



OS/INT

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Introduction

As terrorism costs money, both for the terrorist organization and even more so for its opponents (Mazumder), it must also be understood as an economic phenomenon (Intriligator) and may be described as a specific type of business (Basile) involving rational actors striving to “maximize their payoffs from target selection and possible reactions of governments” (Lemieux). In fact, a good portion of terrorist attacks over the last decade has been directed against economic targets (as opposed to military or government targets), and it is fair to predict that future attacks will follow this pattern, potentially even “playing the market” as insider traders themselves (Baumert).

Detecting, tracking, controlling, and countering the various sources and channels used for the funding of terrorism therefore becomes a joint concern of research on a theoretical level, politics on a legislative level, and law enforcement on an operational level. The very emergence of “financial intelligence” (FININT) as a strategic and tactical discipline for systematically scrutinizing dubious flows of funds reflects the fact that the financial sector, where most of the relevant data and assets are held, is approaching a crossroads where it must resolve the dilemma between its “professional culture of non-interference” on the one hand, and large-scale information sharing leading to new forms of compliance and intelligence-led policing on the other (Favarel-Garrigues).

This report explores the current literature in order to identify the prevalent academic approaches to conceptualizing terrorism funding by presenting a typology of sources, providing an overview of channels or logistics, and briefly evaluating the actual countermeasures in place.

While the scope of this paper is largely generic, most of the cases presented refer to Islamist terrorism due to the “truly global nature” of its funding (Feiler). While it resembles other forms of financial crimes that are similar in appearance, such as money-laundering in an organized crime context, it should not be confused with these. For the latter, generating revenue is the ultimate end, whereas for terrorism as a form of political violence, money is primarily, yet not exclusively a means. Nevertheless, strategic alliances and regional interferences between the two actor groups are not unusual (e.g., the trade of drugs or diamonds for weapons). Hence, “the realities of terrorist financing are fundamentally relational, in that they have no meaning except in relation to other realities (e.g. the military capability of a terrorist group) or one’s purpose of analysis (e.g. to identify associated law-breakers).” (Wittig) Consequently, ‘following the money trail’ alone does hardly suffice for effectively hampering terrorism (Pieth).



Sources

When investigating the funding of terrorism, it is crucial to note that while the operational costs of individual terrorist attacks may be rather low, the costs of sustaining a terrorist organization are not. It has been suggested that only around ten per cent of terrorism financing are devoted to the execution of operations, although this number is still somewhat contested, as operations usually require months, if not years of lead time, which means that it is difficult to separate de-facto attack costs from the organizational budget used for infrastructure, equipment, recruiting, training, bribes, 'wages', etc. Given an estimated combined budget of all Islamist terror groups from 1995 to 2005 of US\$1 billion (compared to merely US\$80 million in the decade before) according to Feiler, of which al-Qaida's annual budget is said to be between US\$30 and 50 million, the logistical expenditures of the Bali, London, and Madrid bombings (between US\$10'000 and 50'000 each), or even the highly intricate attacks on 11 September 2001 (ca. US\$350'000–500'000) seem remarkably moderate (Freeman).

Taking into account that 90 per cent of terrorist groups are believed to have a survival rate of less than one year (Lemieux), this disproportionality is even more striking, as it implies that funding is mainly needed for the strategic maintenance and organic reproduction of the organization over a longer period of time rather than just buying explosives and aiming at 'quick wins'. This not only requires a continuous and, thus, diversified flow of funds, but also a long-term agenda, a loyal support base, and, not least, entrepreneurial skills in order to exploit the various possible sources of terrorism financing in the best way possible.

Typology

Developing a viable typology of these sources generally starts with, but must not be limited to, the questions of 'who' and 'how': Who is actually financing whom, and how are finances administered technically? Freeman proposes a widely accepted set of four source types, namely state sponsorship, illegal activities, legal activities, and popular support, and assesses their advantages and disadvantages – from a terrorist's standpoint – by applying six criteria: quantity, legitimacy, security, reliability, control, and simplicity.

'Quantity' obviously describes how lucrative a particular source is – the more money, the better.

The 'legitimacy' of how money is raised is of the utmost importance to a terrorist group if it wishes to remain true to its ideals and credible in the eyes of its supporters. Resorting to blatant delinquency or corruption can massively undermine the trustworthiness of terrorist leadership, and is a soft spot that can be used effectively for discrediting and compromising an organization. Popular support almost completely depends on donors' belief in a group's legitimacy, its 'honor', and its ability to achieve its objectives. This criterion becomes a litmus test for terrorists heavily engaged in illegal activity, which oddly enough is often declared to be legitimate simply because it essentially harms the enemy, e.g., drug trafficking by Hezbollah, which is labeled as 'intoxicating the infidels'.

