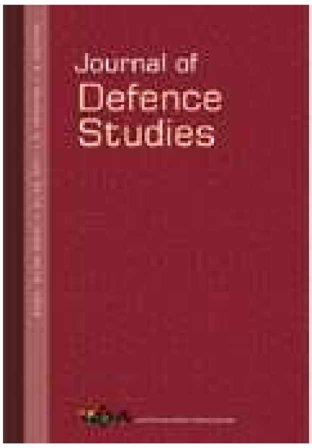

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Terrorism Finance: Sources and Trends in India

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Terrorism Finance
Sources and Trends in India

*Vivek Chadha**

Terrorism finance (TF) has been termed as the life blood of terrorism, one of the most important factors sustaining its continuing threat, both from within and without. In the West, a large body of work on the subject appeared after 9/11; in the Indian context, however, there is little contribution towards existing literature. This article contextualizes the reality of terrorism finance in India and provides an alternative framework for a better understanding of this threat. It analyses both the external and internal sources of terror finance and emerging trends in the country in order to provide a better understanding of the nature of threat, as a prelude to countering it at the policy formulation level. It also reinforces the findings through a case study of the United National Liberation Front, a terrorist group in North-East India.

Introduction

The financing of terrorism and its related activities may be ages old; however, formal direction to counter this threat is a relatively new phenomenon. While initiatives commenced internationally in 1963, it was only in 1999 that, with the adoption of 14 universal legal instruments and four amendments, Countering the Financing of Terrorism (CFT) came into focus. This was formalized with the adoption of the International Convention for the Suppression of the Financing of Terrorism.[1]

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In India, the strengthening of domestic legislations and regulations followed in the wake of initiatives taken by the United Nations (UN) and the United States (US), after 9/11; and these efforts received an impetus after 26/11, as also pursuant to the decision to take membership of the Financial Action Task Force (FATF).

Understanding the sources of TF facilitates the overall ability to understand terrorists and their methods. This, in turn, helps in the overall goal of defeating terrorism. However, first, this remains a challenge since money employed for the purpose, unlike money laundering (ML), can come from legal sources. It remains a contradiction, wherein terrorism is inherently illegal while TF, unless proved and linked with terrorism, could continue to remain a completely legal process. Second, TF rides over a financial network that is seamless and transcends geographical boundaries. This implies the application of multiple laws in different countries, which often makes prosecution complicated and creates lacunae in interpretation. Third, collection of funds for charitable purposes is often a sensitive issue in most countries. This can also have religious overtones, which makes its regulation challenging. Fourth, TF has evolved faster than most monetary systems and regulatory mechanisms. From the use of age old systems like hawala for transferring value to e-commerce in the cyber world have led, more often than not, to enforcement agencies playing catch-up. A recent report indicated the increasing possibility of 'digital laundering' as a result of increasing use of digital currency. Indiaforensic, in its report, Laundering in Cyber World—The Digital Currency War, quoting the example of 'Liberty Reserve', a US-based digital currency website, suggested that the site was used to launder $6 billion by thieves, drug dealers and criminals.[2] This highlights the possibility of ML in cyberspace and, at the same time, raises the possibility of its exploitation for TF.[3] Fifth, most acts of terrorism require very little funding to execute. Therefore, the pursuit of large and abnormal fund transfers with an aim of stalling such attacks is likely to result in failure.

Some of the challenges listed may give an impression that the effort and money required to trail and track finances employed for terrorism do not fit into a logical cost benefit analysis. Nothing could be further from the reality. CFT remains a critical component of any CT approach based on the specific areas that it can potentially contribute towards.

While highlighting the objective of CFT, Sue E. Eckert writes, 'Thus, the objective of efforts to counter terrorist financing is often to better understand terrorists, terrorist organizations, and their support structures in order to disrupt and prevent operations.'[4] CFT investigations can become a critical facilitating agent to help join the dots and bring investigations to their logical conclusion. Once the challenge of linking financial transactions with terrorism is overcome, these very linkages provide irrefutable evidence for building watertight cases against the accused. The seemingly invisible strands that connect various terrorist subsets, provides intelligence on a number of aspects. These include the hierarchy of the organization and its functioning. It also includes sources sustaining its operations and the administrative machinery. Additional important factors include the domestic and foreign support base, level of support from states sympathetic to its cause, limitations and loopholes in the fund transfer channels, destinations for stashing money, and the impact of policy initiatives to curb funding.

Contextualising the Argument

Literature related to international trends provides a detailed assessment of TF and ML. Writing on sources and trends of TF, Loretta Napoleoni has described the progression through three distinct stages.[5] The first stage is identified as state-sponsored; the second is privatization; and the third is globalization of TF. She argues that state-sponsored terrorism and its finance was witnessed through most of the Cold War, with both the US and USSR employing their proxies to fight each other for influence and control. Napoleoni describes the US efforts cloaked in the doctrine of counterinsurgency and those of the Soviet Union in the concept of 'international solidarity'.[6] She goes on to give examples of the Irish Republican Army (IRA) and Palestinian Liberation Organization (PLO), amongst others, as groups which pioneered privatised funding of terror to illustrate the second stage in the evolution of TF.[7] Finally, Napoleoni describes the globalization of the economy of terror, through the use of transnational instruments of the modern economic system.[8] Given the three stage evolution, state sponsorship of terrorism finance no longer remains relevant in view of this argument. Arabinda Acharya, in *Targeting Terrorism Finance*,[9] and Harold Trinkunas and Jeanne Giraldo, in *Terrorism Financing and State Responses*,[10] also argue that state funding of terrorism reduced substantially after the end of the Cold War.

In the context of the three stage progression of TF, while there is substantial evidence indicating the presence of state sponsored, privatized and globalized TF in India, its progression has not been sequential and co-exists, though with varying degrees of influence and impact. This is especially relevant in terms of state sponsorship of TF. As an example, Naga insurgency was given perceptible support by China and Pakistan. Naga groups received training, weapons and financial support from China, in the 1960s and 1970s, with escalation taking place after the 1962 India-China War.[11] The insurgency in Mizoram also received support from both China and Pakistan during the same period.[12] The impact of the same was clearly illustrated, as receding Chinese support and creation of Bangladesh became critical factors responsible for neutralization of the Mizo insurgency in 1986. Pakistan also supported terrorism in Punjab[13] right through the 1980s and into the 1990s. The late 1980s and the period thereafter witnessed support for the insurgency and subsequent proxy war in J&K from Pakistan.[14] This further morphed into support for terror groups in the Indian hinterland through employment of Inter Services Intelligence (ISI) sponsored, trained and financed *tanzeems* like the Lashkar-e-Taiba (LeT) to strike across the length and breadth of the country. Not only has state sponsorship of terrorism and TF in the Indian context been a consistent reality for the last five decades, it also had no linkages with the Cold War. This is contrary to some of the international trends in evidence.

During the period of China's support for uprisings in India, insurgencies in the North-East, simultaneously, continued to raise a very large percentage of funds locally. The National Socialist Council of Nagaland (NSCN) and the Mizo National Front (MNF), amongst other insurgency groups, relied on taxation and extortion, a pattern the NSCN and even the Maoist groups continue to employ effectively in the present context. In Punjab, in addition to support from Pakistan, criminal activities and financial support from the diaspora contributed to the funding activity.[15] Therefore, even as state sponsorship was prevalent, though in varying degrees, privatization of finance was very much the norm and continues to remain so.

This dual support mechanism has further been augmented by the tools and facilitating mechanisms of globalization, as evident from international linkages for raising, transfer and laundering of funds by terrorists in J&K, and in the hinterland by groups like the IM and their benefactors in Pakistan.

This article analyses the evidence of TF from all the four major regions impacted: J&K, the North-East, the Maoist-affected areas, and the hinterland. In doing so, it will elaborate upon the sources of TF in India and the existing trends, specific to each. This includes both external and internal sources. Finally, a case study based on primary evidence will illustrate one of the sources, to reinforce the findings of the article.

