in Pakistan. Throughout the Soviet war in Afghanistan, American dollars were generously pouring into Pakistan to establish the madrassas which served as a recruiting and training ground for the jihadis

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<sup>5</sup> A. Z. Hilali, "Costs & Benefits of Afghan War for Pakistan," *Contemporary South Asia* 11, no. 3 (2002): 15.

<sup>6</sup> Paul M. P. Bell, "Pakistan's Madrassas--Weapons of Mass Instruction?" (M.A. diss., Naval Postgraduate School, Monterey, California, 2007), 16-17.

<sup>7</sup> Eamon Murphy and Ahmad Rashid Malik, "Pakistan Jihad: The Making of Religious Terrorism," *IPRI Journal* 9, no. 2 (2009): 24.

fighting America's proxy war in Afghanistan. The US provided a staggering \$7.4 billion economic aid package for Pakistan from 1982 to 1990, on an average of more than \$600 million each year.<sup>8</sup>

The rise of Taliban to power in Afghanistan in 1996 was another significant development which had far-reaching consequences for Pakistan. Pakistan extended support to the Taliban regime against the secular Northern Alliance. However, the situation took a dramatic turn as a result of the 9/11 incident. Pakistan was left with no choice but to cut its ties with the Taliban regime in Afghanistan and become a frontline US ally in the latter's "Operation Enduring Freedom" to topple the Taliban government in Afghanistan and target the top leadership of the Taliban and al-Qaeda.<sup>9</sup>

This policy shift greatly antagonized the militant groups in Pakistan and they turned into the sworn enemies of Pervez Musharraf, the then President of Pakistan. In a meeting in October 2001, important figures from "Harkat-ul-Jihad-i-Islami (HuJI), Harkat-ul-Mujahideen (HuM), Jaish-e-Mohammad, and al Qaeda" decided to "plan jihad against American allies, including Musharraf."<sup>10</sup> As a result of this meeting, at least six assassination attempts were made on Musharraf. In December,

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<sup>8</sup> Hilali, "Costs & Benefits," 5-7.

<sup>9</sup> Carol Christine Fair and Seth G. Jones, "Pakistan's War Within," *Survival* 51, no. 6 (2009): 165.

<sup>10</sup> Nicholas Howenstein. "The Jihadi Terrain in Pakistan: An Introduction to the Sunni Jihadi Groups in Pakistan and Kashmir." (Pakistan Security Research Unit, Department of Peace Studies, University of Bradford. PSRU Research Reports, No. 1. 2008), 10-11. <https://bradscholars.brad.ac.uk/bitstream/handle/10454/2224/resrep1.pdf?sequence=1> (Accessed April 3, 2021).

2003, al-Qaeda's top leader, Ayman-al-Zawahiri also issued a fatwa in favor of killing Musharraf.<sup>11</sup>

Over the years, Pakistan has continued to combat the menace of terrorism through all possible ways. The problem in this regard is that the terrorist groups in Pakistan were not of a homogenous nature. Some of the vicious terrorist groups making havoc in Pakistan were rooted in different sectarian identities. They misused those identities to pose as serving the cause of Islam and waging jihad according to their perceived notions of labeling people as infidels.

### **Sectarian Affinities of the Major Terrorist Groups Targeting Pakistan**

Pakistan's 96.28% Muslim population primarily adheres to two of Islam's major sects i.e. Sunni and Shia.<sup>12</sup> The Sunni sect is further divided into three variants i.e. Deobandi, Barelvi and Ahl-e-Hadith. Though there are certain variants in the Shia sect too but they are not as pronounced as the divisions in the Sunni sect. According to Nasr, "Sectarianism in the Pakistani context refers specifically to organized and militant religio-political activism, whose specific aim is to safeguard and promote the socio-political interests of the particular Muslim sectarian community, Shi'a or Sunni, with which it is associated."<sup>13</sup>

Several of Pakistan's banned terrorist groups had markedly sectarian identities. Terrorist groups that adhered to different variants in the Sunni

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<sup>11</sup> Fair & Jones, "Pakistan's War," 172.

<sup>12</sup> Pakistan Bureau of Statistics, Population by Religion (Islamabad: Government of Pakistan, 2021), 1.

<https://www.pbs.gov.pk/content/population-religion>

<sup>13</sup> Vali R. Nasr, "International Politics, Domestic Imperatives, and Identity Mobilization: Sectarianism in Pakistan, 1979-1998," *Comparative Politics* (2000): 171.

sect included Lashkar-e-Taiba (Ahl-e-Hadith), Sipah-e-Sahaba Pakistan (Deobandi), Lashkar-e-Jhangvi (Deobandi), Ahl-e-Sunnat wal Jamaat (Deobandi), Tehrik-e-Taliban Pakistan (Deobandi), Jaish-e-Mohammad (Deobandi) while those of adhering to the Shia sect included Sipah-e-Mohammad Pakistan (Shia) and Tehrik-e-Jafria Pakistan (Shia).<sup>14</sup> This description is however, not exhaustive as a host of smaller militant groups were also either affiliated with these major terrorist groups or used to operate on their own.

