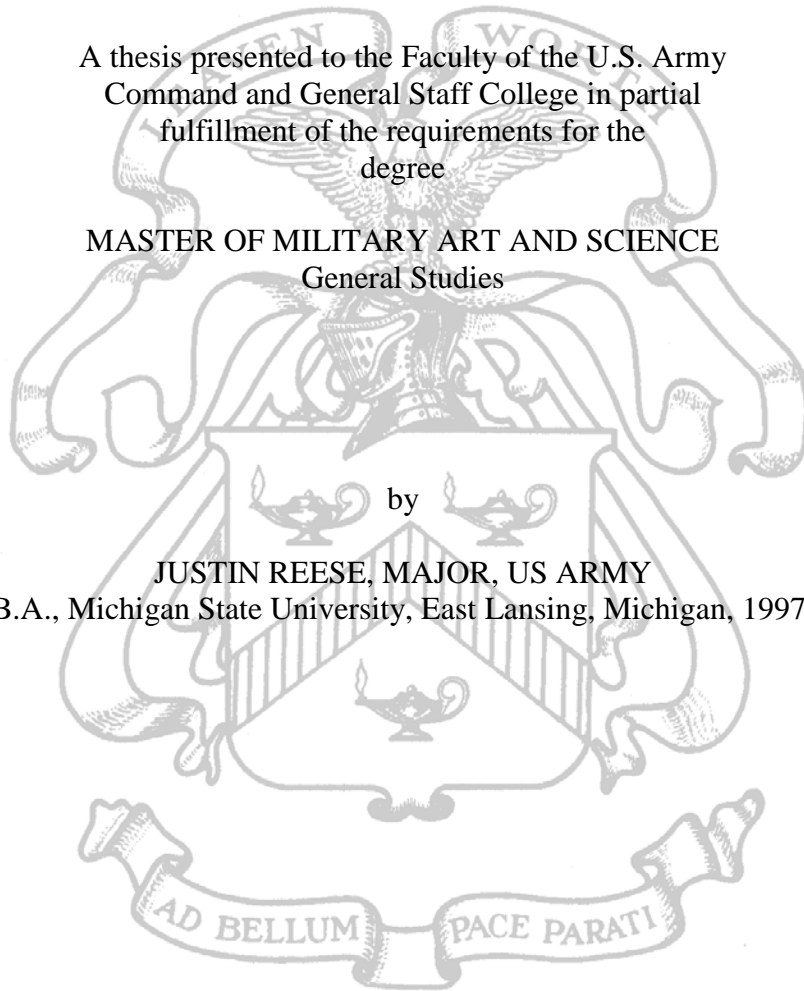


FINANCING THE TALIBAN: THE CONVERGENCE  
OF UNGOVERNED TERRITORY AND  
UNOFFICIAL ECONOMY

A thesis presented to the Faculty of the U.S. Army  
Command and General Staff College in partial  
fulfillment of the requirements for the  
degree

MASTER OF MILITARY ART AND SCIENCE  
General Studies

by  
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The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

## ABSTRACT

FINANCING THE TALIBAN: THE CONVERGENCE OF UNGOVERNED TERRITORY AND UNOFFICIAL ECONOMY, by Justin Reese, 91 pages.

The present challenge to the nation-state system broadly, and USG specifically, consists of non-state actors operating within the context of weak governance and unofficial economy. This thesis explores USG effectiveness in disrupting terrorist or insurgent attempts to exploit financial asymmetry against the United States. The phenomenon of terrorist financing and the associated destabilizing attributes of counter-state organizations provide significant challenges to U.S. security. Terrorist financing relies upon both formal and informal value transfers enabled by access to sources of financing unique to the respective economic environment. Contemporary conflicts such as Afghanistan and Iraq illustrate the enemy's ability to adapt operations based upon cost efficiency models in an attempt to conduct operations that maximize potential cost to value ratios in their favor. The Taliban are an example of the organizational resiliency possible through sustained financing efforts and serve as a contemporary model for the study of USG counter-finance policy. USG counter-finance actions against terrorist organizations must be pursued with diligent fervor to detect and disrupt value streams associated with the adversarial threat.

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## ACRONYMS

CC	Critical Capabilities
CFI	Counter-Finance Instruments
COG	Center of Gravity
CR	Critical Requirements
CV	Critical Vulnerabilities
GOA	Government of Afghanistan
OSW	Open Source Warfare
USG	United States Government



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## CHAPTER 1

### INTRODUCTION

A revolutionary organization engaged in an armed struggle is inherently inefficient, a price paid for the capacity to persist.<sup>1</sup>

— J. Bowyer Bell, *Revolutionary Dynamics*

From one of the world's most remote and backward regions, where the transport network and infrastructure is almost completely shattered, they have managed to integrate an agricultural product—albeit illegal—into the global economy. From importing precursor chemicals to giving loans to thousands of small farmers to providing security for shipments as they move across borders, this is an organizational feat of the very highest order. And it's all about making money.<sup>2</sup>

— Gretchen Peters, *Seeds of Terror*

The purpose of this research was to ascertain whether U.S. counter-finance initiatives directed towards terrorist organizations are producing a desired effect upon a defined enemy. This chapter deals with introducing the major themes associated with this study. There are eight major sections in this chapter. The first section consists of the introduction outlining the major sections appearing within chapter 1. The second section is background information to establish a broad contextual framework for this research. The third section describes the research problem. The fourth section identifies the assumptions relied upon throughout this study. The fifth section consists of definitions for key terms or concepts associated with this study. The sixth and seventh sections address the limitations and delimitations of this thesis, respectively. The eighth section illustrates the significance of this research.

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<sup>1</sup>J. Bowyer Bell, "Revolutionary Dynamics: The Inherent Inefficiency of the Underground," *Terrorism and Political Violence*, 1556-1836, 2, no. 2 (1990): 193-211.

<sup>2</sup>Gretchen Peters, *Seeds of Terror: How Heroin is Bankrolling the Taliban and al Qaeda* (New York, NY: St. Martin's Press, 2009), 144.

## Background

The trend of weak governance and lack of regulated economy permeate the debate revolving around the contemporary problem set. One of the challenges confronting the nation-state system broadly, and USG specifically, consists of non-state actors. The victim in each case is stability, regardless of the type of non-state actor. This is illustrated through various works suggesting everything from “global insurgency,” as presented by David Kilcullen, conflict between core and gap states requiring innovative organizational solutions such as Thomas Barnett’s “sysadmin force,” to the very real crisis of the nation-state in the midst of contemporary globalization portrayed in the works of Mark T. Berger, Amy Chua, Benjamin Miller, Jan Narveson, J.P. Singh, Pankaj Ghemawat, Philip Bobbitt, Saskia Sassen, Sumit Roy, Toby Dodge, and others. Regardless of the descriptive semantics involved, the realities of dealing with global instances of instability have moved to the forefront of U.S. national policy and exacted a significant human and economic cost upon finite national resources.

The United States (U.S.) fields a conventional military force without equal in the contemporary operational environment. As a result, potential adversaries pursue asymmetric approaches to conflict in order to exploit identified weaknesses in U.S. conventional capabilities. One example of “a key adversary advantage in confronting U.S. conventional superiority is asymmetry of cost.”<sup>3</sup> Contemporary conflicts such as Afghanistan and Iraq illustrate the enemy’s ability to adapt operations that maximize potential cost to value ratios in their favor. Intermittent low cost operations resulting in

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<sup>3</sup>David Kilcullen, *The Accidental Guerilla: Fighting Small Wars in the Midst of a Big One* (New York: Oxford University Press, 2009), 25.

spectacular 9-11 type effects or low-tech easily sustainable improvised explosive device campaigns are designed to exploit financial asymmetry. Financial asymmetry is one characteristic of the modus operandi of the contemporary threat representative of the “systems disruption” campaigns actively pursued against states.<sup>4</sup> This threat posed by systems disruption is both formidable under the auspice of globalization and cost efficient for the perpetrators. John Robb explains this relationship between financial asymmetry and systems disruption in *Brave New War* stating:

When a system collapses, it amplifies the damage of the attack and provides rates of return up to a million times the initial investment (the cost of the attack). Within the structure of economic analysis, this means that the investment made in an attack can yield returns on investment (ROIs) equal to a million times the cost.<sup>5</sup>

Financial asymmetry will remain a challenge for United States government (USG) policy development and military action well into the 21st century. Financial asymmetry is the underlying theme for both value creation and distribution with regards to the contemporary threat. The importance of financing for the terrorist organization drives the need for focused and synchronized counter-finance policy. Each case of terrorist financing is unique based on myriad factors ranging in both scale and scope exacerbated more so given the context of U.S. led globalization. Standardized methods to finance terrorist organizations appear in those instances where illicit transnational trade or services overlap. For the most part, terrorist financing appears as a method distinct to each terrorist organization due mainly to the economic environment the terrorist

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<sup>4</sup>John Robb, *Brave New War: The Next Stage of Terrorism and the End of Globalization* (Hoboken, NJ: John Wiley and Sons, 2007), 95.

<sup>5</sup>Ibid., 98.

organization is operating in or attempting to derive profit. The current economic environment then, provides terrorist organizations with options for raising finances and organizational survival not unlike those faced by a small business starting up within a hostile market. The terrorist organization must demonstrate the ability to compete with not only legitimate forces at work in the economic environment, but also against all those unregulated and criminal enterprises attempting to generate their own profit and sustenance. This situation alone may explain why the vast majority of insurgencies and terrorist organizations fade away so quickly. The terrorist organization that survives over time is a true testament to the resiliency of the membership.

The post 9-11 environment has produced sweeping reform in the areas of counter-terrorism in an attempt to meet the problem with a whole of government approach. Executive orders and legislation from the USG designed to disrupt and reduce terrorist financing reflect a growing awareness of the importance of shaping the economic environment to counter activities of terrorists and other destabilizing actors. USG counter-terror efforts serve to disrupt terrorism by isolating the terrorist organization from external enablers while collecting information that may aid intelligence, military, and law enforcement efforts to neutralize threats emanating from the terrorist threat. “The hope is that by cutting terrorist funding streams, one not only limits the tactical scope and capabilities of terrorist organizations but also creates a valuable intelligence tool to illuminate terrorist networks and their clandestine financiers.”<sup>6</sup> These policy actions have led to significant reform in the legitimate banking and financial institutions of the United

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<sup>6</sup>Lee Hamilton et al., *State of the Struggle* (Washington, DC: Council on Global Terrorism, 2006), 18.

States. This reform is representative of the need to target and disrupt terrorist organizations before an attack is realized illustrating a tremendous departure from the previously practiced postmortem response that relied heavily upon designating and freezing assets.

### Problem

The threat challenging the relative subsistence of the U.S. in the present and foreseeable future exists in the ambiguous space of the unregulated and ungoverned. These unregulated and ungoverned environments exist in those territories branded as weak, failed, or failing states. The political and economic instability posed by weak, failed, or failing states enable non-state actors to pursue counter-state agendas. Non-state actors in their present form pose a formidable challenge to the state due to globalization (decreasing relevance of the state) that is compounded by the decentralization of economic power.<sup>7</sup> The unofficial economic space and the ungoverned political space of a state offer opportunity for establishing and growing counter-state organizations that challenge the legitimacy of recognized governance. These counter-state organizations challenge the state through pursuing growth in a manner inconsistent with the established norms of political practice. This may result in destabilizing practices such as insurgency, terrorism, or civil war. The one consistent theme among the growth of counter-state organizations is the fiscal requirement to support growth in the form of people, guns, and money. The Taliban offers a useful case study of an organization that has exploited weak and ungoverned spaces for financial benefit resulting in resilient growth under some of

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<sup>7</sup>Robb, *Brave New War: The Next Stage of Terrorism and the End of Globalization*, 17-21.

the most hostile organizational conditions in the contemporary environment. The problem is how to orchestrate counter-finance initiatives that prohibit counter-state organizations from challenging state capabilities to provide effective governance.

### Research Questions

The primary research question is whether U.S. government counter-finance initiatives aimed at the Taliban are producing a desired effect upon the Taliban organization. The secondary research question is have the sources and movement of finances for the Taliban been effectively disrupted?

### Assumptions

There are four major assumptions associated with this thesis. First, the Taliban continue to demonstrate resiliency by possessing a variety of financial mechanisms in order to diversify their sources of income as a measure of survivability within a hostile environment. Second, the Taliban continue to be an adaptive enemy in order to meet the fiscal needs of their organization in spite of USG efforts to disrupt Taliban financing. Third, the USG continues to develop and promote counter-terrorism and counter-insurgency policy designed to disrupt both the supply and demand side of the problem. Fourth, the USG will remain significantly engaged in Afghanistan for the foreseeable future.

### Definitions

Economic environment: The economic space available to the threat organization for value creation and distribution. For the purpose of this thesis the economic environment is mainly defined by Afghanistan, although some mention is made to



various economic indicators from Pakistan due to the geographic disposition of the Taliban.

Failed or failing state: Robert Rotberg states that:

If a nation-state merely controls its capital city, if it cannot project power to the periphery, if it does not have a monopoly on the use of force within its borders, and if it cannot repress secessionists and potential rebels, then the nation-state has failed or is verging on failure.<sup>8</sup>

State: “A state is perhaps best defined as an organization, or set of organizations, that attempts, and claims the right, to monopolize the legitimate use of violence in an extended territory.”<sup>9</sup> The state is further defined conceptually as sovereignty based upon a double-compact consisting of:

The first--and most critical--compact is between a state and its citizens, providing and enforcing citizenship rights, embedded in a coherent set of rules that do not remain on paper but become the actual rules of the game. The second compact is between a state and the international community to ensure adherence to international norms and standards of accountability and transparency.<sup>10</sup>

Systems Disruption: A method of warfare which focuses on disrupting the critical systems of a state to inflict economic costs upon the target state.<sup>11</sup>

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<sup>8</sup>Robert I. Rotberg, “The Challenge of Weak, Failing, and Collapsed States,” in Chester A. Crocker, Fen Osler Hampson, and Pamela Aall, eds., *Leashing the Dogs of War: Conflict Management in a Divided World* (Washington, DC: United States Institute of Peace, 2007), 85.

<sup>9</sup>Jeff Goodwin, *No Other Way Out: States and Revolutionary Movements, 1945-1991* (New York, NY: Cambridge University Press, 2001), 12.

<sup>10</sup>Ashraf Ghani and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World* (New York, NY: Oxford University Press, 2008), 8.

<sup>11</sup>The “system” according to John Robb is either the “infrastructure system or a marketplace.” Disrupting the infrastructure systems serves to disrupt flow resulting in financial loss or supply shortages (think oil-pipeline disruption). Disrupting the marketplace serves to introduce inefficiency and chaos in order to destabilize the

Terrorists and Insurgents: Those organizations using “violence against non-combatants to achieve a political goal.”<sup>12</sup> Insurgents tend to target the government directly while terrorists attempt to target the government indirectly through direct targeting of the populace. Gordon H McCormick sums up nicely the major dynamics involved in an insurgency stating, “an insurgency is a struggle for power (over a political space) between a state (or occupying power) and one or more organized, popularly based internal challengers.”<sup>13</sup>

Threat financing: An umbrella term to capture the sources of finances and movement of finances for terrorism, insurgency, and revolutionary movements.

Ungoverned space: Political space that is out of reach of the recognized central government due mainly to state capacity.

