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MONEY CONTINUES TO FLOW INTO TERRORIST FUNDS

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EXECUTIVE SUMMARY

It has reportedly been estimated by the experts of the Monitoring Committee of the UN Security Council, which monitors the implementation of the UNSC Resolution No. 1373, that despite the freezing/seizure of terrorist funds and other assets worth US \$ 112 million since 9/11, Al Qaeda and its allies in the International Islamic Front still have at their disposal about US \$ 300 million. Replenishments continue to flow into their funds. The spate of terrorist incidents since December, 2001, in different parts of the world and the sweeping victories of pro-Al Qaeda and pro-Taliban fundamentalists in the recent Pakistan elections on October 10, 2002, would show that the terrorists do not as yet feel any shortage of funds for any of their activities, underground (acts of terrorism) or overground (political support to their backers) .

2. The failure of the action taken so far by the international community against terrorist funding to make a dent on the capability of Al Qaeda and the other members of the International Islamic Front to organise acts of terrorism in different parts of the world in quick succession could be attributed to the following reasons:

* The continued flow of funds from Pakistan's Inter-Services Intelligence (ISI) to the Harkat-ul-Mujahideen (HUM), the Harkat-ul-Jihad-al-Islami (HUJI), the Lashkar-e-Toiba (LET) and the Jaish-e-Mohammad (JEM) for use in their terrorist operations against India. In view of the large cash flow into Pakistan since 9/11, the ISI has been channelling more funds to these organisations than in the past. All these organisations, which are members of bin Laden's International Islamic Front, have been using part of this increased flow in India and diverting part to fund the activities of the Front in other parts of the world. The pan-Islamic and

pro-Wahabi members of the Pakistani religious coalition had promised in their election manifesto that if they came to power they would step up assistance to the jihadis in Kashmir, Palestine, Chechnya, the Arakan area of Myanmar and the southern Philippines. This flow is, therefore, likely to increase in the coming months.

* The stupendous cash flow into Pakistan since 9/11 would be evident from the fact that Pakistan's foreign exchange reserves have increased five-fold from US \$ 1.5 billion to US \$ 7.5 billion. This torrent of cash flow into Pakistan has been despite the fact that the exports from and foreign investment flows into Pakistan continue to be sluggish due to feelings of insecurity amongst foreigners. While part of this increased flow was due to generous debt rescheduling and the resumption of bilateral and multilateral economic assistance, part of it has been due to large-scale movement of money from the overseas accounts of Pakistanis to accounts in Pakistan to escape action against their money by the other countries. According to official figures, the remittances in the first quarter of the current financial year (July, 2002 to September,2002) amounted to \$1052.89 million as compared with \$340.05 million during the corresponding period (July-September) of the financial year 2001-2002. The increase of remittances from the US has been spectacular being \$330.33 million during July-September 2002 as compared with only \$50.09 million during the corresponding period of last year. Total remittances from the US were \$778.98 million during the financial year 2001-02 as against only \$134.81 million in 2000-2001. This is due to nervousness in the overseas Pakistani community in the US that their bank accounts might come in for investigation as possible sources of terrorist funding and subjected to freezing under the UN Security Council Resolution No. 1373. It has been reported that similar nervousness has caused many Pakistanis having secret bank accounts in Switzerland and other places to transfer their money to Pakistan. If these trends are maintained, it is expected that the value of money transfers from abroad might reach US \$ four billion by June,2003, when the current financial year ends. While the whole of these huge transfers need not necessarily be terrorism-related money, it would be reasonable to assess that a considerable portion of this would be. The Pakistani authorities themselves have been claiming that this stupendous movement is due to the fact that overseas Pakistanis have been remitting money home through normal banking channels instead of through the hawala system as in the past due to the improvement in the value of the Pakistani rupee which has made informal hawala transfers no longer as attractive as before.

* The insincerity of the Pakistani authorities in complying with the provisions of the UNSC Resolution No.1373. Before acting against the bank accounts of suspected terrorist organisations figuring in the US and the UN lists, the ISI tipped them off about the impending action against their accounts, thereby enabling them to remove the bulk of their balances from their identified accounts and re-deposit them in new accounts under different names. Thus, the action against terrorist funding in Pakistan was a farce.

