

# **Financing Terror Enterprises**

## **Funding Operations in Prolonged**

### **Conflicts in South Asia**

Nikita Kohli



Centre for Land Warfare Studies  
New Delhi



KNOWLEDGE WORLD  
KW Publishers Pvt Ltd  
New Delhi

**Editorial Team**

Editor-in-Chief : Lt Gen Balraj Nagal (Retd)

ISSN 23939729

**Centre for Land Warfare Studies**

RPSO Complex, Parade Road, Delhi Cantt, New Delhi 110010

Phone: +91.11.25691308 Fax: +91.11.25692347

email: [landwarfare@gmail.com](mailto:landwarfare@gmail.com) website: [www.claws.in](http://www.claws.in)

CLAWS Army No. 33098

The Centre for Land Warfare Studies (CLAWS), New Delhi, is an independent think-tank dealing with national security and conceptual aspects of land warfare, including conventional and sub-conventional conflicts and terrorism. CLAWS conducts research that is futuristic in outlook and policy-oriented in approach.

© 2018, Centre for Land Warfare Studies (CLAWS), New Delhi

Disclaimer: The contents of this paper are based on the analysis of materials accessed from open sources and are the personal views of the author. The contents, therefore, may not be quoted or cited as representing the views or policy of the Government of India, or Integrated Headquarters of the Ministry of Defence (MoD) (Army), or the Centre for Land Warfare Studies.



KNOWLEDGE WORLD

[www.kwpub.com](http://www.kwpub.com)

Published in India by

Kalpana Shukla

KW Publishers Pvt Ltd

4676/21, First Floor, Ansari Road, Daryaganj, New Delhi 110002

Phone: +91 11 23263498 / 43528107 email: [kw@kwpub.com](mailto:kw@kwpub.com) • [www.kwpub.com](http://www.kwpub.com)

# Contents

1. Introduction	2
2. A Brief Review of Literature	4
3. Analytical Framework and Methodology	6
<i>Actors</i>	6
<i>Funding Operations</i>	10
<i>Prolonged Conflict in South Asia</i>	12
4. A New Way of Seeing	13
<i>Value Chains</i>	15
<i>Value Chains and Terrorism Finance</i>	16
5. Cases	20
<i>Taliban—Afghanistan and Pakistan</i>	20
<i>Lashkar-e-Taiba</i>	25
6. Methodological Issues	27
7. Conclusions and Implications	28
References	30
Notes	33



# **Financing Terror Enterprises**

## **Funding Operations in Prolonged**

### **Conflicts in South Asia**

Since 2001, we are seeing increasing attention being given to understanding terrorism, with a new focus on the issue of how terrorist organisations are financed. They ask important questions regarding who finances terrorism and how do they do it. However, these analyses have often ignored how terrorist organisations are able to pay for themselves to be able to continue operations in prolonged conflict situations, especially given the new norm of targeted financial sanctions and the increasingly stricter financial and banking regulations. Against this background, the paper asks how terrorists organisations fund their operations in prolonged conflicts, and how that affects the organisational structure and behaviour of the groups by looking at the way that these terrorist groups interact with the local population. The paper uses the framework of global value chains (GVCs) to understand the financing chains that are developed by the terrorist organisations, linking the terrorists with those who support them logistically and emotionally and those who financially support them. The paper underscores that the aspects of logistical, emotional and even material support often happens through the exchange of value, rather than through exchange of money, such as extortions for safety. This framework of value-chain financing is then tested on two different terrorist organisations, the Taliban and the Lashkar-e-Taiba, in South Asia. By considering available examples, we were able to see how such organisations enter into certain value chains, interact with other groups of people, which has an effect on the strategic behaviour of the group in respect to which groups it targets, when and how. Their funding mechanism and fronts for the same are detailed, demonstrating how this affected their modus operandi, including but not limited to, drug mulling, hawala, trafficking, zakat and state support.

## Introduction

Finance is the mainstay of terrorist organisations. These terrorist organisations need resources not only to pay for the explosives and other armaments to create the grand spectacle of violence, but also to organise their groups, sustain them until and even after the violent attacks. In 2007, Mustafa Abu al-Yazid, Al-Qaeda's finance chief, noted that in their fight for jihad in Afghanistan, "there are hundreds wishing to carry out martyrdom-seeking operations, but they can't find the funds to equip themselves" (Levitt and Baurer 2017, 145).

With the growing interest in understanding the financing of conflicts and especially that of non-state armed groups, mainly terrorist organisations like Al-Qaeda, there has been increasing attention being given to understanding terrorism, with a new focus on the issue of how terrorist organisations are financed.<sup>1</sup> They ask important questions regarding who finances terrorism and how do they do it. Since 2001, a body of ideas has evolved about the threat of 'terrorist finance' that has driven and justified various coordinated exercises of the state and private sector power, aimed at 'fighting' terrorism by 'attacking' its financial underpinnings (T. S. Wittig 2009, 8). The basic assumption in such analysis is that the terrorists have somehow developed sophisticated financing and banking techniques, which can go under the radar of most of the financial and banking regulations to be able to cross borders, legally and illegally, to finance their activities. In changing the financial regulations and developing targeted sanctions towards banks used by the terrorist organisations, those who advocate for these methods argue that such a destruction of the financial structure of the organisation would cripple it and subsequently end it. This has generated a whole range of writings on ways and means of countering terrorist finances.

While this has been an important advancement in order to understand the functioning of the terrorist organisations, these writings often ignore the implications of financing these terrorist organisations in prolonged conflict. In other words, we often ignore how terrorist organisations are able to pay for themselves to be able to continue operations in prolonged conflict situations, especially given the new norm of targeted financial sanctions and the increasingly stricter financial and banking regulations. In increasing the focus on following the money, governments and analysts often tend to forget

that it is not simply how and how much money is being transferred by banking institutions, but rather on how it is being used by the terrorist groups in their local environments. However, as a member of the Irish Republican Army explained:

Without the community, we were irrelevant. We carried the guns and planted the bombs, but the community fed us, hid us, opened their homes to us, turned a blind eye to our operations.... Part of me wanted the community to-day: We need you, as you need us (Collins 1997, 225; Bloom and Horgan 2008; Haer 2015, 2).

In understanding that terrorist organisations are able to continue their activities in prolonged social conflicts only on the basis of support from the local community, the paper will focus on the social aspect of terrorism financing. Put another way, the paper asks how terrorist organisations fund their operations in prolonged conflicts and how that affects the organisational structure as well as behaviour of the groups by looking at the way these terrorist groups interact with the local population.

Such questions move beyond the simple understanding of terrorist finance as something that can be understood simply in terms of financial transfers and links it back to the social and political context under which these activities take place. More importantly, such an analysis helps us understand how it is possible that despite having such a range of literature and governmental as well as intergovernmental responses to tackle the issue, terrorist organisations are able to thrive and continue with their activities.

Understanding that these questions are a subset of the larger question of how various non-state armed actors are financed, this paper will concentrate on those groups that are widely considered to be terrorist organisations, while acknowledging that all non-state armed groups rely on support from the local population for their survival.

The paper will first look briefly at the literature around terrorism and terrorist finance, going on to develop definitions for the various terms that have been listed out in the title to understand the orientation of the paper—terrorist, funding operations and prolonged conflict. This paper will then look at a few different cases to understand how terrorist organisations operate

in South Asia, using the lens of Global Value Chains (GVCs) to understand the functioning of terrorist organisations and finally concluding with the implications that such a way of research would have for understanding and developing different ways to counter terrorist financing.

### **A Brief Review of Literature**

In the past few decades, we have seen a range of new articles and writings coming out each year on the issue of terrorism, and more recently, terrorist financing and counter terrorist financing. With the Watson Institute at Brown University (Watson Institute, Brown University 2008) and the *Perspectives on Terrorism* (Price 2013) journal publishing and maintaining lists of writings on the issue area, which run into many long pages, it seems that there is no dearth of information on the subject matter. However, despite having such a range of writings, ranging from scholarly books and articles, to governmental and intergovernmental reports, to United Nations (UN) resolutions and new journalistic articles appearing in our newspapers every day, we are still not able to control such organisations and individuals from committing such acts of terror. Thus, this section will look at a broad range of writings that are available without going into much detail about each writing.

After the end of the Cold War, most armed conflicts were sought to be explained in terms of ethnic or religious differences, with the idea that certain people or groups of people are more prone to being violent and primordial being the most common expression (Wennman 2010, 64). However, such arguments were soon discarded for those explanations that sought to give a more economic argument for trying to explain how and why such non-state armed groups arise. These arguments, put forward by scholars such as Duffield, Kaldor, Pugh and Cooper, and Schlichte, among others, argued that we were now seeing 'new wars' being fought, not among states, but across state boundaries, which affected both the internal and the external political fields of a country, pushed forward by the great force that was globalisation, which allowed for a variety of non-state armed actors to come up everywhere, get material and manpower from across the globe, while being able to engage particular states in combat when they attacked their populace for particular goals they had in mind (Kaldor 1999; Duffield 2001; Schlichte 2010; Ehrenfeld 2007; Pugh and Cooper, 2004).

