

Opium Production and Countering Terrorism Financing in Afghanistan: Learning from Thailand's Royal Projects

Neo Wee Na

Institutionalisation of Sufi Islam after 9/11 and the rise of Barelvi Extremism in Pakistan

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Terrorism Financing in Foreign Conflict Zones

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The misuse of charities to finance terrorism can pose a risk to South East Asian regional security. Humanitarian aid that is delivered through local charitable delivery partners specifically to foreign conflict zones carries a high risk of subversion. Recently, allegations that Australian charitable funds were misused to support terrorism overseas have been in the news. This article discusses the Australian case and suggests situation-sensitive risk assessments and preventive measures to address this problem. In particular, a government can impose stricter accountability conditions to deter misuse of public funds it delivers to conflict zones abroad through humanitarian charities.

Range of Terrorism Costs

A major terrorist organisation may perpetrate large-scale attacks such as hijacking aircraft or firing missiles at civilian targets, each involving detailed preparation, skilled personnel, travel and organisational infrastructure. For instance, the four Al-Qaeda airliner attacks that targeted the US on 11 September 2001 were estimated to have cost up to US\$500,000.¹ A sustained insurgency that utilises terrorist tactics may involve thousands of combatants, support staff, weapons acquisition, training, personnel and equipment movements, accommodation, administration and logistics. As such, the cost of staging an attack within an insurgency is significant. An estimated US\$1.9 billion of funding was required to sustain the Islamic State in Iraq and Syria (ISIS) in 2014.² The need for such significant

funding can be a point of organisational vulnerability. In the war against ISIS, oil production facilities and other sources of finance in Iraq were strategically targeted to weaken the financial resources of the group. On 11 January 2016, the United States (US) bombed a bank in Mosul which destroyed millions of paper dollars of IS cash reserves.

Even medium-scale terrorist attacks, such as suicide bombings or explosive booby-traps, require technical expertise, acquisition of materials, recruitment and publicity strategies. Jemaah Islamiyah (JI) in Indonesia is known to have targeted and stolen from jewellery shops in order to finance part of the US\$74,000 cost of the October 2002 Bali bombings.³ In comparison, the London subway bombings perpetrated on 7 July 2005 are estimated to have cost less than US\$15,000. However, that cost should not be determined in terms of operations and equipment alone, as the terrorist attacks were only a part of the group's wider and more extensive infrastructure.⁴

Lastly, lone wolf attacks and operations represent low-scale terrorist attacks. These smaller attacks, which include targeting civilians with knives or cars, do not require significant technical expertise and knowledge. Although lesser funds are required, lone wolf attackers still need an institutional support system that encourages, publicises and rewards them for their actions. For example, the Palestinian Authority stipends

¹ Nicholas Ryder, "Conclusions and Recommendations." In *The Financial War on Terrorism: A Review of Counterterrorism Financing Strategies since 2001*, 173-183. United Kingdom: Routledge, 2015.

² Stefan Heissner, Peter R. Neumann, John Holland-McCowan, and Rajan Basrah, "Caliphate in Decline: An Estimate of Islamic State's Financial Resources International Centre for the Study of Radicalisation",

King's College London, 2017, <http://icsr.info/wp-content/uploads/2017/02/ICSR-Report-Caliphate-in-Decline-An-Estimate-of-Islamic-States-Financial-Fortunes.pdf> (accessed December 31, 2017).

³ Thomas Biersteker and Sue Eckert, *Countering the Financing of Terrorism*, 142. United Kingdom: Routledge 2007.

⁴ Nicholas Ryder, "Conclusions and Recommendations." In *The Financial War on Terrorism: A Review of Counterterrorism Financing Strategies since 2001*, 124. United Kingdom: Routledge, 2015.

to the families of convicts and ‘martyrs’ who have committed terrorist acts, are estimated to cost over US\$300 million per annum.⁵

Ways to Finance Terrorism

The interconnections between transnational organised crime and transnational terrorism financing are increasingly evident. The diverse sources of financing often vary with the agenda and size of the terrorist organisation and its operations. Terrorist organisations that control substantial territory such as ISIS, Hezbollah, Hamas, Boko Haram and Al-Shabaab constantly require increasing financial resources to expand and sustain their operations. These groups own ‘legitimate’ businesses, impose taxes and receive sizeable foreign private donations. In addition, foreign state sponsorship is a long-standing source of finance for major terrorist organisations. In this respect, the US State Department annual country report on terrorism has identified Iran as the leading state sponsor of terrorism.⁶