* The unsettled conditions in Eastern and Southern Afghanistan and the alleged use of the old Afghan warlords and heroin barons by the USA's Central Intelligence Agency (CIA) in its hunt for bin Laden and other leaders of Al Qaeda have resulted in a

slowing down of action against opium cultivation and heroin extraction. Reports from Afghanistan speak of an increase in opium cultivation and heroin availability since 9/11.

3. Unless the international community takes note of these disturbing developments and acts against them vigorously, the terrorists' financial capability is unlikely to be seriously damaged in the near and medium-term future.

THE TEXT

Motivation, recruits, funds and sanctuaries constitute the four essential ingredients for the survival of a terrorist organisation and its success in organising acts of terrorism. Hence, any counter-terrorism strategy, to be successful, has to focus on depriving the organisation of as many of these ingredients as possible, if not all the four of them.

2. Of these four ingredients, motivation and sanctuaries are the most important. A poorly motivated terrorist organisation would not be successful even if it had all the other three ingredients and an organisation without sanctuaries cannot operate effectively even if it had an unlimited flow of well-motivated recruits and funds. Many of the ideological terrorist groups of West Europe withered away when the increasing economic prosperity and the disenchantment with Communism resulted in the weakening of the motivation of their cadres. The international terrorist group led by Carlos disintegrated when the collapse of the Communist States of East Europe and sustained Western pressure on its State-sponsors in West Asia and North Africa deprived its members of sanctuaries from which they could operate.

3. The importance of funds arises from the fact that they partly help in the recruitment and motivation through monetary incentives and partly contribute to maintaining the morale and motivation through the successful planning and execution of acts of terrorism. A continuous lack of success or decreasing success against the State has a negative impact on the motivation and fresh recruitment. Funds play an important role in the recruitment of cadres, in procuring shelter and logistic support from the community amongst which the terrorists operate, in acquiring the weapons, explosives, identity documents and other material required for an act of terrorism, for travel etc. Hence, action to identify the sources of funding, determine the means employed for their transmission and choke off the flow of funds from the sources to the organisations and from the organisations to their cadres deputed for carrying out the acts of terrorism has always received high priority from the States confronted with the scourge of terrorism.

4. The drive to choke off terrorist funding did not start from 9/11. It has been engaging the attention of the member-States of the United Nations and the INTERPOL for many years. The International Convention for the Suppression of the Financing of Terrorism was a result of this preoccupation. Many domestic anti-terrorism legislative enactments of different countries had as their objective the need to act against the flow of funds to the terrorists. Illustrative of such domestic legislative enactments are the USA's Antiterrorism and Effective Death Penalty Act (AEDPA) of 1996, the UK's Drug Trafficking Act of 1994 and the Terrorism Act of 2000 etc. Canada and many other countries had initiated legislative and investigative action against terrorist funding long before 9/11.

5. The USA's Antiterrorism and Effective Death Penalty Act of 1996 makes it a criminal offense for persons subject to U.S. jurisdiction to knowingly contribute funds or other material support to groups that the Secretary of State has designated as Foreign Terrorist Organizations. The U.S. law also allows freezing of the designated group's assets and denial of visas for members as well as leaders of terrorist organizations.

6. The UK's Drug Trafficking Act of 1994 and the Terrorism Act of 2000 state that in the case of drug trafficking and terrorist funding respectively it is a criminal offence for any person who acquires knowledge or even a suspicion of money laundering in the course of their trade, profession, business, or employment not to report the knowledge or the suspicion as soon as it is reasonably practical after the information came to his/her attention. In the case of terrorism, this also applies to funds where there is a suspicion that they will be used for the purposes of terrorism. Failure to report in these circumstances is punishable on conviction by a maximum of five years' imprisonment, or a fine, or both, and may also give rise to the offence of money laundering which carries a penalty of fourteen years' imprisonment.

7. The need for multilateral action against terrorist funding did not suddenly dawn on the international community from 9/11. It was a major point of concern for the community long before 9/11 as evidenced by the action sought to be taken through the UN against the Taliban-controlled Government in Afghanistan for its failure to co-operate with the international community in taking action against Al Qaeda and other terrorist groups operating from its territory.