### **Financial Lifelines of Terrorist Groups in Pakistan**

Terrorist groups in Pakistan have been relying on different sources to fund themselves. The shift from one financial source to another is determined by the relative level of safety and the ease with which it can be utilized. Furthermore, the capacity to generate heavy amount of money is also a decisive factor in the choice of any financial source by the terrorist groups. Most of the times, they show a dependence on multiple sources simultaneously. This may include both internal and external sources.

### **Internal Sources of Terrorism Financing in Pakistan**

Given the inherently illegitimate nature of terrorism as a violent activity, the common perception may entail that only illegitimate financial means would be employed by a terrorist group. This however, is a misleading idea. Terrorist groups generally employ both legitimate and illegitimate financial sources. On the one hand, they conduct criminal activities to generate finances and on the other, perfectly legitimate means such as donations, charities and other businesses feed their financial requirements.

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<sup>14</sup> Carol Christine Fair, "Explaining Support for Sectarian Terrorism in Pakistan: Piety, Maslak and Sharia," *Religions* 6, no. 4 (2015): 1142.

The following discussion will elaborate on legitimate and illegitimate internal sources of terrorism financing in Pakistan.

### *Criminal Activities*

Criminal activities constituted a substantial source of income for the terrorist groups in Pakistan. These included “bank robberies, kidnapping for ransom, smuggling of timber and antiquities, dealing in opium and heroin, and relatively minor offences like extortion.”<sup>15</sup> The money earned through crimes was channeled to terrorist groups through sources other than normal banking transactions or Informal Value Transfer Systems (IVTSs). Such transfers are carried out illegally and it is not easy to control them as a large number of overseas Pakistanis also utilize these non-banking sources to send money back home and neither are they criminals nor do they have anything to do with terrorism financing.

Terrorist groups often use forcible taxes for generating income. These can be imposed on the local population who is forced to pay the taxes. Tehrik-e-Taliban Pakistan (TTP) in its heydays, used to tax transport and other local businesses in the tribal areas of Pakistan apart from being involved in criminal activities to meet its financial needs.<sup>16</sup> It used to publish “a “tax schedule” enlisting “various fees for different activities.”<sup>17</sup> It also generated funds through charging “protection money from the US convoys headed from Pakistan to Afghanistan”.<sup>18</sup> In the tribal areas, TTP militants

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<sup>15</sup> Safiya Aftab, "Terrorism Financing," *nd* <http://pakpips.com/art.php> (2015): 70.

<sup>16</sup> Muhammad Amir Rana, "The Taliban Consolidate Control in Pakistan's Tribal Regions," *CTC Sentinel* 1, no. 7 (2008): 9.

<sup>17</sup> Freeman, "The Sources of Terrorist," 466.

<sup>18</sup> Sanaa Ahmed, "Regulatory Transgression? Drivers, Aims and Effects of Money Laundering and Terrorism Financing Regulation in Pakistan." (PhD diss., York University, Toronto, Ontario, 2020), 212.

coerced the gas station owners into ensuring a free supply of fuel for their vehicles.<sup>19</sup>

Kidnapping for ransom is one of the illegal means by which terrorist organizations finance themselves. Tehrik-e-Taliban Pakistan (TTP) kidnapped civil and military officials in Pakistan for ransom on several occasions. The year 2007 alone witnessed over 1,000 such kidnappings by the Taliban.<sup>20</sup> The Taliban kidnapped Shahbaz Taseer, the son of the former Governor of Punjab, Salman Taseer in 2011. The militants released him nearly after five years of his kidnapping. A militant source revealed that the Taliban demanded Rs2 billion as the ransom money.<sup>21</sup> In another incident, Ali Haider Gilani, the son of the former Pakistani Prime Minister Yousaf Raza Gilani was kidnapped by Al -Qaeda militants. He was released after three years in captivity as a result of a joint operation of the US and Afghan forces against the militants in Afghanistan.<sup>22</sup>

Chinese workers in Pakistan have also been targeted and kidnapped on several occasions by the “terrorists groups and individuals...trained in Afghanistan and Pakistan”.<sup>23</sup> In February 2008, TTP kidnapped Pakistan’s Ambassador to Afghanistan, Tariq Aziz -ud-Din and released him after receiving \$2.5 million as ransom. In another incident, terrorists abducted

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[https://yorkspace.library.yorku.ca/xmlui/bitstream/handle/10315/37357/Ahmed\\_Sanaa\\_2019\\_PhD.pdf](https://yorkspace.library.yorku.ca/xmlui/bitstream/handle/10315/37357/Ahmed_Sanaa_2019_PhD.pdf)

<sup>19</sup> Arshi S. Hashmi and Muhammad Saqib, "Terror Financing and Growth of Terrorist Groups: A Case Study of Tehrik -e-Taliban Pakistan," *NDU Journal* (2017): 76.