'Security' is a natural concern of terrorist organizations, which usually operate clandestinely and whose organizational logic is based on avoiding detection or infiltration, but which are highly visible once they strike. Besides convenience, security is perhaps the most obvious reason why terrorist cells increasingly turn to the internet and virtual economies in order to transfer funds. "There is widespread agreement at this point among governments

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that the Internet creates serious counterterrorism vulnerabilities, and that action is needed to counter this growing threat.” (Jacobson)

‘Reliability’ refers to the predictability and consistency of funding, which often depends on geographical and demographical aspects that determine where support can be expected and the nature of the audience to which a terrorist group must cater.

‘Control’ indicates the centralization and discretionary availability of funds and, thus, the command and power that a group can exercise vis-à-vis its members, both vertically and horizontally. A terrorist group will neither want to depend too strongly on external constraints, such as states, nor does it want to enter into a fierce competition over funds with rival organizations. At the same time, distributing too much money within the group carries the risk that subsidiaries may become too independent and disobedient towards their leadership, whereas allotting too little money may lead to corruption or plain impotence. Also, local branches of a terrorist group may strive to secure their own funding, contrary to the popular notion that terrorist organizations are mainly centrally funded (Bahney).

Finally, ‘simplicity’ or ‘feasibility’ accounts for the idea that the less effort it takes to raise money, the more beneficial that very source will be. In contrast, the more sophisticated the sources and methods of financing terrorism become, the more risky and vulnerable they will eventually be.

With regards to the proposed four types of sources, making an accurate delineation between them is primarily an academic exercise, since in reality, all types are intertwined: State sponsorship or popular support may very well be ‘legal’ in the respective countries, for example. Still, for the sake of critical application of the concept, it is helpful to construct those prototypes.

State Sponsorship

State sponsorship was the chief source of terrorism funding during the Cold War, Libya being a case in point. This form of funding has significantly decreased ever since, and today, Iran (funding Hizbollah with an estimated US\$100 million a year), Syria (which supports Hizbollah, Hamas, and the Palestinian Islamic Jihad), and – albeit indirectly – Pakistan (aiding the Afghan Taliban and Lashkar-e-Taiba amongst others through its Inter-Services Intelligence agency) can be considered model cases.

The main advantages are that states usually have large amount of funds available, and that the process of disbursement is simple and secure. The disadvantages are the lack of autonomy and reliability, insofar as the donor state may exert massive influence on a terrorist group and, moreover, may change its policies and alliances rather rapidly, sometimes due to international pressure, as in the case of Libya.

Illegal Activities

Illegal activities can be seen as the most problematic type of revenue generation, both operationally and on definitional grounds. It raises difficulties from the viewpoint of legal and law-enforcement authorities, which are bound to prosecute only ‘crimes’. It comprises an almost unfathomable multitude of activities, especially trafficking and trading in illicit goods, e.g., the PKK’s ‘narco-terrorism’, the large-scale cigarette smuggling by a Hezbollah cell in North Carolina cell, Iran’s gunrunning, Africa’s ‘blood diamonds’, or, as in the case of the

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IRA, even smuggling pigs to collect export subsidies. Other activities in this category range from piracy, kidnapping, counterfeit, robbery, and bribery to imposing 'taxes' (e.g., Taliban and the PLO), forgery, credit card fraud, money-laundering, and extortion.

Although not necessarily symbiotic, there is an apparent logistical and entrepreneurial nexus between terrorism and organized crime, local mafia organizations, and separatist movements here. "Collaboration between terrorist and criminal organizations paves the way for frightening synergies given the shared need for false documentation, weapons, laundered funds, safe houses, and smuggling routes. [...] In the years to come, the crime-terror nexus will likely be further strengthened due to the spread of radical Islam in prison." (Lefkowitz)

Illegal activities significantly undermine the legitimacy of any state that fails to crack down on the perpetrators and police its territory, and, therefore, enhance the terrorist group's profile. In other words, terrorists may "fill a gap left by government weakness" (Lemieux), and thereby even provide welfare and create business opportunities for the broader population. The relationship between illegal activity and popular support can nonetheless be delicate, since certain activities may alienate the host population and its ideological or religious beliefs or cause the political violence movement to be regarded by once loyal sympathizers as parasitic and repressive. What is more, when illegal activity generates huge revenue, the terrorist organization may become more prone to corruption and skimming and actually become unable to carry out attacks or degenerate into a mere business itself (Shapiro). By definition, illicit activities are the least secure form of funding. More than for other the types, applying the matrix of advantages and disadvantages to illegal activity rests on the unsatisfying proviso of 'it depends'.