External Sources of Terror Finance

A major part of funding for terrorism from external sources comes through counterfeit currency, drug trafficking, charities, NGOs, and, finally, as a result of state sponsorship by Pakistan. In the case of counterfeit currency and drugs, the funding process starts with production. The initialization is different for NGOs and charities, where it begins with collection of funds. This can be open and legal as done through *zakat*, or clandestine and illegal. The next stage witnesses the transfer of funds into India. Finally, once the transfer has been completed, money is received by terrorist groups and their front organizations.

NGOs, Charities and Donations

The sourcing of funds for terrorism has also been accompanied by the emergence of religious appeals, coercion, and fears of victimization of Islam. These trends have been witnessed both at the global and regional level. Traditional societies in countries like Saudi Arabia have been supporting traditions and customs which encourage donations. These have existed well before the US exploitation of Taliban against Soviet Union commencing in 1979 in Afghanistan, the Pakistan-based proxy war in J&K since 1989, and the 9/11 attack against the US.

NGOs or non-profit organizations (NPOs) form a large economic entity across the world. While there are a few estimates of the number of NGOs in the world, the Johns Hopkins Comparative Nonprofit Sector Project, raised some interesting insights into this segment.[16] The study done in 2003, used data from 1995–98. Despite the dated information of the project, it is the scale in percentage terms which needs emphasis. The project employed data from 35 countries, including 16 advanced industrial economies, 14 developing and five transitional economies. The study revealed that the sector had an aggregate expenditure of $1.3 trillion in the late 1990s. This represented 5.1 per cent of the gross domestic product (GDP) of these economies and it employed approximately 39.5 million full time workers. While a large percentage of these funds is used for justifiable purposes, the inadequate regulation of the sector raises cause for concern.[17]

In Pakistan, the government has limited control over charities and NGOs.[18] A similar challenge is faced in countries like Saudi Arabia, though recent regulations by the government has attempted to place more stringent controls.[19] TF is generated from NGOs and charities within Pakistan[20] and through its coordinating role in West Asia. Workers from India are also radicalized and encouraged to fund terrorist groups.[21]

NPOs can be divided into 'complicit' and 'exploited'.[22] While the former willingly function as a front for terrorist organizations, the latter is abused. Charities, through acts of omission or commission, become a part of this funding effort and money is transferred through international channels to terrorist groups. The funding of charities like Jamaat-ud-Dawa (JuD) in Pakistan continues unabated.[23] Despite the ban on JuD, an affiliate organization—Falah-e-Insaniyat (FeF) Foundation—was established to continue TF. This has since been banned by the US Government.[24] Even as the organization is banned, it raises questions regarding the ability of terrorist groups to create fronts for financing terrorism. According to a leaked report in *The Guardian*, Saudi Arabia has also emerged as a large source for funds for terrorist groups like the LeT, which functions on a budget of approximately $5.25 million per year.[25] Given the scale of money collected in the country, even a small percentage of the same is adequate to support terrorism.

Funds from NGOs and charities can potentially flow into India in a similar way as any other source of funding. This includes *hawala*, cash, legal financial routes and trade. Once received in India, its distribution is carried out based on the nature of transfer, which could be legal through financial channels or illegal in case of hawala.[26] While legal funding can be funneled through Indian NGOs, illegal funds are handed over to terrorist supporters and groups in cash.

Some of the specific sources of TF are discussed below to further elaborate the nature of funding.

Zakat

The primary source of traditional funding in Islam is based on zakat. This is an accepted and legal system of almsgiving. Considered as one of the five pillars of Islam, zakat is compulsory and has sanction in the holy Koran.[27] The obligatory system of donation is described in the Koran:

> Koran, Surah Taubah (9), verse (60)
>
> 'Zakat is only for the poor, and the needy who collect them, and for to attract the hearts of those who have been inclined (towards Islam); and to free the captives and those in debt, and for the cause

of Allah, and for the wayfarers; a duty imposed by Allah. And Allah is Knower, Wise.'[28]

The scale of collection of zakat funds only in Saudi Arabia was $10 billion in the early years of 2000-2010.[29] When this figure is extrapolated for the entire Gulf region and countries like Pakistan, it is likely to multiply substantially. It does not imply that this entire amount is siphoned for TF. However, of the three uses that zakat can be put to, '*Feesabeelillah* (in the way of Allah), *Lil-Fuqara* (for the poor), and *Lil-Masakeen* (for the needy)'[30], it is the first which has often been misinterpreted by radical elements to channel funding for spreading terror in the name of Jihad. A percentage of this element of zakat, finds its way into TF in countries like India.[31]

Charities and Diaspora

Besides zakat, which is state regulated in Saudi Arabia and Pakistan, charities have mushroomed in a number of countries which have a very strong radical component. One of the assessments in case of Pakistan indicates:

> ...some officials from the Pakistan's Inter-Services Intelligence Directorate continue to maintain ties with a wide array of extremist organizations, in particular the Taliban, LeT and other extremist organizations. These extremist organizations continue to find refuge in Pakistan and exploit Pakistan's extensive network of charities, NGOs, and madrassas. This network of social service institutions readily provides extremist organizations with recruits, funding and infrastructure for planning new attacks.[32]

Daniel Glaser, the current US Assistant Secretary of State (terrorist financing) echoed these sentiments, indicating the use of charities, which are openly advertized in Pakistan and become the source for terrorists to raise, move, and utilize funds.[33] The charities, become a cover for radicalization, indoctrination, and are better placed to provide logistical cover for the move of funds. These, he indicated were funneled through the hawala network across borders.

Some of the charities, despite being banned internationally, continued with their campaign after the 2005 earthquake in Pakistan Occupied Kashmir (POK). These include the Jamaat ul-Dawa (JuD), LeT and Hizbul Mujahideen (HM) in Pakistan[34] and this trend is also widespread in West Asia.[35] On 18 January 2010, the JuD organised a public meeting at Gulshan-e-Iqbal, Karachi, with Abdul Rehman Makki, chairman of the Jamia Al-Dirasat Al-Islamic Trust, which was ostensibly in the process of being registered as a co-educational institution. However, Makki, also the Deputy Amir of JuD, called for 'jihad against India and the US for the welfare of Muslims' with an ultimate aim of collecting funds in the process.[36] The HM chief, Syed Salahuddin, has been involved in exploiting a charity called Jammu and Kashmir Affectees Relief Trust (JAKART) for funneling more than Rs 100 crore in J&K.[37] While the funds were meant for relief, they were used for financing terrorism in the state.

The funding received through charity and NGOs also interlinks with the support for some of the movements amongst the diaspora. The outbreak of the insurgency in J&K, especially during the early 1990s, saw the Jammu and Kashmir Liberation Front (JKLF) receive substantial support from this community.[38] The Kashmiri diaspora, from both sides of the LoC, supportive of the clarion call for independence, contributed generously. One of the prominent areas of support was the United Kingdom (UK). There is a large segment of Mirpuri population from PoK, which has settled there. This group constituted almost half of the Pakistani migrants and became a strong support base for the movement.

