



Understanding and Disrupting Terrorist Financing

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10/15/2007

To achieve a meaningful and consistent impact in disrupting terrorist financing, there must be a better understanding of the multi-dimensional elements involved in the funding process. Understanding begins with training. This holds true for the government, business and financial sectors. Terrorist financing is usually discussed in a broad and generic context, and therefore, seldom understood. To truly understand terrorist financing it must be presented and assessed in specific terms. Terrorist financing training should focus on factors to include:

1. Types of terrorist groups

Terrorist groups possess certain similarities. However, they differ in many ways due to demographics and logistics, to include how and where they operate, raise funds, launder funds and disperse funds. For example, where Al Qaeda relies more on wealthy donors, charities and individual criminal activities to raise funds; Hezbollah relies on state sponsors, donations and organized criminal activities; and Hamas relies on charities, donations, friendly Arab states and state sponsors. Also, each organization possesses different funding requirements in order to operate.

2. Funding capacity

In order to succeed, a terrorist group must have the capacity to raise funds, the means to launder funds and the availability of funds to operate. Terrorist fundraising is much different than the funding of terrorist operations. Raising funds from various sources differs greatly from the use of the available funds. As a result, detective and preventive strategies must be modified to specifically focus separately and collectively on the sources and application of funds. In addition, the manner in which funds are generated and used varies from organization to organization because of demographic and logistical considerations.

3. Mechanisms for fundraising and operations

The two mechanisms used for funding purposes are the formal and informal financial systems. In certain venues, the economies are cash



based and more informal, while in many others, the economies are more formal, relying on the mainstream banking system. Depending on the situation, terrorist groups will use whichever system best facilitates their needs. Terrorist organizations operating throughout the world will rely on both systems. This is the point in the funding flow process that terrorists must have the means to launder funds. Whichever funding mechanism is used, serves as the conduit between the source and distribution or application of funds.

4. Individuals and cells

Individuals engaged in terrorism should not be viewed in the general sense of being “terrorists.” They are not one dimensional. It is essential to identify them according to their specific roles and functions. They include donors, fundraisers, facilitators, recruiters, conduits, leaders, foot soldiers and suicide bombers. Each type of individual possesses specific and unique funding requirements. Some may deal solely with the sources of funds (fundraising), some may deal solely with the use of funds and some with both. Cells function in a parallel manner.

Business and financial sector training seldom provides specific sessions dedicated to terrorist financing. In most instances where terrorist financing is discussed, it is in a basic and generic context. There is nothing basic or generic about understanding the full gamut of terrorist financing.

Forming an understanding of the multiple dimensions of terrorist financing, as outlined in the four steps above, both within the government and private sector, will more effectively facilitate development of methodologies to detect, deter and prevent the funding of terrorism. Consequently, this will result in the establishment of more successful mechanisms to address the challenges associated with identifying terrorist financing.

Terrorist financing is extremely difficult to identify. The reality is, in totality, it is possible to detect terrorist financing but not highly probable. Methodologies must be developed and implemented to increase the probability of detection. The first step is to provide appropriate and specific training that establishes the framework for understanding. Better understanding, in turn, will set the stage for development and implementation of strategies to enhance the probability of detection, deterrence, disruption and prevention. This will diminish the ability of terrorists to operate.

In terms of the sources of funds, the ability to launder funds and the availability of funds, the focus should be placed in the middle, on the ability to launder funds. By focusing in the middle, government can develop strategies to move outward in both directions by tracing the sources and application of funds. In



essence, they will be able to go directly after the individuals and entities responsible for providing funds, disrupt their flow, identify and trace the use of funds, and go directly after the facilitators and operatives conducting terrorist activities. By focusing in the middle, the financial sector, as a conduit between sources and application of funds, can develop filters to disrupt the flow of funds from one side to the other, thereby diminishing the ability of terrorists to operate.

Training leads to understanding. Understanding leads to meaningful and consistent strategies. Meaningful and consistent strategies deny terrorists funding. Denying terrorists funding limits their ability to strike and successfully carry out devastating attacks.

Types of Terrorist Groups

The first step in understanding terrorist financing is to differentiate the myriad of terrorist groups. In developing an understanding, you must learn about terrorist groups, the nature of their threat, the scope of their operational reach and their financial infrastructure. Terrorist groups possess certain similarities. However, they differ in many respects due to demographic and logistical considerations, to include how and where they operate, raise funds, launder funds and disburse funds. Although the need for funds and the operational goals and funding demands for major terrorist groups like Al-Qaeda, Hezbollah and Hamas may be similar, the sources of funds, actual operations and application of funds are vastly different. It is critically important to draw the distinctions in operations and funding requirements between various groups in order to develop and implement group specific strategies that disrupt and diminish their ability to raise, launder and disburse funds. The successful disruption and diminishment of funding flows adversely impacts terrorist operations, thereby reducing their ability to attack.

