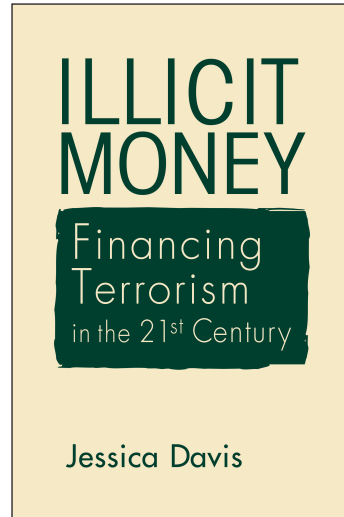


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**Illicit Money:
Financing Terrorism
in the 21st Century**

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Contents

<i>List of Tables and Figures</i>	vii
<i>Acknowledgments</i>	ix
1 Financing Terrorism	1
Part 1 Raising Money	
2 Finding Donors	13
3 Using and Abusing Organizations	39
4 Designing Business Models	61
5 Making Crime Pay	97
Part 2 Using Money	
6 Deploying Funds	115
7 Managing, Storing, and Investing Funds	135
8 Moving Funds	153
9 Obscuring Funds	175

Part 3 New Frontiers

10	Stemming the Flow of Funds	193
11	Old Methods, New Technologies	213
	<i>Bibliography</i>	229
	<i>Index</i>	251
	<i>About the Book</i>	265

1

Financing Terrorism

Terrorist financing in the twenty-first century is a complex affair. Terrorists use a wide variety of methods to raise funds; procure weapons and goods; and conduct both inexpensive, low-complexity attacks and complex, expensive operations. This complexity is compounded by a superficial public understanding of terrorist financing. Analysis of terrorist financing has long been considered a niche area, with only a few scholars willing to undertake work in the field. Among practitioners, the same is largely true; understanding and countering terrorist financing is seen as a critical, if esoteric, area of specialization.

This state of affairs is unfortunate because money is fundamental to terrorism, enabling organizational and operational activities. As we have learned from the civil war literature, grievances might be the underlying motivation for conflicts (including those that involve terrorism), but they do not escalate into violent conflict without the economic means to do so.¹ Of course, understanding grievances is critical to understanding terrorism, but grievances taken alone tend to overpredict conflict.² Understanding and assessing the feasibility of violence is foundational to understanding when rebellion and violence will occur. Terrorism occurs when it is financially viable and is limited in scope and scale by the resources to which terrorists have access.³

Although the literature on terrorist motivations (including radicalization) can fill entire libraries, the literature on terrorist financing is far less developed. This is in part because of the lack of primary source data. Terrorists tend to consider financial information of the utmost privacy and sensitivity and go to great lengths to protect it. People also lack general comfort with

information of a financial nature, including in academia and among counterterrorism practitioners.⁴ As a result, although we know much about what motivates terrorists (although, as Sageman points out, this does little to help us identify who will become a terrorist), we know far less about the mechanism that underpins all of their activities and plans: financing.⁵

The main purpose of this book is to guide academics and practitioners in understanding terrorist financing. Beyond facilitating basic knowledge, this book also serves as a framework for analysts of terrorist financing by providing a theory from which to predict how terrorist groups, cells, and individuals will finance their activities. Scholars will recognize an effort to develop both normative and descriptive theories of terrorist financing that define and explain choices terrorists make, while simultaneously hypothesizing about the future of terrorist financing. Practitioners will recognize this theory as a method for structuring analysis, categorizing information, and predicting future terrorist financing methods. Ultimately, in this book I seek to further develop concepts of terrorist financing and identify patterns of activity that have emerged over time to deepen our understanding of past financing and to guide predictions of future activity.

Although I do not start from scratch in developing an analytic framework and theory of terrorist financing, only a handful of scholars have done work in this area. As Horgan and Taylor noted in 1999, terrorist financing is “a set of activities that have, to say the least, traditionally not received much attention in the terrorism literature, except by way of anecdotal evidence or black propaganda. Admittedly, little is actually known by way of empirical research about terrorist fund-raising as a whole.”⁶ Although the literature has advanced somewhat since 1999, our actual knowledge of terrorist financing remains limited.