Legal Activities

Legal activities, on the other hand, should be considered just as much of a threat and concern as illegal activities, although they are by far harder to detect. The main advantages of legal activity are, obviously, legitimacy and security. Trading, investment, manufacturing, and construction companies, restaurants, clubs, security firms, or transportation services (during the 1980s, the IRA operated a huge fleet of taxis) provide perfect cover for raising and laundering money. Cash-based businesses in particular ensure a great deal of flexibility for transferring money within an organization through inconspicuous intermediaries. However, bona fide business activity leaves traces in the form of official records, audits, etc., which makes it rather impractical as the sole source of terrorism financing. The quantity and reliability of funds generated may also vary vastly, above all due to the competitive market environment in which the business in question operates.

Popular Support

For analysis, popular support is probably the most meaningful source of terrorist income. In particular, certain charities, such as the now defunct US-based Holy Land Foundation for Relief and Development or the Afghanistan-based Al-Wafa al-Igatha al-Islamiya and other charities supported by the Gulf states, play an eminent role in financing Islamist terror groups.

What is noteworthy about popular support is that it can serve as quite a precise meter for the legitimacy of a terrorist group and the prevalence of its donor base. It is well-documented that mosques, not least those frequented by diaspora communities, are an important hub for raising money, again highlighting globalization as one aspect of terrorism financing. While it is relatively reliable and simple to manage, popular support also

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documents a group's geographical autonomy, its reach, its 'market value', and its status as well as its interaction with sympathizers who, in return, affect terrorists' behavior by their willingness to donate.

Popular support must therefore be understood as a complex means of communication. It should be acknowledged, though, that only a minuscule fraction of all charitable funding ends up supporting terrorism, and even if it does, donors are oftentimes unaware of the true destination of their contributions. Still, terrorist organizations have to compete for funds, which might cause them to escalate their activities as an advertising tactic. Furthermore, the quantity of financial support depends on, and thus varies in accordance with, the health of the respective economy.

Originally stemming from Marxist theory, an analytical focus on economic and social inequalities as antecedents of terrorism remains a popular, yet not fully convincing approach to detecting causes. While it is certainly valid to assume that poor participative (e.g. education) and distributive (e.g. welfare) justice heightens economic and social grievances and corruption which again are accelerating poverty (Jones/Libicki), it is the corresponding political vacuum that helps terrorism prosper. Not least is the argument rather equivocal as namely democracies are susceptible to domestic terror attacks and not the regimes that are notorious for fueling inequalities the most (Cox/Falconer/Stackhouse).

Ultimately, religious considerations may also be very helpful in understanding the situation. This is especially true for Islamist terrorism. It would be an exaggeration to speak of an endemic "theology of violence" (Roy), and religion is seldom the all-encompassing explanation of terrorism. Nevertheless, its well-directed interpretation may, by its followers, be experienced as a call for a holy or "cosmic war" (Juergensmeyer). The 'Global War on Terror' involves pseudo-messianic rhetoric on both sides, so that its actual causes cannot be solely reduced to secular factors. It has also been pointed out that monotheism encourages a totalizing authoritarianism and systemic intolerance and, therefore, can serve as an influential source of legitimacy for terrorists who believe they are carrying out God's will.

If all of the above considerations are taken into account, the development of adequate political, legal, and institutional (law enforcement) counterterrorism instruments will require practitioners and theorists to wholeheartedly close ranks in eventually "detering the undeterrable" (Wilner).

	State sponsorship	Illegal activities	Legal activities	Popular support
Quantity	+	+/-	-	-
Legitimacy	+	+/-	+	+
Security	+	-	+	+
Reliability	-	+	-	+
Control	-	+	+	-
Simplicity	+	+/-	-	+

(According to Freeman)

Asking the Right Questions

The above typology of sources aims to facilitate an understanding of terrorist organizations' revenue streams, although taking into account a group's spending patterns would be equally insightful and require another analytical approach (Bahney). There are good grounds for arguing that an ideal-type illustration of sources, while essential, does not contribute enough to the whole phenomenon, its complexities and dependencies. In fact, an enquiry into the really promising questions should go beyond the questions of 'who' and 'how', and start concentrating on how those sources affect terrorist conduct and reproduction.

In order to avoid "fighting terror with error" (Cassara), the 'right' questions according to Wittig should thus be: "1. How do financial activities influence the behavior of terrorist actors? 2. What do financial activities tell us about how terrorist actors relate to wider local, national and global societies?"

