

## **Funding Terror: An Analysis of Financing Methods for Terror Groups Based in the Middle East**

John Robert Flores Jr.  
Business  
Liberty University  
1971 University Blvd.  
Lynchburg, Virginia 24515 USA

Faculty Advisor: Dr. Stephen Parke, J.D., L.L.M.

Terrorism in the Middle East has plagued the United States for over a decade and groups, like ISIS, show that terrorism can be well organized and financed. From a homemade bomb to a small army, each act of terrorism requires funding to turn hateful speech into an action. In the Middle East, funding for terrorism falls into three major categories: criminal, legal, and charity from like-minded individuals. Despite public disdain for global terror there are still some individuals, both foreign and domestic, who seek to fund terrorist attacks. Finding the sources of this funding is essential in order to stem terrorism, but doing so is not always easy. Those who fund terror do so through many mediums such as: black markets, offshore accounts, phony companies, and illegal shipments; which can make it very hard to track. By looking at past investigations on terrorism in the Middle East to see what patterns emerge, investigators can be pointed towards places where they can most effectively use their resources to stop future terrorist funding.

**Keywords: Terrorism, Middle East, Financing**

### **1. Introduction:**

Terrorism in the Middle East is a significant issue that has pulled the whole world into a war, not of nation against nation, but of small battles across the globe; fought by individuals and financed by a vast network of crime. The three major sources of funding for terror groups come from: criminal activity, legitimate business, and donations. Each of these categories present unique challenges because they utilize different techniques and methods. Understanding how each method works is the first step in developing a plan to counteract, or prevent, terrorism.

### **2. Crime:**

The proceeds of criminal activity make up a large amount of funds that end up supporting terrorism<sup>1</sup>. While some may look at terrorist organizations as similar in nature to the American Mafia, Italian Mafia or other ethnically based criminal organizations, it is important to notice the differences between a mafia style organization and a terrorist organization. Mafia style organizations are crime centered, they earn money and maintain power through a carefully laid out and maintained criminal network. This network includes all kinds of crimes from petty theft to grand larceny. Terrorist organizations, on the other hand, are not usually organized to make money but to win a political debate through the use of force, fear, and the infliction of damage to political or social order. In addition, terror groups often have donors who provide significant funding and support the political, social, or religious goals of the terrorists. Therefore, because the proceeds of criminal activity can be thought of as serving as a form of supplemental income for terrorist organizations, an exclusive or primary focus on criminal conduct may not be successful. Some commentators believe that

the terrorist group ISIS (ISIL) is a notable exception to this rule, as their size and need for increasing amounts of money has driven them to rely on a great deal of criminal activity such as drug trafficking, smuggling, and to a lesser degree counterfeiting to meet their need for terrorist financing<sup>2</sup>.

## 2.1 Drug Trade:

The drug trade, especially from Afghanistan, provides Middle Eastern terror groups with significant amounts of money each year<sup>3</sup>. For many groups, including the Taliban, drugs offer a very attractive solution for money as they do not need to actually invest manpower in farming the crops; instead they either own opium farms or co-opt locals who already farm the land. Afghanistan is the world's largest supplier of opium, producing an estimated 380 tons each year<sup>4</sup>. To put this number into perspective, the United Nations estimates total global amounts of heroin on the market or seized at around 440 tons, and the annual global consumption as only 340 tons<sup>5</sup>. Afghanistan's production can supply most of the world's demand for heroin. This large and global business creates several billion dollars worth of revenue each year, with much of it going to support Islamic terrorist organizations. The fact that the majority of opium fields in Afghanistan are controlled directly by insurgents, ensures that a larger share of any money earned will go directly back to their parent terrorist organizations<sup>6</sup>. As with all traffic in contraband, ownership of distribution and trafficking routes is also very valuable. In this way, though ISIS does not actually grow any opium it earns a great amount of revenue from drug trafficking. Through its control of land ISIS gets money from international drug traffickers by allowing their drug smugglers safe passage through their lands for money<sup>7</sup>. The approach taken by ISIS demonstrates the value to terrorists of controlling trade routes and transportation capabilities and underscores the sophistication of ISIS among other terrorist organizations.

