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Issue Brief

No Money for Terror: Challenges and Way Ahead

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S*ummary*

India hosted three major international meetings and conferences related to countering terrorism and terrorism finance, in October–November 2022. Pakistan remains the most dangerous and potent threat, as it continues to fund terrorism, from direct provision of money by state institutions to open and unrestrained collection of money by UN proscribed terrorist leaders. Criminals and terrorists share channels of communication and financial mobility to their mutual advantages. The proliferation of virtual currencies has further vitiated the situation, due to regulatory challenges. International cooperation is the key to curbing the menace of terrorism finance more effectively.

India hosted the ‘No Money for Terror’ conference on 18–19 November 2022 at New Delhi. The conference was attended by participants from 78 countries, including 20 ministers, indicating the growing importance of fighting the financing of terrorism. This was the third in the series of conferences on the subject. The inaugural event was held at Paris in 2018 and second at Melbourne in 2019. The wider relevance of the theme was reinforced by the preceding events hosted by India.

The meeting of the Counter Terrorism Committee (CTC) of the United Nations Security Council (UNSC) was held on 28–29 October 2022. Prior to that, the 90th Interpol General Assembly was held at New Delhi on 18–21 October 2022. In all these multilateral interactions, one of the key areas of focus was on countering terrorism finance, which continues to remain a major challenge for the international community, despite sincere efforts being made to curb it.

This brief highlights the major aspects raised during the conferences related to terrorism finance, discusses the challenges that continue to constrain the efforts at countering terrorism finance and briefly outlines specific initiatives that have strengthened the fight against this global threat.

Key Areas of Focus Highlighted During the Conferences

Prime Minister Narendra Modi, during his address at the ‘No Money for Terror’ conference, on 18 November 2022, made some far-reaching observations, which reinforced the challenges associated with terrorism finance. He stated that “There is no place for an ambiguous approach while dealing with a global threat. It is an attack on humanity, freedom and civilisation. It knows no boundaries”.¹ Highlighting the challenge of state terrorism, he raised the duplicitous behaviour of countries which “support terrorism as part of their state policy”, alluding to the threat emanating from Pakistan.

The Prime Minister spoke of the linkages between organised crime and terrorism finance. This includes raising funds through criminal activities and its linkages with terrorism financing for logistics and communication facilities. The challenges emanating from technological advancements were reinforced, with special emphasis on the “dark net and private currencies”.²

Prime Minister also underlined the need to “strike at the root of terrorism” which includes its funding. He spoke of a “uniform, unified and zero-tolerance approach” to defeat terrorism and underlined the importance of pursuing terrorists, breaking their support networks and hitting their finances. He also emphasised the

¹ [“Text of PM’s Address at 3rd ‘No Money for Terror’ Ministerial Conference on Counter-Terrorism Financing in New Delhi”](#), Press Information Bureau, Prime Minister’s Office, 18 November 2022.

² Ibid.

importance of using “technology to track, trace and tackle terrorism”. He added that “the answer is not to demonise technology”³, as it can also be leveraged to neutralise terrorist networks.

Earlier, during a special meeting of the CTC on 29 October 2022, at New Delhi, the Delhi Declaration was issued. The document aimed “to cover the main concerns surrounding the abuse of drones, social media platforms, and crowdfunding, and create guidelines that will help to tackle the growing issue”.⁴

On 18 October 2022, speaking at the 90th Interpol General Assembly, Prime Minister Modi gave a call to “let communication, collaboration and cooperation defeat crime, corruption and terrorism”, yet again highlighting the inherent linkage between them.

Over a period of one month, the three international conferences held at New Delhi contextualised the challenges posed by terrorism finance and options available to the international community to counter its adverse impact.

Why has terror funding continued over the decades?

The funding of terrorism is as old as terrorism itself. Its importance grew as a result of terrorism taking the form of an organised activity rather than merely the action of an individual. This characteristic remains the underlying factor why the terrorist groups have been successful in sustaining their wide range of activities. An assessment of terrorism suggests the limited requirement of funds for individual acts by terrorists when compared to the substantially larger financial needs to run a terrorist organisation.

This implies that the focus of governments must remain on undercutting the funds that sustain these organisations, rather than merely countering terrorists alone. Contrary to this reasoned response, the tendency to deploy resources primarily against individual terrorists allows terrorist organisations to sustain their activities. This includes the ability to fill voids created due to the elimination of individual terrorists through impressionable narratives and a steady supply of funding.