Terrorist financing is a set of dynamic processes shaped by globalization, technological changes, and counterterrorist financing pressures. In response, terrorist groups seek to establish diversified portfolios, and many groups are eschewing overreliance on state sponsorship or wealthy donors.⁷ For instance, al-Qaeda was much more fiscally “autonomous than its late-twentieth-century state-sponsored predecessors.”⁸ Increasingly, we need to understand this autonomy and diversification in order to design effective counterterrorism financing mechanisms and practices.

Methods, Analytical Frameworks, and Levels of Analysis

In this book I attempt to bring empiricism to the study of terrorist financing, building on previous cases and analyses. Whereas prior works were hamstrung by a limited amount of literature on terrorist financing, the increased number of analyses on this topic—combined with literature on rebel governance and civil war and insurgent financing—allows for more robust analysis

as well as the development of typologies to explain current financing methods, tools, and techniques and what can be done to stop them. I build on a number of foundational studies, including the following.

Colin Clarke's *Terrorism, Inc.*, makes a significant contribution by differentiating between the gray and dark economies of terrorist financing, drawing distinctions between organizational and operational financing and highlighting key differences between kinetic and nonkinetic responses to terrorist financing.⁹

Timothy Wittig's *Understanding Terrorist Finance* provides a framework that supports systematic analysis of terrorist financing as he seeks to understand all the economic activities of terrorist actors. He moves beyond simple questions about terrorist financing to explore the sociopolitical meaning of terrorist financing activity, and he questions the utility of counterterrorist financing regimes for different groups.¹⁰

Jodi Vittori's *Terrorist Financing and Resourcing*, which provides a compelling overview of strategic financial choices terrorist groups face, provides a more expansive analysis by incorporating the concept of resourcing (moving beyond just financing) along with a typology of terrorist organizations that serves as a useful analytic framework for understanding financing/resourcing strategies of terrorist actors.¹¹

The framework I propose here builds on these foundational studies. It is intended to be a tool that provides the ability to accurately categorize the observed financial activities of terrorist actors (how they raise, use, move, store, manage, and obscure funds), identifies the level of the actor (organization, cell, or individual), and determines if the activity is operational or organizational financing. I draw on the levels-of-analysis approach common in international relations.¹² Frameworks developed from a levels-of-analysis approach are analytic constructions designed to help make sense of the world.¹³ This framework facilitates both qualitative and quantitative analysis of terrorist financing and provides a structure upon which to map empirical data. Ultimately in this book I aim to support the development of evidence-based policymaking in the counterterrorism financing space through the use of structured analysis and research methods. The creation of a comprehensive framework backed by data (even if tentative or preliminary) for understanding terrorist financing is critical for the field to move beyond its current state. The framework also proposes a common lexicon to describe the full range of activities in which terrorists engage in terms of financing. Fundamentally, clearly articulating the full spectrum of activities and behaviors in which terrorist engage, how often, and why will help to create a better understanding of the phenomenon of terrorist financing and enhance our ability to detect and deter the activity.

My framework draws on, solidifies, and modestly expands existing frameworks of terrorist financing. For instance, Dean C. Alexander writes

about how terrorists interact with economic systems through companies and individuals that knowingly or unknowingly aid terrorists (what I call support networks), what products terrorists use (such as weapons), and the types of services they acquire (such as rental vehicles, flight schools, accountants, etc.).¹⁴ In 2011, Michael Freeman proposed a compelling normative theory of terrorist financing, focusing specifically on how terrorists acquire funds. He reviewed the advantages and disadvantages of four primary types of terrorist fund-raising (state sponsorship, illegal activity, legal activity, and popular support). He argued that terrorists assess these sources of funds based on their quantity, legitimacy, security, reliability, control, and simplicity of implementation. Freeman noted that no two terrorist groups will have the same funding profile, and as a result, no single strategy exists to counter terrorist financing.¹⁵

Rudner identified four core elements of terrorist financing:

“(a) the evolving Islamicist terror threat; (b) the pattern of terrorist activities and operations and their financing requirements; (c) terrorist economic management and the supply of funding to meet operational demands; and (d) counterterrorist institutional responses and interventions by governments and international organizations to staunch the flow of financial resources to terror groups, activities, and operations.”¹⁶

Rudner also contrasted terrorist financing and counterterrorist financing, a distinction too infrequently made in the literature on both topics.