### Limitations

One major limitation to the scope of this thesis is that it relies upon open source research concerning Taliban financing and USG efforts to disrupt this financing. This thesis is based on contemporary literature concerning terrorism, insurgency, and threat financing purposely avoiding contributions made prior to 1945. This approach is based upon the policy implications resulting from global mechanisms and organizations

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marketplace (attacks upon Twin Towers). John Robb, *Brave New War: The Next Stage of Terrorism and the End of Globalization*, 95-96.

<sup>12</sup>Jeanne K. Giraldo and Harold A. Trinkunas, eds., “The Political Economy of Terrorism Financing,” in *Terrorism Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007), 8.

<sup>13</sup>Gordon H McCormick, et al., “Things Fall Apart: The Endgame Dynamics of Internal Wars,” *Third War Quarterly* 28: 2, 321-367 (London, UK: Routledge, 2007), 322.

introduced in the post WWII environment. The data used to determine findings within the Taliban case study will not contain data from 2008 to present since this data is still largely defined through estimates. Additionally, this thesis illustrates only those counter finance initiatives promoted by or subject to USG participation.

### Delimitations

This thesis does not explore the various aspects of counter-insurgency except as it relates to disrupting financial inputs for an insurgency. Specifically, this thesis does not offer commentary on the broader USG strategy in reference to the contemporary mission in Afghanistan, except as it relates to disrupting the financing of the Taliban. In addition, this thesis does not address counter-finance strategy from other governments that is not directly linked to USG efforts to disrupt threat financing. This thesis acknowledges the existence upon the battlefield in Afghanistan of numerous insurgent groups and criminal organizations, which conduct activity that may be beneficial to the Taliban in aggregate fashion. For the purposes of this thesis then, these organizations are considered part of the Taliban movement even if associated only by faint linkages upon the periphery of the organization. This thesis does not address Afghani Talib and Pakistani Talib separately, but will treat them as aggregate under the label Taliban.

### Significance

The significance of this research topic appears to grow in relation to the size of the spotlight upon USG efforts in Afghanistan. Articles, books, testimony, policy, strategy, statistics, and data have all recently permeated the literary landscape due to the USG shift in political focus to Afghanistan. This fifteen minute fame effect upon foreign

policy in Afghanistan is compounded by the increased resource allocation to the area, as well as, the diminishing headline value associated with Iraq.

Terrorist financing is crucial to USG efforts to combat terrorism and conduct counter-insurgency operations. A sound counter-finance policy should seek to sever the linkages between the supply side and the demand side of terrorism, insurgency, or counter-productive revolutionary movements. An analysis of the Taliban is important due to the significance of Taliban influence upon USG efforts to introduce stability in Afghanistan. The combination of al-Qaeda and Pakistan's nuclear arsenal elevates the Taliban problem to "an extremely serious threat to the international community and to our entire strategic position."<sup>14</sup> The resilient nature of the Taliban suggests a variety of financing mechanisms have been relied upon over the years and illustrates the ability of a threat to adapt to the numerous USG efforts to disrupt these financial inputs. David Kilcullen's assumption that the Taliban are employing an "exhaustion strategy"<sup>15</sup> underscores the importance of financing to sustain their strategy while simultaneously representing a key vulnerability if met by the right set of counter-finance initiatives.

This thesis contributes to the contemporary debate concerning the resiliency of the Taliban by consolidating many of various sources of Taliban financing, as well as the

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<sup>14</sup>Kilcullen, *The Accidental Guerilla: Fighting Small Wars in the Midst of a Big One*, 52.

<sup>15</sup>The Taliban strategy consists of "sapping the energy, resources, and support of the Afghan government and its international partners, making the country ungovernable and hoping that the international community will eventually withdraw in exhaustion and leave the government to collapse under the weight of its own lack of effectiveness and legitimacy." Kilcullen, *The Accidental Guerilla: Fighting Small Wars in the Midst of a Big One*, 52.

USG efforts to disrupt these inputs. Such a study may offer insight towards collective policy design for future strategies in combating threat financing.

### Summary

This chapter defined the problem requiring research as whether U.S. government counter-finance initiatives aimed at the Taliban are producing a desired effect upon the Taliban organization. In addition, this chapter illustrated the major thematic associations appearing throughout the rest of this body of work in sections that consisted of background, definitions, assumptions, limitations, delimitations and the significance of disrupting terrorist financing. The next chapter is a literature review to illustrate the current debate concerning terrorist financing. This review of literature describes the terrorist organization, structure and aims of the terrorist organization, terrorist financing, and USG counter finance initiatives.

## CHAPTER 2

### LITERATURE REVIEW

#### Introduction

The purpose of this study was to ascertain whether U.S. counter-finance initiatives directed towards the Taliban are producing a desired effect against this defined enemy organization. The aim of this chapter is to provide a synopsis of contemporary literature concerning terrorist financing. This chapter has six major sections. The first section consists of the introduction in order to provide the purpose of chapter 2 as well as outline the content associated with this chapter. The second section defines the counter-state organization. The sources describe counter-state organizations as either terrorist or insurgent organizations. The third section illustrates the organizational structure and aims of the terrorist organization. The sources describe the organizational structure of the terrorist organization as a network and suggest the aims of the terrorist organization are rooted in the pursuit of a political agenda. The fourth section emphasizes the importance of terrorist or insurgent organizational identification to facilitate understanding of the associated financing models and illustrates the major sources of terrorist financing. The literature categorically defines the major sources of financing for the terrorist organizations as either legitimate or illegitimate sources. The fifth section describes the current state of affairs in countering terrorist financing in order to illustrate the policy options currently practiced by the USG. The sources illustrate practices associated with targeting both the sources of financing available to the terrorist organization as well as the methods employed by the terrorist organization to distribute value. The sixth section consists of the summary for the literature review. The purpose of this section is to review

the major themes associated with terrorist financing presented within the literature review.

Substantial literature exists in reference to the nature of threat financing in the form of books, journal articles, and news reports. Additionally, USG agencies such as the Treasury Department, State Department, National Counter-terrorism Center (NCTC), to name just a few, publish policy material as it relates specifically to disrupting threat financing. With specific reference to the Taliban, a few solid works exist which describe the history of the Taliban from both a pre-U.S. invasion and a post-U.S. invasion perspective. Current literature concerned with Taliban financing reflects a narrow focus upon a particular fiscal mechanism.

#### The Counter-State Organization

The counter-state organization is representative of both terrorist and insurgent organizations. While there are conflicting arguments as to whether the difference between terrorism and insurgency is subtle or stark in contrast, the majority of literature suggests there is indeed a difference. An understanding of how these two types of organizations are resourced contribute to the development of both common preventive policy and acute policy tailored for specificity as required.

The literature suggests that there are indeed differences between terrorist and insurgent organizations. These differences are important for defining the context of the counter-state organization and the funding sources that influence their behavior.

“Insurgencies are typically territorially based organizations that field an army in an effort

to create an alternative system of government.”<sup>16</sup> Insurgencies derive power from a demographic base relying upon a “combination of subversion, terrorism, guerilla warfare, and propaganda” to achieve their goals.<sup>17</sup> The ties between an insurgency and the populace may lead to parallel governance structures that subject an insurgent organization to the ebb and flow of domestic popular support.<sup>18</sup> This territorial alignment and counter-state agenda suggests a higher sustained demand for funding insurgencies versus terrorist organizations. Additionally, “insurgent control of territory creates opportunities for taxing the population and activities under the groups control, mechanisms less likely to be available to terrorists.”<sup>19</sup>

An understanding of the counter-state organization is critical in developing an understanding of how the organization generates funds for operations and growth. Counter-state organizations, whether terrorist or insurgent, have structurally adapted over time in pursuit of both efficiency and survival, yet maintain the same basic goal-oriented principles.

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<sup>16</sup>Giraldo and Trinkunas, eds., “The Political Economy of Terrorism Financing,” in *Terrorism Financing and State Responses: A Comparative Perspective*, 8-9.

<sup>17</sup>Kilcullen, *The Accidental Guerilla: Fighting Small Wars in the Midst of a Big One*, 12.

<sup>18</sup>State shell aberrations refer to the existence of parallel governance structures that are managed by counter-state organizations and usually exist beyond the reach of legitimate government. Demographic driven dynamics illustrate the links between the insurgency and domestic popular support.

<sup>19</sup>Giraldo and Trinkunas, eds., “The Political Economy of Terrorism Financing,” in *Terrorism Financing and State Responses: A Comparative Perspective*, 9.



## Organization and Aims

The terrorist organization has evolved to a more flattened structure due to the vulnerability associated with a rigid hierarchal organization against state countermeasures. There is consensus among contemporary writings in describing the current organizational structure of the terrorist organization to be a network based upon centralized planning and decentralized execution.<sup>20</sup> For example, a terrorist organization's network may consist of nodes, which may consist of a headquarters, affiliated organizations, seeded organizations, homegrown self-starters, and a pool of sympathizers.<sup>21</sup> These nodes are interconnected by a series of linkages based upon a myriad of variables from personal relationships and ideology, to opportunistic commonality in stated objectives. With specific reference to al-Qaeda, the Council on Global Terrorism describes the organization as a biological model both ill defined and resilient.<sup>22</sup> "Think of the global Islamic Jihadist movement like water that ebbs and flows and occasionally coagulates and freezes into ice in places such as Sudan and Afghanistan, only to melt again under pressure."<sup>23</sup> This passage is representative of Marc Sageman's

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<sup>20</sup>Lawrence Wright, *The Looming Tower: al-Qaeda and the Road to 9/11* (New York, NY: Alfred A. Knopf, 2006).

<sup>21</sup>Lee Hamilton, et al., *State of the Struggle* (Washington, DC: Council on Global Terrorism, 2006), 4.

<sup>22</sup>*Ibid.*, 5.

<sup>23</sup>*Ibid.*

portrayal of densely interconnected terrorist networks that are inherently resilient due to their ability to resist fragmentation.<sup>24</sup>

The dynamics of non-state actors and their effective use of networks against hierarchal-based organizations is representative of John Robb's "open source warfare." Robb presents his analogical case for open source warfare through comparing contemporary insurgency with the open source methodology for software development. Open source warfare is built upon the premise that contemporary insurgents are organized in a decentralized fashion and may contribute to the insurgency independently though preferably in a manner consistent with furthering the central theme of the particular insurgency.<sup>25</sup> This is representative of a recent article stating, "the word 'Taliban' has become a catch-all phrase that means Islamic bad guy. It is a brand--the McDonald's of militants--that seems to have been rendered almost meaningless from overuse."<sup>26</sup> The terrorist organization adhering to open source warfare principles may be difficult to identify and isolate for acute counter-finance strategies, depending upon the scale of analysis used in developing an understanding for environments such as Afghanistan.

The potential for long-term sustainability of an insurgency utilizing open source warfare against a state is extremely high due to the dissolution of a formal organizational

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<sup>24</sup>Marc Sageman, *Understanding Terror Networks* (Philadelphia, PA: University of Pennsylvania Press, 2004), 140.

<sup>25</sup>Robb, *Brave New War: The Next Stage of Terrorism and the End of Globalization*, 113-116.

<sup>26</sup>Sabrina Tavernise, "Who are the Taliban?" *At War NYTimes.com* (accessed August 17, 2009).

structure favored when external sponsorship of an insurgency is the primary fund source. The difficulty facing the state counter-insurgency effort lies in pursuing vast numbers of small insurgent organizations who create instability through their aggregate contribution. Dismantling clandestine networks is challenging in its own right, and now according to Robb, even more difficult when compounded by linkages defined only by a common “plausible promise.”<sup>27</sup> Open access and independent contributors inherent in open source warfare plays upon the asymmetric advantages of a terrorist or insurgent organization and facilitates local finance mechanisms. These local financing mechanisms in turn raise acute amounts of funds for operational necessity, which are difficult to disrupt due to size and variety. Such an approach to insurgency creates threats as the insurgency grows to challenge the state incrementally requiring more centralized authority backed by consolidated resources.

Jessica Stern and Amit Modi portray the terrorist organization as a business group or firm in order to advance their organizational analysis concerned with “the production and purchase of terrorism.”<sup>28</sup> Figure 1 depicts the terrorist organization utilizing the organizational terminology derived from this business group or firm model. The inputs of the terrorist product are capital, labor, and brand.<sup>29</sup> “For terrorist groups, capital includes such things as weapons, camps, equipment, factories, and the physical plants for any

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<sup>27</sup>Robb, *Brave New War: The Next Stage of Terrorism and the End of Globalization*, 116.

<sup>28</sup>Jessica Stern and Amit Modi, “Producing Terror: Organizational Dynamics of Survival,” in *Countering the Financing of Terrorism*, Thomas J. Biersteker and Sue E. Eckeret, eds. (New York, NY: Routledge, 2008), 19.

<sup>29</sup>*Ibid.*, 22.

business run by the terrorist firm.”<sup>30</sup> Labor refers to those individuals associated with the terrorist firm from leaders to operators.<sup>31</sup> The incentives associated with generating collective action may include both material incentives such as cash and “non-material incentives in the form of spiritual and emotional rewards.”<sup>32</sup>

The terrorist product is representative of “violence in the service of a collective goal.”<sup>33</sup> The number of attacks or the symbolic importance of a particular target, or in other words quantity and quality may further categorize the terrorist product.<sup>34</sup> The terrorist products are the means used to achieve the terrorist organizational goals. These goals may be defined by the terrorist organization in either “purely instrumental (aiming to achieve something) to the purely expressive (aiming to communicate something) and from promoting a mission to promoting the wealth or personal power, identity, or enjoyment of the participants.”<sup>35</sup>

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<sup>30</sup>Ibid.

<sup>31</sup>Ibid.

<sup>32</sup>Ibid.

<sup>33</sup>Ibid., 21.

<sup>34</sup>Ibid.

<sup>35</sup>Ibid., 23.

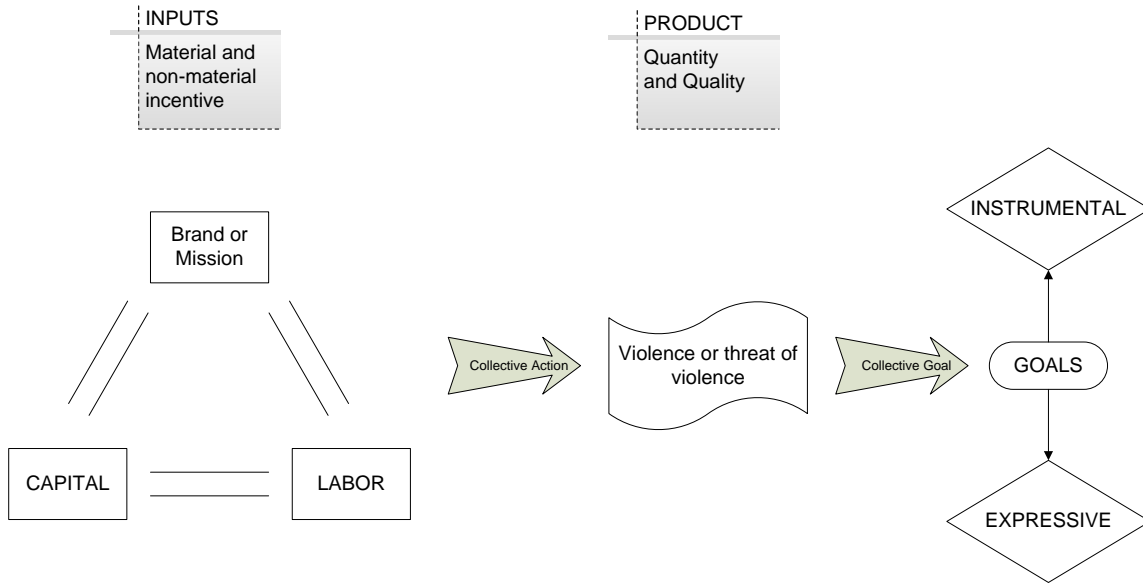


Figure 1. The Terrorist Organization

Source: Created by author.