With political violence becoming the staple in many of the new, developing countries, with many such non-state armed groups of varying types coming up in different countries, focus began to shift to the economic and political power of these groups, also focusing on the reasons why such groups come up in a particular type of country. This led to a great debate within the academia on whether such groups are based on notions of greed or grievance, with authors such as William Reno, Herbst, Collier, and so forth, leading the debate, so much so that even the World Bank funded the research into the question area (Reno 1998; Reno 2009; Paul Collier 2008; Herbst 2000; Wennman 2010).

However, such arguments run into difficulty while trying to explain the conflicts in South Asia, where most of these groups, such as the Taliban or Lashkar-e-Taiba (LeT) did not emerge against a particular kind of exploitation by governments or oppression by them or because of greed. Of course, that is not to say that such arguments cannot be made for any of the groups in the region. The Liberation Tigers of Tamil Eelam (LTTE) were specially formed due to the grievances of a particular ethnic group against their government (of Sri Lanka). It is important to note that such simple arguments of a dualistic nature of internal conflict did not suffice in the context of the multitude of changes that could be seen in the new and emerging non-state armed groups in the region.

The most prominent push given to the study of terrorism was after 9/11, when specific focus was given to those groups that aimed to create 'terror' in the people and in the state through their activities. Most of these writings focused on the type of formation of the terrorist organisation, or placing it within the political context to see and understand the rise of such groups as a new phenomena (Crenshaw 1985; Brian A. Jackson 2005; Bapat 2006). They claim to study some or all of the terrorist groups, how they are formed, the political context in which they function and the lethality of their methods. However, despite such a vast body of literature, Phillips comments that there is no single definition of the concept of what constitutes a 'terrorist group', and says that it is a 'concept with no definition' (Phillips 2015).

Around the same time, a parallel body of literature was coming up with regard to the ways such terrorist organisations are funded. This was supposed to start and academically back the new 'financial war on terror', to be better able to understand what the sources of such financing are and how can we stop

it. This produced a range of literature focused on finding a definitive answer to who funds these organisations and how do they do it? (Freeman 2012; Giraldo and Trinkunas, 2007; Napoleoni 2005; Ridley 2012; Clarke 2015). This in turn produced a range of writings on the ways of countering terrorist finance via international regulations and sanctions (Biersteker and Eckter, 2008; Allen 2003; American Foreign Policy Council 2005; Y. K. Heng 2008).

These articles and books tried to definitively underline the mechanisms that were involved in funding a particular group and were determined to find out those exact persons or groups of persons funding such activities, and putting them to a stop via creating intelligent systems from the international banking and financial regulatory schemes. Thus, they look at the exchange of money, mostly focusing on bank transfers, though also acknowledging that there are dark and grey economy means (i.e., shadow banking methods) that can and are being used by such groups too, for financing their operations. However, as shall be explained below in much more detail, such an understanding is incomplete at best and needs to take into account the exchange of value and services taking place that actually manage and operationalise about half of their activities.

## **Analytical Framework and Methodology**

This section now focuses on the terms that have been used in the title, in order to define what this paper will look at, focusing first on which actors the international community must focus on, the means used by the terrorists and finally, defining the scope as well as limits of place and time of the conflicts being studied.

### **Actors**

#### *Terrorist(s)*

The first most important term for analysis here is 'terrorist'. As can be seen from the above brief discussion of the literature, a lot depends on the way that we define our terms. It is not only a debate of which terms we use and its political implications, but also about how we use a particular term can change the way we look at and analyse it. Geddes writes that in order for research to be useful, conceptual criteria should be 'concrete, unambiguous

and public, so that other scholars can understand the basis for the analyst's judgements (Geddes 2003, 145).

Yet in the study of terrorism, explicit definitions have not been used. This could be attributed to the inherently political aspect of defining a terrorist or terrorist organisations, captured in the famous phrase—one man's terrorist is another man's freedom fighter. However, it remains crucial that we define the term (as it is being used in this paper), since this can change the way that cases, groups and areas can be analysed under this rubric.

One can use the example of different definitions of terrorist to understand against whom financial sanctions should be placed by looking at some kind of official definition of terrorist groups such as the US State Department's list of Foreign Terrorist Organizations, the US Treasury's list of Specially Designated Global Terrorists or the UN's Consolidated or 1267 list of actors associated with the Al-Qaeda and the Taliban. Each of these give somewhat similar and yet different results, such as the first, including charitable organisations such as the Benevolence International Foundation (BIF) as a terrorist organisation, while others do not. In the context of terrorist finance and countering terrorist finance, it then becomes crucial that we define 'terrorist' organisations in a very specific way.

Generally, terrorism has been used as 'a tactic of war that is intended to provoke fear beyond the physical target of a particular violent attack' (T. Wittig 2011, 17), with the term being used to describe a range of actors from governments to individual actors to groups acting against other groups or against the state. However, today, the term is exclusively used to describe negatively the actions of a particular group that uses the tactics of terror to intimidate a state or a society into fearing the group, mostly to achieve a particular goal, captured perfectly by Alex Schmid in his seminal definition of terrorism as 'the peacetime equivalent of a war crime' (Schmid 1993, 7). Other scholars have defined terrorism as a means to the end of power, arguing that 'the acts of terrorism are not about the casualties, but the signalling aimed at the larger audience that experiences the terrorist violence second hand' (Basumatary 2017). Phillips argues that while there is no one definition of terrorism, most of the definitions and examples have three key elements: '(a) intentional violence; (b) that the violence is used to spread fear in a wider audience; and (c) political motivation' (Phillips 2015, 227).

Thus, terrorism can be understood as *a violent, unlawful act or set of actions conducted illegitimately, or seriously threatened to be conducted, indiscriminately by an individual or a group, usually other than the state (but which can enjoy the support of the state or be performed by the state itself), against a non-combatant population or property with a view to further the advancement of a political, religious, ideological, or emotional goal by creating a psychological climate of fear beyond the physical limitations of the original act(s) of force* (Mohamedou 2017).

In this paper, we are looking at those non-state armed groups that use the tactics of terror to achieve a predetermined (political, economic, religious, etc.) goal by targeting civilians in a society in a violent manner so as to create a lasting atmosphere of terror. Support from state actors shall not be assumed for all cases, though in the context of South Asia, state support for terrorist groups has been a tactic often used by states in their asymmetrical conflicts. Such organisations or enterprises will be understood to be terrorist organisations in this paper. Understanding terrorism as the final act of a particular group, which can be understood in some cases as the final act of desperation or call for attention, can now include all violent groups such as terrorist organisations, organised crime groups, warlords, and so forth, which use the tactic of terror for achieving a political goal through particular methods and in that way become illegal organisations. While there might be some other term that can be better used to encompass such a range of groups, here we shall use the term ‘terrorist organisations’ because the final output is an act of terror creation or terrorism.

### *Supporters of Terrorists*

A second important category of actors that we need to look at is that of the supporters of terrorists. This can be defined as those who provide support to the terrorists, whether economically, logistically or emotionally. Within this category, it is important to distinguish between those who ‘support’ terrorists versus those that ‘do business with the terrorist’ (T. Wittig 2011, 20–23). On the face of it, this does not seem to be an important distinction. However, the second category of those who do business with the terrorist organisations is the one the focus has been given to in contrast with the first group. Governments and intergovernmental organisations have mostly focused on the financial transfers in trying to understand terrorism

financing, and in doing so, have inevitably only looked at those supporters of the terrorist groups who supply them with money. While this remains an important category (and must always be deeply examined), it is now more important than ever that we look at those who give assistance to terrorists and enable them to act. This support need not solely be monetary in nature but can traverse a whole range of actions, such as giving out incorrect reports of their sightings, to hiding them in their homes and feeding them.

It is, I argue, these people who support the terrorist organisations, who actually allow them to continue their operations locally. While they may not alter the strategic behaviour of the terrorist groups, they can and do affect other important operational aspects for such organisations—for example, where such groups are able to exist, for how long, and where they attack. If, say, the local vegetable vendors stop selling vegetables to a particular terrorist organisation, say the Taliban in Northern Waziristan in Pakistan, it is not difficult to imagine that they would not be able to sustain themselves for long, and would have to resort to techniques of violence against the local population to get the necessities, earning them their distrust, which they cannot really afford if they are also the base of their political strategy. This can in turn affect where such a group may operate, what kind of machinery and/or arms they may use and for how long they are able to carry out their operations. Thus, focus needs to be given to all the actors involved in the process, including those who are supporters of terrorist organisations and not just focus on those who do business with them.

### *Those who Financially Support Terrorists*

This third category of actors is those who actively finance the terrorist groups and organisations. Put otherwise, they are the ones who do business with the terrorists. Wittig writes that this category included both legitimate as well as illegitimate actors, such as, “allegedly heroin addicts, owners of stolen automobiles, displaced people who traded humanitarian aid for other things of value, corrupt Georgian officials, and even US intelligence officers” (T. Wittig 2011, 22).