The first question is closely linked to the instrumentality of funding and the dynamics of its particular political-economic environment, and allows terrorism to be seen as more than a simplistic 'motivation + capability' equation. This means that terrorism financing is a 'flow' rather than a 'stock' issue. The important metric is not absolute numbers, but their relative relationship to all aspects of running and reproducing a terrorist organization. While regulatory efforts and law enforcement will continue to target sources and specific channels, identifying the interactions between a terrorist group's funding, structure, motivation, identity, and its social, religious, cultural, and other determinants accounts for the explanatory value added by scholarly and intelligence analysis.

The second question, again, assumes that terrorism financing reflects the intricate relationships between an organization and its stakeholders, sympathizers, competitors, and even enemies. As explained above, popular support is one key to understanding this kind of networks, as it not only depicts a group's concrete popularity, but also its adaptive role within a societal context. The question 'why' will therefore have to be met with better answers than "because it works", and any analysis must relate funding to the very root causes of terrorism, as laid out in the ISN's previous OSINT Report.



Channels

Extremist organizations rely on various forms of money transfer to move money from where it is raised to where it is needed. None of the channels are specifically designed for terrorism financing. Some channels are formal and established financial institutions, whereas others are informal networks. Whichever channel is used, it is important to terrorist organizations that the movement of their funds be concealed from authorities and monitoring systems, which is achieved by various forms of money laundering. Although the process and objectives of money laundering for terrorism are basically no different than other forms of money laundering (Weintraub), terrorist money is often harder to identify and track (Feiler).

Whereas organized crime groups usually handle large amounts of money derived from drug trafficking, fraud,

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etc., terrorists usually rely on a constant flow of relatively small amounts of money to maintain their cells; this reduces the risk of being detected by Anti-Money Laundering (AML) mechanisms. As explained before, terrorist funds are often derived from legal activities. This makes it much more difficult for banks and authorities to detect the illegal nature of transactions. If particular channels are used, it may not even be necessary to actively conceal the purpose and source of the money.

Terrorists use myriad channels for their funds and are very creative in finding new ways to move their money. The following paragraphs will thus only outline three major, and de facto hybrid channels for terrorism funds: the international banking system, the Islamic banking system, and the informal Hawala system.

International Banking System

According to Rudner, “[t]he speed and ease with which monies can be transferred within the international banking system allow terrorists to deploy funds efficiently and effectively [...] between and within jurisdictions“. Nevertheless, the importance of the commercial international banking system in terrorism financing is decreasing, mainly due to increasingly stricter regulations and monitoring systems implemented in the aftermath of the 9/11 attacks. The commercial banking system is affected the most by AML efforts, since channels such as Islamic banking and Hawala are out of reach of Western regulators. Consequently, terrorism funding is driven further underground.

Terrorist organizations frequently make use of front companies when doing business with banks (Feiler). This and other money laundering methods can ensure that funds appear clean and can be used for transactions to terrorist cells and transferred through the banking system without raising suspicion. In this regard, terrorism financing is no different from common money laundering.

One of the fundamental weak links in the global AML regime, with respect to terrorism financing, are correspondent banks (Fitzgerald). Money directed towards terrorist organizations often enters and leaves the global banking system through correspondent banks, i.e., banks that provide services in countries not served by the big international banks. These correspondent banks allow customers (and terrorist organizations) to transfer money to established banks, if they are not served by them directly. It is exceedingly difficult for Western banks to detect illicit money, as they have only limited possibilities for tracing the origin of funds channeled through correspondent banks that are usually based in underregulated countries.

Offshore banking, and specifically the aspect of banking secrecy, are of special interest for terrorism financing and for those who fight it (Picard). Despite being part of the formal global financial system, offshore banks usually provide banking secrecy and bypass AML regulations. These characteristics of offshore banking are not only useful for tax evasion, but for terrorism financing as well. For illicit organizations, including terrorists, offshore banking has all the advantages of the global banking infrastructure, without AML regulations. However, as the recent development shows, banking secrecy is being increasingly challenged by the OECD, G7, and UN. When the CIA and the US Treasury Department gained access to money transfer data through the SWIFT database, soon after the 9/11 attacks, banking secrecy was seriously undermined (Lemieux). Access to the SWIFT database allowed the authorities to investigate terrorist activity and circumvent banking secrecy in a convenient, but controversial way.

Although declining in importance, terrorism money will keep flowing through the international banking sys-

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tem due to the protection of banking secrecy in certain countries and the incomplete implementation of international standards.