The terrorist organization has adapted to become a networked structure. The aims of the terrorist and insurgent organization are similar as both organizations pursue some level of political acknowledgement or change. Understanding the nature of the counter-state organization and associated goals is critical to determining just how the organization fits within the landscape of terrorist financing.

### Sources of Terrorist Financing

The term terrorist financing refers to the funding mechanisms for those organizations using violence to achieve a political goal or purpose.<sup>36</sup> This violence may

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<sup>36</sup>Thomas J. Biersteker and Sue E. Eckert define terrorism as, “the deliberate use of violence against civilian targets, with the intention of instilling terror in a population for some political goal or purpose.” Thomas J. Biersteker and Sue E. Eckert, eds., *Countering the Financing of Terrorism* (New York, NY: Routledge, 2008), 6. Insurgencies, however, may target the state as well as the civilian population in their bid for power and control. It is for these reasons the definition remains broad enough to encompass terrorism, insurgency, and revolutionary movements.

be directed towards state apparatuses or civilians to generate fear and terror within a populace. There are subtle differences between terror funding and insurgent funding even as contemporary data indicates an inherent difficulty in separating the two types of organizations for the purpose of financial analysis. For example, an insurgent organization may exist for years without ever conducting acts considered to be terrorism. If this same insurgent organization then adopts terrorism as a tactic, it may experience moderate to extreme variations in fund sourcing although politically the organization will have embraced a new self defining category in transitioning from insurgent to terrorist. It is useful to annotate a difference in organization when such a difference may be ascertained for the purpose of policy development to produce specific counter-finance strategy.

The sources of financing used by the terrorist organization have increased as groups have evolved towards a self-finance model. Decentralized operational characteristics also contribute to the terrorist organizations evolvement towards a diversified and opportunistic model for resourcing their capability and growth. The methods employed to move finances by terrorist organizations are not uniquely innovative. Terrorist organizations are using the same sources of financing and methods to move finances that have been historically associated with clandestine organizations under threat from authority similar to organized crime syndicates.

Standardized methods to finance terrorist organizations appear where illicit transnational trade or services reside. Terrorist financing is distinct to each organization due mainly to the economic environment the terrorist organization is operating in or attempting to derive profit from. This economic environment provides the terrorist

organization with options for raising finances and organizational survival. The terrorist organization must demonstrate the ability to compete not only with legitimate forces at work in their economic environment, but against unregulated and criminal enterprises attempting to generate their own profit and sustenance. The terrorist organization that survives over time is a true testament to the resiliency of the membership; especially given this fragile environment many of them operate within.

The literature concerning terrorist financing illustrates a growing trend that reflects a shift away from state sponsorship towards a self-finance model. This shift of fund sourcing represents a desire for terrorists and insurgents to operate independently of foreign influence and manipulation.<sup>37</sup> Self-financing also demonstrates a desire by threat organizations to maximize revenue facilitated by the increased availability of opportunities to secure financing under the auspice of contemporary globalization.<sup>38</sup> The networked organizational structure of contemporary insurgent and terrorist organizations enable survivability against international law enforcement and military pressure. Financially, this trend towards networked cellular nodes requires low level self-funding out of necessity creating challenges for mid to high-level resource management.<sup>39</sup> In addition, insurgents and terrorist organizations forced to decentralize from hierarchal organizations have adapted to rely upon self-funding models as managers are replaced by

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<sup>37</sup>Loretta Napoleoni, *Terror Incorporated: Tracing the Dollars Behind the Terror Networks* (New York, NY: Seven Stories Press, 2005), 35.

<sup>38</sup>Giraldo and Trinkunas, eds., “The Political Economy of Terrorism Financing,” in *Terrorism Financing and State Responses: A Comparative Perspective*, 10.

<sup>39</sup>Chris Dishman, “The Leaderless Nexus: When Crime and terror Converge,” *Studies in Conflict & Terrorism*, 28, 237-252 (London, UK: Routledge, 2005), 239.

networks. These cellular nodes operating independently to secure resources and the associated commonalities with criminal organizations operating within the same clandestine space is representative of the leaderless nexus between terrorists and criminals as proposed by Chris Dishman's writings concerning the convergence of crime and terror.<sup>40</sup>

Terrorist financing is generally categorized based upon the source of financing. Loretta Napoleoni categorizes the financing of terrorism as legitimate business, illegal revenues, and criminal activities.<sup>41</sup> Alternatively, Nikos Passas simply states there are two categories, legitimate and illegitimate.<sup>42</sup> The sources of financing are generally the same regardless of the manner of descriptive categorization. These sources of financing include legitimate business profits, investments, charitable organizations and donations, foreign aid, smuggling, kidnapping, fraud, piracy, and taxes.<sup>43</sup>

The ungoverned environment and unofficial economic practices associated with terrorist organizations provide an ample amount of sources to procure funds. These

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<sup>40</sup>Ibid., 28, 237-252, 238.

<sup>41</sup>Napoleoni, *Terror Incorporated: Tracing the Dollars Behind the Terror Networks*, 181.

<sup>42</sup>Nikos Passas, "Terrorism Financing Mechanisms and Policy Dilemmas," in Jeanne K. Giraldo and Harold A. Trinkunas, eds., *Terrorism Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007), 24.

<sup>43</sup>A combination of funding sources derived from both Loretta Napoleoni, *Terror Incorporated: Tracing the Dollars Behind the Terror Networks* (New York, NY: Seven Stories Press, 2005), 181; Nikos Passas, "Terrorism Financing Mechanisms and Policy Dilemmas," in Jeanne K. Giraldo and Harold A. Trinkunas, eds., *Terrorism Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007), 24.



difficult variables when further compounded by the networked structure of terrorist organizations result in significant challenges to effectively counter terrorist financing.

### Countering Terrorist Financing

The current state of affairs in countering the financing of terrorist organizations may be categorically illustrated as targeting both the sources of financing available to the threat as well the methods employed by the terrorist organization to distribute value. The insurgency as a system approach by Nathan Leites and Charles Wolf, Jr. provides a conceptual foundation for the need of a sound counter-finance approach to counter-insurgency specifically, and threat financing in general. The systems approach provided by Leites and Wolfe details “four methods of counterinsurgency.” The four methods of counterinsurgency are summarized as, input-denial, reduce the efficiency of an insurgencies production process, destroy the outputs of an insurgency, and increase the state’s and the population’s capacity to absorb insurgent activity.<sup>44</sup>

Targeting the source of financing is uniquely dependent upon the geographical location of the terrorist organization to some extent, as well as targeting external sources when applicable. Locally, the counter-finance mechanisms parallel law enforcement actions designed to counter illegitimate fiscal demands upon a populace such as unlawful taxes or illicit activity that may involve everything from kidnapping to petty crime. As the terrorist organization matures in both capacity and capability, military action may be necessary from the state to effectively disrupt local sources of financing. Examples of measures designed to disrupt local sources of financing incorporate all the agencies of

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<sup>44</sup>Nathan leites and Charles Wolf, Jr., *Rebellion and Authority: An Analytic Essay on Insurgent Conflicts* (Santa Monica, CA: The RAND Corporation, 1970), 36.

government to reduce both the domestic sources of financing as well as the methods used to move these finances. These counter-finance mechanisms may begin at the border such as designating what must be declared upon entry into the country. Additional security at the border is another mechanism to filter what may enter a state in an attempt to disrupt illicit value-associated flows into the country.

The most common method for the movement of value for terrorist organizations is the formal banking system. The formal banking system is broadly defined as the financial institutions operating under the supervision of sovereign states. In the traditional sense, the formal banking system is rather straightforward with accounts falling into well defined registration types each of which have an identified control person(s). The formal banking system is also characterized by the formal record keeping requirements, which allow for the tracking and monitoring of asset flow between parties. This system allows for the identified control person(s) to be checked against “known” criminal lists. In the U.S. this list is maintained by the Office of Foreign Asset Control (OFAC).<sup>45</sup>

The incentives for the use of the formal banking system are numerous. The primary advantage the formal system provides is derived from the efficiency within the banking system for the movement of funds between currencies, countries, and individual parties. Once accounts have been established the terrorist organization can effectively move assets around the globe with impunity. This allows for the organization to raise funds globally and execute operations with few geographical constraints. Relying on the formal banking system also produces numerous challenges for the terrorist organization.

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<sup>45</sup>Office of Foreign Asset Control, U.S. Department of Treasury, Washington, DC. <http://www.treas.gov/offices/enforcement/lists/> (accessed November 3, 2009).

The first is the difficulty associated with establishing an account, without detection of affiliation or intent. With the increased connectivity of the financial system that resulted from actions like the creation in 1989 of the Financial Action Task Force (FATF) there is a global sharing of financial intelligence.<sup>46</sup> Another drawback results from the paper trail created in the formal banking system. Details about asset origin and asset distribution may be monitored and reviewed with the account creation and tracking systems used by the formal banking system. This financial forensics work can in turn provide detailed information to governmental agencies posing a significant risk for the organization that desires to remain clandestine.<sup>47</sup>

The financial forensics capability of the formal banking system is strengthened through the reliance on policy and law designed to mitigate illicit use. The government scrutiny of illicit activities in the formal banking system dates back to 1970 in the United States with the introduction of the Bank Secrecy Act, which requires banks to report on transactions over \$10,000 USD in total value.<sup>48</sup> The regulation of the system has since continuously adapted with measures such as the 1986 Money Laundering Control Act, the creation of the Financial Action Task Force in 1989, the introduction of FinCen in 1990, and most recently the 2001 USA Patriot Act.<sup>49</sup> All of these policy actions allow

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<sup>46</sup>Financial Action Task Force, *Terrorist Financing* (Paris, France: FATF/OECD, 2008).

<sup>47</sup>*Ibid.*

<sup>48</sup>Martin A. Weiss, *Terrorist Financing: U.S. Agency Efforts and Inter-Agency Coordination* (Washington, DC: Congressional Research Service: 2005), 2-8.

<sup>49</sup>*Ibid.*, 2-8, 45-48.

greater government oversight and enforcement within the formal banking system to combat illicit use in support of criminal or terrorist activities.

On a much broader scale, efforts to disrupt external sources of financing involve a combination of diplomacy, economic disincentives, financial regulatory policy, intelligence, military action, and law enforcement.<sup>50</sup> External sponsorship from foreign governments may be targeted by designating states as sponsors of terrorism thereby justifying economic sanctions as well as exclusion from diplomacy within the greater international community.<sup>51</sup> Designation of external sources of financing such as charity organizations or donors as terrorist enablers also provides justification for using the necessary government tools to isolate the financial source, freeze associated funds, and ban the financial source from travel or conduct of business within a designated territorial domain.<sup>52</sup>

Overarching international countermeasures also exist with the purpose to reduce the unregulated and ungoverned space within which the terrorist organization generates income for sustainment and growth. These resolutions have implemented travel restrictions on designated individuals to limit their freedom of movement as well as their associated funds. The United Nations (UN) has sought to, “prevent the direct or indirect supply, sale and transfer from their territories or by their nationals outside their

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<sup>50</sup>Ibid., 2-8.

<sup>51</sup>Jeanne K. Giraldo and Harold A. Trinkunas, eds., *Terrorism Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007).

<sup>52</sup>GAO, *Terrorist Financing: Better Strategic Planning Needed to Coordinate U.S. Efforts to Deliver Counter-Terrorism Financing Training and Technical Assistance Abroad* (Washington, DC: U.S. Government Accountability Office, 2005).

territories, or using their flag vessels or aircraft, of arms and related materiel of all types, spare parts, and technical advice, assistance, or training related to military activities, to designated individuals and entities,” in order to reduce the means for trade or market participation.<sup>53</sup> The significant prevailing theme inherent in these countermeasures is the acknowledgement of the crucial role that financial factors have in the success or failure of the terrorist organization.

### Summary

This chapter provided a synopsis of contemporary literature concerning terrorist financing. The literature review focused upon defining the counter-state organization, followed by the organizational structure and aims of the terrorist organization, the sources of financing available to the terrorist organization, and the current counter-finance initiatives pursued by the USG. These factors are important and reappear as themes associated with the case study in chapter 4 after a description of the research methodology in chapter 3.

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<sup>53</sup>Security Council Committee establish pursuant to UN Resolution 1267 also known as “the al-Qaida and Taliban Sanctions Committee,” <http://www.un.org/sc/committees/1267/index.shtml> (accessed August 29, 2008).

## CHAPTER 3

### METHODOLOGY

#### Introduction

The purpose of this study was to ascertain whether U.S. counter-finance initiatives directed towards the Taliban are producing a desired effect upon this defined enemy organization. The aim of this chapter is to provide the methodology to answer this primary research question. This chapter has six sections. The first section is the introduction. The purpose of this section is to introduce the framework for chapter 3. The second section is the research design. The aim of this section is to describe the qualitative design used to generate data and produce findings. The third section is data collection. This section illustrates how the data was generated for the study. The fourth section is procedures. The procedures section describes the process used in the course of this study. The fifth section is analysis. The aim of this section is to explain the analysis strategy to identify themes and patterns and incorporate evaluation criteria against the data to produce findings. The sixth section is the summary, which serves to recap the content presented within chapter 3.

#### Research Design

This study followed a qualitative design to the terrorist financial problem in order to exploit a case study for insight into counter-finance approaches. The design was based on identification of emerging patterns and themes in qualitative data. The aim was to then analyze data within the structural design of center of gravity analysis.

### Data Collection

The data used within this research design originated from a case study focused upon a defined enemy. The data was extracted from the case study with emphasis upon sources of financing and methods to move finances by the defined enemy organization. This data was value oriented and conveyed in U.S. dollar amounts.

### Procedures

The center of gravity analysis approach to establish findings followed the methodology portrayed by Dr. Jack Kem in *Campaign Planning: Tools of the Trade*.<sup>54</sup> Figure 2 represents the process of the critical vulnerabilities construct as a targeting methodology. This methodology supported a crosswalk of friendly actions through enemy ways and means in order to target the enemy center of gravity thereby preventing the enemy from achieving their end state. The descriptive nature of the process flows left to right from the selected organization's perceived end state. The center of gravity at the operational or strategic level was identified upon defining the perceived end state of the enemy organization. Tactical level decisive points were identified in order to focus efforts upon the center of gravity. The critical capabilities are those functions, or ways, which create concern for friendly forces. The critical requirements are the resources, or means, necessary to maintain those identified critical capabilities. Finally, the critical vulnerabilities are the enemy's concern of friendly direct or indirect action upon the enemy's critical requirements.

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<sup>54</sup>Jack D. Kem, *Campaign Planning: Tools of the Trade*, 3rd ed. (Fort Leavenworth, KS: U.S. Army Command and General Staff College).

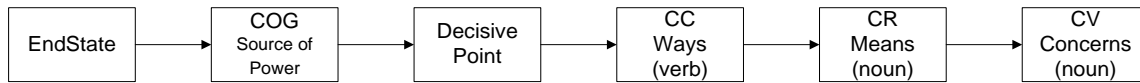


Figure 2. Critical Vulnerability Construct

Source: Jack D. Kem, *Campaign Planning: Tools of the Trade*, 3rd ed. (Fort Leavenworth, KS: U.S. Army Command and General Staff College).