8. Despite this realisation of the need for effective action against terrorist funding if the scourge of terrorism was to be eliminated, the action actually taken by individual States, either in pursuance of domestic legislation or under the directions of the UN, remained far from effective before 9/11 due to the following reasons:

* First, the ambivalence and subjectivity, which marked the approach to the problem. While there was a readiness to act against funding which contributed to acts of terrorism against one's own nationals and interests, a similar readiness was lacking in respect of funding which contributed to acts of terrorism against the nationals and interests of other countries. Thus, India has long had a grievance against the British authorities that the readiness which they displayed in acting against funding for the Irish

Republican Army (IRA) in the 1980s, was lacking in respect of action against funding for the Sikh terrorist groups in Punjab. The Sikh places of worship in the UK (gurdwaras) became a major source of funding for terrorism in Punjab. While in response to Indian concerns, the Margaret Thatcher Government did bring in modifications to the Charities Act in order to prevent diversion of the collections made in the gurdwaras, ostensibly for religious or humanitarian purposes, really for financing acts of terrorism against Indian nationals and interests, their enforcement, in the Indian perception, was unsatisfactory.

* Second, the requirement by many countries of strict standards of proof for freezing accounts suspected to be used, partly or fully, for financing acts of terrorism. In the 1980s and the 1990s, repeated pleas by the Government of India to the Governments of Western countries to freeze accounts held in their countries by Indian terrorist groups from Punjab and Jammu & Kashmir fell on deaf ears. Many of those countries demanded that India provide a clear and continuous chain of evidence sustainable before a court of law linking money transmitted from an account with a specific act of terrorism before they could act. Indian arguments that if action were to await the completion of the investigation, the terrorists would thin out their identified bank accounts and use the money for assassinations and other acts of terrorism against innocent civilians were rejected with disdain. After 9/11, the very same countries have frozen dozens of suspect accounts merely on the basis of suspicion even before they could collect such a continuous chain of evidence. In their eyes, their pre-9/11 arguments which were considered valid when the lives threatened were those of mere Indians, lost their validity when the lives of their own citizens were threatened.

9. A tragedy of the nature and magnitude of 9/11 with the loss of thousands of innocent civilian lives had to take place before the international community realised that such ambivalence, subjectivity and double standards only played into the hands of terrorists, thereby making the cancer of terrorism incurable and inoperable. The UN Security Council Resolution No.1373, the plethora of domestic legislation in many countries post 9/11, the freezing of dozens of suspect accounts all over the world, the tightening of procedures by banks and other financial institutions in many countries were the welcome outcome of this realisation.

10. Action against terrorist funding, to be effective, has to be directed simultaneously at the sources of collection of such funding, at the means employed for their transmission and at the ultimate users of the funds. In the 1970s, the most important source of terrorist funding was the intelligence agencies of the States, which sponsored terrorism and used it as an unconventional military weapon against their adversaries for achieving their strategic objective. The initial and major source of funding for the various Palestinian terrorist organisations was the intelligence agencies of West Asian and North African countries. The Carlos' organisation could not have become as deadly as it was and lasted for as long as it did but for the substantial contributions received by it from the intelligence agencies of many West Asian, North African and East European countries. Many of the terrorist organisations active in India have been kept financially sustained by Pakistan's Inter-Services Intelligence (ISI) since 1956.

11. The 1970s also saw the various Palestinian organisations resort to the setting-up of business companies through which their funds acquired either from the intelligence agencies of sympathetic countries or illegitimate means could be laundered. The profits from such companies became an additional source of revenue for funding acts of terrorism. In the 1980s, the Liberation Tigers of Tamil Eelam (LTTE) emulated the Palestinian organisations and set up shipping and other business ventures abroad for laundering their illegally acquired money and for augmenting their earnings.

12. Places of worship and religious and humanitarian charities became important sources of fund collection for financing acts of terrorism since the 1980s and the 1990s when religiously-motivated terrorism replaced ideologically and ethnically motivated terrorism as the most serious source of violence. There was a mushrooming of dubious charity organisations all over the Islamic world during the 1980s, when the intelligence agencies of the States supporting different Afghan Mujahideen groups encouraged them to start such organisations so that they could use them for channelling money in a deniable manner. Many of the charity organisations against whom action had been taken post 9/11 were the outgrowth of the Afghan war of the 1980s against the Soviet troops. A typical example is the Al Rashid Trust of Karachi, which became an important source of funds for Al Qaeda, the Taliban and the various Pakistani pan-Islamic organisations active against India.