Terrorist groups in the Indian hinterland have also been supported by a large diaspora in West Asian countries, Europe and the US. The arrest of Sarfaraz Nawaz, a computer engineer confirmed the involvement of large sections of diaspora in West Asia[39] Ghulam Nabi Fai, since convicted in the US, had also been involved in funding terrorism in India since the early 1990s. Shahabuddin Gouri, associated with Fai was arrested in 1991 after receiving Rs 16 lakh from Shambhu Dayal Sharma, a hawala dealer. The money had been contributed by foreign donors for the 'Kashmiri cause'.[40]

The funding for terrorist groups supporting terrorism in Punjab does not fall into the four categories mentioned. However, given the continuing trend of fund collection, it is important to highlight the same. Funding and support for terrorism in the state emanates from Pakistan and diaspora in Canada, USA and Europe. On 3 April 2012, a New York court sentenced Khalid Awan to 14 years imprisonment for providing material support and resources to the Khalistan Commando Force (KCF), including funding.[41] The National Investigation Agency (NIA) has also indicated the involvement of NGOs in countries like Germany, UK and Canada in raising funds for terrorist groups like the Babbar Khalsa

International (BKI). Money raised by them has been sent by hawala, bank transfers and human couriers.[42]

Remittances

Links of former Students Islamic Movement of India (SIMI) and Indian Mujahideen (IM) cadres in India have also been established with financiers in the Gulf. Sarfaraz Nawaz, a former SIMI operative who subsequently joined the LeT, revealed his links with Ummar Haji, a key IM cadre who was planning strikes in Chennai and Bangalore, as well as training of radicalized youth from Kerala in Pakistan Occupied Kashmir (POK).[43] The large flow of foreign remittances into Kerala has also become a source of concern for agencies. This legitimate inflow from West Asia provides a suitable cover for funds meant for groups like IM. Amongst groups assisting with this funding is the Jamayyat ul Ansar, the new avatar of Harkat-ul-Ansar, in Saudi Arabia.[44]

Counterfeiting of Currency

Counterfeiting of Indian currency not only funds terrorism, but, more importantly, it is used as a tool by Pakistan to destabilize the Indian economy.[45] The existing threat from counterfeit currency emanates at three levels. First, the relative ease with which Indian currency is counterfeited. This has been aided by improving technologies that are already available with counterfeiting agencies, and is partly a result of state sponsorship by Pakistan.[46] Fake Indian Currency Notes (FICN) are produced in Pakistan and to a much smaller extent locally in India. While the Pakistani counterfeits are of very high quality, making them difficult to distinguish from the real, Indian notes are scanned copies, making them easier to detect. FICN is used to fund groups like LeT, Al-Badr, Harkat-ul-Jihad al-Islami (HuJI), Khalistan Commando Force (KCF), and Dawood Ibrahim-run operations.

Second, terrorist and criminal groups have developed the ability to introduce counterfeit currency into the Indian and world markets with relative ease. It is difficult to estimate its scale in the Indian market, though one estimate suggests that approximately Rs 300 crore of counterfeit currency is introduced into India every year.[47] The Financial Intelligence Unit (FIU) received 3,27,382 counterfeit currency reports in 2011–12 alone. The total amount reported until March 2012 amounted to Rs 60 crore.[48] Dubai, which is the melting pot of international financial business, found the Indian rupee to be the most counterfeited currency of

Table 1 Counterfeit Currency Reports

Reporting Entity	*2008-09*	*2009-10*	*2010-11*	*2011-12*	*Total*
Public Sector Banks	396	1,391	1,896	2,649	6,413
Indian Private Banks	29,846	1,15,7202	2,34,400	3,10,714	6,98,068
Foreign Banks	5,422	7,099	7,936	9,273	30,841
Others	66	3,571	7,216	4,746	15,599
Total	35,730	1,27,781	2,51,448	3,27,382	7,50,921

Source: FIU, Annual Report 2011-12.[49]

2011, overtaking the US dollar. During the year, 10,700 Indian currency notes were seized by Dubai police as compared to 9,000 US dollar notes.[50]

Third, the limited ability to detect circulation and bring down the growing trend of counterfeit currency in the country has remained a challenge. The percentage of detection of counterfeit currency is lower than the actual inflow, with Central Bureau of Investigation (CBI), FIU and the NIA estimating it as around 28–30 per cent of the total amount.[51] According to FIU figures, there has been a growing trend in circulation of counterfeit in the country (see Table 1). The figures, surprisingly, indicate a larger percentage of reports emanating from private banks, despite the predominant share of business remaining with public sector banks. This raises questions regarding the ability and technical facilities available with public sector banks to conduct the requisite checks.

A comparative assessment of cases by intelligence and enforcement agencies indicates that there have been 67 overseas FICN seizures from January 2011 to June 2013, as compared to 29 from 2006–10. Of these, Pakistani nationals have been involved in 48 per cent of the cases. This also includes 26 cases of seizures on foreign international airports, of which 10 flights originated from Pakistan, even as the others were connecting flights. In comparison, Pakistani involvement was found in 45 per cent cases during the period 2006–10.[52]

The process has increasingly become difficult to monitor, given the diverse routes being employed for the induction of counterfeit currency. FICN is smuggled though a 'hub and spoke' business model. While Pakistan is the hub of the operation, the spokes are both direct and indirect. The direct routes include the Munnabao–Khokrapar and Attari border routes, as also across the fence. The indirect routes emanate from the United Arab Emirates (UAE), Nepal and Bangladesh. However, Thailand, Malaysia, Myanmar and Sri Lanka have also been used as transit points. The landing points are also equally varied: Bangalore, Chennai, Calicut, Cochin, Hyderabad, Mangalore, Mumbai and New Delhi.[53] Lately, China has also emerged as a transit point. In 2012, the NIA, in a major interstate operation, seized counterfeit currency worth Rs 9.85 lakh during raids conducted in Delhi, Uttar Pradesh and Bangalore.[54] The currency was smuggled into India by Iqbal Kana of Kairana Tehsil in Muzaffarabad, Pakistan. Iqbal is considered as being the mastermind for inducting counterfeit currency into India. The route used for inducting the currency was Pakistan–Dubai–Bangalore. After landing in Bangalore, further distribution was done for circulation. As a follow up of the case, raids were conducted in the Malda district of West Bengal, leading to the arrest of Morgen Hussain and Rakib Sheikh, responsible for coordinating smuggling and circulation of fake currency across the country.[55] The raids revealed the modus operandi of criminal elements involved in the country-wide activity. High-quality FICN were printed in Pakistan and brought to Bangladesh by air. Thereafter, these were smuggled into India, with bundles of notes being thrown into villages across the border. The same were collected and distributed across the country, with local agents receiving 60 per cent of the value of FICN circulated. Completing the cycle, a number of 49,000 rupee tranches are deposited into accounts of suppliers. This avoided raising of suspicious transaction reports, thereby circumventing law enforcement requirements.

Besides the traditional porous routes, traffickers have also blatantly used high visibility means like air travel. In one such case, Tahir Merchant has been implicated by the NIA in a case of counterfeit currency. On 16 August 2008, counterfeit currency worth Rs 72.5 lakh was seized from the Ras-al-Khaima flight landing at the Karipur (Calicut) airport.[56] Tahir was accused of being the main conspirator in the case. He has not only been charged with handling of fake currency, but also with laundering it in the real estate market, reinforcing fears that the sector is inadequately regulated and controlled. The money was also used for funding terror in the country.

The complete process of counterfeiting not only has an adverse impact on the Indian economy, it also gives an impetus to criminalization of society. On the other hand, the ISI makes an annual profit of Rs 500 crore given an average of 30–40 per cent profit on the face value of notes.[57] The economics of this process are based on a well-conceived operation in Pakistan. Forensic experts indicate the cost of production of a Rs 1000 or Rs 500 currency note in India as Rs 29, and that of a FICN of the same denomination as Rs 39. The notes are sold at different stages. The first stage witnesses the sale of a Rs 1000 FICN at Rs 350–450, giving a profit of at least Rs 300. The consignee adds his cost of transportation, logistics, and the estimation of risks involved and sells it with a 12 per cent markup. The wholesaler receives it at Rs 470–570 and retailer at Rs 590–690. While this had been the practice in the past, evidence of Pakistan bringing their profit to zero per cent, in order to enhance the incentive, has also come to light.[58]

In addition to the more traditional methods used for inducting FICN in the country, there have been cases wherein courier services have also been used. China figures prominently amongst the countries of origin in this regard.[59]

The large-scale counterfeit of Indian currency and the relative ease with which it is introduced in both international and Indian market, indicates weaknesses related to security parametres. On the physical security front, it also displays the inability to block trans-border movement of counterfeit currency into India. While this relates to a larger border management issue, deficiency in personnel and electronic scanners contributes to this limitation.

Some specific cases that have come to light with reference to different areas affected by terrorism in the country have been highlighted below in order to illustrate the nature of involvement in different areas of the country.

J&K

Cases of counterfeit came to light with the arrest of Shahid Sheikh, Zakir Hussain, Mubarak Ahmad Bhatt and Shoukat Mohi-uddin Kuchay.[60] The case witnessed the circulation of counterfeit currency by HM cadres in J&K on receipt of the same from Malda in West Bengal. FICN worth Rs 1.5 lakh was also seized in the process.