Islamic Banking

The Islamic banking system is another widely used channel for terrorism financing (Raphaeli). Islamic banks are recognized financial institutions that do business according to Islamic law and are usually financially well interconnected both in the developing and in the Western world. These banks are based in Arab countries and offshore banking centers alike, but also have branches in Western countries. Islamic banking is attractive for terrorism financing because it is far less regulated than Western banking (Basile) and terrorists can move and invest large amounts of money without being subject to AML regulations.

As mentioned before, the Islamic banks serve as a link between the Arab world and the Western banking system in their function as correspondent banks (Basile and Feiler). Because of the lack of regulation and monitoring in most Arab states, it is difficult to trace money flows and detect illegal movements if the funds are transferred through the Islamic banking system. Underregulated Islamic banking is therefore a problem that far exceeds the regional scope.

Terrorism funds in the Islamic banking system originate from individual sponsors, state sponsors, and the Zakat system. Zakat (the Muslim commandment of almsgiving) is strongly linked to Islamic banking because Zakat organizations not only raise money for charities; they also distribute it, preferably through Islamic banks. As explained earlier, Zakat is frequently used for terrorism financing because many extremist organizations engage in charitable work and are perceived as such rather than as terrorists. These charity funds enter the banking system through Islamic banks and are further distributed to extremist organizations. As Islamic banks are not allowed to pay or receive interest, they also act as funders for Zakat, and sometimes for terrorist organizations (Raphaeli).

There are several examples of Islamic banks that were set up and operated by funders and supporters of terrorist organizations, e.g., Bank al-Taqwa, which is associated with the financing of groups such as Hamas and al-Qaida (Feiler). Another example is the Osama bin Laden-affiliated banking network called Al-Shamal Islamic Bank, which over the time matured into a fully-fledged bank in the Muslim world (Feiler). These banks sometimes maintain branches in Western countries, where they provide formal Islamic banking services to legitimate customers, but they also serve terrorism financing and facilitate the movement of funds through the banking system.

Hawala

The Hawala system is widely regarded as one of the most important channels for terrorism financing because of its simplicity and its underground nature. Hawala is a global network of independent money transfer providers that can be considered an informal version of money transfer services like Western Union and MoneyGram. Hawala is mostly used for legitimate purposes and accounts for an estimated 2 per cent of all international financial transactions (Raphaeli). Hawala is predominantly used in developing countries where people have only limited access to commercial banking services (Basile). In the Western world, the system is mainly used for remittance payments by migrant workers.

Hawala service providers (known as Hawaladar), who make profits by charging commissions, usually operate

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from the back of a shop or restaurant. The only infrastructure they need is a phone or fax and a notebook. The system is based on mutual trust, and works without actually transferring money from A to B. Hawaladars hold balances against each other that are settled by wire transfer or, also quite commonly, through the trading of goods. The individual transactions for customers, however, are not accounted for. The network is completely unregulated, and it is therefore hard to capture the extent of the system and almost impossible to detect illicit transactions.

In comparison to licensed transfer services, Hawala is cheaper, reaches more destinations, and bypasses governmental regulations and currency pegs (Raphaeli). The main advantage of Hawala for terrorism funding is that there is no need to open a bank account, and it allows for money transfers without any questions asked and without leaving any paper trail. Whereas international banks record their transfers and are subject to formal accounting procedures established by national and international regulators, Hawaladars usually do neither.

Hawaladars rely primarily on relatively poor customers from developing countries and their need for basic banking services. Since further regulation increases the costs of formal money transfers, the Hawala system is likely to be strengthened. Given that formal channels are increasingly subject to AML regulations, informal money transfer systems will probably also be increasingly important for illicit money transfers.



Counter Terrorism Financing (CTF)

Curbing the financing of terrorism is a complex and multifaceted endeavor for which there is no panacea. Existing efforts can be divided into two broad categories: a) tactical, and b) strategic (Ehrenfeld). Tactical actions aim at disrupting individual practices, whereas strategic actions pertain to creating an environment in which it is unfavorable for terrorists to operate. There is general agreement in scholarship (for exceptions, cf. Levi) that the most rewarding CTF strategy is to improve strategic efforts on the national and international levels.

What is Being Done

Freeman argues that if terrorists want to raise funds according to the six criteria (1. quantity, 2. legitimacy, 3. security, 4. reliability, 5. control, 6. simplicity), then, logically speaking, effective CTF needs to reverse the logic behind each of the six criteria. This means that countermeasures must be specifically tailored. However, it is widely believed that most CTF ought to be based on greater regulation and enforcement.

Put simply, the hope is that by constricting suspect financial flows, terrorist groups can be weakened at a fundamental level. To achieve this goal, bodies like the United Nations (UN), the Group of Seven (G7), and the European Union (EU) have sought to establish CTF legislation and regulation for governments, banking systems, and private companies to adopt.