Based on an assessment issued by the FBI on January 11, 2007, in conjunction with Director Robert Mueller's testimony before the Senate Select Committee on Intelligence, the following groups were identified as threats to the United States (U.S):

Al-Qaeda

Since 9/11, Al-Qaeda has gone from operating as a terrorist group, with an organizational structure, to evolving into an ideology aligned with regional terrorist groups, back to a group being reconstituted as an organization. In essence, Al-Qaeda the group versus Al-Qaeda the ideology presents overlapping challenges and a sense of confusion. Regardless of the form, as a group or an ideology, Al-Qaeda has been a constant threat to U.S. security. It still seeks to



infiltrate operatives into the U.S. to conduct catastrophic attacks. The genesis of Al-Qaeda has caused changes in the manner it raises and uses funds. In the period around 9/11, Al-Qaeda relied on wealthy donors and charities for much of its funding. As the organization became disrupted and less identifiable due to U.S. government action, pressure was brought to bear on wealthy Middle Eastern donors and charities, especially in Saudi Arabia. This led to greater reliance on criminal activities to raise funds. As Al-Qaeda becomes more visible as an organization again, it is likely that new funding sources and donors will emerge. On the other side of the ledger, Al-Qaeda's funding needs went from being extremely large as an organization to less demanding as an ideology. The reemergence of an organization will require an increase of organizational funding requirements. Operational activities continually require funding sources. If funds are not available through the group, the operators will have to generate funding through their own devices to include criminal activity.

Regional Terrorist Groups aligned with Al-Qaeda

Since 9/11, regional groups have emerged as a significant threat. They are more autonomous and in many instances have adopted Osama Bin Laden's ideology. Groups to include Jemaah Islamiah, Ansar Al-Islam, Moroccan Islamic Combatant Group (GICM), and Salafist Group for Call and Combat (GSPC) are examples of highly dangerous and visible regional groups aligned with Al-Qaeda. In the pre 9/11 environment and shortly thereafter, these groups received funding from Al-Qaeda. When Al-Qaeda's organizational presence diminished, so did its funding support. These groups rely on their own fundraising mechanisms, to include criminal activity. Certain of these groups may receive some state sponsored funding. It will be interesting to monitor Al-Qaeda's reemergence to determine if they again provide funding to regional groups.

Homegrown Cells

The homegrown threat is posed by self-radicalized groups and individuals already living in the U.S. who are inspired but not led by Al-Qaeda. These groups pose vastly different threats and capabilities in comparison to Al-Qaeda. For the most part, they have proven to be unsophisticated and operate on a small scale. Many of these individuals have funded themselves through legitimate jobs. Because of the small scale of their operations, they have not required significant funding. In other countries, in addition to legitimate jobs, homegrown terrorists have funded themselves through government entitlement programs.



Shia Extremists

The most notable Shia terrorist group is Hezbollah. Hezbollah is centered in Lebanon. A great deal of its funding comes from state sponsors Iran and Syria. In addition, Hezbollah has established a worldwide infrastructure that raises significant amounts of funding through organized criminal activity and questionable business practices. In fact, in many respects, Hezbollah operates like a traditional organized crime family in terms of its criminal activity. Almost all terrorist groups operate based on ideology. Hezbollah operates with a sense of ideology but also with a sense of greed, like an organized crime family. Most other terrorist organizations do not operate with a sense of greed. Hezbollah also requires considerably more money because of its position in Lebanon and its outreach and marketing as a benefactor to the Lebanese people. In addition to state sponsors and criminal activity, Hezbollah has raised significant funds through donations from the global Lebanese expatriate community. To a lesser degree than other terrorist groups, Hezbollah raises funds through charities. Although the U.S. has designated Hezbollah a terrorist organization, many countries have not, making it easier for Hezbollah to raise funds in those venues.

Palestinian Terrorist Groups

Palestinian terrorist groups include Hamas and Palestinian Islamic Jihad (PIJ). Their activities have emanated from the Palestinian territories and have focused their attention on Israel. Hamas is the most recognizable Palestinian terrorist group, especially since gaining political leadership in Palestine. The U.S. recognizes Hamas as a terrorist organization. As is the situation with Hezbollah, many countries do not, which makes fundraising in those territories viable. The fighting between Hamas and Fatah for power has consumed the Palestinians and has split the territory with Hamas controlling Gaza and Fatah the West Bank. Hamas relies on charities, donations, friendly Arab States and state sponsors for funding. Hamas has been particularly skillful in using charities for fundraising and logistical support for their terrorist activities. Hamas also raises funds through taxation and extortion. The U.S. and Israel have led an international sanctioning effort against Hamas which has successfully limited, restricted or denied funding sources through banking channels. This has adversely impacted Hamas' operating capability. Hamas has had to rely on informal financial channels such as bulk cash shipments and couriers to receive funding.