## 2.2 Cigarettes and Baby Formula:

The sale of smuggled goods, both expected and unexpected provide funding for terror. Most people are not likely to be surprised that the smuggling of items, such as cigarettes provides fairly steady income for the terrorist organizations such as Hezbollah, Al-Qaeda and HAMAS. Such smuggling is not limited to activities in foreign countries. Unbeknownst to the general public, Hezbollah has a significant domestic presence in the United States. The group is present here in the form of various terror cells that are used for fundraising and even recruitment<sup>8</sup>. A fairly large cell was recently discovered and suppressed in North Carolina<sup>9</sup>. Information gathered by the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) indicated that the aforementioned terrorist groups had run a sophisticated cigarette smuggling operation between North Carolina and Michigan. The terrorist groups exploited the fact that these two states have different taxes on the purchase of cigarettes. The terrorists would buy the cigarettes in North Carolina, with a tax of 5 cents, and sell them in Michigan, where taxes ran to 75 cents, keeping the difference<sup>10</sup>.

Smuggled cigarettes were by no means the only way domestic terrorist cells raised funds. In the late 1990's local and federal authorities broke up several baby formula shoplifting rings in Texas. These rings were organized so that individuals, called boosters, were paid one dollar per bottle of baby formula stolen. These bottles were then stripped of their store tags and repackaged; through phony companies they were then resold to retailers at cost. These rings were so large and so successful that the largest one netted an estimated \$44 million in only 18 months<sup>11</sup>.

## 3. ISIS Anomaly:

Crime as a method of supplementing donor money has previously been discussed, but there is one significant deviant from the usual terrorist finance model. What sets ISIS apart is not the use of smuggling, as other groups also use it to varying degrees, what is unique is their predominant reliance on crime to fund terrorist operations. In contrast to the majority of terrorist groups that use crime to supplement the money they receive from donations, ISIS takes the opposite approach-- relying on crime to fund its operations. In doing so ISIS acts with the sophistication and intensity associated more with the mafia than a small or common terrorist organization. ISIS has exploded onto the global scene, seemingly from nowhere. After further observation, however, we see that it was merely hiding in the shadows before choosing to step into the light. Mosul is where ISIS first reared its head and now serves as a nerve center of sorts for the organization<sup>12</sup>. The city of

Mosul is comparable to the city of Chicago, Illinois, during the 1920's. Like Chicago, where the city government ostensibly ran the city, the real power lay with criminals. As Al Capone and his Italian mafia ruled Chicago, so ISIS rules Mosul<sup>13</sup>.

Compared to many terrorist organizations, ISIS is highly organized. Their relative sophistication helps to explain their rapid expansion in the area, into an interwoven system of terrorist cells. Each cell is independent, in that it plans its own terrorist acts, however, the finances are what tie the cell to the leaders of ISIS. After a cell plans their attack they raise their own money to finance the planned act. If they can't self-fund through crime and the act is deemed necessary, they have the option of receiving aid from ISIS leaders, who control a pool of money that has been accumulated through a tribute system. As long as a cell is operational it pays a portion of its total funds to ISIS leaders who then can distribute it to cells who are struggling or help fund a particularly large attack<sup>14</sup>. Each cell earns money through a variety of crimes such as: extortion, theft, and smuggling fees. Whereas donations usually make up a large portion of terrorist funds, it is estimated that ISIS receives no more than 5% of its income from donations<sup>15</sup>. Those donations that it does receive come largely from the Arab Gulf states, such as Saudi Arabia and Qatar<sup>16</sup>.

## **4. Donations:**

### **4.1 Pakistan:**

As stated previously, donor support makes up a large portion of terrorist funds; in fact, there are several terrorist organizations that were created by sovereign states and are arguably sustained by them. The benefits are clear, as outlaws, terrorist organizations attract the attention and blame for their direct actions whereas the nation-states behind them maintain a degree of deniability. One example of state-sponsored terror is Pakistan. The Pakistani nation is not very large geographically. Pakistan is also surrounded by countries with which it has fought or believes them to represent threats to their sovereignty. As a result, Pakistan has sought a means of control and security over its neighbors. In response to the Soviet threat in the Middle East during the Cold War, the Pakistani government actually created several terrorist organizations that reported directly to the secretive Directorate of Inter-Services Intelligence (ISI). This is the Pakistani equivalent of the CIA. These organizations, such as the Harkat-ul-Mujahideen, exist for specific purposes, including retaining regional influence<sup>17</sup>.