One of the cornerstones of legislation against terrorism financing is the UN International Convention for the Suppression of the Financing of Terrorism (ICSFT). The ICSFT entered into force in 2002 and requires (cf.

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Resolutions 1267 and 1373) each of its 152 member states to criminalize the funding of terrorist activities under its domestic law, to seize terrorists' funds, and to ensure that financial institutions implement measures to identify and impede such funds and cooperate with other countries in investigation or prosecution of suspects. The ICSFT is non-legal in nature and only has an 'advisory function'.

Another CTF forum is the Financial Action Task Force (FATF). The FATF is an intergovernmental organization initiated by the G7. Like the ICSFT, the FATF is tasked with preventing the laundering of illicit proceeds from crime, freezing such funds, and criminalizing those who help fund terrorist activities (Pieth). Because terrorists use the same methods as criminal groups to launder funds, the FATF builds on the Anti-Money Laundering (AML) infrastructure. The FATF, however, added 'Eight Special Recommendations' to the AML that were adopted in October 2001. The recommendations are aimed at establishing international standards for detecting, preventing, and suppressing the financing of terrorism by freezing suspicious flows of funds, with specific regard to:

- (1) ratifying and implementing UN instruments;
- (2) criminalizing the financing of terrorism and associated money laundering;
- (3) freezing and confiscating terrorist assets;
- (4) reporting suspicious transactions potentially linked to terrorism;
- (5) cooperating at the international level in terrorist financing investigations;
- (6) imposing anti-money laundering requirements on alternative remittance systems;
- (7) strengthening customer identification measures in international and domestic wire transfers;
- (8) preventing non-profit organizations from being misused to finance terrorism; and
- (9) detecting and stopping cash couriers. The standards set by the FATF are legally non-binding.

What is more, in 2005, the EU enacted the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism, which ultimately obliged member states to criminalize certain behavior.

There are, as such, a number of measures that lend support to the establishment of a global CTF regime. Accordingly, most literature in the field essentially calls for the implementation of existing CTF frameworks. These initiatives have produced a web of inter-governmental oversight of AML and CTF (IISS). Notwithstanding this regulatory crackdown, in a report of the Monitoring Group on al-Qaida, the UN suggested that al-Qaida was still raising over US\$46 million a year from financiers in North Africa, the Middle East, Europe, and Asia.

In order to understand the problems that existing CTF measures encounter, the latest and by far greatest part of the literature identifies with Raphaeli's categorization of preventive and repressive efforts. The first category can be understood as concerning issues of regulating existing practices, and the latter norm as an adaption of global CTF standards and the criminalization of certain activities.

Preventive Measures

The open nature of modern society, the international financing system, and the sheer volume of capital transfers that make up the fabric of the global financial system make it almost impossible to identify, trace, and cut off terrorist funds (Weintraub). The problem is exacerbated by the fact that the banking sector is, to be frank, not predestined for this role. To the contrary, banks have a culture of secrecy and non-interference (Favarel-Garrigues). However, it is becoming increasingly clear to experts and pundits alike that the impotence of CTF is largely due to the banking system's lack of accountability and information about their account holders, correspondent banks, and transfer activity.

In most cases, increased regulation means more control by state authority. For example, countering the illicit activities by charities requires greater monitoring of where and how funds are raised, which in turn means that better enforcement requires increasing the muscle of police, domestic intelligence agencies, legal prosecution, and banks' record-keeping and information-sharing (Freeman).

So far, mandatory blacklisting by the FATF has curtailed lax secretive banking practices, while corruption has been minimized in previously problematic jurisdictions (tax havens).

Between September 2001 and June 2002, European countries and the US froze about US\$35 million, out of a total of US\$115 million confiscated worldwide. However, one year later, this figure had only increased by US\$23 million, despite a regulatory surge (IISS). This suggests that regulation can only be a part of a CFT strategy. Innovations such as banking 'white lists', country boycotts, or economic incentives must also play a key role for a comprehensive CTF regime. For instance, legislation and enforcement can prevent fundraising for overt terrorist activities by so-called charities, but it cannot stop the phenomenon of benevolent societies donating small amounts of money to groups that will eventually use these funds for terrorist purposes.

Repressive Measures

As most CTF measures must be integrated in the legal framework of each country, for CTF to be an effective, encompassing global regime, states must themselves adopt, implement, and enforce internationally agreed CTF standards. Effective CTF legislation has several positive externalities in that it, in the process, often detects and discloses financial fraudsters, corrupt politicians, and companies involved in illicit activities (Croissant). By virtue of this 'cleaning up' of society in general, the International Monetary Fund (IMF) has argued that effective CTF improves a nation's macroeconomic stability by making the country a more attractive business destination for legitimate entrepreneurs.

