

POLS 429: International Terrorism

Lecture 27 (04.03.2020): Terrorism Financing

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Overview

- 1 Quick review
- 2 Introduction
- 3 Terrorism Financing Methods
- 4 Issues in Funding
- 5 Extra Material

Review

WHAT WE COVERED LAST MEETING?

- State sponsorship of terrorism: puzzling decisions by both states and terror groups.
- Types of sponsors; Modes of state sponsorship.
- Strategic: cost effective, power projection.
- Ideology: spread belief by nonstate actor.
- Psychological: leader or group.
- Structural: weak capacity (Pakistan), regime type.
- Policy: military action or sanctions (Libya 1980's).

Questions??

Terrorism Financing

INTRODUCTION

- Research: how to generate income; and how to move money to support operations.
- Most financial support → raised in a different area than the actual location of the group/ proposed attack.
- Effective terror operations require capability to 'move' money.
- Money transfers → weak spot which states can target to more effectively disrupt the terrorist organization and its operations.

Terrorism Financing

TRANSFER FUNDS

- Why favor certain methods more than others?

Freeman and Ruehsen (2013)

How to assess methods to transfer funds?

① Volume

- Electronic - large amount in a single transaction.
- Physical (bulk cash) - limited by size and weight.

② Risks

- Detection: wire transfers versus bulk cash across borders.
- Anonymity: disclosure of private information.
- Reliability: wire transfers or bulk cash?

Terrorism Financing

- ① Convenience: geography/topography elements (tribal region of Afghanistan/Pakistan).
- ② Simplicity: simple, quick and require minimum skill.
- ③ Costs:
 - Official services: (1-10% fee depending on the amounts).
 - Hawalas: 0.2-0.5% on each transaction.
 - Bulk cash: side payments to guards or bribing custom officials.
- ④ Speed: critical factor (ensure financing of ongoing operations).
 - Hawalas are faster than official banks.
 - Bulk cash: distance and number of border crossings.

Moving money: Methods

1) Cash couriers.

- Cash across borders: simplest and oldest way.
- Usually concealed within the packing of individuals.
- Limitations: speed, operational security (who 'moves' the money).
- AQ: using couriers to bring money into Afghanistan or into the US to fund 9.11 attacks. [▶ 9.11Funding](#)
- AQ-Iraq: 70% of budget based on couriers (Europe or Saudi volunteers).
- Jamaah Islamiya (JI - Indonesia) finance attacks in Bali (2002, 2005).

Moving money: Methods

2) Informal transfer systems: *Hawalas*.

- Money transfer networks (mostly legal), based on traditional roots and ethnic ties.
- Prevalent where formal banking is less established or if a large ethnic diaspora lives in the area.
- How it works? [▶ Financing2010](#)
- Benefits:
 - ① Speed: completed within 1-2 days.
 - ② Anonymous: no record, money does not cross borders.
 - ③ Cost: low transaction fees and exchange rates.
 - ④ Convenient: operate where official banking is less common.

Moving money: Methods

3) Money services businesses (MSB).

- Subjected to the same laws as banks.
- Less rigid in terms of customer identification details.
- Feb. 2013: US arrest 4 Somali immigrants trying to fund al-Shabaab.
- AQ: extensive use of method before and when preparing 9.11.
- Hezbollah money laundering case (Beirut MSBs). [▶ BeirutCase](#)
- Benefits:
 - ① Fast: minutes to complete transaction.
 - ② Cost: low fees.
 - ③ Low risk of detection.

Moving money: Methods

4) Formal Banking.

- Heavily regulated in most developed countries (especially the west).
- Require identification and report suspicious money transfers.
- Banks may be less regulated or heavily monitored (especially bank employees) outside of the western context.
- 9.11 → system failed to flag actions (legal, 'lost in the crowd').
- Another version - Correspondent accounts (linked to US banks).
- HSBC - US case (2005).

Moving money: Methods

5) False trade invoices.

- Complex laundering method (time-consuming): difficult to detect.
- Over-invoicing of products and concealing money transfers between locations.
- Used before 9.11: shipments to Yemen (honey).
- Commerce Dept. study identify businesses who used this method to finance terrorism.
- Trade transparency units (TTU): increasing port security and analyzing big data sources to identify suspicious transactions.
- Benefits:
 - ① Detection risk is low
 - ② Convenient.

Moving money: Methods

6) High value commodities.