<sup>20</sup> Rana, "The Taliban Consolidate," 9.

<sup>21</sup> Syed Ali Shah, "Abducted Shahbaz Taseer Rescued from Balochistan After Five Years," *Dawn*, March 8, 2016, <https://www.dawn.com/news/1244361> (Accessed March 22, 2021).

<sup>22</sup> "Ali Haider Gilani Remains Tight-lipped About Kidnapping Ordeal," *Dawn*, May 12, 2016, <https://www.dawn.com/news/1257917> (Accessed March 22, 2021).

<sup>23</sup> Andrew Small, "China's Caution on Afghanistan-Pakistan," *The Washington Quarterly* 33, no. 3 (2010): 86.

Afghan Ambassador to Pakistan, Abdul Khaliq and asked for Rs25 million to release him. TTP kidnapped a Pakistani filmmaker, Satish Anand in October 2008 and released him after receiving Rs16 million as ransom.<sup>24</sup>

Drug trafficking has also been used by terrorists to swell their coffers. The TTP widely took advantage of this means to meet its financial requirements when it held sway in the adjoining areas of Pak-Afghan border. It was involved in drug exports to other countries using Karachi as a route.<sup>25</sup> Apart from accumulating money through drug trade, TTP was involved in “numerous bank robberies”.<sup>26</sup>

#### ***Non Profit Organizations/Charities***

Non Profit Organizations (NPOs) had often been used for terrorism financing. The Financial Action Task Force (FATF), an inter-governmental entity established in 1989 for combating money laundering and terrorism financing, has defined an NPO as “a legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for carrying out of other types of good works”.<sup>27</sup> Given the high level of trust that people exhibit for these organizations and the diverse nature of their activities, they can be easily exploited by the terrorist groups to meet their financial requirements.

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<sup>24</sup> Hashmi and Saqib, "Terror Financing," 75-76.

<sup>25</sup> Hashmi & Saqib, "Terror Financing," 73-74.

<sup>26</sup> Freeman, "The Sources of Terrorist," 466-467.

<sup>27</sup> FATF, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, The FATF Recommendations*, (Paris, France: FATF, 2012 - 2020), 58. <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html> (Accessed March 25, 2021).

Charity was one of the top means by which terrorist groups generated funds. Individuals from overseas also donated money to charitable organizations which diverted those donations to terrorist groups.

Al-Furqan Foundation Welfare Trust, and Al -Rahmah Welfare Organization (RWO), the two Pakistan-based proscribed charitable organizations working under the guise of philanthropy were involved in providing funds to Taliban and other militant outfits in Afghanistan and Lashkar-e-Taiba (LeT) in Pakistan.<sup>28</sup> Charities in the Persian Gulf and the United Kingdom had also been funding RWO. For many years, McLintock, the Scottish-born CEO of RWO had been providing money to Lashkar-e-Taiba through other charitable organizations under his control in Pakistan and other countries.<sup>29</sup>

Terrorist groups in Pakistan have been widely using philanthropic organizations as a facade to conceal their identity and to generate funds safely. The proscribed organization named Falah-e-Insaniat Foundation (FIF) is another example in this regard. It served as a front humanitarian organization for Lashkar-e-Taiba to ensure the easy flow of funds to the terrorist group. Lashkar-e-Taiba under the guise of FIF was also involved in relief work in the natural disasters such as Asian tsunami of 2004-05

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<sup>28</sup> Katherine Bauer and Matthew Levitt, *Funding in Place: Local Financing Trends Behind Today's Global Terrorist Threat* . International Centre for Counter-Terrorism (ICCT), 2020: 64.

<sup>29</sup> US Department of the Treasury, *Protecting Charitable Organizations-A*. (US: United States Government, 2008). [https://www.treasury.gov/resource-center/terrorist-illicit-finance/Pages/protecting-charities\\_execorder\\_13224-a.aspx](https://www.treasury.gov/resource-center/terrorist-illicit-finance/Pages/protecting-charities_execorder_13224-a.aspx) (Accessed March 22, 2021).

and earthquake in Kashmir in 2005.<sup>30</sup> Harkat-ul-Mujahedeen and Jammatal-Furqan, the two militant groups banned by Pakistan collected charity through their front organizations named Ansar-ul-Ummah and Tehrik-e-Ghalba-e-Islam.<sup>31</sup> The TTP made it obligatory for all the small groups that were affiliated to it to contribute half of their income in the form of taxes and donations to finance its militant operations in the tribal regions of Pakistan and in Afghanistan.<sup>32</sup>