This third category of actors has been focused on by the governmental and intergovernmental bodies that seek to curb terrorist financing. They are mostly identified by looking at the financial transactions and overt

financial support to the terrorist organisation. While this category is often thought to include individuals only, given the fact that it is individuals such as bin Laden and Dawood Ibrahim that used a large chunk of their personal fortune to fund various terrorist organisations and their associates around the world, the category of 'those who financially support terrorists' must also include state support. While state support is often contested and is not overtly understood to be comprising of terrorist acts themselves, many of the activities of various terrorist groups occur due to state support. One often quoted example is that of Pakistan, which financially and operationally supports various terrorist groups against Afghanistan and India, such as the Taliban and the LeT (Coll 2018; Roul 2014; Anant 2012).

In developing a more holistic view of terrorism financing and looking at the social dynamics of it, we would, therefore, need to look at not only the actors who carry out the final act of violence or even those who supply them with the armaments and/or the money to buy the equipment, but even those who support the terrorists in an emotional, spiritual or economic way, such as feeding them and giving them the ground logistical support that they might need to carry out their actions. All of these people must be understood to be 'the actors' if we are to fully understand and curb terrorism financing.

### ***Funding Operations***

The next major term used in the title is 'funding operations'. It is important to look not only at who are the actors involved, but also the ways in which they move finances and objects to be used for their activities. While most of the terrorist 'funding' or 'support' is in the manner of finances, it usually goes beyond it to include a wide range of actions, including logistical support, ideological support and material support, among other things. Most of these actions are enabled by different people involved in a long chain of actions. What is common across these categories of support is that they need to be reliable, secure, simple, and in large quantities (Freeman 2012, 8–12). These aspects of financial support have the capacity to influence the strategic behaviour of the terrorist organisations.

The first aspect of reliability is one of the most important criteria judged by the terrorist groups when looking for support activities. The sources of funding that are predictable and consistent will be chosen by the terrorist organisations

over those that fluctuate easily and often (Freeman 2012, 11). This refers to all the different sources, whether they be state sponsorship or diaspora remittances. Reliability of the funding sources usually needs to be developed over time, and needs to be a sustainable source. Even if extortion of a particular group by the terrorist outfit is reliable in the absence of any state presence in the short term, this may not be a reliable source for long, if the communities cannot make enough money to keep paying bribes or payments to the terrorists.

This relates to the aspect of the funding/support coming in large quantities. This is one of the most important factors when calibrating whether the terrorist operations can carry-over long periods of time. If the sources of funding are not reliable and cannot be procured over long periods of time, they would not serve the terrorist organisations, since their aim is often not related to political control over a particular territory, which can result in taxation later on. This is one of the major reasons why many of these groups look for state sponsorship, since states can provide them with enough money, armaments, reserves and sometimes, even land and political support that they might need, despite the fact that then they most often have to adhere to the ideas and targets of the state, such as not attacking a particular state if its considered friendly by the sponsoring state or not targeting a particular community, such as the LeT in Pakistan/India not targeting the Kashmiri population since Pakistan, which funds the organisation is still trying to win over Kashmir from India, but they are given a free reign to attack any other part of India, one example being the 26/11 Mumbai attacks.

Financing needs to be secure at the same time. If the financing link is open to international/governmental scrutiny, it does not make for a safe or reliable source for the terrorists to go back to. Such supporting actors thus need to be able to operate (legally and illegally) for hoodwinking the state operations to the side operations of funding/supporting the terrorist organisation towards its aims. Most importantly, this needs to be done simply. If there are a large number of actors involved, who would be needed to be present to deliberate on each step of the organisation and activity, it complicates the procedures. Also, the methods need to be simple. Complicated cybercrimes and long-chain drug supply would often loose competition to other means of financing/support activities, such as petty theft, credit card frauds that require fewer skills and personnel.<sup>2</sup>

All these factors have led to the changing trends in funding. While state sponsorship was the number one chosen method of terrorist financing during the Cold War years, with each side funding and operationalising various different terrorist organisations to fight their proxy wars, this source dried up soon after the Cold War ended (Giraldo and Trinkunas 2007, 9). This put many groups, such as those in Afghanistan, El Salvador, Nicaragua, and so forth, in trouble when they could no longer find funding from the states that led to their creation in the first place. Thus, we see that from the 1990s onwards, many of these groups had to look for alternative sources of funding. However, it must be noted that many such groups still do remain, which are being financed by states to fight proxy wars on their behalf, mostly in their neighbouring states. This list includes, but is not limited to, groups such as Hamas, Hezbollah, LeT, etc. With the advent of globalisation, most analysts argue that terrorist outfits have moved beyond seeking funds even from single individuals to sympathetic groups, who can then transfer funds over to them via easy mechanisms of global banking that are now available<sup>3</sup> to them. This is one of the facts that has changed the way many analysts and practitioners have looked and made policies to counter terrorist finance, which are now also looking at remittance transfers towards certain extremist groups and ways to stop them.

### ***Prolonged Conflict in South Asia***

This paper is looking exclusively at prolonged conflicts, rather than those which are short-term or medium-term conflicts. The criteria being used to measure prolonged conflict is those conflicts that last longer than 10 years. While the analysis of all types of engagements in conflicts by terrorist organisations would reveal important aspects of the way that they act, formation of such terrorist organisations and the relative costs involved<sup>4</sup>, it was felt that looking at prolonged conflicts would actually be able to reveal certain trends and patterns of terrorist financing, which would not be so explicit otherwise. At the same time, using the criteria of prolonged conflicts ensures that these groups have financial sustainability, reliable and secure sources of funding and a base from which they can continue their operations undeterred, and perhaps, there is some political goal being linked to it that a state may be ignoring or not recognising internationally (in which case the understanding of terrorism as the last act of desperation would apply).

This paper is thus looking at prolonged conflicts, but limiting itself to the region of South Asia. While there is a bit of literature on the terrorist organisations and their functioning in South Asia, the sources of financing and how they affect their strategies and interaction with the local population has not really been looked at. This paper, thus, attempts to fill in some of the blanks in this regard. Two cases are being looked at in greater depth in this paper—the Afghan and Pakistani Taliban and the LeT. While there are thousands of terrorist and insurgent groups in South Asia, only the aforementioned cases are being looked at for this paper. It is important to note that while the terrorist groups of Nepal and Bangladesh are being excluded, it is not simply because of neglect, but because of the lack of detailed information available presently in the literature that links their behaviour and funding sources to the local population, the reasons behind particular campaigns, and so forth. However, there is important new information coming ever so often now with regard to the functioning of these organisations. At the same time, it is important to remember that while the cases being explored here are linked to one particular type of terrorist organisation (as defined above), the analysis below used to understand them can be applied to a variety of cases, with some tweaking to the sources and mechanisms used by the different groups to achieve the end goal of terrorism.

The al-Qaeda is also being excluded from the analysis being done here, despite playing a major role in the terror activities in the region, especially in Afghanistan, since it is a very dispersed network with cells of activities spread far and wide across Asia and Africa. This would have then resulted in the analysis being shifted from being limited to South Asia to incorporating a global network linkage. To limit the spatial and temporal analysis of this paper to South Asian conflicts, where there are two distinct groups of state versus the terrorist organisations lasting over 10 years, these countries and groups are being excluded from analysis.

### **A New Way of Seeing**

With reference to the various different definitions and concepts referred to above and a brief review of the literature dealing with the aspects of terrorist financing and counterterrorism financing, it can be clearly seen that there is something missing from this analysis. How is it possible that despite having such

a range of literature, reports, resolutions and an amazing depth of statistical information available to the international and national governing boards as well as a range of financial and banking regulation, including, but not limited to the new financial sanctions mechanisms, Basel Accords (all three of them) and the Financial Stability Board, all in all covering status financial flows as well as shadow banking and over-the-counter financial and banking mechanisms, such terrorist organisations are able to thrive and continue with their activities?

Quite clearly, there is something that is missing. And the truth is quite simple: terrorist organisations do not function solely with ‘money’, but function by exchanging ‘value’. These organisations do not function in isolation with sophisticated financial and banking mechanisms, but rather, they function within a particular society, exchanging and trading in commodities, goods and services, while adding ‘value’ to them in the process. As ‘David S. Cohen, US Assistant Secretary of Treasury for Terrorist Financing, expressed concisely the logic of fighting ‘terrorist money’ in a 2010 speech to the Council on Foreign Relations: *“It is now well-understood that [terrorists] rely heavily on financial support networks. . . **The financial support these groups require goes far beyond the sums spent on a specific attack. These groups need sustained and substantial funding to pay operatives, support their families, indoctrinate and recruit new members, train, travel, and bribe officials** . . . The key idea underlying [the US Treasury’s counter terrorist financing] work is this: If we can deter those who would donate money to violent extremist groups, disrupt the means and mechanisms through which they transmit money, and degrade their financial support networks, we can make an extraordinarily valuable contribution to our national security”* (T. Wittig 2011, 44; emphasis added).

As I will argue below in the paper, terrorism financing should not be understood to simply comprise of exchange of money, but rather on the *value* generated by the exchange of money for goods and services used towards the act of terrorism. In shifting the lens from looking at the banking transfers to that of looking for the value of things, we can then expand the scope of analysis to include recruitment drives, personnel maintenance, salaries, operational costs, procurement costs for weapons and ammunitions and other things, such as transport and reconnaissance activities that these organisations have to pay for. To be able to calculate such costs, we would

then require to observe their interactions and the flow of goods and services, rather than a restricted analysis of the flow of money, since it is these goods and services which would create a value for the terrorist organisation that can count towards it. These chains of interactions where value is being created in the process are called **value chains**, and this is the lens that is going to be employed here to analyse the workings of the terrorist organisations.