This research procedure followed nine steps. The first step was to define the economic environment of the terrorist organization. The purpose of establishing the economic environment was to illustrate the unique conditions, which enable the financing of the selected terrorist organization. The second step, once the economic environment of the terrorist organization is established, was to determine the selected terrorist organization's end state relative to center of gravity in this case defined as the terrorist organizations financial mechanisms. The third step focused upon the sources of financing or the critical requirements utilized by the terrorist organization. The fourth step involved addressing terrorist organizational methods for moving these finances or critical capabilities once the sources of financing were identified. The fifth step involved identifying the critical vulnerabilities associated with the sources of financing and methods to move these finances. The sixth step addressed the countermeasures specifically employed to disrupt the selected terrorist organizational financing. Each source of financing as well as the methods used to move these finances require unique countermeasures in order to effectively reduce growth and diminish current organizational capacity and capability. The seventh step involved applying counter-finance instruments to account for the critical vulnerabilities in order to cross-walk



counter-finance instruments back through the terrorist organizations center of gravity construct shifting analytical flow from right to left. These steps are depicted in figure 3.

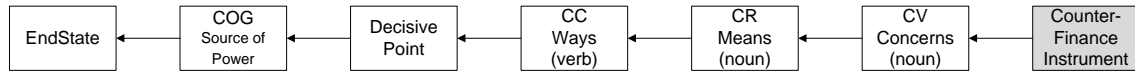


Figure 3. Counter-Finance Action

Source: Created by author.

Assessing right to left illustrates selected counter-finance instruments referenced against the terrorist organization’s critical vulnerabilities, in order to ascertain counter-finance instrument linkages back through the critical requirements, critical capabilities, and center of gravity. The eighth step assessed the findings produced at the conclusion of this exercise in counter-finance targeting methodology against evaluation criteria in order to determine whether USG counter-finance initiatives toward a terrorist organization produced a desired effect upon the terrorist organization. Table 1 depicts the evaluation criteria matrix.

Table 1. Evaluation Criteria

Criteria	Definition	Benchmark
		Optimal
		Desirable
		Less than Desirable
		Catastrophic

Source: Created by author.

The ninth step dealt with analysis of counter-finance instruments against the selected evaluation criteria depicted in Table 2.

Table 2. Counter-Finance Assessment

	Evaluation Criteria 1	Evaluation Criteria 2	Evaluation Criteria 3
Counter-Finance Action 1	Benchmark	Benchmark	Benchmark

*Source:* Created by author.

### Analysis

Findings derived from the counter-finance assessment were designed to address the primary research question of whether USG counter-finance initiatives toward the Taliban are producing a desired effect against this defined enemy? Additionally, the use of the center of gravity analysis addressed the secondary research question of have the sources and movement of finances for the terrorist organization been effectively disrupted?

### Summary

Chapter 3 outlined the research methodology used to address the problem of whether U.S. counter-finance initiatives directed towards terrorist organizations are producing a desired effect upon a defined enemy. The methodology presented incorporates a qualitative research design that uses a case study to develop data. This data is then subjected to a center of gravity analysis in order to ascertain findings for analysis based upon pre-defined evaluation criteria. Chapter 4 will implement this methodology using the Taliban as a case study.

## CHAPTER 4

### ANALYSIS

#### Introduction

The purpose of this study was to ascertain whether U.S. counter-finance initiatives directed towards the Taliban are producing a desired effect upon this defined enemy organization. The aim of this chapter is to generate findings consistent with the purpose of this study using the methodology outlined in chapter 3. For the purposes of this study, the end state is representative of the Taliban's perceived financial end state for the organization. Taliban finances will serve as the operational center of gravity and represent a source of power for the Taliban. This chapter consists of four major sections. The first major section is a narrative case study. This narrative addresses the relevant factors of the Taliban organization. The second major section is the center of gravity analysis. The aim of this section is to analyze the data presented in the course of the case study narrative to ascertain findings concerning the purpose of this study. The third major section is findings. The purpose of this section is to illustrate the findings derived from the center of gravity analysis. The fourth major section consists of the summary for chapter 4. This section describes briefly the major muscle movements involved within chapter 4 and previews the content of chapter 5.

### Case Study Narrative

The Taliban is a religious movement led by mullahs and derives its name and strength from the talib (Islamic students).<sup>55</sup> The beginnings of the Taliban are traced to a purported thirty members in the Pashtun village of Singesar whose first act was an armed intervention on behalf of the weak and poor in the spring of 1994.<sup>56</sup> This original group rapidly expanded to a force of 30,000-35,000, eventually claiming governance of Afghanistan within two years.<sup>57</sup> Many welcomed the consolidation of power the Taliban provided after the fall of Kabul and President Najibullah in 1992.<sup>58</sup> Taliban governance satisfied both a war weary constituency with a promise of peace and investors looking to broker development plans for the region.

The Taliban's stated goals were to, "restore peace, disarm the population, enforce sharia law, and defend the integrity and Islamic character of Afghanistan."<sup>59</sup> The Taliban pursued these goals through a strategy designed to impose their interpretation of what

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<sup>55</sup>Ahmed Rashid emphasizes the importance of choosing talib, "one who seeks knowledge," versus mullah, "one who gives knowledge," in order to distance the fledgling movement from, "the party politics of the Mujaheddin," in Ahmed Rashid, *Taliban* (New Haven, CT: Yale University Press, 2000), 22-23.

<sup>56</sup>"The most credible story, told repeatedly, is that in the spring of 1994 Singesar neighbors came to tell him that a commander had abducted two teenage girls, their heads had been shaved and they had been taken to a military camp and repeatedly raped. Omar enlisted some 30 Talibs who had only 16 rifles between them and attacked the base, freeing the girls and hanging the commander from the barrel of a tank," "Ahmed Rashid, *Taliban* (New Haven, CT: Yale University Press, 2000), 25.

<sup>57</sup>Abdulkader Sinno, "Explaining the Taliban's Ability to Mobilize the Pashtuns," in *The Taliban and the Crisis of Afghanistan*, eds. Robert D. Crews and Amin Tarzi, (Cambridge, MA: Harvard University Press, 2008), 69-70.

<sup>58</sup>Rashid, *Taliban*, 21.

<sup>59</sup>*Ibid.*, 22.

village life should be and how a village should subsist, even as the majority of Taliban had no experience in rural Afghanistan.<sup>60</sup> The Taliban offered only a military solution to Afghanistan, and suffered from an inability to connect ideologically with the Afghan majority. The Taliban believed Allah would provide for the population thereby cleansing themselves of the responsibilities of governance.<sup>61</sup>

Even as the Taliban consolidated governance in Afghanistan, few members of the international community supported or endorsed their claim to sovereignty. Saudi Arabia, the UAE, and Pakistan were the only members to offer the Taliban political legitimacy. The highly visible and deplorable conduct of the Taliban--such as public executions through detestable methods compounded by other human rights violations--proved an insurmountable obstacle for international recognition. Isolated and with a fragile grip on power, the Taliban regime was easily defeated by United States and allied forces in 2001. The Taliban forces that survived retreated and disappeared among the indigenous population of Afghanistan and Pakistan.

The Taliban has demonstrated resiliency from inception up through 2009 as a result of sanctuary, sustainable lines of communication, and the ever present availability of funds.<sup>62</sup> The Taliban have established an area of influence in the Federally

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<sup>60</sup>“It is not the values of the village, but the values of the village as interpreted by refugee camp dwellers or madrassa students most of whom have never known ordinary village life,” Robert D. Crews and Amin Tarzi, *The Taliban and the Crisis of Afghanistan* (Cambridge, MA: Harvard University Press, 2008), 41.

<sup>61</sup>Rashid, *Taliban*, 127.

<sup>62</sup>Arabinda Acharya, Syed Adnan Ali Shah Bukhari, and Sadia Sulaiman, “Making Money in the Mayhem: Funding Taliban Insurrection in the Tribal Areas of Pakistan,” *Studies in Conflict & Terrorism*, 32: 96.

Administered Tribal Areas (FATA) and North-West Frontier Province (NWFP) of Pakistan. According to the National Counterterrorism Center annual report on terrorism for 2007, attacks increased in both Afghanistan and Pakistan, but especially in the NWFP and FATA.<sup>63</sup> Taliban influence in FATA is best reflected by the existence of sharia courts, local constabulary forces, tax collectors, and public offices held by Talib supporters, sympathizers, or actual members of the movement.<sup>64</sup> This aggressive social agenda compounded by the incapacity of the Pakistani government to govern the NWFP and FATA allowed the Taliban in the tribal areas to serve as “a parallel administration with all the functions of the state.”<sup>65</sup>

Originally, the Taliban relied heavily on their ideological supporters to gain cheap labor. According to Mullah Wakil, the aide to Mullah Omar, “the Sharia does not allow politics or political parties. That is why we give no salaries to officials or soldiers, just food, clothes, shoes, and weapons.”<sup>66</sup> Additionally, where ideology did not provide the proper motivation for service the Taliban practiced forced conscription.<sup>67</sup> Over time, the

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<sup>63</sup>Terror attacks in 2007 increased by 137 percent in Pakistan over 2006 attacks. Although the government signed a peace agreement in September 2006 with pro-Taliban tribes in North-West Frontier Province (NWFP) and Federally Administered Tribal Areas (FATA), the region accounted for 54 percent of the total attacks, up from 23 percent the previous year. Afghanistan registered a 16 percent increase in the number of attacks in 2007 as compared with the previous year. National Counter Terrorism Center, *2007 Report on Terrorism* (Washington DC: NCTC, April 2008), 17-19.

<sup>64</sup>Robert Canfield, “Fraternity, Power, and Time in Central Asia,” in *The Taliban and the Crisis of Afghanistan*, eds. Robert D. Crews and Amin Tarzi (Cambridge, MA: Harvard University Press, 2008), 231.

<sup>65</sup>*Ibid.*

<sup>66</sup>Rashid, *Taliban*, 43.

<sup>67</sup>*Ibid.*, 103.

rapid growth experienced by the Taliban would slow due to the inability of the organization to turn battlefield success into self-sustaining development and an enduring cessation of hostility.<sup>68</sup> As a result, very few later members joined for purely idealistic reasons. Many now join the ranks of the Taliban for a wage.<sup>69</sup> “Taliban were offering daily wages twice what a sharecropper cultivating opium might earn.”<sup>70</sup> Another estimate supports this shift in the Taliban’s incentive-based recruiting program stating, “only 10 percent of the Taliban fighters were motivated by a strong desire to restore Taliban to power, while 60 to 70 percent had joined for a wage.”<sup>71</sup> One Taliban account from February 2006 asserts that members received, “a signing bonus of \$300 and \$150 a month in salary” plus additional accruals such as, “new clothes, shoes, a motorbike, and Kalashnikov rifle.”<sup>72</sup>

The annual expenditures of the Taliban consist mainly of operational costs, maintaining or creating organizational infrastructure, growth and recruiting initiatives, and savings.<sup>73</sup> Operational costs are those associated with offensive militant operations such as raids, attacks, and bombings. The organizational infrastructure costs represent the

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<sup>68</sup>Ibid., 60.

<sup>69</sup>Atiq Sarwari and Robert D. Crews, “Epilogue: Afghanistan and the Pax Americana,” in *The Taliban and the Crisis of Afghanistan*, eds. Robert D. Crews and Amin Tarzi (Cambridge, MA: Harvard University Press, 2008), 345.

<sup>70</sup>Ibid., 345.

<sup>71</sup>Ibid.

<sup>72</sup>Ibid.

<sup>73</sup>Arabinda Acharya, Syed Adnan Ali Shah Bukhari, and Sadia Sulaiman, “Making Money in the Mayhem: Funding Taliban Insurrection in the Tribal Areas of Pakistan,” *Studies in Conflict & Terrorism*, 32: 95.

day-to-day cost of running the Taliban organization. This includes administrative functions, provisions, transportation, fuel, etc. The organizational infrastructure is also the area projected to consume the majority of funds. Growth and recruiting initiatives represent the propaganda and cost associated with physically spreading the message of the Taliban in order to expand the scope of their operations and influence within the constraints of their limited resources. The savings funds are monies the Taliban set aside to serve as resources for future discretionary use by management. The Taliban rely on a variety of fiscal inputs in order to meet these expenditure requirements. These fiscal inputs include external support, unofficial economy, and popular support.

The Taliban has relied on informal methods--such as couriers, commodities, and hawala--to move funds into, out of, and around Afghanistan. For example, “during the invasion of Afghanistan in 2001, it was widely reported that the Taliban smuggled their money out of the country via Pakistan using couriers that handled bars of gold.”<sup>74</sup> Additionally, the “Taliban have publicly announced various “rewards” offered in gold for acts of terror carried out by jihadists, further suggesting a reliance on commodities.”<sup>75</sup> This has relieved the organization of some foreign government oversight, but introduces the difficulties related to transportation, storage, and liquidity inherent to commodities.

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<sup>74</sup>Financial Action Task Force, *Terrorist Financing* (France: FATF/OECD, February 2008), 24, <http://www.fatf-gafi.org/dataoecd/28/43/40285899.pdf> (accessed August 01, 2008).

<sup>75</sup>United States Department of State, *International Narcotics Control Strategy Report: Volume II Money Laundering and Financial Crimes* (Washington DC: Bureau for International Narcotics and Law Enforcement Affairs, March 2008), 6.



In addition to commodities, there is strong and growing evidence the Taliban has utilized the informal money transfer system commonly known as hawala.<sup>76</sup> According to the United Nations, \$200 billion circulates annually through the hawala industry.<sup>77</sup> In this system, money is transferred between two intermediaries; one representing the person wishing to transmit funds and one representing the party wishing to receive funds. There is little to no paperwork kept by the intermediaries and, until very recently, no governmental oversight. As a result, “there is no way the government can detect and interdict the money using classic AML/CFT (anti-money laundering and countering the financing of terrorism) tools.”<sup>78</sup>

Taliban use of these formal and informal value transfers concern the USG due to the destabilizing characteristics inherent in the joining of unregulated supply with illegitimate demand. These formal and informal value transfers enable the Taliban to sustain the organization while maintaining the opportunity for growth.

Historically, the Taliban received support from state sponsors such as Pakistan and Saudi Arabia, especially during the mid to late 1990s when it rose to power and ruled Afghanistan. Prior to 9/11, Pakistan provided the Taliban official political recognition and became the main contributor of people, guns, and money. The Taliban emerged from

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<sup>76</sup>Loretta Napoleoni, *Terror Incorporated: Tracing the Dollars Behind the Terror Networks* (New York, NY: Seven Stories Press, 2005), 127-131.

<sup>77</sup>*Ibid.*, 128.

<sup>78</sup>Arabinda Acharya, Syed Adnan Ali Shah Bukhari, and Sadia Sulaiman, “Making Money in the Mayhem: Funding Taliban Insurrection in the Tribal Areas of Pakistan,” *Studies in Conflict & Terrorism*, 32: 104.

the Jamiat Ulema-e-Islami run religious education system in Pakistan.<sup>79</sup> Pakistan provided the Taliban exclusive access to this madrassa system for recruits during their formative years. These recruits numbered in the thousands and made significant contributions on the battlefield in the form of reinforcements for a Taliban force suffering from battle fatigue in the late 1990s. The impact was extremely acute in the immediate aftermath of the Taliban setbacks around Kabul and Mazar in 1997 when calls for help from Mullah Omar to Samiul Haq resulted in the closing of Pakistani madrassas and entire student bodies consisting of 5,000 males were sent to join the ranks of the Taliban.<sup>80</sup> Pakistan then gave the Taliban the location of a depot providing the Taliban with, “18,000 kalashnikovs, dozens of artillery pieces, large quantities of ammunition, and many vehicles.”<sup>81</sup>

Pakistani military and technical advisers also played a critical role in transforming the Taliban into a formidable force, capable of pursuing organized offensive action and demonstrating the ability to project power throughout Afghanistan.<sup>82</sup> The Pakistani army achieved this through organizing the Taliban into brigades and divisions, with rapid mobility augmented by modern communications.<sup>83</sup> The government of Pakistan found a

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<sup>79</sup>Daniel L. Byman, *The Changing Nature of State Sponsorship of Terrorism* (Washington DC: The Saban Center for Middle East Policy at The Brookings Institution, May 2008), 8.