It has been commonly observed that different non-governmental organizations (NGOs) and charities set up charity boxes at various public places such as shops, market places, mosques and madrassas to collect donations for their cause. Terrorist groups that used charities and humanitarian organizations to conceal their true identity also employed this method of raising funds. Falah-e-Insaniat Foundation (FIF), the front humanitarian organization of Lashkar-e-Taiba, before its proscription by Pakistan set up charity boxes at different public places to finance itself. "The Jamaat-ud-Dawa (JuD)" before being banned by Pakistan also placed "donation boxes on a major road artery in the Punjab, which was thought to yield "millions"; at mosques and at shops."<sup>33</sup>

Collecting sacrificial hides on Eid-ul-Adha was another way for the terrorist organizations to generate funds. People often hand over the sacrificial hides to private individuals and humanitarian organizations without much scrutiny about their cause. This was also exploited by the

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<sup>30</sup> Carol Christine Fair., "The Milli Muslim League: The Domestic Politics of Pakistan's Lashkar-e-Taiba," Researchgate (2018) <https://www.researchgate.net/profile/Carol-Fair/publication/325336147>

<sup>31</sup> Hashmi & Saqib, "Terror Financing," 74-75.

<sup>32</sup> Rana, "The Taliban Consolidate," 9.

<sup>33</sup> Ahmed, "Regulatory Transgression," 209.

terrorist organizations as well and they were able to collect sacrificial hides through their humanitarian organizations. Jamaat-ud- Dawa (JuD), the proscribed front organization of Lashkar-e-Taiba used to collect sacrificial hides to finance its militant activities.

### ***Legitimate Businesses***

Apart from using crimes and illegal activities to meet their financial needs, terrorists turn to legitimate businesses as well for generating funds. Such legitimate sources are considered to be more feasible as they guarantee a steady flow of money and are not liable to be monitored by the government's checks and balances. Although donations and using charities as front organizations is also a legitimate source of income for the terrorist groups but they are unpredictable and do not guarantee a continued flow of money. There are numerous examples where terrorist groups in Pakistan ran legitimate businesses for generating finances. Terrorist groups established trading companies to trade different commodities including sugar. Some terrorist groups were running schools and hospitals for profit.<sup>34</sup>

### **External Sources of Terrorism Financing in Pakistan**

External actors also have their interests in providing funds to terrorist groups in Pakistan. These include both state and non-state actors. Despite the fact that the founding father of the Pakistani nation i.e. Muhammad Ali Jinnah envisaged a tolerant and all-inclusive outlook for the country, the successive governments in Pakistan showed a keen interest in promoting

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<sup>34</sup> Ahmed, "Regulatory Transgression", 207.

and carving the nation's religious identity as being predominantly Sunni. Resultantly, the religious minorities in Pakistan felt marginalized.

The Islamic Revolution in Iran gave impetus to the revivalist tendencies in these marginalized groups particularly in the Shias of Pakistan who regarded Iran as a leader of the Shia Muslims.<sup>35</sup> Furthermore, the hopes of a revolution on the religious lines as happened in Iran, loomed large on the minds of the radical elements in Pakistan. Pakistani society had been far tolerant towards religious minorities and different sects in Islam. Sectarianism and religious militancy was a relatively new phenomenon which made its presence felt particularly after the Iranian Revolution.

This changing scenario provided an opportunity to the competing powers to pursue their own strategic interests by extending support to prominent anti-Sunni Shia groups i.e. Sipah-e-Mohammad Pakistan (SMP) and Tehrik-e-Jafria Pakistan (TJP). On the other hand, some other powers interested in promoting Deobandism started funding terrorist groups such as Sipah-e-Sahaba Pakistan (SSP) which later on started operating under the name of Lashkar-e-Jhangvi (LeJ) and Ahl-e-Sunnat wal Jamaat (ASWJ).<sup>36</sup>

The Soviet invasion of Afghanistan and the Islamic Revolution in Iran led to generous Saudi funding of Ahl-e-Hadith and Deobandi madrassas in Pakistan. This funding however, continued even after the Soviet withdrawal from Afghanistan in 1989. "Private sources in Saudi Arabia" have also been involved in providing this financial support.<sup>37</sup> According to

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<sup>35</sup> Moonis Ahmar, "Sectarian Conflicts in Pakistan," *Pakistan Vision* 9, no. 1 (2007): 2.

<sup>36</sup> Fair, "Explaining Support," 1142.