### **Value Chains**

A value chain, in the field of economics and international political economy has been defined as ‘the shifting governance structures in sectors producing for global markets’ (G. Gereffi 2005, 79), ‘the full range of activities that are carried out in relation to the production of a particular good.... such as when a firm in one country contracts with a firm in another country to coordinate production in plants owned by yet another firm in a third country, and so on’ (Duke University n.d.), ‘the sequential set of primary and support activities that an enterprise performs to turn inputs into value-added outputs for its external customers’ (T. Wittig 2011, 113), and so forth. A value chain describes the entire process of production of an item, from ideation, to production, to after-sales services. The idea of talking about GVCs is that today, this process has been geographically dispersed and has allowed developing countries (in this case, enterprises) the chance to join such a chain simply, rather than spend decades building its own.

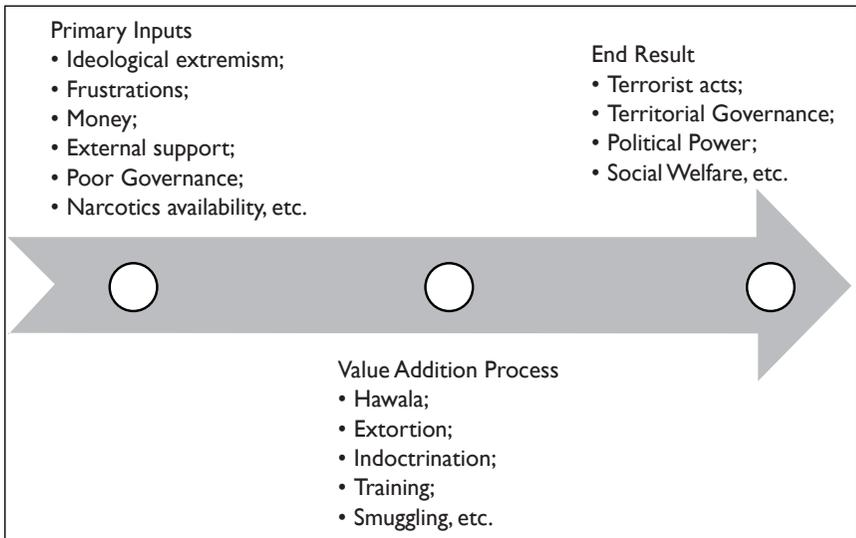
With regard to the political influence of such GVCs, Gereffi argues that since the GVCs are producer-driven, it is the firms that have the greater say in the governance structures, with the multinational firms having ‘varying degrees of power through the coordination of suppliers without any direct ownership of the firms’ (Gereffi 2014).

In the same vein, Mahutga argues that it is the networks that are built and enhanced by these firms that really add value to the production process, and thus, these chains are stronger and get more say in international trade agreements due to the important role played by them and the effects that they have on the international trade regimes (Mahutga 2014). These GVCs have added value because of the complexity of the tasks at hand which are added to by these firms, which includes codifying transactions and testing the competence of suppliers, thus enabling or disabling a country from joining a GVC.

### Value Chains and Terrorism Finance

Taking this analysis of GVC in the context of terrorism financing, we see that *terrorist activities can be located in the definition of a value chain, since such terrorist ‘enterprises’ take an input, convert it into an output, via a mechanism that adds value to the end product, for external consumption which transcends national/regional boundaries.* That is, they take the primary inputs of say, ideological and religious extremism, money, labour, weapons, and so forth, turn it into a specific output of say, attacks, territorial governance, political power, social welfare, and so forth, via the mechanisms of say, money laundering, hawala, extortion of money, and so forth, which adds value to the end result of making it as an act of terror against a certain population located outside the group/enterprise, which mostly transcends the boundaries of nations for the flow of goods, money and services from the initial input point to the end product.

**Figure I. Basic mechanism for terrorism financing and operational structure.**



With this primary hypothesis, there are a few assumptions and predictions involved. These relate to who the actors are, what their motivations are, how it affects their behaviour/strategy, how it affects the international regime and intergovernmental bodies' regulations and the mechanism that is involved in the process.

As defined in the previous section, the actors that we are looking at include all three categories under this type of analysis: terrorists, supporters, and those who do business with them. Until now, most of the most of the analyses focus was limited to the terrorist and to those who do business with them, since it required them to follow the money trail that would lead them to those who would be giving money to the terrorist organisations. However, as explained in the hypothesis, terrorist ‘enterprises’ require more than just money to operate—they need people, weapons, cars, training instructors, training grounds, ammunitions, food, and so forth. With the nature of terrorist activities being such that they are usually hunted down, all of the above aspects, excluding (mostly) training ground, are flow variables, rather than stock variables.

**Figure 2: Activities involved in terrorism financing (inexhaustive).  
These activities must be counted towards the process of value  
addition, as described in the mechanism above**

Credit	Debit
Barter	Black market—setting up of
Bribes	Bribing officials
Charities	Charitable work
Counterfeited money	Food and other essentials
Diaspora support	Fraudulent paperwork
Deposit of money in bank accounts	Indoctrination
Donation of weapons	Kidnapping
Drug money—production, sale	Reconnaissance
Hawala	Recruitment of personnel
Hospitality of locals	Safe houses
Humanitarian aid money	Smuggling of drugs
Ransom	Stolen cars—use, rent of
Smuggling—protection money	Telecommunication systems
State support—money, weapons	Training
Stolen cars	Travel
Theft of objects for sale—black market	Weapons and explosives

This is the first major change over the analysis favoured by those studying and making policies for countering terrorist finance, which have mostly

focused on seeing financial transactions via banking routes to understand terrorism financing that sees money in the bank as a stock variable. In looking at all of these aspects as support given to the terrorist organisation to operate underline the fact that there are multiple entry points in any value chain for a terrorist organisation.

At the same time, it also acknowledges that there is flow of goods and services other than money, which needs to be looked into. For example, those car dealerships that provide cars to the terrorist organisations mostly do legal business, but are contracted by the terrorists through (usually) a middleman to make the purchase, as in the case of the Tehrik-i-Taliban (Pakistani Taliban). They use middlemen to acquire particular types of Toyota cars (especially those made in Canada, since they are seen to have a higher quality and, thus, many Taliban fighters can be seen sporting tattoos of the maple leaf in support of Canada), and contract out to those who have intelligence of where particular patrol stations are, and how they can bribe these patrol officers to be able to get the cars to the Taliban spot, where it is deposited and then the money transferred (T. Wittig 2011, 123–127). When we look at all of these supporting actors, a very different picture emerges, which can explain how the terrorist organisations are able to function for such long times when the states are trying to shut them down.

Such an analysis can thus also show how the terrorist organisations are interacting with and depend on the local population. If there was, say, little or no help from the local Kashmiri population, the terrorists belonging to the LeT would not be able to enter India, especially with the heavy army presence in the area. It is only through particular shielding by some sections of the Kashmiri population, coercion or threat of violence, that they are able to enter into a foreign territory to be able to attack there. At the same time, since the value chain of LeT is largely dependent on the Kashmiri population (for the local support base, food, shelter, etc.), it rarely conducts any attacks against the Kashmiri people, but always does make many proclamations and looks for support by agitating the people against the Indian state, mostly on the behest of the Pakistani government (Geoffrey Kambere 2012).

Using the concept of a value chain thus shows how terrorist organisations, such as those listed above, are able to bank upon and convert religious and

ideological extremism, money and weapons, into the attacks and the political/territorial control that they are able to do and get. For example, in the case of the LeT, they are able to change the weapons and money that they get from the Pakistani government and some other sources into attacks in India and social power as well as control over the politics of the state of Jammu and Kashmir by entering into the particular value chain with certain tribes and groups in Kashmir (detailed in the next section).

This then brings us to another aspect of how interactions with certain value chains influence the behaviour of terrorist organisations. This depends on a large part on which value chain they are able to enter, how and when. As Baldwin argues, the idea of talking of GVCs is that today, this process has been geographically dispersed, and has allowed groups, firms and countries the chance to simply join such a chain, rather than spend decades building its own (Baldwin 2013). With reference to financing of terrorist enterprises, it simply means that we need to try and look at which value chains an organisation is likely to enter into. This depends on the criteria explained above, such as the reliability, security, simplicity and quantity of goods, services and money that a particular value chain can give and assure the terrorist organisation of. This is again inherently tied back to the idea of the cost of maintaining operations in prolonged conflict, and can be observed in the chains of interaction developed across multiple terrorist organisations, which often assign different actions to different actors, such as financial activities, brown-water terrorism, weapon system procurement, transportations, false identity creation, and so forth.

It must be emphasised here that we are focusing on the financial structures that the terrorist organisations develop for long-term activities in any particular area and are not exclusively focusing on the costs of establishment. As Wennman explains with regard to the difference in costs for starting and continuing with operation in a prolonged conflict, 'the costs of starting a conflict are relatively predictable, while the cost of maintaining a conflict are dynamic, depending on the conflict intensity, the rate of replacement of soldiers and material, and the development of the prices of weapons, ammunition, and other items during the course of the armed conflict' (Wennman 2010, 67).