13. Charity organisations mixed up with terrorism fall into two groups--- those specifically founded by terrorist groups through surrogates for using them as front organisations for funding terrorism; and those founded by others for genuine charitable purposes, but manipulated and used by terrorist organisations for their own purposes.

14. Narcotics, particularly heroin, became a major source of terrorist funding during the Afghan war of the 1980s. It assumed even greater importance than funding by the intelligence agencies sponsoring terrorism. The production and smuggling of heroin on a large scale was consciously encouraged by the intelligence agencies which supported the Afghan Mujahideen groups partly to make their war against the Soviet troops self-sustaining and partly to spread heroin-addiction among Soviet troops in order to weaken their fighting ability. Having seen the usefulness of heroin as a source of funding against the Soviet troops, many terrorist organisations of the world day, including the Pakistan-based pan-Islamic organisations and the other members of Osama bin Laden's International Islamic Front, have diversified their sources to include heroin too.

15. Amongst other new sources are counterfeit currency notes, which are got printed in large quantities by the ISI and given to the pan-Islamic terrorist organisations as part of the annual contribution made by the ISI to them and the proceeds from the manufacture and sale, particularly through the Internet, of spurious goods such as drugs and pharmaceuticals, imitation watches, textiles and other consumer articles.

16. Growing linkages between the worlds of terrorism and trans-national crime groups such as the one headed by Dawood Ibrahim, now living under the ISI's protection in Karachi, and criminal acts such as kidnapping for ransom, extortion, credit card fraud etc have further augmented the funds at the disposal of terrorist groups.

17. An advisory to banks and other financial institutions issued by the British authorities after 9/11 identifies the following typologies of terrorist funding:

"Donations

"It is common practice within the Islamic community to donate a 'zakat', one tenth of one's income, to charity. There should be no assumption that such donations bear a relation to terrorist funding. However, donations continue to be a lucrative source of funds from private individuals, rogue states and the sale of publications. Such donations are often made on an irregular basis. There is also growing evidence that large donations made by wealthy individuals in the Middle East to charitable organisations that have connections with terrorist organisations are more associated with Mafia style protection payments. The donation ensures that the donor's business interests remain untouched.

"Criminality

"Criminality provides a much more consistent revenue stream. Terrorist organisations will choose activities that carry low risks and generate large returns. Major sources of income are:

"Extortion

"Smuggling

"Charities fraud

"Thefts and robbery

"Drug trafficking

"Extortion

"This form of money raising continues to be one of the most prolific and highly profitable. Monies are usually raised from within the community of which the terrorists are an integral part. Eventually extortion becomes a built in cost of running a business within the community.

"Smuggling

"Smuggling across a border has become one of the most profitable ventures open to terrorist organisations. Smuggling requires co-ordinated, organised structure, with a distribution network to sell the smuggled goods. It then offers high returns for low risks. Criminal partners will also benefit from their involvement, but there are considerable amounts made available for the terrorist organisation.

"The profits can then be channelled via couriers to another jurisdiction. The money enters the banking system by the use of front companies or short-term shell companies that disappear after three months. The creation of specialised Bureaux de Change, whose sole purpose is to facilitate the laundering of proceeds of smuggling.

""Charities

"Within the UK charities have an enhanced position when compared to an organisation forming some other corporate or financial vehicle. Advantages include the ability to carry out street collections as well as tax breaks. All charities should be registered and are regulated by the Charities Commission. Furthermore, the regulators have powers to ensure that the charities stay within the legal remit for which they were formed.

"Reporting suggests that not all charitable or good will institutions are regulated to this extent. In particular, charities do not always publish full accounts of the projects which their fund raising has helped to finance.

"There are known cases in the UK of charities being used to raise funds for terrorist purposes. One investigation arose as a consequence of a suspicious transaction report. A bank disclosed that an individual who allegedly was earning a salary of £12,000 per annum had a turnover in the account of £250,000. A financial investigation revealed that the individual did not exist and that the account, fraudulently obtained, was linked to a Middle East charity. A fraud was being perpetrated for the purpose of raising funds for a terrorist organisation. Donations were paid into an account and the additional charitable payment was being claimed back from the government. The donation was then returned to the donor. This fraud resulted in over £800,000 being fraudulently obtained.