IM

The Maharashtra Anti-Terrorism Squad (ATS) arrested former members of the SIMI and IM involved in a counterfeit currency racket on 12 September 2011.[61] The main accused—Asrar Ahmed Abdul Hamid Tailor—a computer trainer was caught from the Borivili railway station in Mumbai. He had received training in Pakistan in 2000 and was involved in the distribution of fake currency.

North-East

Bangladesh and Nepal have proved to be amongst the most viable routes for inducting counterfeit currency. This has given an opportunity to insurgent groups in the North-East to profit from its trafficking into India.[62] Even couriers and criminals not necessarily involved in terrorist activities get engaged for their percentage of cut, with an exchange rate for counterfeit to original in the range of approximately 2:1 (60 per cent, as indicated in a particular case earlier), thereby incentivizing the induction of fake currency.[63]

Narco Finance

Drugs are a major source for TF. Similar to counterfeit currency, the threat can be evaluated in three stages: production, transfer of drugs or its financial proceeds into the country, and its circulation to terrorist groups. Afghanistan has emerged as the hub for the global production of opiates. In 2009, the Afghan Taliban was estimated to have earned around $150 million from the opiate trade, Afghan drug traffickers $2.2 billion, and Afghan farmers $440 million.[64] There is evidence of terrorist groups in Pakistan gaining access to the proceeds of drug trafficking.[65] This has been used by the ISI to spread terrorism[66] and fight Pakistan's proxy war against India.[67] The ISI is also using the network of terrorist groups in India for drug trafficking, thereby creating a link between external sourcing and internal trafficking.[68]

This threat has been exploited in the Indian context as a result of porous borders with states like Nepal.[69] It is further aggravated since many bordering countries, for example, Myanmar, have limited writ on their border areas. Criminal and terrorist groups from Bangladesh have also exploited drug trade to fund terrorism.[70] In the case of Pakistan, besides criminals, state sponsorship of terrorism leads to exploitation of the lucrative drug trafficking business.[71] This has led criminal gangs, terrorist groups and state intelligence agencies to exploit vulnerabilities on the borders for drug trafficking.[72]

The porous and disputed borders as well as extensive coastline needs considerable force levels to guard the areas effectively. Further, shortages have proved to be a severe limitation for border guarding forces.

The impact of drug trafficking varies in different regions affected by terrorism.

J&K

The Pakistan sponsored proxy war witnessed the employment of this source from its inception and its use for funding terrorism.[73] Smuggling of drugs from Pakistan for sale in India is yet another source that has repeatedly been seen as means to support the proxy war. There is an indication of increase in both smuggling and cultivation of drug yielding crops, with Scott Baldauf assessing that 'the areas where narcotics are most often found are the same areas where militants are most active.'[74] Terrorist groups have not only been funded by drug generated money by the ISI, they have also been directly involved in raising funds based on drug proceeds.[75] Members of the HM and Al Jehad have in the past been involved in the sale of drugs.[76]

Pakistan sponsored activities have also witnessed a trend of composite smuggling. This includes drugs like heroin, explosives, weapons, detonators, timers and ammunition. Details available from three border states of J&K, Punjab and Rajasthan reinforce this trend (see Table 2).

Table 2 Composite Seizures of Explosives, Arms, Ammunition and Narcotic Drugs 2000–2012

S. No.	*State*	*Number of Seizures*	*Drugs*	*Weapons*	*Explosives*	*Arrested*	*Currency*
1	J&K	5	Heroin: 35 kg, Poppy Straw: 542 kg, Charas: 12 kg	AK-47: 4 Pistols: 4 Other Rifles: 4	RDX: 38 kg	23	
2	Punjab	28	Heroin: 429.5 kg, Brown Sugar: .7 kg	AK-47: 7, Pistol: 104 pistols	RDX: 23 kg	34 arrested, 4 killed	FICN: 109.595 lacs
3	Rajasthan	5	Heroin: 80 kg, Hashish: 10 kg	Pistols: 20	RDX: 14.5 kg	4 arrested	FICN: 2.73 lacs

Source: Narcotics Control Bureau (NCB).[77]

North-East

The impact and influence of narco finance has become evident amongst the North-Eastern insurgents as well. Groups like the NSCN, which relied essentially on collection of taxes in their area of influence to run their organization[78] have also incorporated the benefits of raising easy money through trade in drugs and gun-running. The NSCN has become one of the major suppliers of weapons, easily available from the Cambodian market and subsequently traded at Cox Bazaar. Given the control of some transit points, these are smuggled through the border states.[79] The group is also known to take a 20 per cent cut from the inflow of drugs through areas under its control, which are either being consumed in the North-East or smuggled to the more lucrative markets of Europe and the US via Nepal.[80] The NSCN is not the only group involved in these activities, with some groups in Manipur also taking a similar route to raise funds for clandestine activities.

Maoists

The easy revenue available from narco finance has also lured the Maoists to exploit its revenue generation model for procuring weapons. A raid by the Central Reserve Police Force (CRPF) led to the discovery of a standing poppy crop in 12 acres of land in the Chaibasa Saranda forests in Jharkhand, which could have given an income of Rs 60–65 crore.[81] Earlier, the Justice P.K. Mohanty Commission had found extensive cultivation of cannabis (*ganja*) in Orissa supported by the Chasi Mulia Samiti, a front organization of the Maoists, which has since been banned.[82] The former Minister of State for Home Affairs, Jitendra Singh confirmed the strategy of CPI (Maoist) to allow 'poppy/ganja cultivation in order to collect money from such illegal activity.'[83]

Much like the North-Eastern insurgent groups, the Maoists had relied essentially on extortion and tax collection to raise funds in the past. However, an increase in security force presence has forced the group to look at drug trafficking as an option, with certain estimates indicating as high as a third of their annual budget for 2011–12 of Rs 1,500–2,000 crore being raised from poppy cultivation.[84]

IM

There is no evidence of narco taxation or direct involvement in cultivation of drugs bearing crops by IM cadres. However, given Pakistan's means of generation of TF through the drug trade, indirect narco-funding becomes applicable to terrorism in the hinterland.

State Sponsorship

Besides the use of charities and NGOs, Pakistan has employed its intelligence agency, the ISI to directly fund terrorist activities in India. This is not only employed as part of the proxy war in J&K, as is widely known, but also in the North-East.[85]

The NIA's interrogation report of David Coleman Headley provides detailed account of state funding by the ISI for the 26/11 terrorist attacks. The report says:

> The 26/11 Mumbai attacks were possible only due to the complete support of ISI. According to Headley every big action of L-e-T is done in close coordination with ISI. The money which was used by Headley for his surveillance activities in Mumbai was provided by Major Iqbal of ISI. Headley believes that the money with which the first boat costing Rs 25 lakhs was purchased, was also provided by ISI.[86]

The ISI uses various sources for funding terrorism to include charities, NGOs, drug trafficking, zakat donations, counterfeit and trading amongst others.[87] It has also used its links with terrorists turned businessmen like Dawood Ibrahim to provide a front for funding activities.

Maloy Krishna Dhar highlights the links between Pakistan, Bangladesh and Indian terror organizations. 'Pakistan had exported jihad to the mainland India from Kashmir and it was ably assisted by the Directorate General of Forces Intelligence (DGFI) from Bangladesh... SIMI's umbilical growth, the Indian Mujahideen and other tanzeems in different parts of India have emerged as the open faces of hidden International Islamic Jihad. They may change names but the kernel of SIMI–Lashkar–ISI–DGFI linkages would remain intact.'[88] Dhar further gives details of a number of institutions in India, which are being used as front organizations, involved in recruiting and fund raising.[89]

State sponsorship of TF is also evident in the case of terrorist groups demanding Khalistan and their close association with the ISI and ISI-backed groups like LeT. Intelligence agencies suggest that, 'Following the diktat from the ISI, most of the Pak based Sikh militant leaders are in a fix. Well-aware [*sic*] that Sikh militancy in India was a thing of the past and no longer a viable entity, these Sikh fugitive militant leaders had slowly graduated to crime and involved in narco trafficking and FICN smuggling.'[90]

INTERNAL SOURCES OF TERRORISM FINANCE

The internal sources of TF have a history of illegal finance that is older than external funding. Internal sources have funded the earliest militant uprisings in the country commencing with Nagaland in 1956 (though the funding may have commenced earlier) to Mizoram in quick succession from 1966. While there has been evolution in the external methods of funding over a period of time, internal funding patterns have not changed substantially. Extortion and illegal taxation continues to remain the most important source for TF. A detailed assessment of this source appears in the succeeding paragraphs, followed by a case study of the United National Liberation Front (UNLF) (see Annexure 1) to illustrate and substantiate its impact.