In studying the financial structures developed by the terrorist organisations, we must look at how they are able to effectively use their resources to be able to conduct their operations or outsource them (as Al-Qaeda has often outsourced its brown-water operations to the Abu Sayyaf Group, for example), thus broadening the perspective from solely looking at the money that they may have. As detailed above, the use of the concept of value chains can effectively change the way we look at terrorist financing operations in prolonged conflicts. The mechanism developed will now be explored through some cases in South Asia to see how well this framework can be used to analyse the situation and the potential problems faced by the same.

## Cases

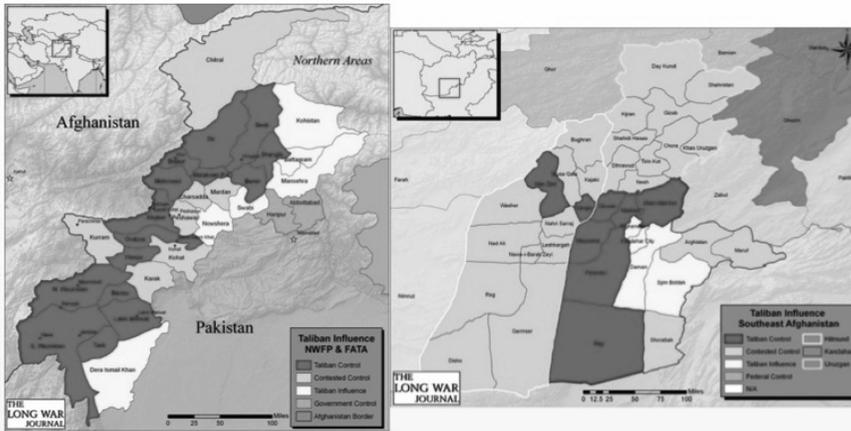
### ***Taliban—Afghanistan and Pakistan***

The Taliban is a religious fundamentalist movement that has been led by the mullahs in Pakistan and Afghanistan, and derives its name from *talib*, meaning ‘students of Islam’ or a person who is still learning Islam, despite being led by those who are considered to be the teachers of Islam (Rashid 2000, 22–23). While it is known that the group started in 1994, it is not known who exactly started the radical group<sup>5</sup>, though some have traced it back to a group of ‘30 members of a Pashtun village of Singesar, Afghanistan, whose first act was an armed intervention on behalf of the weak and poor in the spring of 1994’ (Reese 2012, 94). It stated that its goals were to ‘restore peace, disarm the population, enforce Shari’a law, and defend the integrity and Islamic character of Afghanistan’ (Rashid 2000, 22). It soon gained popularity amongst the general populace, which was drawn to the consolidated political rule that the Taliban could offer when the previous political regimes had all been falling down. However, this soon proved to be disastrous for the people of the country, and most of them by the early 2000’s could not connect with the regime that they had once welcomed with the shower of rose petals.

Though the Taliban regime was overthrown in 2001 by the United States and its allied forces, it managed to seek sanctuary in Pakistan in its Federally Administered Tribal Areas (FATA) and in its North-West Frontier Province (NWFP), a neighbouring country, and one of the only countries that had extended support and recognition to the Taliban regime

that was previously in power in Afghanistan. It still continues to have its base there and has virtual control over the area, while exerting influence in the Afghan society through it.

**Figure 3. Areas of Taliban operation in Afghanistan and Pakistan.**



Source: <https://flowvella.com/s/1gmq/0C8D7A71-11F6-49B2-8CB6-DE2DF2B59C80>; Long War Journal.

Apart from their political history, the funding operations of the Taliban show a diverse range of sources and methods, and give a glimpse into the operational capabilities of the organisation. This can be seen in their ‘cadres’ of women who would be sewing the suicide bombing vests, drawing on their ‘duty’ to their children and to God to send them on the ‘glorious mission of jihad’ (Qadeem 2014), to their continued control over revenue collection for electricity dues and other miscellaneous services (Coll 2018).

With the breakdown and reconstruction of the Afghan state, with many warlords still controlling large chunks of the land (both politically and economically), the land was conducive enough for allowing many illicit activities to take place, many of which were used by the Taliban to support themselves. Some of them include:

- Kidnapping for ransom: this has been a recent addition to the range of activities done by the Taliban, starting back only in 2008. This includes many high-profile cases such as the kidnapping of the Italian journalist Gabriele Torsello in 2006, Italian-Swiss journalist Daniele Mastrogiacomo

in 2007, and 19 South Korean missionaries in the same year. Since the business of kidnapping has become so lucrative, with low costs and high profits, the Taliban has even started subcontracting out the operations to low-level kidnapping rings, which would sell the individuals to the Taliban, who would then demand an even greater ransom (Clarke 2015, 116–117);

- **Armed robbery:** these operations are mostly carried out alongside roads over which the Taliban has control, and those who do not wish to be attacked have to pay fees to them to be able to pass;
- **Theft:** this is also along the roads and local trading routes covered by them;
- **Smuggling goods:** the Taliban has developed a very sophisticated way of smuggling goods, especially drugs across borders, which include attacks on the monitoring posts to create diversions, to having mobile drug-manufacturing units move across borders under their protection;
- **Trafficking:** this has included both boys and girls being trafficked across borders, bringing up new problems for the new state of Afghanistan, such as countering such kidnappings that happen often on playgrounds. This is mostly done to sell these children to sex houses as prostitutes and ‘dancing boys’<sup>6</sup>;
- **Counterfeiting money;**
- **Money laundering:** this has been done through a variety of routes, both legal, such as hawala and illegal, such as real estate brokerage, stock market exchanges, and so forth;
- **Extortions:** this has been mostly subjected to the local population in exchange of security and safe passage for them to travel through or even allowing them to trade or not in certain parts;
- **State support:** this has been particularly true of Pakistan and Saudi Arabia, especially in the 1990s (Reese 2012, 97). Their support for the Taliban has extended from simple monetary support to including land grants, financial covering of their transactions, personnel support, logistical support, providing firearms and other weaponry, and in the case of Pakistan, even allowing them to continue operating within their boundaries as regular citizens. With the Taliban being essentially a creation of Pakistan, they have received immense support from the state, including Pakistan’s shielding of the Taliban during the American

- Operation Enduring Freedom and negotiating for their safety (Coll 2018);
- **Diaspora or popular support:** this was one of their big sources in the 1990s, especially with the multitudes of Afghan people displaced all around the world due to the Soviet invasion, who supported the Taliban rule over theirs;
  - **Charities:** Clarke explains how the Taliban used different types of charities from across the subcontinent and the Gulf for its financial resources from its supports, saying that ‘at one point, the Taliban was thought to earn approximately 15 percent of its overall income from the donors in the Gulf’ (Clarke 2015, 115). However, donations through charities can be difficult to ascertain as either legal or illegal, since those who often give to the charities,<sup>7</sup> religious or otherwise, are often not aware that the money may be diverted towards arming terrorist groups or for actual charitable causes that they are giving for.
  - **Opium economy:** this has been one of the largest and most stable sources that the Taliban has cultivated for continued financing. With smuggling and money laundering being seen as a secondary support activity, the cultivation of the opium economy has been the most important focal point, with large amounts of poppy production in the region, with their largest operations taking place in the southern and south western provinces of Afghanistan—Uruzgan, Helmand, Kandahar; in the east—in Badakhshan, Baqlan and other areas a traditional stronghold of the organisation (Ansar 2018; Sputnik News 2018; Mashal 2017; Felbab-Brown 2017; Peters 2009). Narcotics trade has reportedly generated a profit between \$70 million and \$500 million per year (Clarke 2015).

However, the analysis of the funding structure of the Taliban must not stop here but must only be seen as the starting point for the same. As mentioned previously, it is not simply the question of how the terrorist organisations are able to get the funds or even the extent of the funds, but rather how that affects their operational strategy, their network linkages and the subsequent international regime response to it. It must be understood that other than trying to procure weapons, food, training capabilities and security for its members, and so forth, it also needs to gather intelligence and other items, such as transport vehicles, and food. Understanding the ways in which the Taliban can acquire these requires a more nuanced understanding of more than just financial transfers and that of the importance of ‘value’ that

is exchanged in the process.