<sup>80</sup>Rashid, *Taliban*, 59, 91.

<sup>81</sup>*Ibid.*, 28.

<sup>82</sup>Robert D. Crews and Amin Tarzi, *The Taliban and the Crisis of Afghanistan* (Cambridge, MA: Harvard University Press, 2008), 29.

<sup>83</sup>*Ibid.*, 29.

way to provide for the Taliban even as Pakistan's economy struggled during the late 1990s. Pakistan provided the Taliban \$30 million USD in aid from 1997-1998 with \$6 million earmarked to pay for the salaries of the Taliban leadership.<sup>84</sup> The level of Pakistani involvement is illustrated best by the "fact that Afghan cities under Taliban rule could be reached by dialing Pakistani telephone prefixes."<sup>85</sup>

Saudi Arabia also contributed to the Taliban's rise to power in Afghanistan. Saudi support to the Taliban arrived in the form of fuel, money, and hundreds of new vehicles flown into Kandahar airport from the Gulf port city of Dubai during the Afghan Civil War.<sup>86</sup> The Taliban also enjoyed monetary support from the Saudi community during the late 1990s through various unofficial channels reinforced by ties of shared ideology in regards to Deobandism and Wahhabism. Saudi Arabia also officially recognized the Taliban regime as the government of Afghanistan.<sup>87</sup> Official government support for the Taliban (both financial and political) dried up for the most part in 1998, coinciding with the Taliban refusal to hand over bin Laden to Saudi authorities.<sup>88</sup>

The U.S. even recognized the Taliban as the de facto authority in Afghanistan, thereby allowing dialogue between US corporate and government representatives for

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<sup>84</sup>This aid appeared in the form of hard currency, food, fuel, arms, ammunition, maintenance, spare parts, and infrastructure development. Rashid, *Taliban*, 183-184.

<sup>85</sup>Crews and Tarzi, *The Taliban and the Crisis of Afghanistan*, 29.

<sup>86</sup>*Ibid.*, 45.

<sup>87</sup>Eben Kaplan and Greg Bruno, *The Taliban in Afghanistan* (Council on Foreign Relations, 2008), <http://www.cfr.org/publication/10551/> (accessed August 6, 2008).

<sup>88</sup>Abdulkader Sinno, "Explaining the Taliban's Ability to Mobilize the Pashtuns," in *The Taliban and the Crisis of Afghanistan*, eds. Robert D. Crews and Amin Tarzi (Cambridge, MA: Harvard University Press, 2008), 71.

mutual gain.<sup>89</sup> “Until 1999, U.S. taxpayers paid the entire annual salary of every single Taliban government official.”<sup>90</sup> US policy began to shift with the emerging stories about the lack of women’s rights and with the arrival of Osama bin Laden in 1996.<sup>91</sup> Diplomacy was used in an attempt to reduce the growing friction between the Taliban and the international community. In April 1998, Bill Richardson, America’s chief delegate to the United Nations, traveled to Kabul with the prospects of possible recognition of the Taliban government in exchange for genuine progress towards peace.<sup>92</sup> In 2001, Colin Powell awarded the Taliban government for reducing opium production with a \$43 million grant.<sup>93</sup>

After the attacks of 9/11 and the overthrow of the Taliban regime, these official and de facto state sponsors withdrew or changed the profile of their support. As an insurgent group, rather than a ruling party in government, the Taliban receives some aid

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<sup>89</sup>This dynamic is best highlighted through the story of UNOCAL’s relationship with the Taliban. The basic story line centers on US involvement in the Centgas Project for a natural gas pipeline which by design would utilize Afghanistan as transit space. The Taliban enjoyed financial support during the course of UNOCAL’s bid to acquire contractual relations with the Taliban.

<sup>90</sup>Napoleoni, *Terror Incorporated: Tracing the Dollars Behind the Terror Networks*, 196.

<sup>91</sup>Ahmed Rashid, *Descent Into Chaos: The United States and the Failure of Nation Building in Pakistan, Afghanistan, and Central Asia* (New York, NY: The Penguin Group, 2008), 15.

<sup>92</sup>The Economist, “Those Not Very Nice People in Afghanistan,” April 23rd 1998, [http://www.economist.com/world/asia/displaystory.cfm?story\\_id=E1\\_TGDJSP](http://www.economist.com/world/asia/displaystory.cfm?story_id=E1_TGDJSP) (accessed August 6, 2008).

<sup>93</sup> Ted Galen Carpenter, *How Washington Funded the Taliban* (Washington DC: CATO Institute, August 2, 2002), [http://www.cato.org/pub\\_display.php?pub\\_id=3556](http://www.cato.org/pub_display.php?pub_id=3556) (accessed August 9, 2008).

from Pakistan, although Pakistan denies the existence of any fiscal relationship. The conduit for state sponsorship now appears more passive than active, and coordinated by key social actors and independent bureaucracies rather than central government entities.<sup>94</sup> The most visible form of passive sponsorship today is the ability to use the FATA and the NWFP portions of Pakistan as safe havens. General James Jones, as NATO Supreme Commander, testified before the US Senate Foreign Relations Committee in September 2006 asserting that the Taliban headquarters was based in Quetta, Pakistan.<sup>95</sup> One estimate is that Pakistanis comprise one quarter of the Taliban's forces.<sup>96</sup> There are also allegations of cooperation between Pakistani Intelligence and the Taliban leadership.<sup>97</sup>

The relationship between Iran and the post-2001 Taliban is also a matter of much speculation and debate among governments, policy makers, academics, and media. Though the opinions vary as to the extent of enabling support Iran provides the Taliban, there is a growing chorus of agreement that a mutually beneficial relationship does in fact exist between the Taliban and Iran, and this relationship is damaging U.S. efforts to stabilize Afghanistan. U.S. Secretary of Defense Robert Gates in June 2007 offered insight to the U.S. position stating, "there's a fairly substantial flow of weapons . . . given the quantities that we're seeing, it is difficult to believe that it's associated with smuggling

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<sup>94</sup>Daniel L. Byman, *The Changing Nature of State Sponsorship of Terrorism* (Washington, DC: The Saban Center for Middle East Policy at The Brookings Institution, May 2008), 7-11.

<sup>95</sup>Rubin R. Barnett, "Saving Afghanistan," *Foreign Affairs* 86, no. 1 (January/February 2007), <http://www.foreignaffairs.org/20070101faessay86105-p0/barnett-r-rubin/saving-afghanistan.html> (accessed September 12, 2008).

<sup>96</sup>Byman, *The Changing Nature of State Sponsorship of Terrorism*, 8.

<sup>97</sup>*Ibid.*, 8.

or the drug business or that it's taking place without the knowledge of the Iranian government.”<sup>98</sup> The U.S. Treasury Department, in October 2007, claimed that Iran’s “Qods Force provides weapons and financial support to the Taliban to support anti-U.S. and anti-Coalition activity in Afghanistan,”<sup>99</sup> and that, “since at least 2006, Iran has arranged frequent shipments of small arms and associated ammunition, rocket propelled grenades, mortar rounds, 107mm rockets, plastic explosives, and probably man-portable defense systems to the Taliban.”<sup>100</sup>

State sponsorship offers both challenges and opportunities for the Taliban. They gain access to funds, weapons and safe havens that they otherwise would not have. On the other hand, the Taliban become vulnerable to interference from Jamiat Ulema-e-Islami, members of Pakistan Intelligence, and Iran, and must strive to balance the perception of being either an autonomous authority or a puppet/proxy of outside sponsors.

Just as ungoverned spaces of the FATA and NWFP are enabling environments for the Taliban, so too is the weakly regulated and opaque economies of Afghanistan. The unofficial economy is comprised of unofficial imports, exports, and domestic smuggling

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<sup>98</sup>United State Department of Defense, *News Transcript of Media Availability with Secretary of Defense Robert Gates from Ramstein Air Force Base, Germany* (Washington DC: Office of the Assistant Secretary of Defense (Public Affairs), June 13, 2007) <http://www.defenselink.mil/transcripts/transcript.aspx?transcriptid=3987> (accessed August 21, 2008).

<sup>99</sup>United States Department of Treasury, *Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism* (Washington DC: US Dept of Treasury, October 25, 2007), <http://www.ustreas.gov/press/releases/hp644.htm> (accessed August 7, 2008).

<sup>100</sup>Ibid.

occurring beyond the reach of state control and legitimate institutional regulation. The total size of the official economy in Afghanistan for 2007 is roughly 8.8 billion USD. The growth trends for both total GDP and per capita for Afghanistan have demonstrated incremental growth over the last five years. The purpose here is to place the fiscal pool available for the Taliban into context, not to conduct any critique or analysis on the economics of Afghanistan. Just as ungoverned space is an enabling environment for threat organizations, so too do weakly regulated and opaque economies then serve as enablers for the financial prospects of the threat organization.

History demonstrates that fragile economies and impoverished regions with weak governance are susceptible to organized dissent. This is due to many factors, one of which is the inability of government to generate and diffuse wealth among the population, thereby opening the door for influence among those who feel excluded or left behind. These dynamics enable organizations such as the Taliban to garner the popular support vital for their survival and growth. Even as table 3 demonstrates growth over recent years, the perception of government inability to translate growth into fundamental change for the average citizen of Afghanistan reinforces the perception of dysfunction or disregard by governance. The Taliban feed this perception as they focus their energies to influence those portions of the populace located on the periphery of development. The Taliban work to strengthen influence in these areas through institutionalizing ways and means for garnering illicit income. As a result, an environment of mutual benefactors from the convergence of illicit economy and local governance move forward pursuing growth unaligned with the goals of the state.

Table 3. Economic Environment/Afghanistan

**Real GDP (Total, per Capita, and Growth, 2003-2008)**

	2003	2004	2005	2006	2007	2008*
Total (\$US billions)	4.4	5.4	6.5	7.7	9.7	11.7
Per Capita (\$USD)	186	218	253	289	352	429
Growth (% change YOY)	15.1%	8.8%	16.1%	8.2%	12.1%	3.4%

\* 2008 figures contain estimates subject to revision

Source: Australian Government, Department of Foreign Affairs and Trade, *Afghanistan Fact Sheet*, May 2009, <http://www.dfat.gov.au/GEO/fs/afgh.pdf> (accessed August 19, 2009).

In addition to the legal economy, the unofficial economy in Afghanistan accounts for approximately \$10 billion in 2007, with most of the activity revolving around imports, exports, and opium.

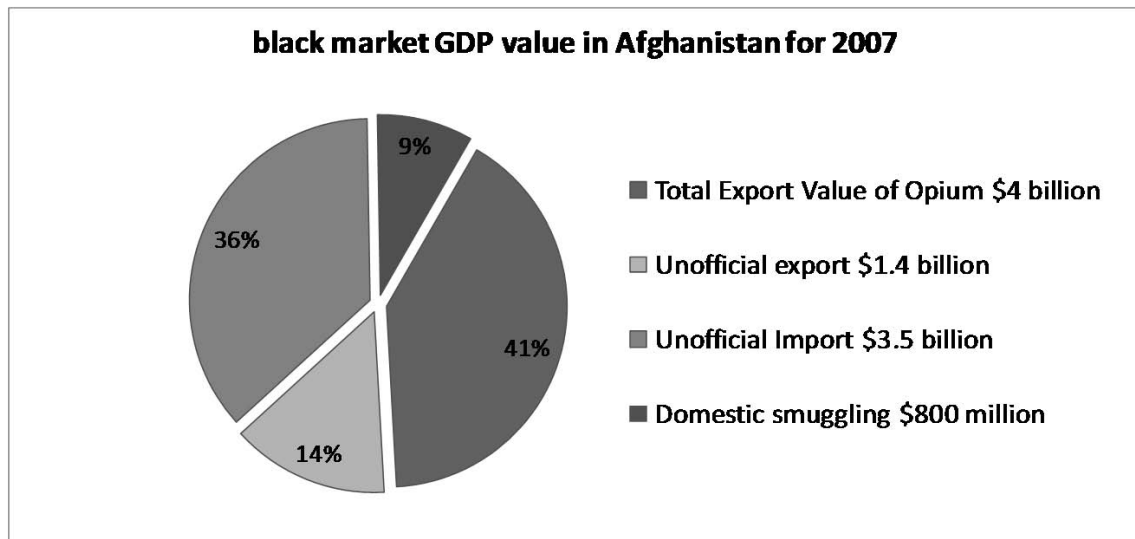


Figure 4. The Unofficial and Illegal Economy of Afghanistan for 2007

Source: Created by author using data from International Monetary Fund, *Islamic Republic of Afghanistan: Statistical Appendix* (Washington DC: International Monetary Fund Publication Services, February 2008).



In total, the economy of Afghanistan was approximately \$18 billion in 2007, with perhaps close to half of that coming from the black market. The unofficial economy of Afghanistan is the largest source of funds available for the Taliban.

The current form of the unofficial economy in Afghanistan has emerged from past attempts to regulate cross border trade with regional partnerships. For example, the Afghanistan Transit Trade Agreement (ATTA) is a tri-lateral trade agreement signed by Afghanistan, Pakistan, and Iran aimed at providing Afghanistan access to the Persian Gulf and Indian Ocean.<sup>101</sup> Operating under the auspice of this trade arrangement, goods are brought into Afghanistan without any associated customs fee. Once in Afghanistan the goods are smuggled into neighboring states such as Pakistan and sold at a price undercutting the regulated domestic market price. This enterprise – once subsidized by the state – became privatized during the Afghanistan Civil War when the Taliban was able to secure transit of goods for a fee. For example, “in March 1995, witnesses said the Taliban collected \$150,000 on a single day at the Chaman border crossing, and \$300,000 the following day in Quetta.”<sup>102</sup> Unofficial exports from Afghanistan to Pakistan were valued at \$1 billion with the Taliban receiving between \$36 and \$75 million as a participant in this enterprise during 1999 alone.<sup>103</sup> In recent years the size of this unofficial economy has attracted the interest of major manufacturers such as SONY who

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<sup>101</sup>Neamatollah Nojumi, “The Rise and Fall of the Taliban,” in *The Taliban and the Crisis of Afghanistan*, eds. Robert D. Crews and Amin Tarzi (Cambridge, MA: Harvard University Press, 2008), 103-104.

<sup>102</sup>Gretchen Peters, *Seeds of Terror: How Heroin is Bankrolling the Taliban and al Qaeda* (New York, NY: St. Martin’s Press, 2009), 76.

<sup>103</sup>Napoleoni, *Terror Incorporated: Tracing the Dollars Behind the Terror Networks*, 177.

have sent representatives to markets in Afghanistan and Pakistan in order to identify which television sets are popular and to disseminate information of upcoming models for distribution.<sup>104</sup>

The Taliban rely upon the unofficial economy for much the same reason the organization relies upon ungoverned territory. More specifically, the Taliban are able to pursue financial practices beyond the reach of enforceable state regulation and without being subjected to any sort of tax or other state induced cost incurrence.

