

Cutting the Purse Strings: Terror Financing in Kashmir

Introduction

India has allocated a significant amount of resources towards counter terrorism. Several intelligence units have been deployed to trace terror groups, their leaders, actions, plans. Adequate state funds have been sanctioned to mitigate these threats from their roots in Jammu and Kashmir (J&K)—a region which has experienced terrorism in its most violent and horrendous form. Yet, the overall response, lags behind. It is often attributed that the reason terrorism breeds in J&K is religious propaganda and Pakistan's covert action, a critical factor sustaining it is the uninterrupted flow of money. Covert funds used to finance terrorism are referred to as financial terrorism. After the 2001 Parliament attack, India began focusing more seriously on curbing terror funds. Over time, it became clear that money forms the backbone of terrorism. Regular finances help terror groups to maintain their operational costs, and disseminate their ideological propaganda. The ecosystem of financial terrorism has a decentralised, yet resilient and sophisticated structure, system and linkages, making it difficult for New Delhi to track and dismantle them.

Crucially, terror financing is inextricably linked with criminal activities. Terrorists often engage in smuggling, extortion, human trafficking and counterfeiting to sustain their operations. This has given rise to the crime-terror nexus. Tracing and disrupting terrorist finances will not only eliminate terrorist activities, it will also weaken the ecosystem of criminal activities.

Financial Lifelines of Terrorism

Terror groups have relied on a multitude of avenues to fund their operations—both legitimate and illegitimate. A significant portion is derived from lawful means, like directing charities, donations towards terrorist activities. A notable segment of funds is channeled through illegitimate sources like extortion, smuggling of goods, human trafficking, production and dissemination of fake currency, and illicit drug trade, due to geographical proximity with the golden crescent.

In 2021, National Investigation Agency (NIA) snagged a drug trafficking network in Handwara, Kashmir, recovering INR 91 lakhs, which were reportedly intended to finance Hizbul Mujahideen (HM) and Lashkar.¹ Inter-Services Intelligence (ISI) has used narcotics profits to sponsor anti-India activities. As the nexus between terrorism and narcotics deepens, India's vulnerability to narco-terrorism also increases. Massive sale of illegal drugs has also tormented the socio-economic fabric of the region. In 2024, 289 kgs of contraband goods were seized by J&K Police.² Terror groups coerce local

businessmen, traders, and officers through acts of violence, kidnapping and arson, compelling them to pay ransom money or protection money. In 2021, Lashkar-e-Taiba (LeT) suspects attacked local apple traders and drivers, which severely disrupted the horticulture sector.³

The pervasive circulation of Fake Indian Currency Notes (FICNs) constitutes a significant pillar of terror financing. These counterfeit notes are mass-produced in Pakistan, and trafficked into India via Nepal, Bangladesh through land and maritime borders.⁴ FICNs are used to procure weapons and ammunition, pay recruits, and cover operational costs. They are also injected into the legal economy, fostering criminal activity and complicating efforts to trace and curb their flow. In 2023, 20,500 fake currency notes⁵ were seized in J&K, though the number has significantly gone down from 8,817,271 notes in 2022.⁶ It necessitates a deeper examination of the various modes that terrorists employ to mobilise their funds.

Mechanisms for Fund Mobilisation

Over the decades, terrorists have modified their financial strategies by employing various modes to channel funds, moving beyond the traditional *Hawala* (money laundering) system to setting up shell companies and exploiting digital mechanisms. In 1991, Ashfaq Hussain Lone—alleged deputy intelligence chief of HM was interrogated by the security forces, during which he revealed that the group adopted the hawala system to transfer large sums of money.⁷ This led to a major crackdown by the Central Bureau of Investigation (CBI) culminating in raids across several locations, which became the infamous Jain Dairy. CBI seized more than INR 68,50,000, and recovered two diaries detailing hawala transactions with 115 individuals⁸, including militants.

With time, shell companies became a viable mode to covertly fund money. In 2017, NIA filed cases against leaders of Jaish-e-Mohammed (JeM), LeT, HM, and Dukhtaran-e-Milat for allegedly receiving funds from ISI to fuel unrest in Kashmir. Zahoor Ahmad Shah Watali, a Kashmiri businessman, was identified as a key intermediary in this network. He established various off-shore companies like Trison Farms and Constructions Pvt. Limited (TPFCL), Trison International, Yasir Enterprises, 3Y, Kashmir Veneer Industries and Three Star to transfer money from Pakistan to Hurriyat Conference. The money was used to sponsor stone-pelters, thus, weakening administrative governance and public order.⁹ Terrorists usually set up import-export shell companies to fabricate fake invoices and transfer fraudulent money. Watali's Trison Farms and Constructions Private Limited leased a non-existing property in Budgam for INR 6 cr, payments were made in 22 installments between 2013 to 2016¹⁰, suspected to have been used to support terrorism.