"Drugs

"This can be a highly profitable source of funds and is used by some groups to finance other activities. Many terrorist groups are not directly involved in the importation or distribution, but in order for the drug suppliers to operate within a certain area or community a levy would have to be paid.

"Such extortion, often known as protection money, is far less risky than being responsible for organising the supply and distribution of the drugs. The supply of controlled narcotic substances is a high priority for virtually all law enforcement agencies throughout the world and large resources are dedicated to investigation."

18. The money thus collected/earned from various sources is utilised, inter alia, by terrorist organisations for the following purposes:

* Payment to their cadres.

- * Payment to the families of their cadres killed.
- * For the acquisition of logistic support such as shelters, travel documents etc.
- * For the procurement of weapons, explosives, communication sets, vehicles and other material required for acts of terrorism.
- * For the overground activities of the terrorist organisations like publicity, propaganda, psywar, humanitarian assistance to the community from which the terrorist group has arisen etc. Osama bin Laden supplied a fleet of vehicles to the Harkat-ul-Mujahideen (HUM) in the year 2000 for its overground work.
- * Payment of bribes to the security forces and members of the bureaucracy and the judiciary helping the terrorists.
- * Contributions to political parties and leaders who take a soft or supportive line on the question of terrorism. Financial and other assistance from Al Qaeda and other members of bin Laden's International Islamic Front is believed to have played an important role in the sweeping victories scored by the Muttahida Majlis-e-Amal (MMA), a six-party coalition of Islamic fundamentalist parties in the tribal belt and Karachi in the Pakistani elections held on October 10, 2002. Supporters of bin Laden and the Taliban actively canvassed for the candidates of these parties and copies of an appeal purported to have been signed by bin Laden were widely circulated asking the voters to vote for the candidates of these parties.
- * Contributions to non-governmental organisations (NGOs), which agitate on the issue of the alleged violations of the human rights of the terrorists.
- * Contributions to madrasas which undertake the motivation and training of potential recruits to the terrorist organisations.

19. It would be difficult to estimate how much money or what percentage of their collections is utilised for each of the purposes mentioned above. However, it would be reasonable to say that only a very small percentage of their earnings goes to funding the actual commission of specific acts of terrorism. According to an estimate prepared by the USA's Federal Bureau of Investigation (FBI) cited during a Congressional testimony on August 1, 2002, the terrorist strikes of 9/11 in the USA would have cost Al Qaeda anywhere between \$303,672 and \$500,000. As against this, Al Qaeda is alleged to have spent about US \$ one million for ensuring the victory of the pro-Al Qaeda and pro-Taliban candidates in the recent Pakistan elections without the Pakistani military-intelligence establishment doing anything to stop this. While the laws and regulations relating to election expenditure were vigorously enforced against non-religious political parties such as Mrs. Benazir Bhutto's People's Party Parliamentarians (PPPP) and Nawaz Sharif's Pakistan Muslim League (PML) in a bid to prevent their coming to power, the Election Commission closed its eyes to the flow of funds from Al Qaeda and its allies into the tribal belt to ensure the success of fundamentalist candidates who are against the US and the war against the Taliban and Al Qaeda.

20. Testifying before the U.S. Senate Subcommittee on International Finance of the Committee on Banking, Housing and Urban Affairs, on August 1, 2002, Matthew Levitt, senior fellow in terrorism studies in the Washington Institute For Near East Policy, stated as follows:

"Cracking down on terrorist financing demands an all-encompassing approach, targeting not only the full array of terrorist groups, but also the individuals, businesses, banks, criminal enterprises, and charitable and humanitarian organizations that finance terrorism.

"Charitable and Humanitarian Organizations

"Charities and humanitarian organizations play a particularly disturbing role in terrorist financing. Many present an especially sensitive challenge to authorities, who must discern between 1) legitimate organizations, 2) organizations that are unknowingly hijacked by terrorists who divert funds to finance their activities, and 3) organizations that proactively support terrorist groups.