It may be at odds with conventional wisdom, but most funds that support terrorism come from legal sources, which makes it challenging for intelligence and enforcement agencies to trace, track and terminate such funds. The use of formal channels for transferring these funds, which are not necessarily discernible amongst trillions of transactions that take place, adds to the challenge of terrorists exploiting legal sources of funding terrorism.

³ Ibid.

⁴ [“Security Council Counter-Terrorism Committee adopts Delhi Declaration, concluding special meeting in India”](#), United Nations Security Council—Counter-Terrorism Committee, 29 October 2022.

There are multiple ways in which funding for terrorism transits from the source to its destination. In addition to formal channels, as has been noted, terrorists and their supporters also use ‘hawala’, cash and trade as options. The multiplicity of transit routes allows the path of least resistance to be exploited. This is similar to the logic of flowing water, which tends to take the route of least resistance through its course.

Attempts by enforcement agencies to focus on the most obvious option leads the terrorist groups to pursue an alternative, which may not be under similar scrutiny. This allows them to retain the initiative and force a reactive approach upon the government and its agencies. Consequently, this leads to dispersion of resources, thereby creating gaps that can be exploited by terrorists.

The role of technology has always been central to transferring terror funds. While in the past, terrorist groups have exploited legal channels to move money across the world through an interlinked network, recent years have witnessed a proliferation brought about by the influence of technology. What began with Wire Transfer, PayPal and electronic wallets has now moved into the domain of virtual denominations and more specifically, cryptocurrency. This has brought in its wake multiple challenges.

Until the arrival of virtual currency, the financial system exercised centralised control. All transaction requests within the digital domain were routed on the basis of an Application Programming Interface (APIs) to a central controlling agency. It enforced a uniform regulatory mechanism and was backed by the legal framework within a country. Beyond that, over time, the international financial system created a common structure for an open financial network to operate.

However, virtual currencies have emerged as a challenge in the recent times. Multiple forms of virtual currencies can be bought and sold on a peer-to-peer network, without a central financial authority having control over transactions. Wherever virtual currencies took the form of cryptographic technologies, their anonymity and decentralisation became even more robust. In an environment where most countries have neither created a regulatory mechanism, nor have formulated laws for incorporating it into the financial system, its potential for misuse becomes that much higher.⁵ This is one of the major factors for criminals and terrorist groups taking to virtual currencies as an option for moving their money with relative anonymity.

Virtual currencies have been supplemented by money collection initiatives like crowdfunding, which is an international, electronic version of physical collection that has been prevalent for long.⁶ Such endeavours through social media as also peer-to-peer communication channels allow for collections which may not necessarily come with adequate regulation and scrutiny. This can be exploited for collection of funds

⁵ [“Second 12-Month Review of Revised FATF Standards—Virtual Assets and VASPs”](#), Financial Action Task Force, July 2021.

⁶ [“Ethically or Racially Motivated Terrorism Financing”](#), Financial Action Task Force Report, June 2021, pp. 8–11.

both from unsuspecting donors, and others who may be sympathetic to the cause of individuals, groups or ideologies associated with terrorism.

Technology has also allowed for the creation of a parallel cyber universe, which has consistently been exploited for criminal activities. Often called the ‘darknet’ or ‘dark web’, this cyber space is as useful for gaining access to crime and its proceeds, as it can be for terrorism. Between these three innovations—virtual currencies, crowdfunding and the darknet— technology has been exploited to abuse its impact and reach.⁷

While the flow of money into terrorism is largely legal, it is equally true that crime leads to the generation of dirty money. Logically, both should remain distinct domains. However, terrorism finance and crime do have a close linkage. It is the easiest to pursue criminal activities in an under-governed or ungoverned space. Crime is also facilitated by high corruption levels within a society, which becomes an enabling environment for it to flourish.

Criminal cartels and groups create and exploit underground channels for the movement of goods and money. This, yet again, is easier in a weak and failing system of governance. Terrorist groups tend to exploit these very channels and at times employ the same agents who facilitate movement of criminal proceeds, to reach their intended recipient. While criminals operate for profit and terrorist groups for a political motive, they can share channels of communication and financial mobility to their mutual advantage.