<sup>37</sup> Madiha Afzal, "Saudi Arabia's Hold on Pakistan." The Brookings Institution (2019): 2.

an estimate, Saudi Arabia donated US\$7 billion annually to madrassas in Pakistan.<sup>38</sup>

India has provided financial support to Tehrik-e-Taliban Pakistan under the guise of legal transactions with the multinational firms in Pakistan which used to transfer funds to the terrorist organizations. India has also been involved in funding TTP through informal monetary transactions with the terrorists through Hawala/Hundi (Informal funds transfer system).<sup>39</sup> In November 2020, Pakistan made public a dossier backed by solid evidence of Indian financing and training of terrorist groups such as TTP, Jamaat-ul-Ahrar (JuA) and Balochistan Liberation Army (BLA) in Pakistan.<sup>40</sup> Pakistan's Foreign Minister Shah Mehmood Qureshi and Pakistan military spokesman Major General Babar Iftikhar in a press conference on November 14, 2020 claimed that India "had so far distributed Rs.22 billion among the terrorist groups."<sup>41</sup>

### **Pakistan's Efforts for Choking the Financial Lifelines of Terrorists**

Pakistan has made tremendous counter terrorism efforts including gathering intelligence about terrorist activities and launching successful military operations against terrorist groups. Hundreds of Pakistani soldiers have been killed in operations against the terrorist groups. Many important al-Qaeda leaders have been captured due to Pakistan's intelligence sharing with the US government.<sup>42</sup> However, an important dimension of

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<sup>38</sup> Aidan Parkes, "Considered Chaos: Revisiting Pakistan's 'Strategic Depth' in Afghanistan," *Strategic Analysis* 43, no. 4 (2019): 7.

<sup>39</sup> Hashmi & Saqib, "Terror Financing," 79.

<sup>40</sup> Duniya HA1F, "Shah Mehmood Qureshi and DG ISPR Complete Press Conference Today," Duniya HA1F. November 14, 2020. You Tube video, 58:56, [https://youtu.be/3\\_JMJXPBqUg](https://youtu.be/3_JMJXPBqUg)

<sup>41</sup> Duniya HA1F, "Shah Mehmood Qureshi and DG ISPR Complete Press Conference,"

<sup>42</sup> Seth G. Jones, "Pakistan's Dangerous Game," *Survival* 49, No. 1 (2007): 19.

countering terrorism involves eliminating the financial sources of terrorist groups. Terrorists use different sources of funding and it is difficult to claim with certainty which source contribute to what an extent to their overall financing.

Since 2018, the Financial Action Task Force (FATF) has placed Pakistan on its 'grey list' for structural deficiencies in Pakistan's efforts to combat money laundering and terrorism financing.<sup>43</sup> However, Pakistan has been making serious efforts to control terrorism financing even before FATF pointed out to the need of further steps in this regard. Over the years, Pakistan has taken significant steps to improve its counter terrorism financing mechanism and bring its efforts in line with the international standards.

### **Proscribing the Terrorist Groups and their Affiliates**

Pakistan has taken stringent action against the terrorist organizations and their affiliated groups. Currently seventy-nine (79) terrorist groups are on the list of proscribed organizations updated by the National Counter Terrorism Authority (NACTA) under the Anti -Terrorism Act of 1997 whereas several others have been placed under watch. Some of the major terrorist groups and their affiliated organizations that have been banned include Al-Qaeda, Lashkar-e-Taiba, Sipah-e-Sahaba Pakistan, Lashkar-e-Jhangvi, Ahle Sunnat wal Jammāt, Tehrik -e-Taliban Pakistan, Jaish-e-Mohammad, Sipah-e-Mohammad Pakistan, Tehrik-e-Jafria Pakistan, Al-Furqan Foundation Welfare Trust, Al-Rahmah Welfare Organization,

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<sup>43</sup> Fareeha Shamim, "Pakistan's Counter Terrorist -Financing Measures: Challenges and Prospects," *Journal of Strategic Affairs* (2020): 88. <https://ssii.com.pk/wp-content/uploads/2020/12/05-Fareeha.pdf>

Falah-e-Insaniat Foundation, Jammāt-ul-Furqan, Ansar-ul-Ummah, Jamaat-ud-Dawa, Jamaat-ul-Ahrar, Balochistan Liberation Army, Balochistan Liberation Front, Al-Anfal Trust, Dawatul Irshad Trust and Muaz bin Jabal Trust.<sup>44</sup> Their assets and bank accounts have been frozen. All financial institutions have been barred to do business with the proscribed organizations and their transactions will also not be processed. Furthermore, strict monitoring has been employed to stop the re-emergence of any proscribed organization.

### **National Action Plan (NAP)**

Pakistan developed a comprehensive National Action Plan (NAP) in January 2015 as its counter terrorism policy in the wake of the deadly terrorist attack on the Army Public School, Peshawar in December 2014. Several out of the 20 points of NAP contained provisions for combating terrorism financing in Pakistan. Terrorist groups in Pakistan have also been using informal means of transferring funds such as Hawala/Hundi. This system exchanges money “without having to move money physically”.<sup>45</sup> In an effort to put an end to this practice, hundreds of arrests have been made and Rs1,498.918 million have been recovered. Under the Anti-Terrorism Act (ATA) 1997, individuals and organizations linked to terrorist activities can be marked as “proscribed” and are liable to face various restrictions including freezing of their assets. In line with the instructions issued by the State Bank of Pakistan (SBP) to all banks, assets

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<sup>44</sup> National Counter Terrorism Authority, *78 Organizations Proscribed by Ministry of Interior u/s 11-B-(1)r/w Schedule-I, ATA 1997*, National Counter Terrorism Authority. (Islamabad, 2020). <https://nacta.gov.pk/wp-content/uploads/2018/12/Proscribed-OrganizationsEng-1.pdf> (Accessed April 9, 2021).