Extortion and Taxation

The biggest source of internal funding for terrorist groups in India remains extortion or taxation. This is especially relevant for groups in the North-East and the Maoist-effected areas.

The process of extortion starts with the collection of funds. Briefly, it includes extortion from industries[91] in the region and levying taxes on the people, which vary from 20–25 per cent in most terrorist effected areas of the North-East.[92] Every commercial vehicle pays a fixed amount.[93] Contracts are given to sympathizers of the terrorists to ensure a steady flow of funds from the government departments. In some cases, direct misappropriation has also been carried out in connivance with officials.

Once the funds are collected, these are moved for safekeeping. The method of storage varies from cash bundles to gold biscuits, which are not adversely effected by weather.[94] The final stage involves expenditure for payment to cadres, purchase of weapons and ammunition, and running camps and welfare programmes to retain the support of local people. Some terrorist groups have also moved large sums of money outside India. This has further been invested in businesses, which provide a constant source of revenue.[95]

Maoists

The CPI (Maoist) does not hide its major source of funding. In fact, its sources have clearly been outlined in its Party Constitution as early as 2004. Chapter 13 of the Constitution deals with 'Party Funds'.[96] As part of this, Article 60 states: 'The party funds shall be obtained through the membership fees, levies, donations, taxes, penalties and the wealth confiscated from enemies.' Article 61 adds: 'The levy to be paid by party members shall be decided and collected in their respective state committees.'

The traditional method of internal revenue generation for most groups in the North-East and the Maoist belt has been extortion and tax collection. However, a major difference between the Northeast and some of the mineral-rich areas in the Maoist belt is the presence of industries. Extortion by the Maoists is estimated to be as high as Rs 1,500 crore.[97] The total estimated income, a majority of which is sourced from extortion, is reinforced by the former Home Secretary, G.K. Pillai, who puts the figure at approximately Rs 1,400 crore (the minor variation can be attributed to approximate figures provided).[98] In Chhattisgarh, Maoists derive the bulk of their income from 'extortion of contractors, miners, traders of tendu leaf and other forest produce, including ivory and sandalwood merchants and smugglers.'[99] In Bihar, the funding profile is similar, with extortion and levies placed on forest produce, builders, contractors and industrialists.[100]

Extortion has become a rich source of income for the CPI (Maoist), given their exploitation of every stage of the industrial cycle, from mining to manufacture and movement of finished products. The nature and scale of extortion is indicated by the following input:

> Jharkhand which contributes the major share to the Maoist exchequer has the bulk of the corporations including Rungta Mines, Usha Martin, Torian Iron & Steel, etc., which have allegedly paid Rs 25 lakhs each, the Birla Bauxite Company in Palamau which paid Rs 80 lakhs, Latehar based Tetaria Mines which has paid Rs 2 lakhs to the Maoists in 2007-08 and many more.[101]

The method of collection, according to research conducted by the Institute for Defence Studies and Analyses (IDSA), is based on targets given by the Central Committee of the CPI (Maoist).[102] This, in turn, is conveyed to the zonal committees. The IDSA report suggests that collections are done by overground workers, and that armed cadres are not involved in the process. The allocated funds are retained at each level before the balance is sent to the next higher level. The study estimates the percentage of levy at between 7–10 per cent.

North-East

The NSCN has the most well organized and elaborate tax collection system. This runs parallel with the tax collection structure of the government. After the 2001 ceasefire with the government came into effect, the self-styled Finance Minister of NSCN(K), Kughalu Mulatonu, said in 2004 that their group enforces four types of taxes: 'government employees' tax, house tax, contractors' tax and a tax on trade and commerce', which amounts to approximately 20–25 per cent of the monthly salary.[103] Kughalu calls it a 'voluntary payment', which is even paid by top bureaucrats and ministers without reminders.[104]

The system followed by the NSCN(IM) is not very different. Phunting Shimrang, a senior office bearer of the ceasefire monitoring group in 2001, indicated that taxes are collected in Naga inhabited areas, irrespective of state boundaries on behalf of the self-styled 'Government of People's Republic of Nagalim' (GPRN). The collection is executed by the armed wing at the 'rate of Rs 100 per individual per annum as ration tax, the GPRN itself levies 24 per cent of an individual's annual income as royalty tax and Rs 10 as house tax.'[105] In addition to this, contractors pay approximately Rs 2,00,000–3,00,000 annually and small businessmen pay around Rs 50,000 to Rs 1 lakh.[106]

Just like the Maoist areas, every aspect of business, transportation and income is taxed. A Light Motor Vehicle (LMV) is taxed between Rs 1,000–5,000, medium vehicles between Rs 5,000–10,000, heavy vehicles around Rs 10,000, oil tankers between Rs 5,000–10,000, taxis between Rs 100–200, and busses between Rs 3,000–5,000.[107] While all these figures are approximations, they give an idea of the scale of extortion and taxation in the region.

J&K

Reports of extortion from J&K are lower as compared to other regions. Even as extortion is neither as extensive nor well organized in the state, there is adequate evidence to support its prevalence. The ghastly killing of Sudhir Kumar Pundir and his brother Sanjay Pundir, both engineers with the Indian Railways Construction Company (IRCON), in South Kashmir, confirmed apprehensions. Both brothers were kidnapped on 23 June 2004 and a ransom of Rs 50 lakh was demanded for their release. However, despite a settled amount of Rs 5 lakh thereafter, both were killed by the terrorists.[108] Similar calls were reported by sub-contractors of IRCON, who were tacitly allowed to inflate the labour figures to adjust

Table 3 Cases of Looting in J&K

Year	*Amount Looted (Million Rs)*
1990	22.62
1991	6.23
1992	6.48
1993	8.35
1994	13.91
1995	15.00
1996	3.00
1997	1.47
1998	1.09
1999	2.40
2000	1.00
2001	4.38

Source: SAIR.[109]

the increase in costs as a result of the extortion paid.[110] This reflected a shift from looting of government institutions to a cleaner method of extortion, especially given the increase in developmental funding efforts in the state.[111] Table 3 lists the cases of looting reported in the state between 1990 and 2001.

Crime

The sequence of actions associated with crime used to raise funds for terrorism go through a process similar to extortion to include committing the criminal act, moving the proceeds and finally using it for terrorism. At each of these stages, intelligence and law enforcement agencies try to pre-empt TF and arrest the progression of the act.

It is well established that the channels exploited by criminal groups for moving goods and finances can also be exploited by terrorists for TF. Some crimes like drug and human trafficking, smuggling, and the arms trade are especially vulnerable in this regard. However, agencies which deal with these crimes function under different ministries and, at times, in different states. This limits the ability of CFT authorities to build a cogent picture for cohesive action. Identifying the problem, the former Union Home Minister, P. Chidambaram noted:

> It is our experience that the networks of terror overlap with the networks of drug-peddling, arms-trading and human-trafficking.