Another concern is the consistent attempt by terrorist groups to employ religion as a tool for exploiting people by collecting funds in the guise of donations. In countries like Pakistan, the employment of radical ideologies to garner support for terrorism is not new. Groups like the Lashkar-e-Taiba and Jaish-e-Mohammed have been undertaking such activities for long. However, in addition to such proscribed groups, the possibility of contributions purportedly for helping the poor and needy within the society, getting funnelled to support terrorism has also emerged as a serious challenge.

Actions against Terrorism Finance

The growing relevance of terrorism finance has simultaneously led international organisations like the United Nations, Financial Action Task Force (FATF), as well as individual countries to strengthen their procedures, establish stringent regulations, and plug loopholes that were being exploited by terrorist groups. The efforts of the international community received a fillip after 9/11. For India, it was the attack on the Parliament and 26/11. These gruesome incidents led to a number of initiatives

⁷ [“Virtual Currencies: Key Definitions and Potential AML/CFT Risks”](#), Financial Action Task Force Report, June 2014.

which have improved counter terrorism finance capacities and capabilities. However, the continuing incidence of terrorism across the world suggests that much more needs to be done, before terrorist funds can be squeezed decisively.

Actions to defeat terrorism finance can be initiated against both state and non-state actors. It is important to emphasise that the former is more important to address and more difficult to curb. The focus of this brief is on the former, given the primacy of Pakistan as a state that employs terrorism as state policy, while simultaneously exploiting internationally proscribed terrorist groups.

Pakistan remains the most dangerous and potent threat, as it continues to wage a strategy of state terrorism not only against India but also against Afghanistan, despite the efforts of international organisations and individual countries. Pakistan has resorted to every possible option available to fund terrorism, from direct provision of money by state institutions to open and unrestrained collection of money by UN proscribed terrorist leaders.⁸ They have used the narcotics trade as a means of generating money. In addition, Fake Indian Currency Notes (FICN) have been printed in Pakistani state establishments for proliferation through a variety of means inside India.⁹ Pakistan has also abused trade as a means of generating and transferring money to fund terrorism.¹⁰

The recent decision of the FATF to take off Pakistan from the Grey List (Increased Monitoring), may give an indication of an improvement in its conduct as a responsible state. However, this is far from the reality. Pakistan has merely met the requirement of addressing immediate concerns raised by the Asia-Pacific Group, a FATF-like body which deals with the region that includes both India and Pakistan. This has been achieved by making changes in structures, laws and by displaying an improved effectiveness against terrorist groups and individual leaders by selective prosecution and sentencing of terrorists.

However, in an environment where individuals have a limited shelf-life and their objectives can be achieved by multiple proxies, including by the Pakistani state, such actions reflect a well-rehearsed ability of the state to run with the hares and hunt with the hounds. The questions that emerge in light of Pakistan’s removal from the Grey List are: Has Pakistan stopped the funding of terrorism, or have UN proscribed actors stopped their funding activities on Pakistani soil? The answer to both rhetorical questions is in the negative.

India has adopted a three-pronged approach towards Pakistan for its continuing funding of terrorism as state policy. This can be described as Diplomacy, Direct

⁸ Saurabh Gupta, [“Pakistan’s ISI Funds Terror Group Lashkar: 10 Reveals by David Headley Today”](#), *NDTV*, 9 February 2016.

⁹ Kartikeya Sharma, [“Pakistan Officially Printing Fake Indian Currency Notes”](#), *India Today*, 22 January 2014.

¹⁰ Tarun Upadhyay, [“Barter System in Cross-LoC Trade Defied Logic of Transparency, Accountability”](#), *Outlook*, 20 April 2019.

Action and Defensive Measures. The success of India’s diplomatic initiatives can best be seen in West Asia, where partner countries have lent their support in the fight against terrorism and its funding. This includes Saudi Arabia and United Arab Emirates as two prime examples.¹¹ If one was to look beyond the semantics of resolutions passed by the Organisation of Islamic Cooperation (OIC), countries within the region have cooperated with India to curb the funding of terrorism.