One portion of the Taliban portfolio, which demonstrated tremendous growth since 2001, is the income generated from the opium economy of Afghanistan. “No nation has ever been as dependent on its drug income.”<sup>105</sup> Opium represents 30 percent of Afghanistan’s GDP whereas cocaine never exceeded more than 5 percent of GDP in Columbia.<sup>106</sup> The United Nations Office of Drug and Crime (UNODC) estimated the total export value of the 2007 opium harvest to be approximately \$4 billion USD, accounting for 93 percent of global opium production.<sup>107</sup> The Taliban earnings from this opium economy are derived from a 10 percent tax on farmers producing an estimated

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<sup>104</sup>Daniel Pearl, “Taliban Profits,” *Worldview Magazine Online* 15, no 3 (2002), <http://www.worldviewmagazine.com/issues/article.cfm?id=95&issue=23> (accessed August 3, 2008).

<sup>105</sup>Peters, *Seeds of Terror: How Heroin is Bankrolling the Taliban and al Qaeda*, 216.

<sup>106</sup>*Ibid.*

<sup>107</sup>United Nations, *2008 World Drug Report* (United Nations Office on Drugs and Crime, 2008), 37, [http://www.unodc.org/documents/wdr/WDR\\_2008/WDR\\_2008\\_eng\\_web.pdf](http://www.unodc.org/documents/wdr/WDR_2008/WDR_2008_eng_web.pdf) (accessed August 22, 2008).

\$100 million USD for 2007.<sup>108</sup> When these earnings are augmented by peripheral services provided by the Taliban such as laboratory protection and convoy escort/security for product transit the figure grows to something in the vicinity of \$200-\$400 million USD.<sup>109</sup>

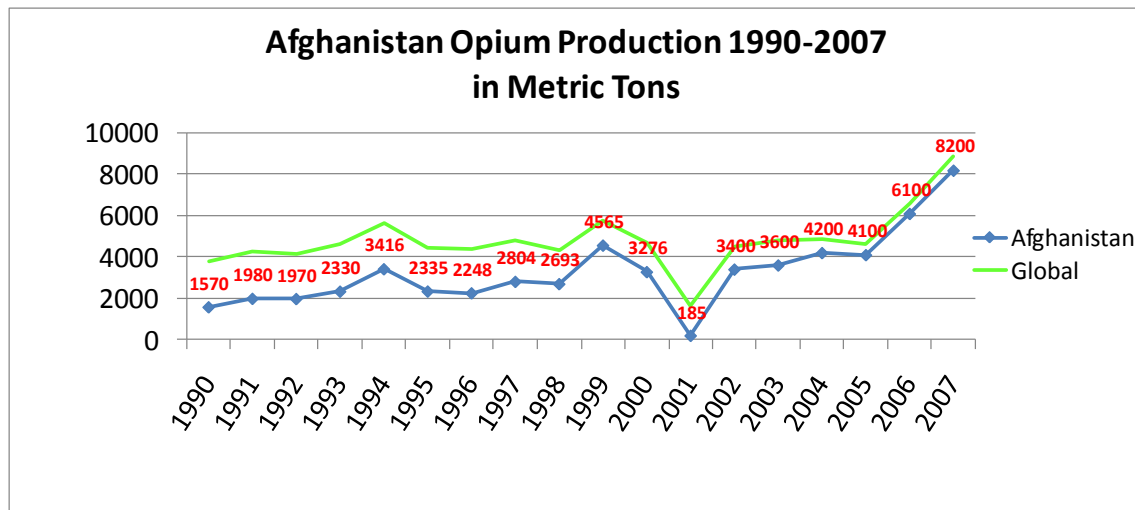


Figure 5. Afghanistan Opium Production 1990-2007

Source: Created by author using data from United Nations, *2008 World Drug Report*, (United Nations Office on Drugs and Crime, 2008), 38, [http://www.unodc.org/documents/wdr/WDR\\_2008/WDR\\_2008\\_eng\\_web.pdf](http://www.unodc.org/documents/wdr/WDR_2008/WDR_2008_eng_web.pdf) (accessed August 22, 2008).

Figure 5 depicts the long-term trend in opium production. The sharp decline in 2000-2001 is due to a successful ban on opium production brought about by the Taliban regime, demonstrating both the reach of their authoritarian rule and the malleability of the

<sup>108</sup>Muhammad Tahir, “Fueling the Taliban: Poppies, Guns and Insurgents,” *Terrorism Monitor* 6, no. 14 (July 2008), 5, [http://www.jamestown.org/terrorism/news/uploads/TM\\_006\\_014.pdf](http://www.jamestown.org/terrorism/news/uploads/TM_006_014.pdf) (accessed July 25, 2008).

<sup>109</sup>*Ibid.*, 5,

opium economy. As an insurgent group, the Taliban now encourages opium production. In 2007, more than 80 percent of the total opium production was generated from locales with a permanent Taliban presence,<sup>110</sup> as, “poppy production has soared in provinces where the Taliban is most active.”<sup>111</sup> The presence of the Taliban, “helps smugglers and farmers protect their laboratories, trade opium up to the border and fight back against anti-drug campaigners.”<sup>112</sup> The relationship between opium and the Taliban persisted despite the introduction of US led coalition forces into Afghanistan in 2001 and in the face of an ever increasingly capable state security apparatus.

Geographically, seventy percent of Afghanistan’s 2007 poppy production was generated from, “five relatively higher-income agriculturally rich provinces along the Pakistan border with Helmand Province alone accounting for 50 percent.”<sup>113</sup> There exists a corresponding decline in 2007 of poppy cultivation in the more impoverished, yet more secure, provinces in northern and western Afghanistan.<sup>114</sup> The geographic distribution of opium production is significant in demonstrating that opium production “is flourishing in

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<sup>110</sup>Muhammad Tahir, “Fueling the Taliban: Poppies, Guns and Insurgents,” 4,

<sup>111</sup>United States Department of State, *International Narcotics Control Strategy Report: Volume I Drug and Chemical Control* (Washington DC: Bureau for International Narcotics and Law Enforcement Affairs, March 2008), 235.

<sup>112</sup>Muhammad Tahir, “Fueling the Taliban: Poppies, Guns and Insurgents.”

<sup>113</sup>United States Department of State, *International Narcotics Control Strategy Report: Volume I Drug and Chemical Control*, 235.

<sup>114</sup>*Ibid.*

the areas with the richest land and best developed agricultural marketing and distribution networks.”<sup>115</sup>

While the opium economy is large and a major source of funding for the Taliban, it could be much larger. Figure 6 illustrates the dollar value associated with one pure kilogram of heroin from cultivation/production, through export from Afghanistan, and import/export through a transient state such as Turkey, and finally to an end user purchase in London.<sup>116</sup> Additionally, the vast majority of the profits are earned outside of Afghanistan (to the right of the dashed line).

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<sup>115</sup>Ibid.

<sup>116</sup>Peter Reuter, “Can Production and Trafficking of Illicit Drugs be Reduced or Merely Shifted?” *Policy Research Working Papers Series* (World Bank, Development Research Group Macroeconomics and Growth Team, March 2008), 10-11, [http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000158349\\_20080318133751](http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000158349_20080318133751) (accessed August 26, 2008).

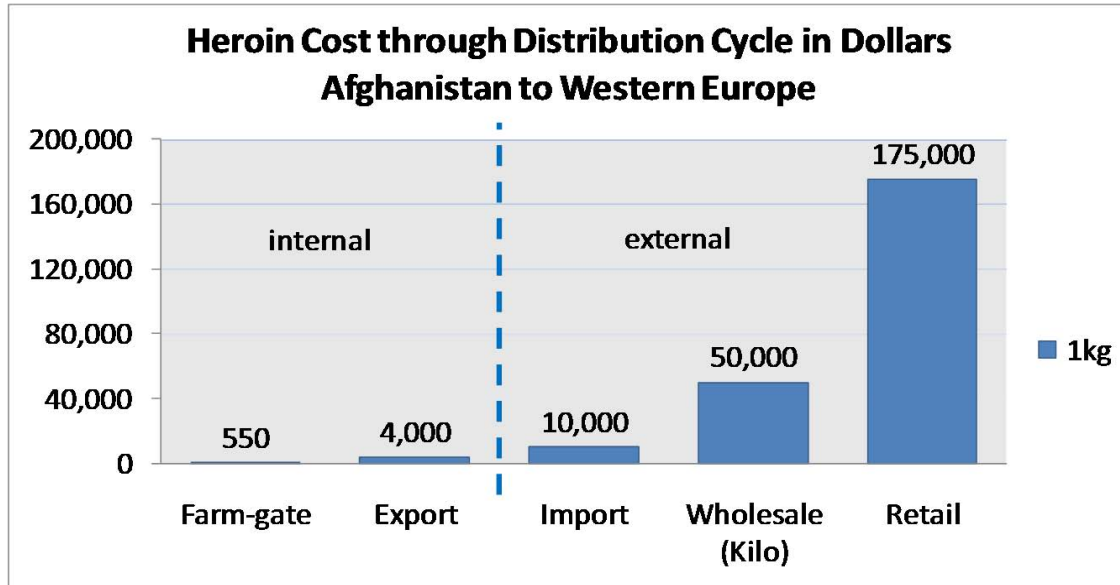


Figure 6. Cost for Heroin through Production-Distribution Cycle in 2000  
 Source: Created by author using data from Peter Reuter, “Can Production and Trafficking of Illicit Drugs be Reduced or Merely Shifted?” *Policy Research Working Papers Series*, (World Bank, Development Research Group Macroeconomics and Growth Team, March 2008), 10-11.

The Taliban could tap into these higher profits by expanding into the external opium market. There is some evidence that this has occurred: for instance, in July 2008, Korean police arrested two Afghans, three Pakistanis, and four Korean citizens who were attempting to ship 12 tons of acetic anhydride to southern Afghanistan disguised as motor oil.<sup>117</sup>

Popular support is the most challenging source of finance to quantify in dollar amounts. Much of the benefits reaped by the Taliban from popular support occur as non-denominated values in the form of passive support, tolerant cooperation, and safe

<sup>117</sup>AFP, “SKorean Police Bust ‘Taliban Linked’ Drug Ring,” *Agence France Presse* (AFP), 3 July 2008, <http://afp.google.com/article/ALeqM5giJDG3ZIXNkBZEjgLIIdStVqGySlw> (accessed August 21, 2008).

haven/passage.<sup>118</sup> For example, it is widely believed the madrassa school system is a significant contributor of funds to further the Taliban due to their historical association with the movement. Madrassa leaders such as Maulana Sami ul-Haq defiantly make clear, “we are not bound by the government to audit our funding system because they do not give us any money.”<sup>119</sup> Additionally, “in the absence of a functioning formal economy to provide employment and income for Afghans, the black economy has become dominant as the only generator of reliable and well-paid employment for a significant percentage of the population,” furthering the association between the average Afghan and the Taliban for mutual subsistence.<sup>120</sup> For example, 366,000 households with an estimated 2.38 million people, or 10.3 percent of the total population for Afghanistan participate in the opium economy in Afghanistan.<sup>121</sup> This is a significant demographic which may provide popular support for the Taliban.<sup>122</sup>

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<sup>118</sup>Non-denominated value defined as not having dollar value, yet retaining economic value.

<sup>119</sup>Imtiaz Ali, “The Father of the Taliban: An Interview With Maulana Sami ul-Haq,” *Terrorism Monitor* 4, no. 2 (May 23, 2007), <http://www.jamestown.org/terrorism/news/article.php?articleid=2373418> (accessed September 1, 2008).

<sup>120</sup>Jane’s, *Economy: Afghanistan* (Sentinel Security Assessments South Asia, July, 2008) [http://www8.janes.com.libproxy.nps.edu/Search/documentView.do?docId=/content1/janesdata/sent/sassu/afghs170.htm@current&pageSelected=allJanes&keyword=economy%20afghanistan&backPath=http://search.janes.com/Search&Prod\\_Name=SASS](http://www8.janes.com.libproxy.nps.edu/Search/documentView.do?docId=/content1/janesdata/sent/sassu/afghs170.htm@current&pageSelected=allJanes&keyword=economy%20afghanistan&backPath=http://search.janes.com/Search&Prod_Name=SASS) & (accessed August 11, 2008).

<sup>121</sup>United Nations, *Afghanistan Opium Survey 2008* (United Nations Office on Drugs and Crime, August 2008), viii, [http://www.unodc.org/documents/publications/Afghanistan\\_Opium\\_Survey\\_2008.pdf](http://www.unodc.org/documents/publications/Afghanistan_Opium_Survey_2008.pdf) (accessed August 26, 2008).

<sup>122</sup>*Ibid.*, 13.

Popular support also serves as a cost saving mechanism across all line items of expenditure. For example, the Taliban may rely on the popular support for overt surveillance capabilities minimizing both Taliban exposure and risk. This saves the Taliban tremendous capital by freeing up funds which would be required to train, equip, and deploy their own forces to achieve similar capability. Another significant feature of the popular support enjoyed by the Taliban is that the ethnic alignment of support across state boundaries provides a conduit for maneuver corridors and smuggling routes. While all these advantages serve the financial inputs of the Taliban well, the risks of over-reliance on popular support may prove challenging for the Taliban should conditions on the ground change. The ebb and flow of popular support is a political reality and may create challenges for the Taliban in the face of increasing state stability.

The Taliban derives income from involuntary support through coercion, illegitimate taxation, extortion, local seizure of assets, and forced conscription. These methods are used mostly in the southern and eastern regions of Afghanistan and the FATA of Pakistan where the state is weak. One method of involuntary support is derived from the establishment of illegitimate ‘customs points’ at the border or ‘toll collection points’ along a stretch of road whose purpose is to charge each person and each car crossing. These customs points may also collect tax on smuggled items. In addition to this, the Taliban collect fuel from fuel stations, wheat as Ushr<sup>123</sup> from farmers, and

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<sup>123</sup>“This refers to the ten percent (in some cases five percent) of agricultural produce payable by a Muslim as a part of his religious obligation, like Zakat mainly for the benefit of the poor and the needy,” “A Short Dictionary of Islamic Economic Terms,” Soundvision.com, <http://www.soundvision.com/Info/money/islamicconomicterms.asp> (accessed November 17, 2008).



impose a fixed tax on traders.<sup>124</sup> Arabinda Acharya, Syed Adnan Ali Shah Bukhari, and Sadia Sulaiman illustrate the level of Taliban revenue development from taxation in the FATA of Pakistan. These authors claim that the Taliban pursuit of revenue consisting of centralized control, tax schedules, and audits is “very systemic and even more efficient than the government system.”<sup>125</sup> The ability of the Taliban to generate income from involuntary support is a tangible example of state weakness. However, the Taliban must manage this practice carefully so as not to isolate or alienate themselves from their constituency. The Taliban learned the challenges associated with involuntary support during the early years when the implementation of forced conscription upon a populace was not well received and led to significant blowback. Involuntary support as a major source of income for the Taliban remains productive, but will always be limited by the inherent socio-economic condition of the indigenous population.

Kidnapping is another method used by the Taliban to generate income, retrieve captured members, and maintain international notoriety representative of involuntary popular support. The National Counterterrorism Center states in their annual report for 2007 that, “kidnapping by the Taliban continued to rise; the number of kidnappings in 2007 nearly doubled those reported in 2006.”<sup>126</sup> Corresponding to these figures was the

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<sup>124</sup>Iqbal Khattak, “Taliban Collecting Taxes to Raise Funds for ‘jihad,’ *Daily Times*, August 15, 2008, [http://www.dailytimes.com.pk/default.asp?page=2008%5C08%5C15%5Cstory\\_15-8-2008\\_pg7\\_11](http://www.dailytimes.com.pk/default.asp?page=2008%5C08%5C15%5Cstory_15-8-2008_pg7_11) (accessed August 22, 2008).