> The agencies that deal with the latter category of crimes are scattered. For example, the Narcotics Control Bureau is under the Ministry of Home Affairs while the Central Bureau of Narcotics is under the Ministry of Finance. The Arms Act is administered by MHA. As far as human-trafficking is concerned, the primary responsibility lies with the State Governments, but anti-human trafficking cells have been set up only in 9 districts of the country. Regulation and enforcement in each of these areas require to be strengthened and brought under the overall management of internal security.[112]

Over a period of time, as insurgencies lost their appeal and support base, the character of funding operations has also shifted to criminal activities. Besides raising funds through taxes, kidnapping has become a rich source of generating funds. In Assam, '4083 people were kidnapped from 1991 to 1995', with tea garden employees, businessmen and employees of central government ventures being prominent targets.[113] Two students from Mysore were abducted on 8 June 2011 for ransom by operatives of the Karnataka Forum for Dignity (KFD), an alleged front organisation of SIMI. The police revealed that the kidnapping was done to raise funds for KFD.[114]

The IM and former SIMI have also been directly involved in criminal activities in the recent past. The police arrested six former members of SIMI in 2011, who revealed their plans to commit robberies to fund operations.[115] These erstwhile SIMI cadre, subsequently a part of IM, received instructions to 'take to street crime' to generate funding. 'According to Madhya Pradesh ATS, the robbery of 13 kg gold (worth Rs 2.5 crore) was planned and executed by the same men. They had robbed five banks in Dewas, Itarsi and two other places in the state and are also suspected to be behind the 2008 Ahmedabad blasts.'[116]

Some incidents of Maoists indulging in crimes like robbery have also come to light. Maoists looted an ICICI Bank branch in Jharkhand in 2007 and made away with Rs 5 crore in cash.[117]

Reports of criminal activities like robberies of government institutions and private property with an aim of augmenting finances has also been confirmed by the Ministry of Home Affairs.[118] This brings to the fore certain serious challenges from the perspective of fighting crime and TF. First, there is a multiplicity of organizations dealing with different crimes related to TF. Therefore, it is important to discern the linkage of criminal incidents with TF, failing which the acts could be viewed merely as petty law and order issues. Second, porous borders facilitate transnational crime.[119] Third, the challenge of close coordination and integration is accentuated by different border guarding forces functioning within their respective spheres of influence. Under these conditions, terrorist organizations exploit local, transnational and petty crimes to fund their activities.[120]

NGOs

A large volume of funds flow to the NGOs, which is utilized for a variety of social work undertaken by them. However, unless there is close scrutiny of these funds, the possibility of their diversion for terrorist activities remains. NGOs sympathetic to particular groups or causes have been under surveillance in the past. This limitation was substantiated with the possibility of a large proportion of funds 'being diverted for terror acts.'[121]

An assessment of past cases indicates that NGOs usually facilitate TF through the following means:[122]

1. By posing as legitimate entities.
2. Exploiting legitimate entities as conduits for TF funds.
3. Conceal or obscure legitimate diversion of funds meant for legal purposes.

The processing of funds by NGO's is done in three stages. The first involves receipt of funds. This can include both domestic and foreign sources. In the second stage, funds received are expended by the NGOs. Finally, in the third stage, NGOs are required to account for funds received, which includes filing reports with the government in case of foreign remittances in accordance with Foreign Contribution (Regulatory) Act (FCRA) 2010.

The Indian NGO sector is a vibrant group, which has been involved with various public sector projects. However, despite the enormous growth of this sector in the past decade, it has been subject to inadequate regulation and scrutiny. According to the report compiled by MHA-controlled FCRA Wing for 2010–11: 'There is no centralised database on the number of NGOs in the country and the quantum of finance involved in their operations, unofficial figures indicate that there are over 20 lakh NGOs registered under Societies' Registration Act, Trust Act etc.'[123] According to the report, a little over 40,000 NGOs are registered with the government for receiving foreign contributions. This is just over 2 per cent of the total NGOs in the country. Even amongst these, 71,009 filed income tax returns in 2006–07 and 38,591 had undertaken the process for receiving funds from abroad.[124] For the year 2010–11, only 22,735 NGOs submitted their annual returns for the year. Evidently, there is a perceptible gap in information about NGOs and this indicates a lack of transparency in their financial activity.

The easy flow of money to these groups has caused further concern within governmental circles.[125] There has also been a steady increase in the flow of funds to NGOs from abroad. 'Rs 9914.19 crore foreign contribution was received by 21,365 NGOs in 2007–08, Rs 10987.05 crore by 22,544 NGOs in 2008–09 and Rs 10340.25 crore by 21,674 NGOs in 2009–10.'[126] Violations of FCRA 2011 have already led to freezing of 30 accounts and banning of 70 for violating laid down procedures.[127]

A hundred NGOs were placed under surveillance for not only violating existing rules, but also for funding terrorists. These NGOs are spread across the country in states like Uttar Pradesh, Gujarat and Nagaland.[128]

A number of examples of the role of front organizations and NGOs have been listed below. However, it is evident that unlike the large scale involvement found in TF activities in case of charities and NGOs in Pakistan and Saudi Arabia in the immediate aftermath of 9/11, the role of Indian NGOs does not indicate direct involvement on a similar scale. Their support is characterized by ideological backing and creating a cadre base for furthering extremist views. This is also reinforced by the absence of convictions in the present context. While this does not rule out the possibility of their present and future involvement in TF, the scale, however, is likely to depend on the nature of procedural enforcements.

IM

The strong possibility of the use of NGOs by terror groups has led to their role coming under scrutiny. In a case, when members of Al Ummah, were convicted after the Coimbatore blast case, the Charitable Trust for Minorities (CTM), volunteered to help resettle them upon their release. However, the police has alleged that CTM is funded from Saudi Arabia and, in turn, has been involved in funding extremist organizations like the Muslim Defence Force (MDF).[129] The police has also raised suspicion regarding activities of organizations like Manitha Neethi Pasarai (Organization for Human Justice), National Development Front of Kerala (NDF), Karnataka Forum for Dignity (KFD), and the Popular Front of India (PFI), especially since their leadership was in the hands of former SIMI cadres.[130]

Maoists

The Maoists have also exploited NGOs to collect funds on their behalf. There have been reports of groups like the Vajra Both Society supporting Maoists financially. Umesh Kumar Singh, DIG of the Magadh Range revealed as early as 2007: 'Some months ago a few Naxal women leaders were caught in Bodhgaya. During the interrogation we could gather that they are attached with the Naxals. They get money in the name of imparting education in rural areas. But they are part of the Naxals.'[131]

Designated Non-Financial Businesses and Professions

Designated Non-Financial Businesses and Professions (DNFBPs), according to the Eurasian Group on Combating Money Laundering and the Financing of Terrorism, implies casinos (which also includes internet casinos), real estate agents, dealers in precious stones and metals, lawyers, notaries, other independent legal professionals, and accountants.[132] It is evident from the nature of professions listed that despite these not being financial institutions, they deal with large volumes of finances, both in terms of being directly involved in transactions and by acting as intermediaries for the same. This makes them vulnerable to ML and TF risks unless they are regulated.

For example, the real estate sector, unless regulated, can be involved in TF.[133] Transactions in property, through repeated buying and selling, can assist in successfully layering tainted money, which may have an illegal source like terrorism or other criminal activity. Similarly, the investment of money in tourism-related activities can assist in the final stage of cleaning the layered funds. The lack of regulation can also lead to *benami* deals, which can hide the real ownership of funding, thereby providing a parking slot for funds and multiplying them for groups with questionable credentials. Terrorists can take advantage of this lacuna in the system, especially if ownership is not established as part of the transaction process, leading to its abuse. Finally, the undervaluation of deals can generate unaccounted funds, which can also become a source for TF.

The strengthening of laws and regulations for financial institutions have improved implementation of Anti-Money Laundering (AML) provisions. However, until the recent amendment of the Prevention of Money Laundering Act (PMLA), DNFBPs were outside the purview of the AML law. This was especially relevant given the ML and TF risk visualized from businesses like real estate and trade in precious stones.[134] However, even after their inclusion based on the 2012 amendment to the PMLA law, unless regulation of these sectors is formalized, the implementation of existing provisions will remain difficult.

The challenges relating to DNFBPs stem from the contradictions that arise from the existing rules and a reality check of sectors like property dealing and trade in precious stones. In a city like New Delhi, almost every property transaction is likely to be over the limit set for suspicious transactions, both for cash and cheques/drafts. Despite this, property dealers are not required to report suspicious activities or cash transaction reports. This problem is further enhanced since the sectors wield considerable influence and resist regulation and control. Vested interests also work to keep the legal profession outside the purview of regulation, thereby presenting challenges, which work against transparency and effective enforcement.