Looking at some of the examples mentioned above of the sources of finance, we can see that Taliban has tried to convert the humanitarian aid that the international community has given towards Afghanistan into value for its own purpose. One example is that of the Kajaki hydropower plant, the biggest source of electricity in south Afghanistan. This was a hydropower plant that was being placed in Afghanistan by the US military for the benefit of the local population. However, this kept getting stolen or broken down by the Taliban in Afghanistan, which was then benefitting from getting free electricity. When the hydropower plants were not being stolen and were allowed to operate, it was usually under the conditionality of payment or revenue that was due to the Taliban by the local population. It has been noted that 'unlike Afghanistan's state power utility, the Taliban don't use meters. Instead, they charge every household in areas they control a flat fee of 1,000 Pakistani rupees (\$11.65) a month. All in all, the Helmand government estimates that it loses out on at least \$4 million a year in electricity revenue to the Taliban, this in a country where the monthly wages of an insurgent fighter hover around \$200' (Trofimov 2010). Repeated meetings with the government or the locals did not yield any positive result and the people still distrusted the US military. The US military then, in a last act of desperation, turned to the local population to build the hydropower project, under the guidance of previous companies. With the involvement of the community, they managed to build a new one, which was not simply taken from a factory and installed, and thus the local population came up with new ways to try and safeguard this project that was giving them electricity.<sup>8</sup> With the help from the US military, they were able to keep control over the power plant and are still using it.<sup>9</sup>

Similar to the example of Toyota cars mentioned above, the Taliban also contracts out the making of the suicide bomber vests. It takes different cloth materials and the elements that are required to make the bombs from various different sources, many of which are rumoured to come from Saudi and from Russia (in exchange of drugs), given to particular groups of women to make and build. This is indoctrinated into them as their religious duty to help their brothers in arms against those who have been polluting Islam and as an added incentive, are also paid money for the same. This, in the case of the women in FATA and NWFP in Pakistan, is desperately sought out,

since the avenues for income generation are very low due to the lack of facilities and opportunities being provided to the people of the area by the government due to the Taliban control<sup>10</sup>. Thus, the Taliban is able to take the inputs of economic desperation and radicalisation of the people and turn it into a value-added product of the suicide bomber jackets for attacks in various parts of Afghanistan where they do not have full control and abroad, via a set of primary and secondary support activities of money laundering, extortion and threat of physical harm, for external audiences, thus placing it back within the GVC concept. This has affected their behaviour and strategy in the manner of where they attack and whom they maintain relations with locally and internationally, creating a broader structure of the value chain to extend to the people who may be creating value for them in the local environs. The value chains developed by the Taliban thus affect where they are, where they attack and how they attack.

### ***Lashkar-e-Taiba (LeT)***

LeT remains one of the wealthiest and the most financially secure terrorist organisation in the subcontinent and even 'survived the impact of the global meltdown without any trouble' (John 2011, 218), while continuing its operations on a budget of approximately \$5.25 million per year (Chadha 2015). One of the deadliest terrorist organisations in the Indian subcontinent, LeT operates primarily out of Pakistan, holds considerable sway in Kashmir and aims to 'set up mujahideen networks across India... (in preparation for) the start of the disintegration of India' (Lakhvi 2006).

Roul writes that,

'the JuD (Jamaat-ud-Dawa, formerly Markaz Dawat-ul-Irshad (MDI)), which is a social charity front for the deadly jihad group Lashkar-e-Taiba (LeT) has been operating with impunity inside Pakistan since its inception. The group was founded by Hafiz Muhammad Saeed, the present chief of JuD and all its franchises, and Zafar Iqbal in Afghanistan's Kunar province in 1987 under the active guidance of Abdullah Azzam, the Palestinian Islamic ideologue who mentored Osama bin Laden. LeT has its headquarters in Muridke (Moreedkey) town, located near Lahore, Pakistan and operates training camps in Pakistan [occupied] Kashmir and some parts of Punjab province

and presently expanded into Sind and Balochistan provinces of Pakistan and bordering areas of neighboring Afghanistan' (Roul 2014).

LeT has been able to continue its operations in the regions due to its financial backing by Saudi Arabia as well as protection by Pakistani intelligence services, while gaining moral support from the Muslim community in the region due to its charitable activities through its non-military wing, Markaz ud-Dawa-swal-Irshad (Centre to the Call to Righteousness) (Haqqani 2005). In fact, the LeT is believed to be the only jihadist organisation in Pakistan that has expanded since 9/11, despite the multiple sanctions imposed (Bajoria 2010).

Starting in the 1980's, LeT developed a small following in South Waziristan based on their close links to various other Afghan jihadi groups, and began training and sending its fighters to join the ranks of various other groups in the area (Tankel 2010). However, in the late 1980s and early 1990s, as it became visible that the Soviet forces would soon withdraw from Afghanistan, accompanied by a sudden spurt of violence in the Indian state of Jammu and Kashmir, the intelligence agencies in Pakistan decided to divert the jihadist group towards the east (Chandaran and Chakravarth 2012). Since then, while the financial flows from the other jihadist networks have decreased, LeT continues to get maximum support from the Pakistani government and its intelligence organisation, the Inter-Services Intelligence (ISI). They continue to shower the organisation with money (both genuine and counterfeit) and have even laundered money for it in support of LeT's anti-India activities in Kashmir (Counter Extremism Project 2016; Trehan 2002; Kambere, et al. 2012). In a similar vein, other countries wishing to further the cause of universal jihad such as Saudi Arabia and other Gulf countries continue to fund the terrorist organisation (Chandaran and Chakravarth 2012).

Despite the substantial financing from these states, LeT relies heavily on charity donations and remittances. It is important here to note that they have actively tried to conflate the two together, by using the concept of 'zakat', like a few other terrorist organisations. While recognising that 'the LeT also reportedly operates 16 Islamic institutions, 135 secondary schools, an ambulance service, mobile clinics, blood banks and several seminaries across Pakistan' (South Asia Terrorism Portal n.d.), it has continued to use this as a front for its terrorist

activities, leading to its designation as a terrorist organisation with multiple international entities, including by the US Treasury and the Department of State lists (Roul 2014). In the United Kingdom, for example, LeT operates through multiple mosques, which act as both, a centre for recruitment as well as to raise funds. Wilson John mentions that 'the LeT has established a good network of fundraisers and recruiters in Britain after Saeed had toured London, Birmingham, Rochdale and other cities in 1995, seeking moral and financial support for his 'Kashmir cause'. This lecture tour facilitated the group to establish an excellent support base among the Ahl-e-Hadith mosques and clerics in London and other cities,' and that they were able to raise a few million USD from the Pakistani diaspora alone (John 2011, 239–242).

LeT has often used religion and religious festivals to raise its funds, and would launch massive campaigns each year during Eid to extort money in the name of jihad in Kashmir and Afghanistan, using the religious bend to make this seem as a part of 'zakat'. As mentioned earlier, the LeT has developed a very extensive value chain, where it is able to use religion, frustrations, money and ideological extremism, with the intent of creating massive terrorist attacks in India, such as the 2008 Mumbai attacks, via a complex mechanism of extortions, indoctrination, running training camps and charity organisations, placing it within international/global value chains made towards the end of terrorism.

The recognition of these chains of interactions between the terrorist organisations and their affiliated fronts, as in the cases mentioned above, allows us to understand that terrorism finance is not solely through bank account transfers and that simply increasing the regulations of financial and banking procedures is not sufficient. What is needed is a more nuanced understanding of the interaction chains that are developed by these terrorist organisations towards making and developing the ingredients that would be used towards the making of the terrorist act, such as personnel, training, weapons, reconnaissance, and so forth. Using a value chain analysis, as has been used in this paper, is therefore the need of the hour to be able to counter terrorism financing.

## **Methodological Issues**

While using the conceptual framework of the GVC to understand the

workings and flows of terrorist finance certainly has its advantages, as have been mentioned above, it has some shortcomings too.

Firstly, terrorist finance remains a very difficult to research concept, especially given its political implications and underlining. While we need primary data to be able to draw conclusions on the type of value chain that a particular terrorist organisation enters into, the data can be inaccurate, and those who shall be aware of and a part of the same, may not always be open to discussing the concept, even if such interviews can be arranged.

While secondary sources are more readily available and often do link such groups to chains of transfer, there is always the danger that the full details are not being reported. Secondary sources, especially newspaper sources, have certain guidelines of what is publishable and what is not. Thus, while investigative journalists may be able to overcome the biases that might be present in face-to-face interviews conducted by scholars or any other primary data collection, there will always remain a huge gap between what is published and what is known, and all such data must be handled carefully in this regard.

Another limitation is that when looking at the value chains, we often come across charitable fronts. However, despite knowing that these are often used by the terrorist organisations for recruitment and/or as a financial source, it can be difficult to ascertain that, as these often do maintain some level of charity work.

## **Conclusions and Implications**

The field of terrorist finance is still an active site, where scholars, politicians, governmental and intergovernmental bodies and journalists continue to investigate, come up with new information, and new ways of looking at things.

This paper was a simple attempt to look at the socio-political financing of terrorism, that is, how do such terrorist enterprises pay for themselves to be able to continue operations in prolonged conflict, especially in the light of the various financial and banking regulations and sanctions, based on previous research?

It was found to be that the reason such methods have had little or no deterring effect on the terrorist organisations (defined as those groups that create terror amongst people for economic or political goal via a set of mechanisms which debase humanness) because they are looking at only one

channel of support that they are getting: financial. The aspect of logistical, emotional and even material support often happens through the exchange of value, rather than through exchange of money, such as extortions for safety.

It is this concept of the creation and exchange of 'value' that makes us look at the economic concept of value chains, till now used only to explain the dispersed production process of goods—to understand that 'terrorist' organisations are able to take these inputs of radicalisation, segregation, finances, lack of political power, and so forth, and turn it into a value-added product of terror, attacks, political power, social welfare, territorial governance, and so forth, through a range of intermediary mechanisms and processes, such as transfers, hawala and logistical support, for external customers than themselves.