Domestic Terrorist Groups

Domestic terrorist groups are those groups operating strictly within the U.S. They encompass a broad spectrum of groups motivated by a number of political and social issues. These groups include white supremacists, militia/sovereign



citizen movements, black separatists, animal rights activists and environmental extremists. Funding sources for these groups usually originate with group members, sympathizers or group generated revenue. Groups generate revenue from front companies, either legitimately or illegitimately. In the case of the National Alliance, they raised funds through the sale of books and publications. Certain of these groups also generate funds through the sale of false identification documents.

Funding Capacity

Funding capacity is the ability to raise, move and disburse funds. Terrorist financing is extremely challenging to identify and deal with. Understanding that varying organizations have unique operational considerations, requiring different financial infrastructures, sets the foundation for understanding and developing methodologies to counter these infrastructures and disrupt the flow of funds.

Terrorist groups require financial support in order to achieve their goals. They must have effective financial infrastructures. In order to succeed, a terrorist group must have the capacity to raise funds, the means to launder funds and the availability of funds to operate. Terrorist organizations have had many years to perfect their funding methodologies. This has placed anti-terrorist financing efforts in a greater reactive posture. As a result, more proactive and innovative detective measures must be devised and implemented. Strategies must be developed that enable investigators to track funds back to their point of origin and forward to terrorist strike teams. One method of accomplishing this is to identify the means terrorists use to launder funds and then trace the flow of funds back to the source or point of origin and forward through the dissemination process to the terrorist operation and ultimately to the strike team.

Terrorist fundraising is much different than the funding of terrorist operations. Raising funds from various sources differs greatly from the use of the available funds. As a result, detective and preventive strategies must be modified to specifically focus separately and collectively on the sources and application of funds. In addition, the manner in which funds are generated and used varies from organization to organization due to demographic and logistical considerations. In simplifying the terrorist financing process, we are dealing with three steps, as delineated above:

1. Sources of funds
2. The means to launder funds
3. The availability of funds



Begin with the means to launder funds. This requires the use of the formal banking system, the informal banking system or non-financial companies. There must be a conduit that filters the source or origination of funds through a bank, non-bank financial entity or non-financial entity making it available and accessible to the individual terrorist, cell or entity at the point of distribution or use. In the majority of instances, financial institutions serve as the conduit or middle ground between the source and distribution of terrorist funding. In this context, financial institutions must understand that they service two distinct dimensions of terrorist financing. Such specific understanding is essential. In most instances, terrorist financiers are extremely adept at compartmentalizing the fundraising and operational funding dimensions from each other. It is extremely important that financial institutions develop detective methodologies capable of identifying terrorist financing in the two distinct funding dimensions.

The first dimension is fundraising or the source of funds. This entails all fundraising mechanisms ranging from donations, charitable giving, legitimate and illegitimate business activity, to criminal activity. Larger amounts of money will be deposited or transferred in this financial dimension, consistent with the donor or business activity. The second dimension is the operational dimension which requires the availability and ultimate disposition of funds. In this dimension, terrorists will use smaller monetary amounts. In either funding stream, terrorists will take the necessary steps to avoid detection.

The unfortunate reality is, regardless of the level of vigilance and detection; terrorists will always have access to funds, however, the more robust the detective efforts, the greater the likelihood for disruption. Every disruptive success reduces the operational capability of terrorists. In this vein, one of the primary areas of vulnerability to terrorists is finance. It is critically important that financial and non-financial institutions understand this fact and the vital role they play in the process.

Two key areas where terrorists are vulnerable when dealing with financial institutions are with respect to Know Your Customer (KYC) practices and Suspicious Activity Reporting (SAR). Whether using their true names or false identities, terrorists are at risk of detection through KYC mechanisms. SARs have been instrumental to the FBI in identifying links between information reported in SARs and terrorism investigations through advanced data mining capabilities known as investigative data warehousing. Steps should be taken to ensure that KYC and SAR mechanisms are as strong and viable as possible. KYC procedures are particularly important in view of the proliferation of identity theft and fraud.