State sponsored terror groups pose challenges for the nation-states that create them since they cannot be sure whether the terrorists will remain faithful to their creator or be willing to continue to do their bidding. Pakistan's intelligence organization is a glaring example, having lost control of several of these groups, which now act independently of Pakistan and pose a threat to United States interests and their own region<sup>18</sup>. Despite losing control of several terrorist organizations Pakistan has continued its involvement with terror groups. For example, Pakistan may have gained control, or influence in, Al-Qaeda<sup>19</sup>. In an interesting turn of events, the Pakistani government supported the United States in pursuing and dealing a massive blow to Al-Qaeda, and yet there is speculation that Pakistan may in fact now be a significant influencer on Al-Qaeda operations. As Dr. Catino, a counterinsurgency adviser who has served with the US Army during the War on Terror, explains it, the Pakistani army did deal significant damage to local Al-Qaeda operatives but left the leadership untouched<sup>20</sup>. It seems as if they had the ability to finish off key leaders and yet chose to leave them alive. This, coupled with the country's history in maintaining relationships with terrorist organizations, makes them suspect of being in a position of power within Al-Qaeda.

### **4.2 Saudi Arabia:**

To date, the United States has not declared Saudi Arabia to be a state sponsor of terror. Instead, the United States continues to treat Saudi Arabia as an ally. The fact that Saudi Arabia is not an official state sponsor, however, should not be confused as equivalent to having *clean hands*. Since 9/11, Saudi Arabia has been criticized for its lack of action to police its citizens and stop support for terrorist supporting organizations. Recently, a leaked message from Hillary Clinton, during her time as Secretary of State, to Saudi royalty detailed requests that they (Saudi Arabia) take seriously the fact that their citizens were actively sending donations to terrorist organizations<sup>21</sup>. This email highlights how countries that want the benefits of relationships with terrorists can officially denounce terrorism while creating an environment for them to prosper by turning a blind eye to their conduct within their own borders.

The Saudi government, however, goes much farther in supporting terrorists. For example, Saudi Arabia has provided material support for Al-Qaeda in the Bosnian War as well as monetary support to the terrorists who brought down the Twin Towers. During the Bosnian War Al-Qaeda sent fighters to become mujahedeen and fight with the Bosnian Muslims against the Bosnian Serbs. Testimony from an Al-Qaeda defector, Ali Ahmad Ali Hamad, provides direct evidence that Al-Qaeda intended to set up long-term bases in Bosnia for future operations, as well as, evidence of material support from the Saudi government<sup>22</sup>. Hamad provided testimony that Saudi officials, specifically from the Saudi High Commission for Relief in Bosnia and Herzegovina, gave material assistance to Al-Qaeda fighters and provided him access to diplomatic cars, allowing him uninhibited travel throughout Bosnia<sup>23</sup>. After the war the Commission provided Hamad and several other mujahedeen employment at the Saudi High Commission, while being aware that Hamad was acting under the direction of Al-Qaeda<sup>24</sup>. This type of blatant support from several countries presents a very clear threat to any positive action that a government or entity tries to take to stem the flow of money to terrorist organizations.