<sup>45</sup> Adeel Mukhtar, "Money Laundering, Terror Financing and FATF: Implications for Pakistan." *Journal of Current Affairs* 3, no. 1 (2018): 42.

amounting to Rs.300 million have been frozen while the number of frozen bank accounts is 5,023.<sup>46</sup> The Securities and Exchange Commission of Pakistan (SECP) has also issued guidelines to entities under its jurisdiction to freeze assets of proscribed individuals and organizations.<sup>47</sup>

According to an estimate, “there are between 30,000 and 32,000 madrassahs across Pakistan, which house, feed and educate over 2.5 million students.”<sup>48</sup> Since the Soviet invasion of Afghanistan in 1979, several madrassas in Pakistan have been serving as recruiting, training and sustaining ground for terrorist outfits. Lack of sufficient regulations to monitor the financial sources of these madrassas resulted in a steady flow of income for the terrorists. Efforts are underway to develop an efficient mechanism of audit and accounts for the madrassas.<sup>49</sup>

### **Measures to Monitor and Regulate the Activities of NPOs/Charities**

Non-Profit Organizations (NPOs) especially charitable organizations have been financing terrorist groups in Pakistan since long. There are various laws to monitor the registration and regulation of NPOs in Pakistan. These include The Societies Registration Act, 1860, The Religious Endowment Act, 1863, The Trusts Act, 1882, The Charitable Endowments Act, 1890, The Cooperative Societies Act, 1925, Local Government Ordinance, 2001

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<sup>46</sup> Embassy of Islamic Republic of Pakistan, Washington, D.C., *A Factsheet on Pakistan's CT Effort*. (Washington, D.C. : Embassy of Islamic Republic of Pakistan, Washington, D.C. 2018), 9. <http://embassyofpakistanusa.org/wp-content/uploads/2018/01/Factsheet-on-Pakistan%E2%80%99s-CT-Effort.pdf> (Accessed March 25, 2021).

<sup>47</sup> Embassy of Islamic Republic of Pakistan, “A Factsheet,” 15.

<sup>48</sup> Ahmed, "Regulatory Transgression", 209.

<sup>49</sup> Embassy of Islamic Republic of Pakistan, “A Factsheet,” 10.

and The Companies Act, 2017.<sup>50</sup> The Securities and Exchange Commission of Pakistan (SECP) has also taken initiative and has issued the Associations with Charitable and not for Profit Objects Regulations, 2018 to stop the misuse of charities by terrorist organizations.<sup>51</sup> The SECP has also issued instructions against extending financial assistance in the form of charity to any individual or organization included in the list of proscribed organizations updated by National Counter Terrorism Authority (NACTA).<sup>52</sup>

It has been a common practice for the front humanitarian organizations working for terrorist groups to collect sacrificial hides on Eid-ul-Adha. Under the National Action Plan (NAP), the provincial governments have taken steps to stop this practice. NACTA has laid special emphasis on the law enforcement agencies of all the provinces to monitor the collection of sacrificial hides on Eid-ul-Adha.<sup>53</sup>

### **NACTA's Role in Combating Terrorism Financing**

The National Counter Terrorism Authority (NACTA) was established under NACTA Act 2013. Since its inception, NACTA has been making efforts to combat terrorism and extremism in Pakistan. It has come up with the draft of a model law for the registration, monitoring and audit of NPOs and charities. The draft has been shared with the provinces for their

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<sup>50</sup> Securities and Exchange Commission Of Pakistan, *Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Guidelines for Non Profit Organizations (NPOs)* (National Counter Terrorism Authority, 2018), 4. <https://nacta.gov.pk/aml-cft-guidelines-for-npos-2018/> (Accessed March 25, 2021).

<sup>51</sup> Shamim, "Pakistan's Counter Terrorist," 96.

<sup>52</sup> Securities and Exchange Commission of Pakistan, "Anti-Money Laundering," 5.