Various charitable and welfare institutions have been ostensibly involved in terror financing. The Al Rasheed Trust, set up by Maulana Masood Azhar in Karachi, initially funded Taliban, JeM, LeT. The trust published advertisements in Pakistan, soliciting donations on the pretext of welfare activities in Kashmir.¹¹ The United States State Department listed the trust as a financier to international terror groups.¹² Madrassas are widely used to conceal terror financing, there are around 400 madrasas in J&K as per 2024 data.¹³

Another method cybercriminals use is mule accounts, which exploit the vulnerabilities in the banking system. Bank accounts, which are typically associated with weaker sections of society, are accessed using stolen banking credentials to move illicit funds around. Funds are quickly transferred, usually within 72 hours, in small payments not exceeding INR 1 lakh, to evade detection.¹⁴ In Apr 2025, Srinagar Police identified 7,200 such accounts used for suspicious transactions.¹⁵ It is possible that these accounts were used by terrorists to obscure their financial trail.

The evolution of terror financing reflects sophisticated technological advancements. What began with physical hawala transactions has expanded into the digital domain. In recent years, cryptocurrency has come out as a new mode to disburse funds. In 2024, the J&K State Investigation Agency (SIA) identified an individual, who transferred money from Pakistan to local agents in Kashmir via Bitcoin.¹⁶ Groups leverage from layered transactions, proxy networks and cross-border transactions to erase their financial footprints. Bangladeshi terror groups like Ansar Al Islam (AI) and Ansarullah Bangla Team (ABT), had reportedly transferred bitcoins to terror outfits in Kashmir. Terror outfits have also been receiving funds through cryptocurrencies from Gulf countries since 2014.¹⁷ The Popular Front of India, though not active in Kashmir, has used QR codes to gain money under digital crowdfunding campaigns.¹⁸ Despite their technological enhancement, terrorists continue to rely heavily on conventional modes of funding.

India's Countermeasures

India has taken multi-pronged measures combining legislative reforms, technical advancements, strengthening institutional structures and international cooperation. Unlawful Activities (Prevention) Act, 1967, was amended in 2012, to align with the global standards of the Financial Action Task Force (FATF). The amendment criminalised raising terror funds from both legitimate and illegitimate sources.¹⁹ Prevention of Money Laundering Act, 2002 (PMLA) allows for investigation related to money laundering.

At institutional level, Financial Intelligence Unit- India (FIU-IND) was created, a national agency responsible for receiving and sharing information pertaining to suspicious transactions. FIU-IND is forming a Permanent Working Group on Terror Financing Identification, bringing experts from various disciplines to bolster counter-measures. The Ministry of Home Affairs created the Fake Indian Currency Note Co-ordination Centre (FCORD) to combat terror-financing nexus. NIA established Terror Funding and Fake Currency (TFFC) Cell to specially disrupt extremist funding.²⁰

The NIA hosts the yearly Anti-Terror Conference (ATC) to strengthen coordination between the police forces and enforcement agencies.²¹ In parallel, regulatory and technological initiatives have been undertaken by the Reserve Bank of India (RBI), RBI's Innovation Hub initiated a MuleHunter AI, to trace suspected mule accounts.²² Know Your Customer has been introduced to enhance customer security. A Task Force on Shell Companies was created by Prime Minister's Office address related threats.²³²⁴ While these efforts are not specifically directed towards countering terror financing, their components indirectly strengthen India's anti-terror architecture.

The government has taken several multilateral measures to counter terror financing. India hosted the 3rd No Money for Terror (NMFT) Conference in New Delhi, 2022²⁵ and participated in the 4th NMFT Conference in Munich, 2025.²⁶ India and Bangladesh signed a Memorandum of Understanding to counter fake currency notes.²⁷ India maintains membership at the FATF, the Asia/Pacific Group on Money Laundering, and the Eurasian Group on Combating Money Laundering and Financing of Terrorism.²⁸ India's FIU-IND is a part of the Egmont Group,²⁹ a network of 159 financial intelligence units.³⁰

Recommendations

India currently relies on a multi-legislation framework to address terror financing, lacking a streamlined and unified approach. This fragmentation creates jurisdiction overlap between various institutions, delayed coordination and inconsistent enforcement across cases. Establishing a comprehensive, umbrella law/ body can optimise India's efforts and strengthen the overall apparatus.

It is necessary to provide capacity building and training to law enforcement, intelligence and police agencies, even at the grassroot level to enable them to identify and report terror financing effectively. It is critical to provide continuous training to keep pace with changing tactics used by terrorist groups. Increased monitoring over charitable organisations, social media, and companies can prevent misuse of the funds. Artificial

Intelligence, Machine Learning, and big data can be leveraged to improve detection and investigation of suspicious financial activities tied with terrorism.

Conclusion

India was late in recognising the criticality of terror financing, which impacted New Delhi's efforts and effectiveness. The financial resources directed towards countering financial terrorism often surpass the actual amount of money that terrorists use for their operations.³¹ This disparity highlights the need to develop economically viable strategies and solutions. Building resilient measures to sever terrorists from their purse strings is the first step towards counter-terrorism.

Endnotes

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