Financial institutions should incorporate terrorist financing specific training into their AML training programs. It is essential to understand and simplify terrorist financing as much as possible. It is equally important for individuals in the



financial and business sector to understand that they are on the front line of the economic war on terrorism and are capable of playing a vital role through risk recognition, AML monitoring and mechanisms to include KYC and SARs.

Mechanisms for Fundraising and Operations

There are two primary methods of transferring funds, the formal and informal financial systems. The formal system consists of commercial financial institutions. The informal system moves funds by means other than using financial systems. Terrorists are quite adept at avoiding financial detection. They rely on both the formal and informal systems to launder and move funds. The degree one is used in preference of the other depends on a number of factors to include culture, sophistication of the banking system in various parts of the world, accessibility, timing, systemic vulnerabilities, opportunities to exploit the situation, situational considerations, the level of investigative scrutiny and other factors. Whichever system is used, funds are moved with the intent to avoid the attention and detection of law enforcement, intelligence and regulatory agencies.

In determining which system to use, in addition to avoiding detection, terrorists must consider the benefits and risks associated with both the formal and informal mechanisms.

Each system possesses a series of benefits and risks. Just as financial institutions assess risk and determine their risk appetite, terrorists assess the risks associated with the formal and informal systems and determine the level of risk they are willing to tolerate.

Commercial financial institutions include banks, broker dealers, credit unions, savings and loan associations, casinos, insurance companies, currency exchanges and other entities. Benefits of using financial institutions include the creation of an aura of legitimacy, reduction of the number of people involved in handling the transaction, which in turn, creates an increase in security resulting in less exposure to theft. A few detriments to consider in using financial institutions include creation of a document trail (financial transactions don't lie), exposure of transactions to individuals outside the terrorist group and exposure to prosecution and forfeiture. It should be noted that the terrorists responsible for the 9/11 attacks relied primarily on the formal banking system as the funding mechanism to support their activities.

Informal methods of physically transferring funds include use of courier and bulk cash shipment through conduits to include airplane, ship, automobile, mail and freight shipment. The regional terrorist group Jemaah Islamiah received a bulk cash shipment from Al-Qaeda to help fund the Bali bombing. Benefits of physically moving funds include no traceable paper trail; no third party, such as



a bank official, aware of the transaction; and total control of the movement of the money. The major detriment of moving money in this fashion includes the high risk of loss of the funds for a variety of reasons.

Since 9/11, terrorist financing methodologies have consistently evolved and changed in order to avoid detection. Terrorists and terrorist organizations are extremely adaptable and flexible. They continuously seek to identify systemic weaknesses for opportunities to exploit such vulnerabilities. To operate in western society, terrorists must rely more on formal mechanisms. To operate in less advanced financial venues, such as Afghanistan and Pakistan, more informal mechanisms are used.

Following 9/11, Al-Qaeda took steps to exploit informal financial structures in the Middle East and Central America, and to use formal facilities on a more limited basis because of the investigative scrutiny and international pressure placed on the formal banking system. However, over time and with the evolution of Al-Qaeda from a group to an ideology and their subsequent reemergence as a group, they have gravitated back to the formal sector, while continuing to exploit informal channels. Al-Qaeda, like all terrorist organizations will use whichever system facilitates its needs and allows them to avoid detection.

An informal mechanism, which is much safer than physically moving money, is the Alternate Value Transfer System. This is an informal system for money payments within a country or internationally. It is a trust based system that is culturally and ethnically driven. This system has been in existence for centuries. It is known by many names, one of the most common being "hawala." It functions as an underground banking system, operating parallel to the formal banking system. This is a desirable system for terrorists and criminals because of the ease of operation. The system is discreet and reliable. It is extremely difficult and challenging for law enforcement to trace transactions or obtain evidence. An outstanding reference document was published by Interpol, entitled "The Hawala Alternative Remittance System and Its Role in Money Laundering."

The two most significant areas of vulnerability or weakness to terrorists and terrorist organizations are communications and finance. These two areas consistently lead to the disruption and dismantlement of terrorist groups and activities. Although terrorists consistently change their methods of operations and demonstrate adaptability at avoiding detection, they must communicate, and raise and spend money to function. This is where the government and private sector's efforts must exploit the weaknesses of terrorists.



Terrorist financing investigative strategies should focus on the disruption of funding flows. The optimal situation would be to trace terrorist funds back to the point of origin and forward to the terrorist strike team. The next step would be to take investigative action to disrupt and dismantle the identified funding stream. To accomplish this, investigators have to identify three funding tracks. The first is to identify funding flows between a terrorist network or organization and the point of origin. The second is to identify funding flows from the network or organization to fund operations, to include organizational operations and specific terrorist activities. The third is to identify funding flows from operations to individuals, cells or groups.