- Trading of high commodities: gold and diamonds.
- Easy to transfer and converted to cash.
- Must be transferred by hand: risks of theft and seizure.
- Gold: can be reshaped and moved with lower risk of detection.
- Gold: important cultural value in Middle East and South Asia.
Makes trades of gold into and from these regions less suspicious.

Terrorism Financing

POLICY OPTIONS

- Increased efforts to monitor financial institutions and share information.
- In most cases → money transfers as part of the overall legitimate traffic of global funds.
- To further tackle these issues → questions about civil liberties.
- How much are we willing to sacrifice our ability to conduct financial business in order to prevent terrorism?

Moving money: Methods

Charities (Asia and Middle East)

- Local organizations → local donations.
- Transnational/regional groups also draw funds from larger charities.
- Common transnational feature: Islam, and collecting donations in Islamic and Arab countries.
- *Zakat*: Islamic cultural/social tradition to support those in need (social services and education).
- Charities linked to members of *Jl* in SE Asia funded the attacks in Bali (2002,2005).

The Terrorism - Crime Nexus

- Engage in criminal activities to finance operations.
- Main incentive: generate a stable stream of funds (compared to donations and charities).
- Benefit: access to multiple (illegal) sources of finances like the black market or illegal trafficking.
- Benefits to crime organizations:
 - ① Military capabilities to secure their illegal action (security for smuggling drugs, or other high value commodities).
 - ② Financing terrorism → more attacks that destabilize the country and keeps security forces occupied.

The Terrorism - Crime Nexus

Jadoon and Milton (2019)

- *Shadow economies*: the state's informal economy, all activities that elude official government regulation and taxation.
- Result of illegal activities (drug and commodities trafficking) or tax evasion from legal activities.
- Both nonstate actors operate within these conditions which further incentivize cooperation for their mutual benefits.
- Findings: the greater the size of these shadow economies, more lethal attacks are likely.
- Crime organizations benefit: increasing capacity to consolidate their power and control.
- Terror groups benefit: secure a steady (and growing) source of funding for the long run.

The Terrorism - Crime Nexus

Shadow economies

- A structural perspective: crime-terror cooperation is likely in weak capacity states. Why?
- Weak states are more likely to have informal (shadow) economy.
- 1993 → ELN (Colombia) hired by local drug cartels to attack rivals (using car bombs).
- 1994 → Taliban gained support by securing smugglers and traders along the Afghanistan-Pakistan border area.

The Terrorism - Crime Nexus

Shadow economies: Jadoon and Milton (2019)

- Risk of crime-terror nexus: terrorists subject their ideological (and political) mission to cooperate with criminals.
- Argued by "pure ideologists" of terror groups.
- Empirical support for cooperation:
 - ① Prolong the group's survival.
 - ② Provide resources that can be distributed to supporters, deflecting the ideological criticism.
- Example: Taliban profits from trafficking in the Afghan border area, and local support in Afghanistan.

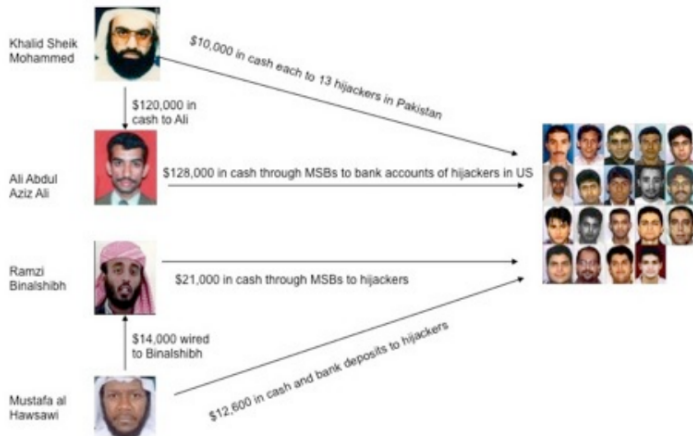
Recommended readings

More studies on Terrorism financing:

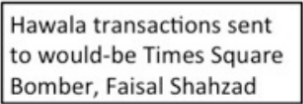
- ① Katharine Petrich, "Cows, Charocal, and Cocaine: Al-Shabaab's Criminal Activities in the Horn of Africa," *Studies in Conflict and Terrorism*, (2019), First View.
- ② Hutchinson, Steven, and Pat O'malley. "A crime–terror nexus? Thinking on some of the links between terrorism and criminality." *Studies in Conflict and Terrorism*, Vol. 30, no. 12 (2007): 1095-1107.

Funding the 9.11 attack

CASH COURIERS



HAWALAS



Hezbollah funding scheme

MSBs