"Long before September 11, U.S. officials were aware that the financial networks of certain charitable organizations were funding terror. For example, investigators looking into the 1993 World Trade Center attack traced funding for the operation back to a company that imported holy water from Mecca to Pakistan. Only now, however, is the trend receiving the attention it properly deserves. A recent U.S. Treasury Department report acknowledged that terrorist activity is financed primarily through fundraising, more often than not through legal, nonprofit organizations. Moreover, Ambassador Francis X. Taylor, the State Department's Coordinator for Counterterrorism, recently noted, "I believe that terrorist organizations, just like criminal enterprises, can bore into any legitimate enterprise to try to divert money for illegitimate purposes. " Although such manipulation is of tremendous concern, an even more disturbing trend is the effort of some charitable and humanitarian organizations to knowingly raise funds for, or facilitate the activities of, terrorist groups.

"Financing Terrorism

"Charitable and humanitarian organizations have long been a preferred venue for terrorist financing, with or without the knowledge of the organizations or their donors. For example, on December 14, 2001, federal officials raided the offices of the Global Relief Foundation (GRF) in Chicago and froze its assets. Days later, NATO forces raided GRF's offices in Kosovo after receiving credible intelligence information that the foundation was involved in planning attacks against U.S. and European targets. GRF raised more than \$5 million in the United States last year alone. Although much of this funding likely went to legitimate causes, investigators maintain that GRF served as an important front for al-Qaeda. Other examples of terrorist front organizations include the Hatikva Center (funding Kahane Chai), the Holy Land Foundation for Relief and Development (funding Hamas), and the al-Wafa Humanitarian Organization (funding al-Qaeda).

"Facilitating Terrorism

"Several charitable and humanitarian organizations have not only financed terrorist groups, but also actively facilitated terrorist operations. For example, the Mercy International Relief Organization (MIRO), along with several similar groups, played a central role in the 1998 U.S. embassy bombings in Africa. At the New York trial of four men eventually convicted of involvement in the bombings, a former al-Qaeda member named several charities as fronts for the terrorist group, including MIRO. Documents presented at the trial demonstrated that MIRO smuggled weapons from Somalia into Kenya, and that Abdullah Mohammad, one of the Nairobi bombers, delivered eight boxes of Wadi el-Hage's belongings to MIRO's Kenya office; el-Hage is a convicted al-Qaeda operative, and the boxes included false documents and passports. Other examples of front organizations include the International Islamic Relief Organization (along with its parent, the Muslim World League), the al-Rashid Trust, the Saudi High Commission for Aid to Bosnia, and the Benevolence International Foundation.

"Disrupting the Flow of Terrorist Financing

"Halting the flow of terrorist funding from charitable and humanitarian organizations is difficult, particularly since terrorist front organizations actively conceal their illegitimate activities under legitimately funded causes. Disrupting the flow of such funding is not impossible, however. Since September 11, the Bush administration has issued a series of financial-blocking orders targeting terrorist groups, front companies, and individuals. According to U.S. officials, intelligence information indicates that terrorist operatives are finding it increasingly difficult to access the funds they need to conduct further attacks, to escape the international dragnet targeting them, or to communicate effectively with cells in different parts of the world. Despite these gains, the United States must commit to a strategy that addresses the following key areas.

"International Cooperation

"A well-coordinated international effort is needed to target the wide array of organizations that generate and transfer terrorist funds. Many nations have followed the U.S. lead in this regard, blocking millions of dollars in terrorist assets. Nevertheless, a more formalized legal and operational agreement on combating international terrorist financing is necessary.

"Gaining Saudi Support

"Saudi officials have exhibited, at a minimum, a clear pattern of tolerating funds earmarked for extremist purposes. For example, one Saudi official stated that a Saudi organization created to crack down on charities that fund terrorism has been ineffective because its personnel do not want to uncover high-ranking Saudis actively financing such charities. The Saudis have taken steps to combat money laundering and freeze accounts related to the September 11 conspirators. Moreover, they recently passed new regulations governing private fundraising. Saudis are now encouraged to donate funds only through established groups operating under the direct patronage of the royal family. Unfortunately, some of these approved groups feature prominently on U.S. terrorist lists.