<sup>53</sup> National Counter Terrorism Authority, *Countering Financing of Terrorism*. (National Counter Terrorism Authority) <https://nacta.gov.pk/counter-financing-of-terrorism/> (Accessed March 26, 2021).

feedback whereupon it will be submitted to the Government. The purpose of this law is to stop the misuse of NPOs and charities by terrorist organizations. Apart from collaborating with the Federal Board of Revenue, State Bank of Pakistan, Anti-Narcotics Force, Federal Investigation Agency and Intelligence Agencies to monitor the movement of cash across land and other routes, it is also enforcing State Bank of Pakistan's (SBP) rules regarding threshold of currency limits of up \$10,000/visit which can be taken out of the country. The contribution of NACTA in monitoring the mobile money transfer system or Branchless Banking, a particularly vulnerable area to be exploited by the terrorists, is significant. It is also collaborating with intelligence agencies to control illegal Hawala operators in Pakistan along with formulating rules for donation collection by NPOs and charities in Pakistan. The purpose is to stop fraudulent fund raising for terrorism financing.<sup>54</sup>

### **Conviction of Hafiz Muhammad Saeed**

On February 12, 2020 an anti-terrorism court in Lahore convicted Hafiz Muhammad Saeed, the founder of the banned organization Lashkar-e-Taiba (LeT) and its charitable organization Jamaat-ud-Dawa (JuD). He was sentenced to two terms of fifteen years in prison which would run concurrently for being found guilty of links with terrorist groups and terrorism financing.<sup>55</sup> He was also sentenced to five and a half years in prison to be run concurrently with his previous imprisonment in another

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<sup>54</sup> National Counter Terrorism Authority, "Countering Financing,".

<sup>55</sup> Salman Masood, "Accused Mastermind of Mumbai Attack Convicted of Links to Terrorism," *The New York Times*, February 12, 2020, <https://www.nytimes.com/2020/02/12/world/asia/hafiz-saeed-mumbai-convicted.html> (Accessed March 26, 2021).

case of terrorism financing in November 2020.<sup>56</sup> Earlier in April 2019, the Government of Pakistan banned Al-Anfaal Trust, Dawatul Irshad Trust and Muaz Bin Jabal Trust for their links with Jamaat-ud-Dawa. The Government also took over nearly 200 madrassas and hundreds other facilities associated with Jaish-e-Mohammad (JeM), Jamaat-ud-Dawa and Falah-e-Insaniat Foundation (FIF).<sup>57</sup>

### **Legislative Measures to Combat Money Laundering and Terrorism Financing**

Pakistan has enacted several laws to enhance its capacity of controlling money laundering and terrorism financing. These include Anti-Money Laundering Act, 2010, Investigation for Fair Trial Act, 2013, Anti-Terrorism Amendment Act, 2013, National Counter Terrorism Authority (NACTA) Act, 2013, Anti-Money Laundering Regulations, 2015, Prevention of Electronic Crimes Act, 2016, AML/CFT Regulations for Banks and DFIs, 2017, NACTA Act (Amendment), 2017 and Securities and Exchange Commission of Pakistan (AML/CFT) Regulations, 2018. Furthermore, important amendments have been passed in the Anti-Terrorism Act, 1997 and Anti-Money Laundering Act, 2010 in 2020.<sup>58</sup> These amendments have made the offences such as “the provision of money, property or facilitating travel of a person intending to engage in terrorism” more criminalized.<sup>59</sup>

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<sup>56</sup> Rana Bilal, “Hafiz Saeed Convicted in Another Terror Financing Case, Sentenced to 5 and a Half Years in Prison,” *Dawn*, November 19, 2020, <https://www.dawn.com/news/1591261> (Accessed March 26, 2021).

<sup>57</sup> Bilal, “Hafiz Saeed convicted,”.

<sup>58</sup> Shamim, "Pakistan's Counter Terrorist," 9498.

<sup>59</sup> Shamim, "Pakistan's Counter Terrorist," 98.

## Loopholes in Pakistan's Counter Terrorism Financing Efforts

Though Pakistan has made significant efforts to counter terrorism financing and has streamlined its anti-terrorism financing mechanisms according to the international standards but still there are areas to be focused in particular. Firstly, after the incident of 9/11, international pressure kept mounting on Pakistan to implement madrassa reforms. Resultantly, Pakistan spearheaded its drive to reform madrassas. However, the efforts to monitor the activities of madrassas need to continue.<sup>60</sup> In its annual country report issued in 2019 on terrorism in Pakistan, the U.S. Department of State along with admitting Pakistan's sustained counter terrorism efforts has also highlighted that the continuation of these efforts is also essential. Pakistan is still facing "significant terrorist threats" with the Tehrik-e-Taliban Pakistan (TTP) as the most dangerous terrorist group active in Pakistan.<sup>61</sup> Strict implementation of laws and regulations to register all the madrassas and a vigilant check on their financial sources is required to successfully combat terrorism and terrorism financing.<sup>62</sup>

Secondly, the low number of convictions in terrorism financing cases is another point of concern for Pakistan. This is what the Asia/Pacific Group (APG) (an intergovernmental institution to combat money laundering and terrorist financing) has also pointed out in its evaluation report about

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<sup>60</sup> Tim Craig, "Pakistan is Still Trying to Get a Grip on its Madrassa Problem," *The Washington Post*, December 16, 2015, [https://www.washingtonpost.com/world/pakistan-is-still-trying-to-get-a-grip-on-its-madrassa-problem/2015/12/16/e626a422-a248-11e5-9c4e-be37f66848bb\\_story.html](https://www.washingtonpost.com/world/pakistan-is-still-trying-to-get-a-grip-on-its-madrassa-problem/2015/12/16/e626a422-a248-11e5-9c4e-be37f66848bb_story.html) (Accessed April 1, 2021).