What most frameworks or theories regarding terrorist financing lack is a full description of financing mechanisms; many restrict themselves to only a few of the most common. For example, the Financial Action Task Force (FATF) defines terrorist financing as how funds are raised, moved, and used.¹⁷ The Australian Financial Intelligence Unit (AUSTRAC) conceptualizes terrorist financing as the raising, transferring, and usage of funds for terrorist purposes.¹⁸ Levitt and Jacobson describe a straightforward framework for understanding terrorist financing: the raising, laundering, storing, and accessing funds.¹⁹ In practice, terrorist financing encompasses a broader range of activity than most models suggest.

The mechanisms involved in terrorist financing are often confused with the specific methods and tactics of financing. For instance, Dion-Schwartz, Manheim, and Johnston note five categories of terrorist financing activities. These include fund-raising, illegal drugs/arms trafficking, remittance/transfer, attack funding, and operational funding (which includes communications as well as organizational and financial management).²⁰ This categorization conflates mechanisms (e.g., how funds are raised or managed) with the method or technique of financing (e.g., trafficking weapons to raise funds).

Although this distinction might seem like a pedantic concern, articulating a descriptive theory of terrorist financing with clearly identified mechanisms

of how terrorist actors finance their activities is key to designing effective counterterrorist financing efforts. Without this clarity, policymakers can be confused about the actual processes involved in terrorist financing, which in turn might result in confused policy responses or lead to no response whatsoever. In practice, if policymakers cannot succinctly describe terrorist financing methods, they cannot articulate an argument to enact policy, legislation, or regulation to counter a specific financing tool, technique, or method.

Although the theory of terrorist financing presented in this work is largely descriptive, it also has normative elements that suggest terrorists, as Michael Kenney notes, will adapt to counterterrorist initiatives (including financial ones), that they will act based on the tools available in the jurisdictions where they are based and where they have (or want to have) operations, that they will seek to hide their activities from authorities, and that they will adopt new technologies.²¹ This is by no means a revolutionary theory; however, it does provide analytic structure for predicting how terrorist actors will finance themselves and, in the absence of information, helps develop investigative leads.

One of my levels of analysis involves reflecting on the difference between organizational and operational financing; that is, the financing of terrorist groups versus the financing of terrorist attacks and plots.²² Organizational and operational financing generally employ many of the same methods and techniques for raising, using, storing, moving, managing, and obscuring funds but differ in scope and scale.²³ The distinction between organizational and operational financing exists in some of the literature, but it is rarely used as a level of analysis to develop further insights. For instance, Basile makes a distinction between organizational and operational funding, and Horgan and Taylor also made an early contribution to our understanding of terrorist financing and the distinction between organizational and operational funds.²⁴ Their research found that the Provisional Irish Republican Army (PIRA) had funds centralized for operational use and organizational survival, and they highlighted that the group sought to ensure that its funding activities did not enrich individual members for nonoperational reasons.²⁵ Ridley also makes a distinction between operational and organizational financing.²⁶

However, much of the literature lacks either these distinctions or in-depth analysis of the implications of such distinctions. This in turn leads to imprecise or off-the-mark criticisms of counterterrorist financing strategies. For instance, one critique is that counterterrorist financing efforts have failed to thwart a single terrorist attack.²⁷ Although this might be true (there is no way to either verify or falsify this claim, given the extent to which information to support or refute this assertion remains classified), it is equally possible that counterterrorist financing initiatives might have decreased organizational capabilities of terrorist groups or reduced the scale of operational activity. Analyzing different levels of terrorist financing

through a lens of organizational and operational activity leads to more precise counterterrorist financing initiatives, goals, objectives, and critiques.

At the operational level, it is also useful to differentiate between how terrorist cells and individuals finance their activities. Cells are often spawned from terrorist organizations or their ideology, whereas individuals can be failed cell members or lone actors in a broader terrorist organization or movement. Fundamentally, this level of analysis is meant to identify how these specific actors finance their activities with a view to potential financial disruption or areas in which financial intelligence might identify critical aspects of the terrorist activity. Without these distinctions, our understanding of terrorist financing mechanisms, techniques, and methods is incomplete, and our approaches to countering terrorism and terrorist financing will be imprecise.