"Working with Europe

"U.S. officials complain that European allies have contributed few names to the list of alleged terrorist financiers, that most of these contributions have been domestic in nature, and that Europe has yet to act on all of the names that are already on the list. Europeans, in return, have repeatedly expressed their frustration with U.S. requests to add people or groups to terrorist lists without sufficient justification for their inclusion. The European Union (EU) recently added eleven organizations and seven individuals to its financial-blocking list. This list marks the first time the EU has frozen the assets of non-European terrorist groups; unfortunately, it also draws a fallacious distinction between the nonviolent and violent activities of terrorist groups. For example, by distinguishing between the terrorist and welfare wings of Hamas, the EU lends legitimacy to the activities of charitable organizations that facilitate terrorist operations.

"Streamlining American Bureaucracy

"America's financial war on terrorism has been hamstrung by bitter turf wars between the Treasury and Justice Departments, whose parallel task forces on terrorist financing reportedly do not share information with one another. Although such inefficiency and territoriality are disconcerting, they pale in comparison to the strategic gap seen in policymaking circles. If they are to bear any fruit, counterterrorism techniques must be as comprehensive, continuous, and cooperative as possible. In order to dismantle the logistical and financial support networks of terrorist groups and prevent terrorist attacks, the governments and agencies involved must act in concert and, at a minimum, mirror the resolve displayed by terrorists themselves."

21. Earlier, speaking at the Asia Society in New York on May 20, 2002, the US Deputy Treasury Secretary Ken Dam said that roughly US \$ 116 million linked to terrorists had been blocked worldwide since 9/11. He described this figure as disappointing. In a report published on May 22, 2002, the experts' group of the Monitoring Committee of the UN Security Council to monitor the implementation of the UNSC

Resolution No.1373 stated as follows:

- * Al-Qaeda and its associates may be using the Internet not only for financial transactions but for communications, commands, and logistics. It says it has begun to look into ways to disrupt this abuse of the Internet but gave no details.
- * In addition to the Internet, Al-Qaeda could be using other means to move its assets.
- * It is looking into reports that Al-Qaeda has converted parts of its assets into gold, diamonds, and other precious stones. It is urging states involved in the diamond trade to participate in the Kimberley Process, which aims to establish an international certification program for rough diamonds.
- * By the end of March,2002, 144 countries had blocked more than \$100 million in assets linked to terrorist groups.About half of this sum represented assets connected to Osama bin Laden and Al-Qaeda.
- * Recent reports of battles between these forces and the U.S.-led international military contingent in Afghanistan indicated that ammunition and weapons continued to flow illicitly into the country.

22. The media reported on September 3,2002, that another report drafted by the UN expert group has stated as follows:

- * Despite international sanctions and freezing of numerous bank accounts, Al Qaeda still has enough financial resources to fund future attacks.
- * European vigilance of suspicious bank accounts had fallen off significantly in the past eight months. More than \$112 million in assets were frozen in the months following the Sept. 11 attacks. Since December,2001, the EU had frozen only \$10 million in funds.

- * The slowdown could have a damaging effect on the attempt to crack down on Al Qaeda's financial operations.
- * Some European nations are releasing a portion of the frozen funds back to the suspects so they can pay for their rent and other basic necessities, as has happened in Switzerland.
- * Al Qaeda still has some \$300 million in funds through such means as inheritance, donations through private or charitable organizations, and investments.

23. In a testimony before a Congressional committee on October 9,2002, Alan Larson, US Under Secretary of State for Economic, Business and Agricultural Affairs, stated as follows:

* "Terrorists can no longer safely use the international banking system. There is much more to be done. As formal financial systems are purged of terrorist finance, terrorists naturally are inclined to resort to other, more costly and uncertain, but still serviceable mechanisms for moving resources. We are working with other countries to ensure that funds donated for worthy charitable purposes are not diverted to evil terrorist practices. In some countries we have not yet succeeded in discrediting prominent personalities who espouse popular causes while secretly fostering terrorist activity."

* "The financial dimension of this war is no different. We have had some well-publicized successes, as well as other successes that, for the moment, are best not discussed. We have degraded, but by no means destroyed, the ability of terrorist groups to raise and move financial resources. We must stick with it."

24. From these reports and statements, it is clear that despite the freezing/seizure of the funds and other assets worth US \$ 112 million since 9/11, Al Qaeda and its allies in the International Islamic Front still have at their disposal about US \$ 300 million. Replenishments continue to flow into their funds. The spate of terrorist incidents since December,2001, in different parts of the world and the sweeping victories of pro-Al Qaeda and pro-Taliban fundamentalist in the recent Pakistan elections on October 10,2002, would show that the terrorists do not as yet feel any shortage of funds for any of their activities, underground or overground .