However, despite all the policy talk and legislative activity in recent years, the international community has been slow in building a CTF regime. For example, under Resolution 1373, each country has the authority to freeze entities' assets. However, if the entities are located in the jurisdiction of other countries, Resolution 1373 only authorizes the inquiring government to call upon the other country to cooperate. Thus, while the Indian Ministry of Home Affairs continues to freeze the assets of Kashmiri and Sikh terrorist groups, there is nothing it can do to ensure that these entities' assets are frozen in Pakistan (Saini).

Harmonization of CTF standards is still a long way off. This is particularly evident from the joint EU-US

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endeavor of reconciling their respective CTF legislation. For example, the US holds the position that the fungibility of money makes ‘political wings’ in extremist organizations indistinguishable from ‘operational ones’, so the US tends to freeze them both (IISS). Conversely, and to the US’s dismay, many European jurisdictions have higher evidentiary standards for permitting such actions. For example, the US has argued that by distinguishing between the terrorist and welfare sections of Hamas, which is on the US list of terror groups, the EU has lent legitimacy to the activities of charitable organizations that fund and facilitate terrorist operations (Feiler).

There is also a transatlantic discrepancy in terms of resources spent. Whereas the US Treasury Office of Foreign Assets Control has more than 100 staff “working full time on implementation of financial sanctions, the Bank of England had a staff of about seven, the French Ministry of Finance has two people working part-time, the German Bundesbank had one, and the European Commission in Brussels had only one person and a half-time assistant” (Greenberg).

This transatlantic dissonance, while not trivial, is manageable owing to “mutually useful institutional capacities, converging threat perceptions and thick bilateral relationships” (IISS). No such concord can, however, be found in the case of Muslim institutions or even large parts of the global South (Kaunert). For example, although the Al-Haramain Charitable Foundation, an organization that was founded in Saudi Arabia and is known to finance terrorism (to the tune of up to US\$30 million a year), has been shut down in Saudi Arabia, it still remains active in other countries where compliance with CTF standards are lower (e.g., Indonesia).

Non-compliance is often due to political reasons such as national vulnerability and identities/interests, levels of political corruption, institutional constraints that affect the capability of political regimes to produce policy changes and/or enforce these, and the operational environment in which terror financiers operate – including the characteristics of formal and informal financial systems (Croissant).

The Way Forward

Terrorists adapt and find new ways to circumvent existing CTF efforts. As a consequence, there cannot be a fixed strategy; instead, strategies for countering terrorist financing must be as flexible and adaptable as the terrorists’ strategies (Freeman).

In a very fundamental sense, we are therefore still locked in big-picture, strategic CTF. The following is a non-exhaustive account of recommendations based on the most recent literature in the field:

1. G8 leaders and the UN should apply collective pressure on the governments in question to monitor more charities in their jurisdictions (Feiler).
2. Publicize the connections between charities and terrorist groups (Freeman). Oftentimes, donors are unaware of how their donations are distributed.
3. Successful CTF requires public-private partnership (Favarel-Garrigues). Given their Western origins, many large international companies located in developing states are subject to their home country’s financial jurisdiction. CTF authorities should therefore allocate a leadership role to these companies. Through them, CTF can penetrate developing markets by way of international investment, rather than through local government enforcement. Presumably, this will in turn foster a business environment of economic growth by legitimate means.

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4. CTF must be a well-coordinated international effort. Although states can impose protectionist policies or even close parts of their markets, regulations may hurt the liquid nature of international transactions made from these. For example, one of the powers the 2001 PATRIOT Act granted the US Treasury was the authority to freeze US-based bank accounts. However, freezing Middle Eastern bank accounts, for example, may lead to a significant decrease in Middle Eastern investment accounts in US-controlled banks (Basile). The consequence of limiting liquidity between international capital markets in this way is an increase in the cost of capital in such markets, causing economic losses for all parties involved.

5. The EU must become more aggressive and demonstrate leadership in implementing CTF regulations. The moral argument about intruding on personal privacy is important, “but subservient to the risks that the threat of terror poses” (Feiler). The latest plans of the EU Commission to investigate terrorism financing in Europe, like US authorities, by gathering data about bank transfers and Visa and MasterCard use, collected by companies such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT), is therefore welcome news.

6. There is scholarly agreement that enforcing CTF against the practice of Hawala money transfers is a waste of resources because it is nearly impossible to enforce and, moreover, Hawala constitutes a major part of legitimate financial transfers in large parts of the world that rely on this transfer system for remittances (Feiler). The better alternative is to help facilitate efficient and cheap cross-border remittances. In other words, reduce the attractiveness of the Hawala system through greater liberalization of the international financial system.