<sup>125</sup>Arabinda Acharya, Syed Adnan Ali Shah Bukhari, and Sadia Sulaiman, “Making Money in the Mayhem: Funding Taliban Insurrection in the Tribal Areas of Pakistan,” *Studies in Conflict & Terrorism*, 32: 98.

<sup>126</sup>National Counter Terrorism Center, *2007 Report on Terrorism* (Washington DC: NCTC, April 2008), 19.

increased targeting of foreign nationals in 2007 and then subsequently using these hostages to negotiate prisoner exchanges and other concessions with the government of the hostages.<sup>127</sup> For example, the Italian government was able to secure reporter Daniele Mastrogiacomo only after Kabul released five Taliban prisoners in a structured prisoner for journalist swap at the request of the Italian government.<sup>128</sup> This prisoner release had further repercussions in the counterinsurgency efforts of Afghanistan when Mullah Mansur Dadullah, who was one of the prisoners released in this exchange announced he had assumed his slain brother's role in coordinating Taliban operations.<sup>129</sup> On another occasion, the Taliban was able to structure concessions and a possible ransom from the South Korean government after the kidnapping of 23 South Korean missionaries in 2007.<sup>130</sup> South Korea conceded to not allow any more missionary groups to travel to Afghanistan and allegedly paid \$20 million USD to the Taliban for the release of the 19 surviving hostages.<sup>131</sup> Finally, one of the most politically embarrassing incidents occurred when Tariq Azizuddin, Pakistan's ambassador to Afghanistan was kidnapped in February

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<sup>127</sup>Ibid.

<sup>128</sup>Phil Stewart, "Italy Opens Pandora's Box with Taliban Hostage Swap," *Reuters*, March 23, 2007 (London: The International Institute for Strategic Studies), <http://www.iiss.org/whats-new/iiss-in-the-press/press-coverage-2007/march-2007/italy-opens-pandoras-box-with-hostage-swap/> (accessed July 27, 2008).

<sup>129</sup>Atiq Sarwari and Robert D. Crews, "Epilogue: Afghanistan and the Pax Americana," in *The Taliban and the Crisis of Afghanistan*, eds. Robert D. Crews and Amin Tarzi (Cambridge, MA: Harvard University Press, 2008), 354.

<sup>130</sup>Choe Sang-Hun, "Freed by Taliban, 19 South Korean Hostages Will Face Relief and Anger Back Home," *The New York Times* (New York, NY: September 2, 2007), <http://www.nytimes.com/2007/09/02/world/asia/02hostage.html> (accessed August 15, 2008).

<sup>131</sup>Ibid.

2008.<sup>132</sup> The Pakistan government is said to have released 55 Taliban operatives and made payment of several hundred thousand dollars to broker the release of the ambassador.<sup>133</sup> The Taliban practice of kidnapping foreigners has proven fruitful in a variety of ways, besides as a way of raising funds. The targeting of foreigners serves to attract international media attention during the incident, while simultaneously demonstrating state incapacity through the perception of insecurity. Also, humanitarian and non-governmental organizations (NGO) withdraw from areas prone to kidnappings and attacks.

In light of the available data, this study categorically defines the financial inputs of the Taliban mainly consisting of external support, unofficial economy, and popular support. The two main categorical methods for distributing value practiced by the Taliban are representative of formal and informal money transfers.

Countermeasures are developed and employed to address each of the sources of funding as well as the movement of funds. To counter the state sponsorship coming from Pakistan, the U.S. has sought to strengthen bilateral relations to encourage Pakistan to work with the U.S. instead of the Taliban. After 9/11, the U.S. lifted all sanctions, forgave \$3 billion USD of debt, and coordinated the quick disbursement of loans from the U.S. and the World Bank.<sup>134</sup> This initial measure of bilateral cooperation between the

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<sup>132</sup>Bill Roggio, "Pakistan Frees Formers Guantanamo Prisoner, Afghan Taliban Commander," *The Long War Journal*, May 20, 2008, [http://www.longwarjournal.org/archives/2008/05/pakistan\\_frees\\_forme.php](http://www.longwarjournal.org/archives/2008/05/pakistan_frees_forme.php) (accessed August 9, 2008).

<sup>133</sup>Ibid.

<sup>134</sup>Ahmed Rashid, *Descent Into Chaos: The United States and the Failure of Nation Building in Pakistan, Afghanistan, and Central Asia* (New York, NY: The Penguin Group, 2008), 31.

US and Pakistan soon diminished, however, as allegations of Pakistan support for the Taliban continued to surface and further strain the relationship. The U.S. has continued to treat Pakistan as an ally in the Afghanistan project in spite of the noted passive sponsorship of the Taliban. Aid continued to pour into Pakistan on the scale of \$10 billion between 2002 and 2006; much of it earmarked for the Pakistan military for directed use in operations suited to serve US policy aims in the region.<sup>135</sup>

Counter finance instruments such as eradication, crop substitution, and interdiction are designed to combat opium production and distribution in order to reduce unofficial economy. To counter the Taliban's ability to profit from the drug trade, the government of Afghanistan has pursued initiatives aimed at reducing the opium economy within Afghanistan. The National Drug Control Strategy (NDCS) of Afghanistan promotes an overall policy goal, "to secure a sustainable decrease in cultivation, production, trafficking, and consumption of illicit drugs with a view to complete and sustainable elimination."<sup>136</sup> In addition to developing an over-arching strategy to focus national efforts, the Afghan government, with assistance from the U.S. Drug Enforcement Agency (DEA), created the Sensitive Investigative Unit (SIU) and

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<sup>135</sup>“Between 2002-2006 Pakistan received \$10 billion in US aid, of which more than half, \$5.5 billion--the Pakistani Army received directly as Coalition Support Funds, or compensation for helping US military operations in Afghanistan--or about \$80-\$100 million a month for services rendered.” Ahmed Rashid, *Descent Into Chaos: The United States and the Failure of Nation Building in Pakistan, Afghanistan, and Central Asia* (New York, NY: The Penguin Group, 2008), 370-371.

<sup>136</sup>William A. Byrd, “Responding to Afghanistan’s Opium Economy Challenge: Lessons and Policy Implications from a Development Perspective,” *Policy Research Working Paper Series* (World Bank: South Asia Region, 2008), 16, [http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/03/04/000158349\\_20080304082230/Rendered/PDF/wps4545.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/03/04/000158349_20080304082230/Rendered/PDF/wps4545.pdf) (accessed August 1, 2008).

Technical Investigative Unit (TIU) as the investigative arms of the National Interdiction Unit (NIU).<sup>137</sup>

The law enforcement arm is being further strengthened by the judicial maturing of Afghanistan's formal legal processes and prosecutorial capability of the Criminal Justice Task Force (CJTF).<sup>138</sup> Crop eradication strategies have also been implemented. This has produced limited to negligible gains with 19,047 hectares eradicated in 2007 followed by 5,480 hectares in 2008. The UNODC Afghanistan Opium Survey for 2008 suggests a major challenge to eradication is the physical presence of the insurgency, especially in the south and south-west regions.<sup>139</sup> Crop substitution (often wheat) is another initiative being pursued to reduce the economic incentive for growing poppy. Quantifiable progress has been made in this area as the gross income ratio of opium to wheat (per hectare) improving to 3:1 in 2008 from 10:1 in 2007.<sup>140</sup> The government of Afghanistan is demonstrating awareness and initiative in confronting the opium problem, but is constrained by the institutional capacity to combat the depth of the problem and the ability to reduce the intrinsic relationship between opium and Afghan society.

To further address the unofficial economy, the government of Afghanistan has taken some steps in order to introduce regulation, transparency, and trade controls at the

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<sup>137</sup>United States Department of State, *International Narcotics Control Strategy Report: Volume I Drug and Chemical Control* (Washington DC: Bureau for International Narcotics and Law Enforcement Affairs, March 2008), 238.

<sup>138</sup>*Ibid.*

<sup>139</sup>United Nations, *Afghanistan Opium Survey 2008* (United Nations Office on Drugs and Crime, August 2008), 19, [http://www.unodc.org/documents/publications/Afghanistan\\_Opium\\_Survey\\_2008.pdf](http://www.unodc.org/documents/publications/Afghanistan_Opium_Survey_2008.pdf) (accessed August 26, 2008).

<sup>140</sup>*Ibid.*, viii.

border. Government agencies such as the Afghanistan Investment Support Agency (AISA) work to reduce the opaque nature of the economic environment in Afghanistan to generate foreign direct investment rather than aid and debt.<sup>141</sup> Afghanistan is also working with the World Bank and regional neighbors to reform customs administration and continue to reduce infrastructure constraints such as the road network in Afghanistan.<sup>142</sup> To counter smuggling, more work needs to be done to ease restrictions on the use of foreign trucks and to reduce both the cost and time for processing containers into and out of Afghanistan.<sup>143</sup>

The government of Afghanistan, along with U.S. and coalition partners, has tried to undermine the Taliban's popular support. Humanitarian aid, reconstruction, security, development, and political inclusion are all areas that must receive sustained focus in order to reduce the influence of the Taliban among the population and reduce the level of popular support offered to them.

To counter the movement of Taliban funds, the United Nations has passed a series of resolutions beginning in 1999 specifically aimed at freezing the financial assets and

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<sup>141</sup>The World Bank, "Afghanistan: Trade Brief," *World Trade Indicators 2008*, <http://info.worldbank.org/etools/wti2008/docs/brief1.pdf> (accessed August 29, 2008).

<sup>142</sup>Jane's, *Economy: Afghanistan* (Sentinel Security Assessments South Asia, July, 2008) [http://www8.janes.com.libproxy.nps.edu/Search/documentView.do?docId=/content1/janesdata/sent/sassu/afghs170.htm@current&pageSelected=allJanes&keyword=economy%20afghanistan&backPath=http://search.janes.com/Search&Prod\\_Name=SASS](http://www8.janes.com.libproxy.nps.edu/Search/documentView.do?docId=/content1/janesdata/sent/sassu/afghs170.htm@current&pageSelected=allJanes&keyword=economy%20afghanistan&backPath=http://search.janes.com/Search&Prod_Name=SASS) & (accessed August 11, 2008).

<sup>143</sup>The cost and time for processing containers into and out of Afghanistan is currently at \$2100 and 71 days per container for import and \$2500 and 67 days per container for export; The World Bank, "Afghanistan: Trade at a Glance," *World Trade Indicators 2008*, <http://info.worldbank.org/etools/wti2008/docs/taag1.pdf> (accessed August 29, 2008).

economic resources of the Taliban.<sup>144</sup> These resolutions have also imposed travel restrictions on designated individuals to limit their freedom of movement. The USG has used Executive Order 13129 to block property and prohibit transactions with the Taliban, and implemented Executive Order 13224 which, “expands the United States’ power to target the support structure of terrorist organizations, freeze the U.S. assets and block the U.S. transactions of terrorists and those that support them, and increases our ability to block U.S. assets of, and deny access to U.S. markets to, foreign banks who refuse to cooperate with U.S. authorities to identify and freeze terrorist assets abroad.”<sup>145</sup>

The effectiveness of these counter-finance instruments are determined against pre-defined evaluation criteria. These evaluation criteria are described in table 4.

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<sup>144</sup>1999-UN Resolution 1267, 2000-UN Resolution 1333, 2002-UN Resolution 1390, 2003-UN Resolution 1455, 2004-UN Resolution 1526, 2005-UN Resolution 1617, 2006-UN Resolution 1735, 2008-UN Resolution 1822 cover individuals and entities associated with al-Qaida, Usama bin Laden, and/or the Taliban wherever located, <http://www.un.org/sc/committees/1267/index.shtml> (accessed August 29, 2008).

<sup>145</sup>United States Department of Treasury, *Terrorism Sanctions* (Washington DC: Office of Terrorism and Financial Intelligence) <http://www.ustreas.gov/offices/enforcement/ofac/programs/terror/terror.shtml> (accessed September 1, 2008).

Table 4. Evaluation Criteria for Taliban Case Study

Criteria	Definition	Benchmark
Level of Political Autonomy of the Taliban	Clandestine organization operating beyond the reach of state authority	Optimal. No recognized political authority at any level.
		Desirable. Local political authority in isolated or contained pockets of popular support bases.
		Less than Desirable. Major political participation in state governance.
		Catastrophic. Recognized legitimate governance of the state.
Resiliency of Taliban Financial Management	The managing of fiscal resources in order to sustain and grow the Taliban organization	Optimal. Management of finances that fall to a level that contributes to the dissolution of the organization.
		Desirable. Management of finances that reduce status quo and decrease organizational outputs.
		Less than Desirable. Management of finances that contribute to maintaining status quo.
		Catastrophic. Management of finances that contribute to incremental and sustained growth.
Resiliency of Taliban Financial Diversity	A Taliban privatized financial model relying upon multiple financial input streams in order to generate flexibility and contribute to survivability	Optimal. Multiple streams of income vulnerable to singular counter-finance initiative.
		Desirable. Multiple streams of income subject to correlated constraints.
		Less than Desirable. Presence of independent streams of income.
		Catastrophic. Presence of reliable and independent streams of income.

Source: Created by author.



### Center of Gravity Analysis

The end state for Taliban financing is to sustain the Taliban organization while enabling growth in order to facilitate pursuit of the organization's political goals. Centers of gravity are "physical or moral entities that are the primary components of physical or moral strength, power, and resistance."<sup>146</sup> Taliban financing is the operational center of gravity and represents a source of power for the Taliban.

Critical capabilities are the ways that enable a center of gravity to function and illustrate the friendly concerns about the enemy center of gravity.<sup>147</sup> Critical capabilities for the Taliban are the financing mechanisms, which concern the USG. The use of financial movement instruments as a conversion mechanism to distribute value throughout the organization illustrates their significance as critical capabilities. This segment of analysis explores the Taliban reliance upon courier, commodities, and informal money transfer systems such as the hawala. Illustrating the Taliban methods for moving finances demonstrates the difficulties inherent in disrupting the financing of the Taliban so long as there continues to remain sources of financing. The critical capabilities allow for the conversion of supply (critical requirements) to meet demand. The critical capabilities are specifically categorized as formal and informal value transfers. The distinction between formal and informal is determined by the level of legitimate oversight or regulation imposed upon the particular method employed to distribute value.

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<sup>146</sup>Jack D. Kem, *Campaign Planning: Tools of the Trade*, 3rd ed. (Fort Leavenworth, KS: U.S. Army Command and General Staff College), 72.

<sup>147</sup>*Ibid.*, 73.

Critical requirements are the means or resources required by the critical capabilities to function.<sup>148</sup> Critical requirements are the identified sources of financing that directly enable the critical capabilities of the center of gravity-Taliban finance. The Critical requirements for the Taliban are illustrated categorically consisting of external support (foreign), unofficial economy, and popular support (domestic). External support focused on external aid provided to the Taliban short of state sponsorship in the case of the United States, Saudi Arabia, and Iran. State sponsorship illustrated the fiscal relationship between Pakistan and the Taliban. The unofficial economy was presented through a descriptive portrayal of the facilitating factors used to enable Taliban funding. The unofficial economy was comprised of unofficial imports, exports, and domestic smuggling occurring beyond the reach of state control and legitimate institutional regulation. Popular support was the most difficult source of financing for the Taliban in quantifiable terms. Popular support was portrayed through coercion, illegitimate taxation, extortion, local seizure of assets, forced conscription, and non-denominated values contributing to the fiscal health of the Taliban.