25. The failure of the action taken so far by the international community against terrorist funding to make a dent on the capability of Al Qaeda and the other members of the International Islamic Front to organise acts of terrorism in different parts of the world in quick succession could be attributed to the following reasons:

* The continued flow of funds from the ISI to the Harkat-ul-Mujahideen (HUM), the Harkat-ul-Jihad-al-Islami (HUJI), the Lashkar-e-Toiba (LET) and the Jaish-e-Mohammad (JEM) for use in their terrorist operations against India. In view of the large cash flow into Pakistan since 9/11, the ISI has been channelling more funds to these organisations than in the past. All these organisations, which are members of bin Laden's International Islamic Front, have been using part of this increased flow in India and diverting part to fund the activities of the Front in other parts of the world. The pan-Islamic and pro-Wahabi members of the MMA religious coalition had promised in their election manifesto that if they came to power they would step up assistance to the jihadis in Kashmir, Palestine, Chechnya, the Arakan area of Myanmar and the southern Philippines. This flow is, therefore, likely to increase in the coming months.

* The stupendous cash flow into Pakistan since 9/11 would be evident from the fact that Pakistan's foreign exchange reserves have increased five-fold from US \$ 1.5 billion to US \$ 7.5 billion. This torrent of cash flow into Pakistan has been despite the fact that the exports from and foreign investment flows into Pakistan continue to be sluggish due to feelings of insecurity amongst foreigners. While part of this increased flow was due to generous debt rescheduling and the resumption of bilateral and multilateral economic assistance, part of it has been due to large-scale movement of money from the overseas accounts of Pakistanis to accounts in Pakistan to escape action against their money by the other countries. According to official figures, the remittances in the first quarter of the current financial year (July, 2002 to September, 2002) amounted to \$1052.89 million as compared with \$340.05 million during the corresponding period (July-September) of the financial year 2001-2002. The increase of remittances from the US has been spectacular being \$330.33 million during July-September 2002 as compared with only \$50.09 million during the corresponding period of last year. Total remittances from the US were \$778.98 million during the financial year 2001-02 as against only \$134.81 million in 2000-2001. This is due to nervousness in the overseas Pakistani community in the US that their bank accounts might come in for investigation as possible sources of terrorist funding and subjected to freezing under the UN Security Council Resolution No. 1373. It has been reported that similar nervousness has caused many Pakistanis having secret bank accounts in Switzerland and other places to transfer their money to Pakistan. If these trends are maintained, it is expected that the value of money transfers from abroad into Pakistan might reach US \$ four billion by June, 2003, when the current financial year ends. While the whole of these huge transfers need not necessarily be terrorism-related money, it would be reasonable to assess that a considerable portion of this would be. The Pakistani authorities

themselves have been claiming that this stupendous movement is due to the fact that overseas Pakistanis have been remitting money home through normal banking channels instead of through the hawala system as in the past due to the improvement in the value of the Pakistani rupee which has made informal hawala transfers no longer as attractive as before.

* The insincerity of the Pakistani authorities in complying with the provisions of the UNSC Resolution No.1373. Before acting against the bank accounts of suspected terrorist organisations figuring in the US and the UN lists, the ISI tipped them off about the impending action against their accounts, thereby enabling them to remove the bulk of their balances from their identified accounts and re-deposit them in new accounts under different names. Thus, the action against terrorist funding in Pakistan was a farce.

* The unsettled conditions in Eastern and Southern Afghanistan and the alleged use of the old Afghan warlords and heroin barons by the USA's Central Intelligence Agency (CIA) in its hunt for bin Laden and other leaders of Al Qaeda have resulted in a slowing down of action against opium cultivation and heroin extraction. Reports from Afghanistan speak of an increase in opium cultivation and heroin availability since 9/11.

26. Unless the international community takes note of these disturbing developments and acts against them vigorously, the terrorists' financial capability is unlikely to be seriously damaged in the near and medium-term future. (*The writer is Additional Secretary (retd), Cabinet Secretariat, Govt. of India, and, presently, Director, Institute For Topical Studies, Chennai. E-Mail: corde@vsnl.com [1]*)

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