The decision of United States, United Kingdom, France and Germany to nominate Pakistan for its deficiencies in the FATF, which led to its inclusion in the Grey List, is yet another example of a concerted effort to make Pakistan pay for its misdeeds.¹² There is no major international event where state terrorism and the focus on Pakistan is not being highlighted, either directly or indirectly. This includes organisations like the Shanghai Cooperation Organisation, of which both China and Pakistan are members, as reinforced by Prime Minister Modi when he said, “There should be a code of conduct to prevent activities like cross-border terrorism and terror financing and also have a system for their prevention.”¹³

India has initiated direct action to challenge Pakistan’s previously unchallenged exploitation of low intensity wars within the spectrum of conflict. Unlike the past, major terrorist misadventures have been punished across the Line of Control (LoC). The action undertaken in 2016 post Uri terror strike, and in 2019 at Balakot, are clear indicators of India’s intent and red lines.

These measures successfully replaced the advantage of unpredictability that Pakistan held in the past. The aggressor was pushed on the back foot and forced to guess the scale and scope of future misadventures. It is therefore not surprising to find Pakistan desisting from undertaking major strikes post 2019. These measures along the LoC have been accompanied by equally successful operations against terrorist groups inside the country, especially in Kashmir. Security forces have successfully eliminated most of the major terrorist leaders and there has been a steady decline in the intensity of terrorist incidents.

India also undertook several defensive measures, which have made the fight against terrorism and terrorism finance more effective, for instance, strengthening the domestic counter-terrorism laws. Amendments have been made to the Unlawful Activities Prevention Act and the Money Laundering Act, to make them more stringent. The National Investigation Agency (NIA) has emerged as a highly specialised organisation, successfully spearheading terrorism-related investigation

¹¹ Elizabeth Roche, [“India, UAE Look to Expand Counter-terrorism Partnership”](#), *Mint*, 23 January 2017.

¹² Suhasini Haider and Devesh K. Pandey, [“Pakistan on Watchlist for Terror Financing”](#), *The Hindu*, 23 February 2018.

¹³ [“Prime Minister Narendra Modi’s Remarks for SCO-CSTO Outreach Summit on Afghanistan”](#), Narendra Modi, 17 September 2021.

and prosecution initiatives. It has developed expertise in technically challenging investigative techniques, to include forensic examination of counterfeit currency.

The Enforcement Directorate has been equally successful in attaching property and assets of terrorist groups and individuals involved in terror financing.¹⁴ The establishment of special courts has facilitated faster delivery of justice, thereby acting as a deterrent for terrorists and their supporters. Improvements in the functioning of the Multi Agency Centre (MAC) both at the Centre and State level has enhanced information sharing and analysis of intelligence.

At the global level, actions taken by the FATF aim to curb the abuse of the international financial system by terrorists. Over time, several initiatives have been taken, even as terrorist groups evolved to diversify their sources and expand the means of moving terror funds. Periodic reviews and sharing of best practices have led to the strengthening of mechanisms and constraining wilful deviations from it. The introduction of effectiveness measures based on FATF recommendations has allowed closer scrutiny of countries like Pakistan. It has forced Pakistan to ban proscribed organisations and prosecute and convict terrorist leaders.¹⁵

Concluding Thoughts

While several steps have been initiated to curb the funding of terrorism, it remains inadequate to force countries like Pakistan to give up terrorism as state policy, as has been seen over the years. The approach adopted by India and like-minded partner countries has created additional financial and diplomatic pressure on Pakistan. However, geopolitical interests and competing priorities have led to an easing of financial curbs on Islamabad. Pakistan’s exit from the FATF Grey List, resumption of military supplies from the US and continued support by China at international platforms to veto action against terrorist groups residing inside the country, does not bode well for the fight against terrorism.

Historical evidence suggests that terrorism does not recognise geographical boundaries and national identity. The cost of turning a blind eye towards terrorism or worse nurturing it as Pakistan has chosen to do, has always been high. Even as India has displayed the will and resolve to take on the challenge of terrorism, international cooperation in the real sense unfortunately remains work in progress. And until the world recognises the importance of uniting against this challenge, terrorists will continue to exploit the cleavages that exist within the fractured international approach.

¹⁴ Mahender Singh Manral, [“Terror Funding Case: ED Attaches Separatist Shabir Shah’s Srinagar House”](#), *Indian Express*, 4 November 2022.

¹⁵ [“Pakistan ‘Lacks Effectiveness’ on Four Goals Linked to FATF: Report”](#), *Business Standard*, 13 September 2022.

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