To develop this framework, the paper defined three groups of actors involved in terrorism: the terrorists themselves, the supporters of terrorists, and those who financially support the terrorists. It was demonstrated that in order to develop a more holistic view of terrorism financing, we need to look at not only the actors who carry out the final act of violence or even those who supply them with the armaments and/or the money to buy the equipment, but also those who support the terrorists in an emotional, spiritual or economic way, such as feeding them and giving them the ground logistical support that they might need to carry out their actions. This then is fed into the definition of funding operations, arguing that the terrorist organisations look for reliable, stable and long-term support, which not only includes monetary funding, but also would include financing of operations, ranging from weapons and explosives to reconnaissance, for which they depend on local populations, and create value chains along the way for such operations.

This framework of value chain financing was then tested on two different terrorist organisations, the Taliban and the LeT in South Asia, to see if this analysis holds up, which it did. Through the use of available examples, we were able to see how such organisations enter into certain value chains, interact with other groups of people, which has an effect on the strategic behaviour of the group in respect to which groups it targets, when and how. Their funding mechanism and fronts for the same were detailed, demonstrating how this affected their modus operandi, including but not limited to, drug mulling, hawala, trafficking, zakat and state support.

Using such a conceptual framework does two additional things. One, it brings back the concept of terrorism financing, a concept that has been mostly dealt as an economic concept, back into the folds of political violence, placing it in the larger context of the society and the political structures that it is based in, thus reiterating that their actions are political, and therefore, strategic. Secondly, it has implications on the study and development of ways of countering terrorist finance, by looking not only at the money and focusing our gaze on those who do business with the terrorists, but also expands the concept to include all those actors who support these organisations and how to then systematically kill off the sources that they might have. For example, using the previous case of the cars being used by the Taliban, there could be stricter laws and monitoring mechanisms put in place to see how many cars are being ordered, where they are being transferred to and who does it. While democratic countries would have to tread the line of legislation in such matters with utmost care, it is now more important than ever to realise that financing terrorism is a more complex phenomenon, and that states have to come up with new and innovative ways to ensure that their population do not support these terrorist organisations.

Financing terrorism is not a game of limited actors. This is a multiplayer game and must be looked at as such. Only then can we develop mechanisms to deal with and counter such activities in a manner that is best suited to the needs of the national and international community and the changing times.

## References

- Allen, W. 2003. "The War Against Terrorism Financing." *Journal of Money Laundering Control* 306-310.
- American Foreign Policy Council. 2005. *Confronting Terrorism Financing*. University Press of America: Maryland.
- Anant, Arpita. 2012. *Non-State Armed Groups in South Asia: A Preliminary Structured Focus Comparison*. New Delhi: Institute for Defence Studies and Analyses/ Pentagon Press.
- Ansar, Massoud. 2018. "Interior Ministry Destroys Over 30 Drug Factories." *TOLO News*, February 21.
- Bajoria, Jayshree. 2010. "Lashkar-e-Taiba (Army of the Pure) (aka Lashkar e-Tayyiba, Lashkar e-Toiba; Lashkar-i-Taiba)." *Council on Foreign Relations*. January 14. Accessed February 26, 2018. <http://www.cfr.org/pakistan/lashkar-e-taiba-army-pure-aka-ashkar-e-tayyiba-lashkar-e-toiba-lashkar--taiba/p17882>.
- Baldwin, Richard. 2013. "Global supply chains: why they emerged, why they matter, and where they are going." In *Global value chains in a changing world*, by P. Low D. Elms, 13-59. Geneva: WTO Publications.

- Bapat, Navin. 2006. "State Bargaining with Transnational Terrorist Groups." *International Studies Quarterly* 213-229.
- Basumatary, Jaikhleng, interview by Nikita Kohli. 2017. (November).
- Bloom, Mia, and John Horgan. 2008. "Missing Their Mark: The IRAs Proxy Bomb Campaign." *Social Research* 579-614.
- Brian A. Jackson, John C. Baker, Kim Cragin, John Parachini, Horacio R. Trujillo, Peter Chalk. 2005. *Aptitude for Destruction: Organizational Learning in Terrorist Groups and Its Implications for Combating Terrorism*. Santa Monica: RAND.
- Chadha, Vivek. 2015. *Lifeblood of Terrorism: Countering Terrorism Financing*. New Delhi: Institute for Defence Studies and Analysis.
- Chalk, Peter. 2003. "The Liberation Tigers of Tamil Eelam Insurgency in Sri Lanka." In *Ethnic Conflict and Secessionism in South and Southeast Asia*, by Rajat Ganguly and Ian MacDuff. London: Sage.
- Chandaran, D. Suba, and Rekha Chakravarth. 2012. "Lashkar-e-Toiba." In *Non-State Armed Groups in South Asia: A Preliminary Structured Focused Comparison*, by Arpita Anant, 245-262. New Delhi: Pentagon Press/ Institute for Defence Studies and Analyses.
- Clarke, Colin P. 2015. *Terrorism, Inc.: the Financing of Terrorism, Insurgency and Irregular Warfare*. California: ABC-CLIO, LLC.
- Coll, Steve. 2018. *Directorate S*. New York : Penguin Press.
- Collins, Eamon. 1997. *Killing Rage*. London: Granta.
- Counter Extremism Project. 2016. *Lashkar-e-Taiba*. Terrorist Group Analysis, Counter Extremism Project.
- Crenshaw, Martha. 1985. "An Organizational Approach to the Analysis of Political Terrorism." *Orbis* 465-489.
- Duffield, Mark. 2001. *Global Governance and the New Wars: the Merging of Development and Security*. London: Zed Books.
- Duke University. n.d. *Global Value Chains*. Accessed April 20, 2016. <https://globalvaluechains.org/concept-tools>.
- Ehrenfeld, Rachel. 2007. "Funding Evil: How Terrorism is Financed and the Nexus of Terrorist and Criminal Organizations." In *Terroronomics*, by David Gold Sean S. Costigan, 27-48. Hampshire, England: Ashgate Publishing Limited.
- Felbab-Brown, Vanda. 2017. *Afghanistan's opium production is through the roof—why Washington shouldn't overreact*. Order from Chaos, Brookings Institute.
- Freeman, Michael. 2012. "Sources of Terrorist Financing: Theory and Typology." In *Financing Terrorism: Case Studies*, by Michael Freeman, 7-25. Surrey: Ashgate Publishing Limited.
- G. Gereffi, J. Humphrey, T. Sturgeon. 2005. "The governance of global value chains." *Review of International Political Economy* 78-104.
- Geddes, Barbara. 2003. *Paradigms and Sand Castles: Theory Building and Research Design in Comparative Politics*. Ann Arbor: University of Michigan Press.
- Geoffrey Kambere, Puay Hock Goh, Pranav Kumar, Fulgence Msafiri. 2012. "Lashkar-e-Taiba (LeT)." In *Financing Terrorism: Case Studies*, by Michael Freeman, 75-92. Ashgate Publishing Limited.
- Gereffi, Gary. 2014. "Global value chains in a post-Washington consensus world." *Review of International Political Economy* 9-37.
- Giraldo, Jeanne K., and Harold A. Trinkunas. 2007. "The Political Economy of Terrorism Financing." In *Terrorism Financing and State Responses*, by Jeanne K. Giraldo and Harold A. Trinkunas, 7-20. Stanford: Stanford University Press.
- Haer, Roos. 2015. *Armed Group Structures and Violence in Civil Wars: The organizational dynamic of civilian killing*. Oxon: Routledge.
- Haqqani, Husain. 2005. "Ideologies of South Asian Jihadist Groups." *Current Trends in Islamist Ideology* (Hudson Institute) Vol. 1.