Therefore, regulation and control of DNFBPs remains uneven from the perspective of ML and TF. As an example, these businesses are not required to send Suspicious Transaction Reports (STRs) to the FIU. Ownership and transaction details, including corresponding beneficiaries, remain unclear. The pattern of movement of monetary trails with ownership and cross-linkage at each stage are critical for ensuring transparency and obviating ML/TF concerns. The absence of these details opens the possibility of their exploitation.

The NIA brought to light a case in 2013 of cash funneled to Bangalore by a Manipur-based group—the People's Revolutionary Party of Kangleipak–the United People's Party of Kangleipak (PREPAK–UPPK). An amount of Rs 1.14 crore was handed over by N. Shanti Meitei to a businessman in Bangalore to invest it in real estate, shares and bonds.[135]

The intelligence community in India is also facing the possibility of terror funds being invested and generated through stock markets. In 2012, a list of 95 companies involved in such activities came to light. These companies maintained a low profile and not only succeeded in converting black money to white, they also facilitated parking of terror funds.[136]

Analysis of Funding Pattern and Sources of Terrorism Finance

Generational Funding

It is evident from the description of sources that India faces a hybrid threat of TF. Internationally, the stages of TF are considered as generational; however, there is a distinct pattern, which is a combination of state-sponsored, privatization and globalization of sources when applied to the four areas assessed earlier. This can be seen from its applicability in different areas as illustrated in Table 4.

J&K is witness to state sponsorship of TF on the basis of Pakistan sponsored and controlled funding. There is evidence of diversification of sources, which can be seen from funds emanating from West Asia through the hawala channel. However, despite the locational subterfuge, Pakistan's control over the process has been established over a period of time. This diversification also involved the criminalization and indigenization of financing, by including members of the Dawood Ibrahim gang and extremist Indian elements in J&K and in the Gulf region. The state sponsorship process achieved critical mass through the globalized monetary system, by exploiting its transnational character, limitations and loopholes, and country specific interpretations and regulations. The most recent indictment for the 26/11 attack in Mumbai led the investigative trail to David Headley, who in his interrogation report revealed that the ISI was directly involved in funding terror strikes. He said that 'at least two of his missions were partly paid for by the ISI and that he regularly reported to the spy agency.'[137]

The IM has successfully bridged all three stages of financial evolution. Pakistan and its agencies provide state support; criminal activities like

Table 4 Funding Pattern: Generation of Terrorism Finance

State/Region	*State Sponsored Terrorism Finance*	*Privitisation of Terrorism Finance*	*Globalisation of Terrorism Finance*
J&K	Yes	Limited	Yes
IM	Yes	Yes	Yes
Left Wing Extremism	No	Yes	No
Insurgency in Northeast	Limited	Yes	No

Source: Author.

robberies and sale of weapons indicate a desire to achieve a degree of privatization; and the means and method of money transfer have exploited the advances of globalization.

Insurgency in the North-East and Maoist affected areas is yet to fully exploit the benefits of globalization and are almost completely funded by local sources in the form of taxes imposed and extortion. In the case of North-East, an indirect external element is factored as a result of transnational crimes like gun running, drug trafficking and movement of counterfeit currency. There is also support from the ISI, though it is limited compared to the groups in J&K.[138]

Diversity of Sources

TF has seen an increased diversification of sources. This reflects in the requirement of keeping alternate avenues of monetary flow open, even if the primary ones get blocked. The trend follows a well-established international norm. Exceptions to this trend are evident in cases where enforcement agencies have not succeeded in curtailing specific sources of finance, despite their widespread prevalence. Taxation and extortion in the North-East are prime examples of the failure to stem this limitation.

Given the diversity of financial systems, the detection and plugging of systemic weaknesses takes time. The ability of al Qaeda to continue its operations despite international pressure is indicative of this factor.[139] It is very much like terrorist networks, which can either be organized on hierarchical or starfish models.[140] Financial networks have evolved in a similar fashion, making it that much more difficult for law enforcement agencies to neutralize them, even if some of the cells are destroyed. Further, it makes it a challenge to trace the flow of funds and, by co-relation, its nerve centre and other arms.

Indigenous groups such as the IM receive most of their financial support from Pakistan. However, trends indicate a local sourcing pattern and perceptible diversification. This includes criminal activity and fund collection through charities and front organizations.[141] This diversification makes identification and tracking of sources more difficult. The employment of legitimate front organizations further diffuses sources of funds until direct linkages are established and action initiated. This trend is likely to continue given the large number of options available to terrorists for exploitation of external and internal sources. An illustration of the nature of diversification of funding is indicated in Table 5.

Table 5 Diversification of Funds

State/ Region	*Extortion/ Tax*	*State Funding*	*Religious Charities/ Donation*	*Fronts/ NGOs*	*Counter-feit*	*Drugs*
J&K	No	Yes	Yes	Yes	Yes	Yes
IM	?	Yes	Yes	Yes	Yes	Limited
LWE	Yes	No	?	Yes	?	Yes
NE	Yes	Limited	Limited	Yes	Yes	Yes

Source: Author.

Narco Terrorism

Narco terrorism also provides distinct trends in the Indian context. This form of TF operates at three distinct levels: The first is the taxation of drug yielding crops like opium. The second is based on money earned from protection and trafficking through areas controlled by terrorist groups. The third is a result of direct involvement of terrorists in cultivation and control of the drug trade.

In case of countries like Afghanistan, all three levels of operation are functional and capable of supporting terrorism. This makes it the primary source for TF for the Taliban and the ISI, and for supporting it beyond the country as well. According to a 2010 report presented to the US Senate Caucus on International Narcotics Control, the 'Taliban has evolved into a narco-cartel that operates heroin processing labs and provides protection to traffickers. The vast amount of drug money has trumped ideology as the Taliban cashes in on heroin sales. The [US] Drug Enforcement Administration (DEA) estimates the Taliban's "take" to be several hundred million dollars a year, enough to fund the insurgency and expand their drug empire.'[142] Narco terrorism has been a major source of funding for international terrorist groups. According to Jonas Hartelius, 12 of the 28 groups listed as terrorist organizations by the US were involved in the illegal drug trade.[143] A report submitted to the United Nations Office on Drugs and Crime (UNODC) indicated that 14 of the 36 groups designated as terrorist groups were involved in drug trafficking. As part of the same report, a questionnaire sent to 38 countries revealed that 19 had observed a linkage between terrorism and illicit drugs, and this list included India also.[144]

According to a senior NCB officer, and based on inputs available in open domain, the involvement of Indian terrorist groups is evident in the first two categories, even as suspicions remain as to its connection to the third.[145] This limits their capability to raise narco finance unlike groups such as the Taliban. This is especially relevant as comparatively limited areas are presently under poppy and opium cultivation, given the existing levels of control of law enforcement agencies. However, since drugs remain a high value product, they continue to have the potential for exponential financial gains. In 2011, 318.89 kg of hashish, suspected to be sourced from J&K, was recovered from Delhi, Mumbai and Ahmedabad, with potential for high returns.[146]

On the other hand, Pakistan has exploited its potential in all three categories and is financing a substantial proportion of terrorist activities through proceeds gained from it. An estimate by the Narcotics Control Bureau (NCB) Zonal Director, J&K, in 2008, indicates that 'more than 25 per cent of the money spent on terrorist activities in India by the ISI comes from the narcotics drug trade.'[147]

Conclusion

Terrorism finance in the Indian context is distinct and in terms of sourcing and patterns. While the scope of this article is limited to sources and patterns, it needs to be reinforced that any solution to the existing nature of threat can only evolve through a thorough understanding of these sources.

The nature of the threat also highlights the enormity of the challenge. While some of the sources of TF have their roots outside the country, and will need international cooperation to limit their adverse impact, others like extortion are very much a domestic limitation that has festered for far too long. A concerted effort aimed at strengthening existing laws, capacities of enforcement agencies, and creating an environment for speedy justice needs to be ensured if terrorism is to be curbed across the country.