<sup>61</sup> U.S. Department of State, *Country Reports on Terrorism 2019: Pakistan*, (U.S. Department of State, 2019). <https://www.state.gov/reports/country-reports-on-terrorism-2019/pakistan/> (Accessed April 1, 2021).

<sup>62</sup> U.S. Department of State, "Country Reports,".

Pakistan in 2019.<sup>63</sup> The credibility of Pakistan's efforts to combat terrorism financing is dependent on the speedy momentum of its law enforcement agencies and judicial process in convicting individuals and entities to be found guilty of financing terrorism in Pakistan.

Thirdly, it has been exceedingly difficult for Pakistan to control the transfer of money through Informal Value Transfer Systems (IVTs) which have been exploited by the terrorists. Terrorist groups such as Lashkar-e-Taiba have also been using IVTs particularly Hawala/Hundi for transferring funds generated through criminal activities.<sup>64</sup> Numerous low-skilled overseas workers also utilize these systems to send money back home especially in far-flung areas.<sup>65</sup> Given their minimal knowledge of using formal banking system, these overseas workers find the informal funds transfer systems exceptionally convenient. For this reason, the task of controlling and monitoring funds transfer through IVTs has become difficult.

Fourthly, Pakistan is still on the Financial Action Task Force's (FATF) „grey list' until June 2021. Keeping in view, Pakistan's sustained efforts to combat terrorism financing, the FATF has recognized Pakistan's "significant progress" in this regard.<sup>66</sup> The country has successfully completed 24 out of 27 items on the action plan that it agreed to implement to combat terrorism financing. The three remaining items relate to speedy investigation, prosecution and conviction of the designated individuals and

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<sup>63</sup> Abid Hussain, "Pakistan on FATF's Grey List Terrorist Financing Perspective," *Global Regional Review* 4, no. 4 (2019): 287.

<sup>64</sup> Michael Freeman and Moyara Ruehsen, "Terrorism Financing Methods: An Overview." *Perspectives on terrorism* 7, no. 4 (2013): 10.

<sup>65</sup> Aftab, "Terrorism Financing," 71-72.

<sup>66</sup> "FATF Keeps Pakistan on Grey List Until June Despite „Significant Progress", *Dawn*, February 25, 2021, <https://www.dawn.com/news/1609329#> (Accessed April 1, 2021).

entities in terrorism financing cases and complete implementation of financial sanctions against the designated terrorists in the United Nations Security Council (UNSC) resolutions 1267 and 1373 adopted in 1999 and 2001 respectively. FATF has decided to review Pakistan's progress regarding the three remaining items on the action plan in its extraordinary plenary session to be held in June 2021. Keeping in view Pakistan's stringent measures to fight terrorism financing, it can positively expect to be removed from the FATF's 'grey list'.

### **Conclusion**

Terrorist groups in Pakistan have been relying on multiple internal and external sources for funding. The internal sources constitute both legitimate and illegitimate sources. Externally, foreign states and individuals have also been involved in feeding money to these groups. Internal sources of terrorism financing in Pakistan range from criminal activities for instance, kidnapping for ransom, drug trafficking, bank robberies, illegal taxation and extortion to the use of charities as front organizations and raising money in the name of relief work in natural disasters which resulted in generating funds and popular support both for the terrorist groups. Furthermore, establishing legitimate businesses such as hotels, textile and trading companies and running networks of schools and hospitals for profit have also been some of the means of a steady flow of money to the terrorist groups.

Given the diverse nature of terrorist groups targeting Pakistan and the variety of ways they have been employing for generating funds, it has not been easy for Pakistan to stamp out their means of finance. However, Pakistan has taken multiple steps to stragulate their financial lifelines.

These include implementing the Anti-Terrorism Act 1997 and proscribing the terrorist organizations and their affiliates under this act, National Action Plan (NAP) 2015, Anti-Money Laundering Act (2010) and various other laws and important amendments, enforcing regulations and guidelines issued by the State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP), Federal Board of Revenue (FBR), monitoring the activities of charities and Non-Profit Organization (NPOs) to stop their misuse by terrorist groups, making and implementing various laws and regulations to control and monitor madrassas, establishing and strengthening the National Counter Terrorism Authority (NACTA) and prosecuting and convicting individuals and entities involved in terrorism and terrorism financing .

The fight against terrorism financing has been a challenging one and there still are deficiencies to overcome. Stringent controls need to be employed to regulate the internal matters of madrassas and monitoring their financial sources. Law enforcement agencies and the judicial process need to conduct speedy trials and convictions of individuals and entities involved in terrorism and financing terrorism.

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