## **5. Legitimate Business:**

While individual countries providing support to terrorist organizations certainly is a grave international threat, it is perhaps more disturbing domestically, that there are entities masquerading as charities that are supporters of international terrorism. There are several charities that operate within the United States that profess to take money in support of humanitarian aid in the Middle East, however, a closer examination reveals that many take the money and give it to terrorist organizations. For the individual trying to support true humanitarian efforts in the Middle East, determining which charities are fronts for terrorism is very difficult. In fact, the United States government has failed to make public a list of appropriate charities to Muslim groups who wish to truly invest in charity. The driving force behind misappropriation of charities stems from the teachings of Islam that require a zakat, or mandatory tithe. Unlike Christian tithes, which are not enforced by the state, Muslim countries enforce the giving of money to the state for redistribution; Muslims abroad are expected to give to charities that will invest back in the Middle East<sup>25</sup>. The Saudi government is a prime example of how such charitable requirements can be abused. As many Muslim countries do, the Saudi's collect taxes from citizens to be used exclusively in fulfillment of zakat. The distribution of the money, however, is entirely up to the State. Since the State's official religion is Wahhabism, a sect of Islam that is viewed as supporting extremism and an ultra-orthodox view of Islam, Saudi Arabia can support the families, activities, and provide the other necessities of Saudi Muslims who support terror without violating their religion<sup>26</sup>. Moreover, they can argue that their religion compels them to do so. The charities that many international Muslims donate to are also suspect. Several, such as the: Global Relief Foundation; Holy Land Foundation; and Third World Relief Agency, take donations and give them to terrorist organizations<sup>27,28</sup>. The mixing of legitimate charity organizations with members of the same that contribute to terrorism makes the question of determining what charity donations fall into the category of legitimate a daunting challenge. The examples given above are not the only examples of where this happens. The reality, however, is that on the surface their criminality was by no means, immediately obvious to investigators or the government of the United States. The investigations required painstakingly difficult work to piercing the corporate veil and see what was really happening to the money being raised. Finally, even where the source of the funding is discovered to be suspect, separating legitimate charities from those that are terrorist affiliated is very difficult given the opaque nature of the industry that allows for a great level of anonymity in distributing the funds they manage.

## **6. Hawala:**

Financial Crime typically involves a high degree of secrecy to prevent a country's tax or justice authorities from tracking the movement of money and its owners. While financial crimes are perceived as being complex white-collar activities, moving money efficiently without leaving a trail has a long history. Moving money within countries and across borders to different cells of a terrorist organization or in-between individuals often involves wire transfers and banking systems where privacy is sacrosanct. What many do not know is that there exists a global money transfer system that does not use traditional banks and has not paper trail. This informal system is called hawala. Hawala is the term used to refer to the massive, worldwide network of informal bankers who move money around for various reasons. It is important to note that there are many

legitimate uses for hawala, chiefly for sending remittance money home for many foreign workers in the United States. One of the biggest users of this technique involves the large Somali population in Minnesota. As they earn money in the United States, they want to send it home, however, due to the lack of any trustworthy financial institutions in Somalia they have to rely on informal hawala bankers<sup>29</sup>. That said, there are also many less noble uses for the system, as it is just that, a system and is only as good as those who use it. The system works without any laws or regulations, only the “honor” of each individual. That honor is really dependent on the trust of each individual banker, or hawaladar, to repay debts to each other. A simplified view of how an individual transaction occurs is pictured (Figure 1) below.