Annexure 1

Case Study of United National Liberation Front (UNLF)

The trend of internal financing of terrorist groups in the country is reinforced by a specific case study of UNLF. The UNLF is the oldest Meitei insurgent group formed in 1964 and is active in Manipur.[149] The sources of its funding are similar to most groups in the region, with extortion forming the largest contributor to the kitty. The case of UNLF thus falls under the category of privatization of funding on the basis of its sourcing.

The analysis is based on a financial balance sheet available with the author, which provides details of accounts of the group for the period from 1 January 2008 till 31 December 2008. The financial document follows all modern accounting methods currently in practice. This indicates the employment of professional accounting services employed for the purpose. The systematic maintenance of accounts carries forward the balance for the year 2007 and, thereafter, includes credits and debits for 2008. The first two pages give a summary of the accounts for the year. This is followed by each individual entry under separate heads. It also includes a column for receipt numbers, possibly given for the money received. While these have not been indicated in every case, in a large percentage of entries they have been highlighted against receipt of money. The degree of detail is illustrated by reference to loans given and partial or complete recovery receipts.

It is evident that the largest percentage of funds are generated by the group from extortion or taxation. These have been listed as part of the income generated from 'business'. This accounted for Rs 10,113,967 for the year 2008. This amount has been raised through trade in three commodities to include dealers and sellers of rice, wheat and oil. It clearly indicates a stranglehold of the UNLF over critical essential commodities, which are required for the daily subsistence by the local people. In addition to this, the annual balance sheet also includes incomes under the head 'business centre'. This term is used to dignify extortion from a number of businesses being run in the area. As an illustration, it includes brick kilns (called brick farm), stone crushing business, retailers, Fast Moving Consumer Good (FMCG) distributors, motor companies, hotels, petrol pumps, hospitals and clinics, among others. This accounts for Rs 2,500,900.

A number of government departments have also been listed in the balance sheet details. The rate of extortion for these departments varies from 2–10 per cent as per the balance sheet. This includes a large number of government departments like horticulture, agriculture, zilla parishad (state finance commission), and forest department, among others. Members of the State Legislative Assembly have also made a contribution, with shares ranging from 5–10 per cent. It is not clear whether these departments are paying extortion money only to the UNLF or some other groups active in the region as well. These collections fall under the head of 'central fund' and amounted to Rs 26,856,052.00 for the year.

A major percentage of funds were raised from what has been termed as 'contract & supply'. This includes a number of government departments like public works as well as private companies. The total extortions amounted to Rs 12,301,282.

The transport sector, given the reliance of the state of Manipur on surface movement, is also a large contributor. All the bus services run in the area, including school buses, contributed Rs 500 to Rs 5,000 per month. The total collection for the period was Rs 5,524,900.

With a balance of Rs 72,640,538 brought forward from 2007, the total income for 2008 was Rs 380,651,445.

A summary of the credits is given in Table A1. The annual expenditure of the group gives details of the systematic allocation of funds and the nature of utilization (see Table A2).

Table A1 Dept of Finance: UNLF (RO)
Annual Balance Sheet from January–December 2008 (Credits)

Account	*Amount*	*Total Rs*
OPENING BALANCE		
RO GI 2007 KI	7,26,40,538.00	7,26,40,538.00
BUDGET	2,12,30,000.00	2,12,30,000.00
BUSINESS		
Business/Rice	5,24,51,331.00	
Business/S K Oil	39,43,900.00	
Business/Wheat	1,01,13,967.00	6,65,09,198.00
BUSINESS CENTRE		
Business Cent/Annual	82,32,000.00	
Business Cent/Lamsum	27,00,000.00	
Business Cent/Monthly	25,00,900.00	1,34,32,900.00
CENTRAL FUND	2,68,56,052.00	2,68,56,052.00
CONTRACT & SUPPLY	11,81,49,705.00	11,81,49,705.00
CUSTODIAL TRANSFER	1,50,00,000.00	1,50,00,000.00
DONATION/PROFESSIONAL	1,50,47,000.00	1,50,47,000.00
OTHERS	7,33,900.00	7,33,900.00
RECOVERY		
Recovery/Fine	91,50,500.00	
Recovery/Loan	30,55,350.00	
Recovery/Refund	8,36,120.00	
Recovery/Balance	1,57,000.00	
Recovery/Share	1,23,01,282.00	2,55,00,252.00

Account	*Amount*	*Total Rs*
TRANSPORT SECTOR		
Transport/Annual	37,76,900.00	
Transport/Lump-sum	17,00,000.00	
Transport/Trip System	48,000	55,24,900.00
	TOTAL	38,06,51,445.00

Table A2 Dept of Finance: UNLF (RO)
Annual Balance Sheet from January–December 2008 (Debits)

Account	*Amount*	*Total Rs*
A/C	35,10,500.00	35,10,500.00
CHQ		
CHQ/Headquarters	49,76,190.00	
CHQ/KYU-KFC	14,200.00	55,26,290.00
CHQ/KYU-JTF	5,35,900.00	5,35,900.00
DEPT OF REGIONAL AFFAIRS	1,89,700.00	1,89,700.00
DEPT OF HUMAN RESOURCE DEVELOPMENT	64,86,950.00	64,86,950.00
DEPT OF DEFENCE		
GHQ/Jiri	7,64,450.00	
GHQ/Units	4,88,01,500.00	
GHQ/Valley	40,66,550.00	5,36,32,500.00
DEPT OF ECO AFFAIRS		
Farm	1,22,72,350.00	
Project	5,53,01,000.00	6,75,37,350.00
DEPT OF ORGANISATION		
DoO/Organisational	42,04,645.00	
DoO/Mahei	18,02,800.00	60,07,445.00
DEPT OF PUBLICITY	1,81,050.00	1,81,050.00
DEPT OF FINANCE		
DoF/Anniversary&Function		
DoF/Anniversary	3,98,000.00	
DoF/Function	23,29,200.00	
DoF/Cultural Function	5,72,400.00	
DoF/Assets		
DoF/Assets-Lam Leiba	4,45,74,500.00	
DoF/Bail Out	14,39,950.00	

Account	*Amount*	*Total Rs*
DoF/CFT	12,10,100.00	
DoF/Custodial Transfer		
DoF/CT-COAS	4,50,00,000.00	
DoF/CT-Co-ordinator, DoRA	3,00,000.00	
DoF/CT-Joint Secy of Finance	30,00,000.00	
DoF/CT-Sir Mani	17,00,000.00	
DoF/CT-Sir Nongyai	80,000.00	
DoF/Exchange to $	50,00,000.00	
DoF/Family Maintenance	42,93,300.00	
DoF/FARMS-PROJECTS		
DoF/Farm-Equipments	2,30,000.00	
DoF/HNB(Hongbiban)	2,63,000.00	
DoF/Farm-Lou-u-lup	1,81,000.00	
DoF/Farm-NILL	1,44,800.00	
DoF/Project-AGCO	23,12,000.00	
DoF/Project-Chemical Project	55,50,000.00	
DoF/Project-Phunga Marup	52,77,000.00	
DoF/Project-Ratan (Miyaam Lup)	10,93,000.00	
DoF/Project-Sarik	15,000.00	
DoF/Project-Track Suit	26,00,000.00	
DoF/Jail Maintenance	2,19,000.00	
DoF/Loan	2,46,45,000.00	
DoF/Loan Procurement	83,000.00	
DoF/Lost	54,550.00	
DoF/Medical (For MPA)	37,59,933.00	
DoF/Others	64,500.00	
DoF/Social Relations/Relief		
S/R-Individual Relief	36,39,725.00	
S/R-Lup-Relief	56,57,900.00	
S/R-Medical Relief (Civilian)	21,54,728.00	
Travelling Allowance	15,72,770.00	16,94,14,356.00
	Total Rs	31,25,22,141.00
	Balance c/d Rs	6,81,29,304.00
	G Total Rs	38,06,51,445.00

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