Individuals and Cells

Individuals engaged in terrorism should not be viewed in the general sense of being “terrorists.” They are not one dimensional. It is essential to identify them according to their specific roles and functions. They include donors, fundraisers, facilitators, recruiters, conduits, leaders, foot soldiers and suicide bombers. Each type of individual possesses specific and unique funding requirements. Some may deal solely with the sources of funds (fundraising), some may deal solely with the use of funds and some with both. Cells function in a parallel manner. Entities are facilitation tools and serve as money laundering mechanisms.

Terrorist financing is complex and difficult to understand, let alone identify. It cannot be viewed from a generic or all encompassing standpoint. As noted above, a full range of individuals and entities possess terrorist funding requirements. Because of the variety of roles and functions, detective mechanisms must be more focused. In most instances, the various types of individuals and entities will have characteristics unique to them. For example, individuals to include leaders, donors, fundraisers, recruiters, facilitators and operatives (jihadists, martyrs, suicide bombers and others) by virtue of their positions will have differing funding requirements. Likewise, financial institutions, legitimate or illegitimate businesses, charities and other conduits will have varying funding needs. Financial requirements and flows for the full gamut of terrorists and terrorist supporters vary according to factors to include their role, location and affiliation.

As a result of the multi-dimensional face of terrorism, general characteristics, warning signs or red flags can be helpful, but are limited in identifying terrorist financing. A more robust process of identifying terrorist financing risk is to develop financial profiles for the specific individual and entity functions, as described above. Financial institutions and non-financial institutions should assess which terrorist groups, individuals and entities they are most likely to encounter and in what capacity. In so doing, they can more accurately develop



reasonable detective mechanisms. For example, terrorist operatives are more likely to deal at the retail level while wealthy donors are more likely to engage in private banking.

Terrorist and terrorist financing warning signs are constantly evolving due to changing dynamics in world events, such as the global response to terrorism and the ability of terrorists to adapt to changing dynamics. Like characteristic indicators, warning signs are non-static. For example, in response to the 9/11 terrorist attacks, the U.S. and international community took decisive steps to disrupt and dismantle terrorist groups and their financing. In return, terrorists adapted new methodologies to exploit systemic vulnerabilities. The same cycle was repeated following other significant terrorist activities, such as in the aftermath of the Madrid bombings of March, 2004.

One of the true challenges in dealing with terrorist financing is the recognition of the dynamics of change and understanding that terrorist and terrorist financing methodologies will constantly change to avoid detection. Developing mechanisms to identify emerging trends should be incorporated into the risk analysis process.

Based on a number of factors, including the international response to terrorism, the number of terrorist arrests and deaths, recruitment practices, emergence of younger terrorists and the regionalization of terrorist groups and affiliations, a new generation of terrorists is taking shape. Individuals committing themselves to jihad tend to be better educated, less experienced, more radical, somewhat autonomous and resilient. They are more engaged in criminal activities or interact to a greater degree with more traditional criminal groups. This new breed is proficient in the exploitation and use of false identification documents.

The personal characteristics of terrorists are non-static. Terrorists, especially Al-Qaeda related, are sensitive to investigative and regulatory scrutiny. Their characteristics continuously evolve in an effort to avoid detection. They have taken on characteristics of individuals more identifiable with western societies. When assessing characteristics, you must consider the evolution of operational dynamics to consider factors to include operatives, targets, financing and communications. Operatives have become more identifiable with their country of operation. Targets have become increasingly soft. The Madrid and London train bombings are somber references. Financing has increasingly centered on criminal activity. This places the operatives at higher risk of detection.

Indicators to look for can be varied. They should take on greater or lesser significance dependent on risk and vulnerability factors. Numerous sources, to include FinCEN, the Financial Action Task Force and the Federal Financial Institutions Examination Council Examination Manual, have published reports and typologies listing money laundering and terrorist financing indicators.

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Conclusion

Financial institution employees and other individuals having responsibilities to include compliance, AML, risk management, fraud, investigations and monitoring are on the front line of the economic or financial component of the war on terrorism. Everyone should be mindful, in their area of responsibility. You may never encounter a terrorist or terrorist supporter, however...you may.

As previously mentioned, terrorist financing is extremely difficult to identify and deal with. It is possible to detect terrorist financing but not highly probably. Therefore, methodologies must be developed and implemented to increase the probability of detection. Forming an understanding of the multiple dimensions of terrorist financing, as outlined in the four elements discussed herein, will facilitate development of methodologies to detect, deter, and prevent the funding of terrorism.