The critical vulnerability is the enemy's concern about friendly forces and an aspect of the critical requirement that is vulnerable to neutralization or defeat that contributes to the center of gravity from performing a critical capability.<sup>149</sup> The financial variable is the key component in the Taliban insurgency that if exploited properly may

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<sup>148</sup>Ibid., 73-75.

<sup>149</sup>Ibid., 77.

hasten the demise of the Taliban.<sup>150</sup> Critical vulnerabilities consisting of external manipulation, regulation, legitimacy, and reliability are all factors, which may cause concern for Taliban financing. This center of gravity analysis is depicted in figure 7.

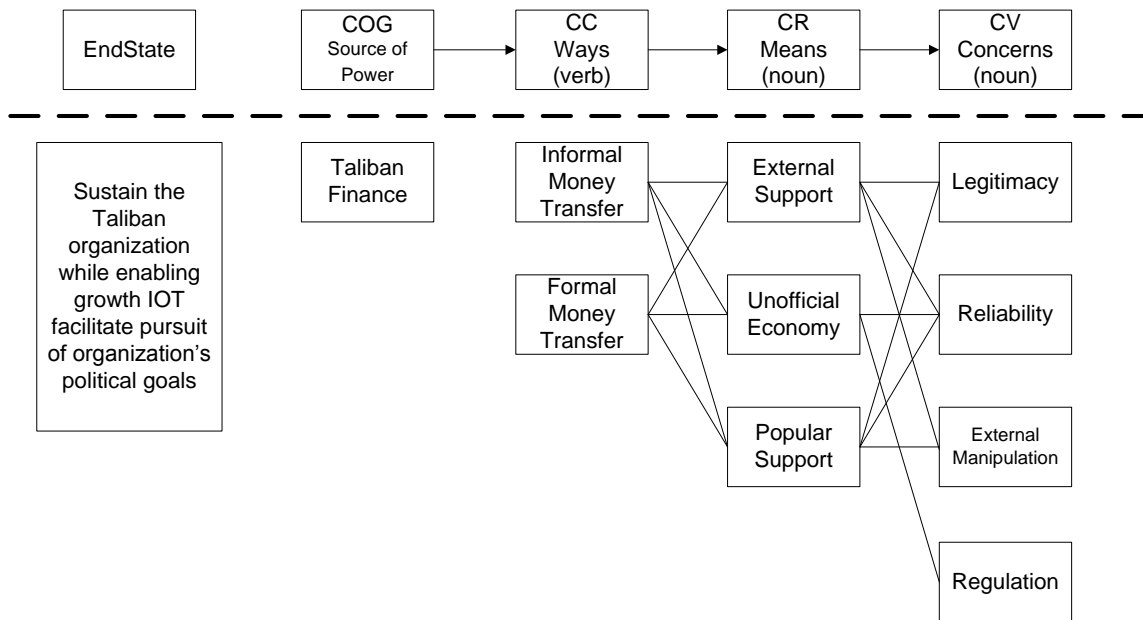


Figure 7. Center of Gravity Analysis for the Taliban Organization  
 Source: Created by the author.

The ability for counter finance instruments to address these critical vulnerabilities will determine whether or not the Taliban finance center of gravity may achieve a desired end state. The counter-finance instruments in this particular case consist of state-based asset denial, anti-money laundering (AML), counter narcotics, and developing a market versus clientele economy. The counter-finance instruments are depicted in figure 8.

<sup>150</sup> Arabinda Acharya, Syed Adnan Ali Shah Bukhari, and Sadia Sulaiman, “Making Money in the Mayhem: Funding Taliban Insurrection in the Tribal Areas of Pakistan,” *Studies in Conflict & Terrorism*, 32: 97.

Figure 8 uses the critical vulnerability construct to illustrate the potential of one counter-finance instrument, specifically the state-based asset denial to exploit critical vulnerabilities associated with the critical requirements that enable the critical capabilities eventually affecting the center of gravity and disrupting Taliban finance from contributing to the desired end state. The state-based asset denial is representative of the designate and freeze practices associated with the USG. This counter-finance instrument takes advantage of critical vulnerabilities such as regulation and reliability by disrupting financial flows derived from the critical requirements that rely upon formal value transfers.

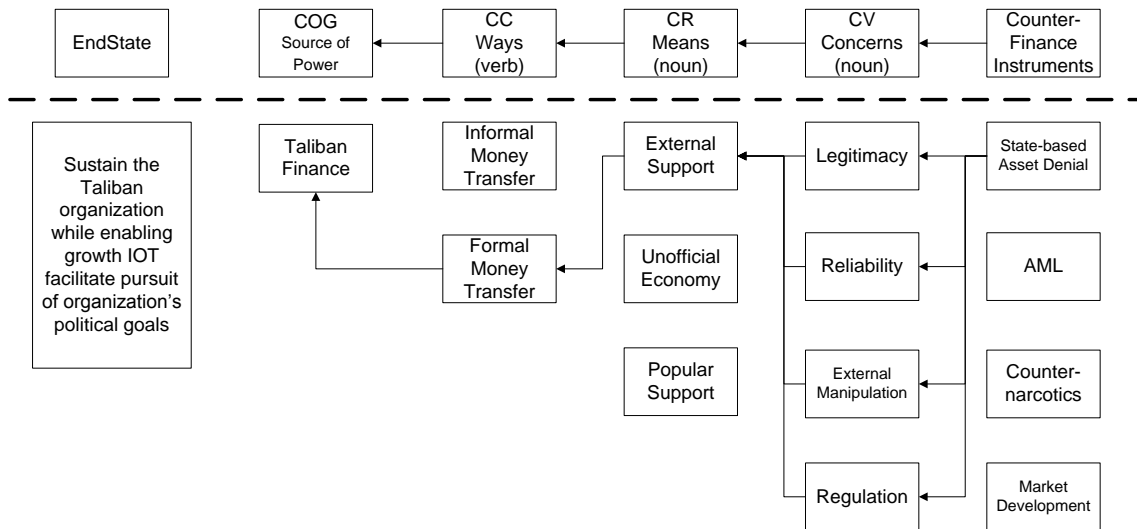


Figure 8. State-based Asset Denial Counter-finance Crosswalk Example  
 Source: Created by author.

## Findings

Findings depicted in table 5 illustrate the effectiveness of counter-finance instruments against the external manipulation, regulation, legitimacy, and reliability of Taliban financing. The counter-finance instruments seek to exploit the opportunities presented by an analysis of the critical vulnerabilities associated with Taliban financing. Successfully addressing the critical vulnerabilities serves to reduce the threats associated with the Taliban critical capabilities.

Table 5. Scoring the Counter-Finance Effort

Counter-Finance Instrument	Level of political autonomy of the Taliban	Resiliency of Taliban financial management	Resiliency of Taliban financial diversity
State-based asset denial	Desirable	Less than desirable	Optimal
Anti-money laundering	Desirable	Less than desirable	Desirable
Counter narcotics	Desirable	Catastrophic	Catastrophic
Market development	Desirable	Desirable	Desirable

*Source:* Created by author.

State-based asset denial initiatives produce desirable results against the level of political autonomy of the Taliban. This finding is contributed to the ability of state-based asset denial to isolate the Taliban organization from the greater international community. State-based asset denial produces less than desirable results based upon the demonstrated management of Taliban finances that contribute to maintaining status quo. This finding reflects the ability of the Taliban center of gravity to sustain if not grow the organization. State-based asset denial produce optimal results against the resiliency of Taliban financial diversity by demonstrating the ability to influence multiple streams of Taliban income.

Anti-money laundering initiatives have produced desirable results against the political autonomy of the Taliban organization by contributing to the containment of political authority to local and isolated levels. Anti-money laundering initiatives have contributed to less than desirable results based upon the demonstrated management of Taliban finances that contribute to maintaining status quo. Anti-money laundering initiatives have demonstrated a desirable impact upon the resiliency of Taliban financial diversity by emplacing constraints upon multiple streams of Taliban income.

Counter narcotic initiatives have resulted in desirable results in the level of political autonomy of the Taliban organization. This reflects the ability of counter narcotics initiatives to contribute in the containment of Taliban political authority to local and isolated pockets. The counter-narcotics initiatives have resulted in catastrophic results for both resiliency of Taliban financial management and diversity. This failure enables the management of finances that contribute to incremental and sustained growth for the Taliban organization. This is reflected in the nexus between Taliban activity and opium production in locales such as Helmund province.

Market development, to include the introduction of regulatory approaches to informal value transfers, incremental improvements in controlling import-export activities, and efforts to embrace contractual administration of economy under the application of common-law serve to reduce the status quo and decrease organizational outputs. This results in a desirable result against each of the three evaluation criteria.

### Summary

The story of the Taliban is far from completion. This chapter provided insight to the historical financial patterns of the Taliban in order to underscore the importance of

effective counter-finance initiatives to disrupt threat organizations. The reoccurring themes used in the analysis of the Taliban consist mainly of ungoverned space or weak governance and the presence of a formidable unofficial economy. The consistency of weak governance and unofficial economy as enablers for threat financing illustrate the potential for Taliban financing given the contemporary environment of Central Asia generally, and Afghanistan and Pakistan specifically.

This chapter began with a historical background of the Taliban illustrating the trends toward external fund streams and malleable alliances. The sources of financing for the Taliban were then categorically defined as external support (foreign), unofficial economy, and popular support (domestic). Methods to move the value associated with these sources of financing were then presented as either formal or informal value transfers. Finally, countermeasures specifically employed by the USG against the Taliban to disrupt or deny both the sources of financing and the methods used to move these finances were presented to determine effectiveness. The findings derived from the Taliban case study are interpreted to develop conclusions in chapter 5.

## CHAPTER 5

### CONCLUSIONS

This study set out to determine whether or not the U.S. government counter-finance initiatives toward the Taliban were producing a desirable effect upon the Taliban? A desirable effect in this case was pursued from the perspective of the USG. The relationship between USG policy and Taliban organizational resiliency is a zero sum affair due to the finite level of political space available for competition. This chapter consists of four sections. The first and second sections provide the answers to the primary and secondary research questions respectively. The aim of these sections is to achieve the purpose of the study. The third section consists of recommendations for both countering the financing of terrorism broadly and countering the financing of the Taliban specifically. The fourth section consists of the recommendations for future research. The fifth section consists of a summary of the project to serve as a brief overview of the study.

#### Addressing the Primary Research Question

The primary research question was whether U.S. government counter-finance initiatives aimed at the Taliban are producing a desired effect upon the Taliban organization. The findings in the study suggest that yes, the four counter-finance initiatives in aggregate have demonstrated desirable success against the Taliban. Local political authority of the Taliban remains isolated or contained in pockets of popular support bases as a result of eight years of sustained focus with regards to reducing the financial architecture of the Taliban. The current disposition of the Taliban organization



suggests counter-finance initiatives have demonstrated success in preventing the Taliban from achieving their goal of recognized legitimate governance of a state, while falling short of dissolving the Taliban to a level of no political authority at any level.

The counter-finance instruments demonstrated limited success exploiting the critical vulnerabilities of Taliban financing and reduce the critical capabilities and requirements in an effort to reduce the center of gravity to a level manageable by state law enforcement apparatus. This limited success has since appeared to dissolve reflected in the current state of affairs as USG military forces grow significantly in number to put down resurgent Taliban activities. This is one result of the counter-finance instruments inability to remove the isolated sanctuaries providing the Taliban political space to exercise autonomic governance.

The inability of counter-finance instruments to reduce both the number of independent streams of income and their associated level of reliability is an area requiring more attention to effectively further gains made by counter-finance initiatives. For example, an optimal result garnered from state-based asset denial is diminished by the inability to achieve positive results with other counter-finance instruments such as counter-narcotics. One result from such dynamics is a shift of effort by the Taliban to take advantage of the opium economy. The level of reliance upon the opium economy increases since this independent stream of income still produces value and maintains a high level of reliability.

#### Addressing the Secondary Research Question

The secondary research question dealt with whether the sources and movement of finances for the Taliban been effectively disrupted? The findings in this study suggest

that yes, the sources and movements of finances for the Taliban appeared to be initially disrupted due to the contraction of Taliban influence. The Taliban organization has demonstrated the ability to shift fund stream reliance in response to USG counter-finance initiatives. The ability of the Taliban organization to adapt their financial practices to offset gains made by particular counter-finance initiatives has yet to be effectively undermined contributing to the sustained and incremental growth for the Taliban organization.

Ideology alone only gets an organization so far, and without proper funding growth may be unachievable. The perception that many Taliban associated criminals are conducting operations to maintain an incrementally diminishing footprint suggest USG efforts had halted growth or, at a minimum, disrupted Taliban efforts to reorganize following the 2001 invasion of Afghanistan. Current events in Afghanistan (2009) though suggest the Taliban have again adapted their financial mechanisms to account for limited USG and GOA success.

### Recommendations

Counter-finance initiatives that may be refined for application to the broader strategy of countering threat financing are many and reflect an evolving understanding of the financing instruments employed by terrorist organizations. First and foremost, countering the financial mechanisms associated with the terrorist organization must be pursued through an inter-agency effort partnered with private industry. International participation is also necessary due to the globalized nature of contemporary value transfer. The sharing of financial intelligence and developing financial forensics capability serves to disrupt access to the global financial system. The designate and

freeze approach has been modified in certain instances to reflect a growing appreciation for the intelligence value associated with mapping the financial streams of a terrorist organization. A strategy incorporating “find and follow” in regards to the financial streams of the terrorist organization may yield valuable intelligence and shed light upon the dark networks associated with the terrorist organization. Additionally, the limits of a pure eradication strategy under the auspice of counter-narcotics have led to alternate strategies such as crop substitution and interdiction, which have an application beyond the context of Afghanistan.

In light of this, it is recommended that the USG, GOA, and Pakistan sustain recent efforts to reduce the amount of political space available to the Taliban by attempting to contain and dissolve identified safe havens on both sides of the border. This recommendation echoes the need for increasing the number of security forces available to disrupt linkages between illicit supply and illegitimate demand in order to protect the extension of governance. In addition to this, a more focused effort in both counter-narcotics and market development should be resourced and implemented to reduce the size of unofficial economy in Afghanistan available for exploitation by the Taliban.

#### Future Research

Recent events in Afghanistan with specific regards to the USG involvement with counter-insurgency, state-building, and counter-narcotics puts a time stamp upon the pragmatic value of this research. The heightened political sensitivity with regards to Afghanistan and the Taliban and the soon to be released strategic assessment should offer additional insight to the major themes associated with this thesis. Future research is recommended to focus upon updating and broadening data collection to include classified

financial figures associated with the Taliban, classified examples to substantiate methods of moving finances, and classified descriptions and effectiveness of USG counter-finance initiatives. In addition to this, future research is recommended to analyze the relative contributions of counter-finance initiatives to reducing the enemy center of gravity.

### Summary of the Project

The primary research question was addressed through a case study approach using the center of gravity analysis in order to determine findings, which may be interpreted to support a confident and conclusive answer. The center of gravity analysis was dependent upon the author's selective identification of a center of gravity with associated end state, plus capabilities, requirements, and vulnerabilities. Evaluation criteria developed by the author were used to determine the effectiveness of USG counter-finance initiatives against the Taliban. Findings produced by this analysis of the case study narrative were used to produce conclusions addressing both the primary and secondary research questions.

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