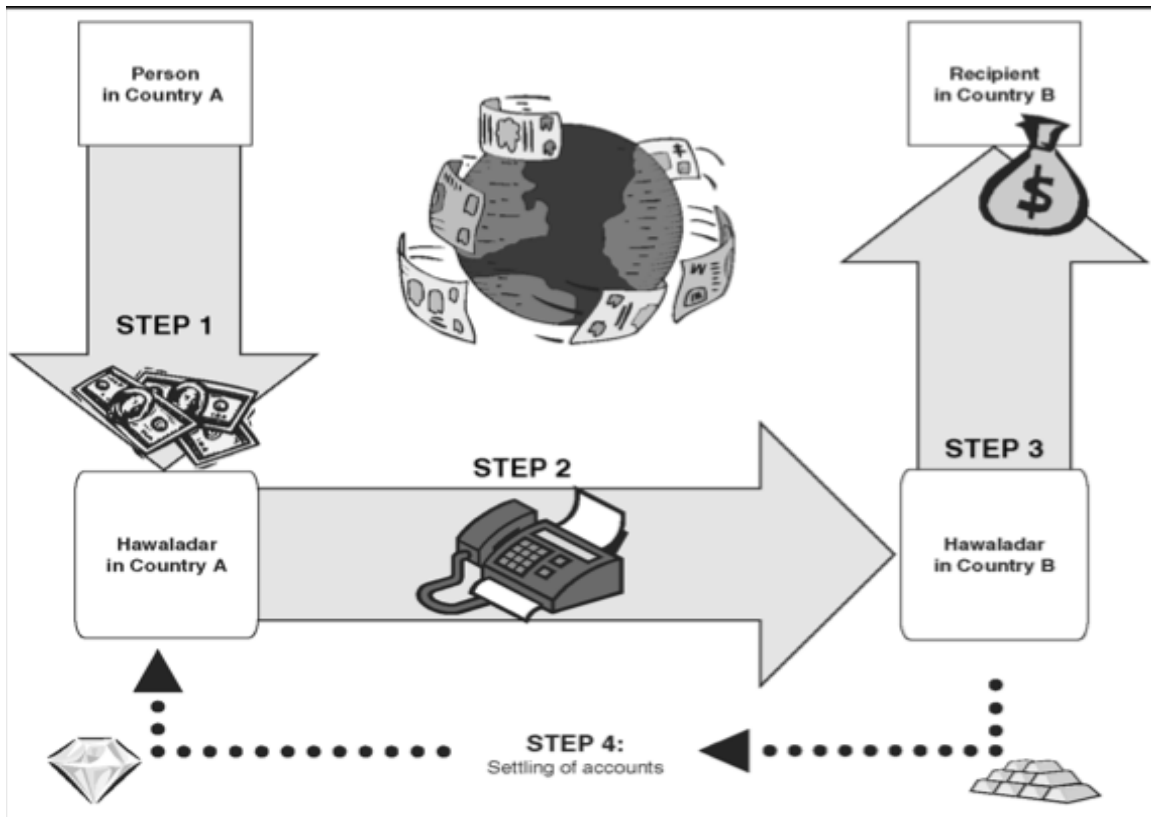


Figure 1: Hawala transaction system

Figure 1 Retrieved from GAO November 2003 report on terrorist financing

When one person wants to send money abroad they contact the individual they wish to send money to, figure out how much and set a passcode to be used later for retrieving the funds. Then, Person A meets with a hawaladar who will record how much money is to be sent. The hawaladar with the funds will contact a hawaladar that is located near the intended recipient of the funds. The second hawaladar will pay out the money to whoever gives him the correct passcode. There is no wiring of funds from one hawaladar to another, instead the hawaladars pay out of their pocket. In order to settle debts and ensure that no one loses money, debts are settled through the exchange of goods, services, or cancellation of prior debts<sup>30</sup>.

## 7. Conclusion:

The problem of terrorist financing is a problem that is immediate and dangerous to the American people and yet it presents itself not just within the jurisdictional boundaries of the United States. Instead, the problem is multinational and crosses borders without distinction. The proceeds of criminal activity, charitable donations, and seemingly legitimate business are three major avenues used to fund terrorism. Due to the fact that criminal activity takes so many forms and the use of new technologies and ancient methods of moving money

make any one way of combatting this problem futile, investigative efforts must keep up with new techniques and tools used by terrorists. While the horrific crime and act of war engaged in on 9/11 brought great attention to Al Qaeda, it is perhaps what ISIS is doing that should concern governments. As discussed above, ISIS has mastered methods of benefiting from criminal activity, even when it does not directly perpetrate the crime. Moreover, it is now an example for why terrorists must control territory, especially where it can extort money from criminals that must cross territory they control. An in depth study of this group in particular could yield interesting and effective methods for combating future terrorist organizations who seek to model themselves after ISIS because of their success. For the time being, however, it appears that donations are the backbone of terrorism financing and mainly come in the form of government aid from sympathizing countries or large monetary donations by wealthy individuals. In both cases a bulk of donations come from Saudi Arabia, Pakistan, and other Arab Nations and their involvement is well known. The question then, is whether there is a will to disturb an otherwise positive diplomatic relationship or not. The guise of legitimate business to bankroll terrorism, whether a nonprofit corporation or charity or for-profit business, poses challenges for law enforcement and regulators who face limited budgets and the need to address serious and violent crime. Is the answer more regulation and would that approach hurt legitimate efforts to help desperate people in terrible circumstances?

What is known is that terrorism is on the rise and with it, the demand for ever greater funding. Arguably, the solution will require at least this—that governments continue to shine a light on those of means, whether or not in government, who are actively involved in sponsoring terrorism or simply turning a blind eye toward the activity. Those who have both a public image to uphold and by virtue of the image are also likely to be powerful people, may yet, because of fear of exposure be convinced that it is in no one's interest, especially theirs, to allow terror to prosper.

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