The purpose of conducting analysis in this manner (differentiating between organizational and operational financing and between cells and individuals) is not to demonstrate how distinct these actors are; instead, it is to demonstrate the similarities between the ways they go about financing their activities—to demonstrate that even small-scale terrorist activity conducted by an individual has financial elements, and that the main differences exist in scope and scale of activity rather than the actual mechanisms.

Sources and Analysis

To undertake this study of terrorist financing, I gathered data on fifty-five terrorist organizations, eighteen plots, and thirty-two attacks. I collected these data to review the existing material on terrorist financing and to categorize the financing activities of organizations, cells, and individuals. These data provide a preliminary baseline of which financing activities are the most prevalent in organizational and operational terrorist activity. These findings also form the basis for counterterrorism financing policy prescriptions (Chapter 10) and the forecasts on the future of terrorist financing (Chapter 11).

The main method I use in this book is the case study, looking at terrorist organizations over time and specific attacks (or plots; i.e., attempted attacks). In order to organize the data from which terrorist financing can be qualified and quantified, I created case studies of the groups to identify how they finance their activities. The same is true of terrorist plots and attacks: I compiled case studies to outline how the activity was financed and to identify knowledge gaps in those data. These cases constitute the sample for this research. Within these cases, I identified methods of financing, then recorded them in a table to create preliminary data on the basic methods and trends in terrorist financing. Throughout this process, I kept in mind the limitations of the literature, information on terrorist financing writ large, and missing data. The sources of information for this study include government documents (including reports from financial intelligence units)

and research published by multilateral agencies such as UN sanctions monitoring reports and Financial Action Task Force reports and evaluations. Other sources include media reporting and academic studies.

Although my quantification of qualitative data within the sample is by no means exhaustive, my analysis of this data provides basic descriptive statistics on how terrorist organizations finance their activities. The qualitative data in this book also provides nuance and context for considering terrorist constraints and opportunities. Some of the issues I encountered in collecting this data involved a lack of temporal information on when a group started using a particular technique and if or when they stopped using it. The scope and scale of the activity was likewise difficult, if not impossible, to identify, quantify, and categorize. As such, the information presented on the analysis of terrorist organization financing demonstrates a baseline as well as a method of building and expanding data collection, which can also inform counterterrorist financing investigations and policy at both the national and international levels.

To analyze operational activity, I undertook similar in-depth case studies to establish a full accounting of a terrorist cell or individual's activities. I developed full profiles of how attacks were financed, which included detailing how the individuals raised funds, what they used their money to purchase, how they moved money to cell members or to people assisting the plot, and so forth. I also sought to determine if they stored and managed funds in a particular way and if they employed any financial tradecraft (operational security measures aimed directly at the financial components) to hide the source, destination, or use of funds.²⁸

The development of these profiles (or cases) was challenging because only partial information is available for most plots or attacks. Much of this information has to be collated piecemeal from court reports, inquiries, and media reporting. Much of the information related to analysis of terrorist financing activity is not released publicly as part of trials or following a successful terrorist attack. Even in classified material, the financing component is not always fully analyzed, understood, and disseminated because of lack of time, analytic capability, or interest.²⁹

I also encountered other challenges in terms of analyzing plots (disrupted attacks). For terrorist plots, much of the planning remains hypothetical, as opposed to attacks, in which the planning has been implemented. Terrorist plots are also less likely to get a full public accounting compared to successful attacks. Although the details of terrorist attacks are not always publicly disclosed, the level of certainty in assessing terrorist plots is lower because the activity was incomplete.³⁰

In some cases, there is little information about the financing of plots because they were disrupted before any acquisition of material took place or concrete plans emerged. This is true of one of the plots in the dataset, a 2013 plot in Montreal that involved a conspiracy to disrupt or destroy trains

operating on Canada's national railway service, Via Rail Canada.³¹ In that instance, the perpetrators had two loosely defined plans and had determined some of the material they would need to perpetrate one of their attacks but had not taken any concrete steps to raise or use funds.³²

Of course, as a former intelligence analyst, I am also compelled to note that my research and analyses are based exclusively on unclassified, open sources and are therefore not complete reviews of terrorist financing. However, one of the benefits of this book is I use a strategic, comparative, actor-based analysis; few intelligence agencies have the sustained interest or resources to undertake this type of analysis given that they are consumed with immediate operational requirements. Although I remain keenly aware of the limitations of these data and the analytic findings based on them, my work is intended to provide a strategic perspective on terrorist financing and start a conversation based on the evidence regarding terrorist financing and the practice of countering it.