- Herbst, Jeffery. 2000. "Economic Incentives, Natural Resources and Conflict in Africa." *Journal of African Economics* 270-294.
- John, Wilson. 2011. *The Caliphate's Soldiers: The Lashkar-e-Tayyeba's Long War*. New Delhi: Amaryllis / Observer Research Foundation.
- Kaldor, Mary. 1999. *New and Old Wars: Organised Violence in a Global Era*. Cambridge: Polity Press.
- Kambere, Geoffrey, Puay Hock Goh, Pranav Kumar, and Fulgence Msafiri. 2012. "Lashkar-e-Taiba." In *Financing Terrorism: Case Studies*, by Michael Freeman. Ashgate.
- Lakhvi, Zaikur Rehman, interview by Praveen Swami. 2006. In *the Shadows* (October 07-20).
- Levitt, Matthew, and Katherine Baurer. 2017. "Can Bankers Fight Terrorism?: What You Get When You Follow the Money." *Foreign Affairs* 144-146.
- Mahutga, Matthew C. 2014. "Global models of networked organization, the position power of nations and economic development." *Review of International Political Economy* 157-194.
- Mashal, Mujib. 2017. "Afghan Taliban Awash in Heroin Cash, a Troubling Turn for War." *The New York Times*, October 29.
- Michael Pugh, Neil Cooper. 2004. *War Economies in Regional Context: Challenges and Transformations*. Boulder: Lynne Rienner.
- Mohamedou, Mohammad-Mahmoud Ould, interview by Nikita Kohli. 2017. *Definition developed in a class 'Understanding Terrorism', conducted at the Graduate Institute, Geneva, Spring 2017* (March 3).
- Napoleoni, Loretta. 2005. *Terror Incorporated: Tracing the dollars behind the terror networks*. New York: Seven Stories Press.
- Norton, Michael I., Daniel Mochon, and Dan Ariely. 2011. "The IKEA effect: When labor leads to love." *Journal of Consumer Psychology* 453-460.
- Paul Collier, Anke Hoeffler, Dominic Rhoner. 2008. "Beyond Greed and Grievance: Feasibility and Civil War." *Oxford Economic Papers* 1-27.
- Peters, Gretchen. 2009. *How Opium Profits the Taliban*. Peaceworks no. 62, Washington, D.C.: United States Institute of Peace.
- Phillips, Brian J. 2015. "What Is a Terrorist Group? Conceptual Issues and Empirical Implications." *Terrorism and Political Violence* 225-242.
- Price, Eric. 2013. *Perspectives on Terrorism*. Accessed May 14, 2016. <http://www.terrorismanalysts.com/pt/index.php/pot/article/view/284/html>.
- Qadeem, Mossarat, interview by Nikita Kohli. 2014. *Work of the PAIMAN Trust, lectured delivered at the Aung San Suu Kyi Centre for Peace, Lady Shri Ram College* (October).
- Rashid, Ahmed. 2000. *Taliban*. New Haven: Yale University Press.
- Reese, Justin Y. 2012. "Financing the Taliban." In *Financing Terrorism: Case Studies*, by Michael Freeman, 93-110. Surrey, England: Ashgate Publishing Limited.
- Reno, William. 2009. "Illicit Markets, Violence, Warlords, and Governance: West African Cases." *Crime, Law, and Social Change* 313-322.
- . 1998. *Warlord Politics and African States*. Boulder: Lynne Rienner.
- Ridley, Nick. 2012. *Terrorist Financing: the Failure of Countermeasures*. Gloss, UK: Edward Elgar Publishing Limited.
- Roul, Animesh. 2014. "Clipping the wings of Lashkar-e-Taiba and its charity front Jamaat-ud-Dawa of Pakistan." *The Terror Finance Blog*. June 27. Accessed February 19, 2018. <http://www.terrorfinanceblog.com/2014/06/clipping-the-wings-of-lashkar-e-taiba-and-its-charity-front-jamaat-ud-dawa-of-pakistan.html>.
- Schlichte, Klaus. 2010. "With the State against the State? The Formation of Armed Groups." In *Armed Groups and Contemporary Conflicts*, by Keith Krause, 45-63. Routledge.
- Schmid, Alex. 1993. "The response problem as a definition problem." In *Western Responses to Terrorism*, by Alex P. Schmid Ronald D. Crelinsten, 7-14. Routledge.

- Sen, Amar, interview by Nikita Kohli. 2018. (January). South Asia Terrorism Portal. n.d. *Lashkar-e-Taiba 'Army of the Pure'*. Accessed February 26, 2018. <http://www.satp.org/terroristdetails.aspx?countryid=1&zoneid=16&terroristgroupid=32>.
- Sputnik News. 2018. "Hashish Becoming a Main Source of Income for the Taliban." *Sputnik International*, February 18.
- Tankel, Stephen. 2010. *Lashkar-e-Taiba in Perspective: An Evolving Threat*. Counterterrorism Strategy Initiative Policy Paper, New American Foundation.
- Thomas Biersteker, Sue Eckter. 2008. *Countering the Financing of Terrorism*. Routledge.
- Trehan, Jyoti. 2002. "Terrorism and Funding of Terrorism in Kashmir." *Journal of Financial Crime*.
- Trofimov, Yaroslav. 2010. "U.S. Rebuilds Power Plant, Taliban Reap a Windfall." *The Wall Street Journal*.
- US Treasury. 2016. "Specially Designated Nationals List (SDN)." *U. S. Department of Treasury*. 6 9. Accessed June 13, 2016. <https://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx>.
- Watson Institute, Brown University. 2008. "Security Research." *Watson Intitute, Brown University*. September 15. Accessed May 14, 2016. <http://watson.brown.edu/research/security>.
- Wennman, Achim. 2010. "Grasping the Financing and Mobilization Cost of Armed Groups: A New Perspective on Conflict Dynamics." In *Armed Groups and Contemporary Conflicts*, by Keith Krause, 64-79. Routledge.
- Wittig, Timothy Simon. 2009. "Power, Value, and the Individual Exchange: Towards an Improved Conceptualization of Terrorist Finance." University of St Andrews.
- Wittig, Timothy. 2011. *Understanding Terrorist Finance*. Palgrave Macmillan.
- Y. K. Heng, K. McDonagh. 2008. "The Other War on Terror Revealed: Global Governmentality and the Financial Action Task Force's Campaign Against Terrorist Financing." *Review of International Studies* 553-573.

## Notes

1. For the broadest range of writings, please refer to the Terrorist Finance Bibliography maintained by the Watson Institute at Brown University. In the last update found, of 2008, there was a list of various publications and references, going over 52 pages listing books, journal articles, government reports, media reports, various non-governmental organisation (NGO) reports and reports as well as speeches by international organisations, including the various resolutions and reports of the United Nations (UN). It is also interesting to note that there were very few articles and books that were related to the field of international relations, with most of them belonging to the field of economics.
2. The best example of this was the Liberation Tigers of Tamil Eelam (LTTE), which used these methods, along with diaspora remittances, to finance their operation in northern Sri Lanka, rather than major Internet or bank heists.
3. One of the very interesting ways such terrorist organisations are using banking methods for transferring funds from individuals and groups is through the new Islamic banking institutions that operate according to the Shari'a, which is a system that is unfamiliar to most western bank supervisors and can, thus, slip under the radar for transferring money for illegal purposes. Ehrenfeld gives the example of 'Osama bin Laden's financial officer in Sudan until 1996, Mustafa Ahmed al-Hisawi (aka Sheikh Saeed), held an account at the Dubai Islamic Bank. In the months prior to the 9/11 attacks, al-Hisawi deposited USD 148,895 into bank accounts in Dubai that were held by two of the 9/11 hijackers. These accounts were at the Dubai Islamic Bank, as well as in HSBC and Citibank. The money was then wire-transferred to the hijackers' accounts with the Sun Trust Bank in Florida. This transaction was executed in violation of the Bank Secrecy Act (BSA) and the Suspicious Activity Report (SAR) requirements which were designed to prevent money laundering. All

- this happened despite the US Government having had identified the Dubai Islamic Bank as having laundered money for bin Laden in 1999 (Ehrenfeld 2007, 41). As of the last update in the list on June 9, 2016, the Dubai Islamic Bank is still absent from the US Specially Designated Nationals and Blocked Persons List (US Treasury 2016).
4. While there are many papers and books that look into it, as described above in the literature review section, one of the best analysis was found to be that of Klaus Schlichte, who while giving an overview of the literature available in field, looks at the various geographical regions, instead of a focus on a particular region, which has resulted in a new way of calculating the costs of terrorist group formations. (Schlichte 2010)
  5. In a private interview, Sen, previously delegated with the Research and Analysis Wing of India, noted that the Taliban was a project started by Major General (Retired) Naseerullah Khan Babar, then the Minister of Interior Affairs in Pakistan (Sen 2018). While Pakistan's sponsorship of the organisation is well known, the fact that it is entirely a project of the government would explain their reluctance to declare it a terrorist organization, and their strong insistence that the Taliban must be spared in the War on Terror campaign led by the United States of America in Afghanistan (Coll 2018).
  6. More details on the issue can be found at: <http://www.dailymail.co.uk/news/article-3384027/Women-children-boys-pleasure-secret-shame-Afghanistan-s-bacha-bazi-dancing-boys-dress-like-little-girls-make-skirts-abused-paedophiles.html>.
  7. Donation to charity, or *zakat*, is considered to be a religious duty of Muslims and they are expected to donate to various charities. However, the funds can often be diverted, but have also sometimes been used for actual charitable cases, and are often seen by organisations like the Taliban, LeT and their associates as a means to get broader support from the local population that they need to be able to continue their operations.
  8. This is often referred to as the 'IKEA Effect', in which the people feel a certain sense of pride and ownership over the products due to their involvement in the assembly process, that is, their labour increases the valuation of the project and value it similar to that of the experts. Refer to Norton et al's paper on the same (Norton et al. 2011).
  9. The final result and the mechanism developed by the US military for a partnership was found out via a long interview with two officials of the US military, both of whom had served in Afghanistan at the time. Names withheld.
  10. This is based on Qadeem's personal interactions with the people who were involved in the process. Her organisation, the PAIMAN Trust, operates out of FATA and Khyber Pakhtunkhwa province in Pakistan, traditionally the stronghold of the Taliban. Here, they work on deradicalisation of the youth that have joined the Taliban. Interestingly, she had found that it was the women who were often more radicalised and believed that they were doing their religious duty by making these vests. With more economic avenues being opened up via her organisation, things seem to have turned round and active efforts are underway for further deradicalization of the population (Qadeem 2014).