7. As a question of semantics [as a legal matter?], ambiguity concerning the definition of the offence in the context of terrorism financing raises serious issues of clarity and certainty on the distinction between terrorism and other forms of armed combat (Pieth). Even though agreement is easy to come by in extreme cases, most of the cases are essentially in a grey zone. This hampers CTF.

8. Although the banking sector’s ambition of tracking suspicious money has proved unsuccessful, its reports can, from a point of intelligence-gathering, prove important in accumulating information on money generation, channeling, and distribution (Saini).

9. Because the FATF is currently the closest thing to a global CTF regime, its powers should be enhanced by boosting its funding and, moreover, appointing a formal head (Feiler).

10. States that currently fund terrorism financing should be subject to tougher diplomatic pressure, and be made aware of the fact that ignorance of the actions of its public servants is tantamount to lack of control and therefore a sign of weakness and instability.

11. On the same note, mechanisms for applying direct pressure on governments to adopt and implement CTF are inadequate. The FATF task force may be the closest thing to a global CTF regime, but is at present a rich men’s club that is distrusted by poor countries. As with most global governance regimes, there is a North/South disparity, with the countries of the South feeling that CTF is an excuse to exploit their markets. Indeed, regulation will always affect poorer countries more harshly. In response, many developing countries argue that CTF is not an efficient use of resources in the fight against terrorism (Croissant). They claim that because terrorist attacks can cost as little as a couple of hundred dollars, it is not worth spending millions trying to stop these transfers. This

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stalemate inevitably impacts the motivation of the rest of the international community (e.g., Russia, China, Iran). 12. Countries that rely on various types of benevolence are less likely to engage in CTF for fear of disrupting a basic level subsistence as remittances are, most of the time, transferred by using the Hawala system (Croissant). Furthermore, for these countries, CTF legislation that focuses on formal banking institutions is, in any case, only of limited effectiveness, given the high relevance of the informal financial sectors. Even if CTF should focus on informal banking institutions, the effect would be limited, as terror groups would then most likely resort to personal couriers, or channels of organized crime.

13. Effective CTF should recognize the nexus with development. Terrorist organizations need to be understood as more than violent political actors: They have the capacity to develop and exploit economic structures (Lemieux). Recent studies suggest that many terrorist groups conform to the ‘club model’, i.e., voluntary organizations as efficient providers of local public goods in the face of government failure to do so (Berman). Both Hamas and Hizbollah are well-known examples of groups that provide social welfare where the government is incapable or unwilling to do so. If the government provided better governance, it would undermine popular support for the terrorist organizations (Freeman).



Concluding Remarks

It is clear from the state of present knowledge that the relationship between terrorist activity and the financing of terrorism constitutes an academic research endeavor as much as a hard problem of global governance on security matters. As the political initiatives for founding a global CTF regime have intensified, so has the academic interest in terrorism financing. However, both spheres of activity are still in their maturing phase. The evolution of the subject thus far suggests that, as knowledge and information-sharing increases, so will the quality of strategic CTF.

As the literature presented above suggests in a more representative than comprehensive form, the topic is best understood by compartmentalizing it into three subjects: generation, distribution, and CTF. As the respective developments in each subject are evolutionary rather than revolutionary, changes are likely to be incremental and must therefore be carefully scrutinized and consolidated in order to achieve a promising and holistic CTF strategy. That being said, experimenting with new methods and ideas should, at present, constitute the zeitgeist in both spheres, research and CTF.

In terms of practical implications, a successful disruption of suspicious flows alone will not prove satisfactory in eliminating the threat posed by terrorism (Cid Gomez). Political, jurisprudential, and economic considerations that address the root causes of terrorism remain indispensable (Schneider). To be sure, many of the problems identified in reducing terrorism financing pertain to traditional global governance impediments. The normalization of this particular problem in politics is likely to become more evident as terrorists start to take on shades of legitimate businessmen. As McCulloch argues, the narrative of CTF must be rethought, for the future terrorist may be found “more likely to be wearing suits than combat gear, and [be] armed with briefcases rather than weapons”.

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Ultimately, terrorism and its financing must be conceived as tactics driven by inherently destructive entrepreneurs employing potentially violent and criminal methods. To this end, “[c]riminal investigative and human intelligence efforts will remain key methods in the struggle to deter and preempt terrorists, and ought to be given substantial support.” (Costigan) That said, the corresponding strategic challenges for research and politics should be tackled critically, pragmatically and free of bias.

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