Definitions

For the purposes of this book, I have used some basic definitions. A terrorist organization is defined as the main or central body leading a terrorist ideology and is treated as synonymous with a group.³³ Such organizations are easily identified by their formal names, such as al-Qaeda, the Islamic State in Iraq and the Levant (ISIL), Lashkar e-Taiba (LeT), and so forth. They usually comprise a wide variety of people and can range from a handful of core members to several hundred or thousand adherents. The organizations are generally focused on strategic-level initiatives, such as ideology, propaganda, and state building (when they are able to control territory), but they might also engage in attacks to further their objectives.

A terrorist attack is defined as one involving a group or individual with religious or political objectives that inflicts harm on people with the intent of terrorizing the audience. The attackers can be identified as members of an organization; espouse the same political views as a terrorist organization; have pledged allegiance to an organization or ideology; or have received operational, logistical, or ideological support from an organization or drawn inspiration from it. A terrorist plot is defined as an attack for which planning was underway, but that was disrupted by law enforcement or security services.

Terrorist plots and attacks are usually conducted by terrorist cells. These cells comprised fewer people than a terrorist organization and are focused on a specific terrorist plot or action. A cell has two or more people, with the largest plots or attacks involving cells of more than twenty people. These cell members are focused on a tactical objective, and they usually disperse (or are killed) following the attack. Cells might also be surrounded by supporters not directly involved in the plot who might provide financing or other logistical

help. Sometimes, these facilitators are the wives and girlfriends of male terrorists or are friends or criminal associates of cell members.

Individual terrorists are sometimes (erroneously) called “lone actors,” or worse, “lone wolves.” These are individuals who, for the purposes of the specific attack, act alone. However, as has been amply demonstrated, individuals rarely act in isolation.³⁴ Instead, they get support (both in terms of logistics and encouragement) from members of a broader terrorist organization or movement. Individuals usually conduct relatively simple attacks but have also been known to engage in more sophisticated terrorist attacks; the size of the cell or the number of individuals involved in the action are not a reliable determinant of its complexity and lethality but might point to particular capabilities (or lack thereof) of the group.

About the Book

A robust evidence base is increasingly important to the study of terrorist financing and counterterrorist financing. The tools, techniques, and methods terrorists use to finance their activities have proliferated to an astonishing extent and include a variety of new technologies. This proliferation has left terrorist financing analysis in a state of disarray, with a lack of clear definitions and descriptive language, ultimately leading to a muddled understanding of how terrorists finance their activities and deploy those techniques, tools, and methods. In this book, I seek to clarify this understanding of terrorist financing and consider the various actor levels and how these levels affect traditional and new trends, methods, and techniques.

There are three parts to this book. Part 1 focuses on how terrorist organizations, cells, and individuals raise money. Chapters in this section outline the main categories of terrorist fund-raising: from donors and their networks, through setting up various types of organizations, and by engaging in criminal activity such as kidnapping for ransom and more.

Part 2 focuses on some of the less studied elements of terrorist financing—namely, how terrorists use, store, manage, move, and obscure their funds. This section opens with an introduction of how terrorists use funds, followed by a description of how terrorists store, manage, and invest their money. Subsequent chapters outline how terrorist actors move their money and discuss terrorist financial tradecraft, or how terrorists hide the sources and destinations of their funds.

Part 3 offers a strategic analysis of past terrorist financing methods and emerging tactics, such as cybercrime, social media, and financial technologies. The final chapter connects known terrorist financing methods, techniques, and activities with counterterrorist financing options. This last chapter considers disruption opportunities or ways to counter terrorist financing; it takes into consideration levels of analysis and methods, trends, and activities. The counterterrorist financing approaches correspond directly to the

financing activity of groups, cells, and individuals. Often, countering terrorist financing is viewed as the purview of the police and the national-level financial intelligence unit. As a counterpoint, I suggest that significantly more actors and approaches are involved in this activity, and their respective capabilities and roles should be understood, articulated, and deployed to effectively counter terrorist financing.

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