Terrorist organisations are criminal enterprises capable of conducting diversified illegal activities. These activities are often of a transnational nature, and include smuggling, drug trafficking, human trafficking, wildlife poaching, coercive contributions, credit fraud, counterfeit goods and embezzlement of charity funds or corporate profits. For instance, it is well documented that Hezbollah conducts drug trafficking in Lebanon and Latin America, smuggles cigarettes in the US, and counterfeits foreign

currency in Lebanon.⁷ While Al-Shabaab kidnaps foreign merchant shipping crews on the Indian Ocean for ransom and poaches elephants to sell ivory in parts of Asia, Boko Haram smuggles ‘conflict diamonds’ from and extorts governors in West Africa. In addition, the Abu Sayyaf Group (ASG) makes revenue through kidnapping foreigners and demanding ransom.⁸

Terrorist organisations that incur high costs are particularly vulnerable due to their strong reliance on financing. The mix of financial sources varies to suit the targets, modus operandi and scale of terrorism operations. This article will examine the utilisation of international charitable funds as a major source of terrorism financing, specifically from an Australian perspective.

Charitable Sources of Terrorism Funding

Momentum to suppress terrorism funding increased after the 1998 Al-Qaeda bombings that targeted the US embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania. The *International Convention for the Suppression of the Financing of Terrorism* was adopted shortly after in 1999. Ratifications increased in number after the Al-Qaeda attacks on the US on 11 September 2001. Shortly afterwards, the Financial War on Terrorism which was launched under United Nations Security Council Resolution 1373 called for the freezing of terrorist assets and prohibited making funds, assets, resources or financial services available to listed terrorists.

In October 2001, the Organisation of Economic Co-operation and Development Financial Action Task Force (FATF), which aims to combat money laundering by organised crime, adopted eight Special Recommendations to detect, prevent and suppress the financing of terrorism and terrorist acts. One additional recommendation that was adopted in 2003 marked nine Special Recommendations that were added to the original 40

⁵ Patricia Zengerle “House passes measure to limit aid to Palestinians over ‘martyr payments’” *Reuters*, December 6, 2017, <https://www.reuters.com/article/us-usa-congress-palestinians/house-passes-measure-to-limit-aid-to-palestinians-over-martyr-payments-idUSKBN1E001U> (accessed December 31, 2017). Yossi Kuperwasser *Incentivizing Terrorism: Palestinian Authority Allocations to Terrorists and their Families* Jerusalem Centre for Public Affairs 2017, <http://jcpa.org/paying-salaries-terrorists-contradicts-palestinian-vows-peaceful-intentions/> (accessed December 31, 2017).

⁶ See Nicole Gaouette, “Iran Remains Top Terror Sponsor as Global Attacks Decline”, *CNN*, July 19, 2017, <http://edition.cnn.com/2017/07/19/politics/state-country-terror-report/index.html> (accessed December 31, 2017).

⁷ Matthew Levitt, *Hezbollah: The Global Footprint of Lebanon’s Part of God*, 104, 117, 156-157, 274. Georgetown: University Press, 2015.

⁸ Jim Gomez, “Abu Sayyaf Got \$7.3 Million From Kidnappings,” *Philippine Daily Inquirer*, October 27, 2016, <http://newsinfo.inquirer.net/835021/abu-sayyaf-got-7-3-million-from-kidnappings#ixzz54QIDQJGx> (accessed December 31, 2017).

recommendations for the prevention of money laundering adopted in 1989. The 40+9 Recommendations were then integrated together, revised and renumbered in 2012. Recommendation 8 concerns terrorism financing by charities and non-profit organisations. It requires that FATF countries review the adequacy of their respective laws and regulations that relate to non-profit entities that can be abused to finance terrorism.⁹

Zakat, or Islamic charitable giving, is particularly vulnerable to abuse. Social welfare and funds for 'jihadi resistance' merge in some recipient organisations and can be indistinguishable to donors. Examples of charities around the world being subverted to finance terrorism in other countries include the Holy Land Foundation in the US,¹⁰ ISNA-Islamic Services in Canada¹¹ and INTERPAL in the UK.¹² In addition, several charities that are based in the Middle East, such as the IHH Humanitarian Relief Foundation in Turkey and Union for Good in Saudi Arabia, have been listed in some other jurisdictions, including Germany, Israel and the US as terrorist financing organisations.

In February 2016, a terrorism financing risk assessment workshop for Thailand, Philippines and Malaysia identified four major

⁹ Financial Action Task Force, "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation" *The FATF Recommendations*, updated November 2017, <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf> (accessed December 31, 2017).

¹⁰ "No Cash for Terror: Conviction Returned in Holy Land Cases", *Federal Bureau of Investigation*, November 25, 2008, <https://archives.fbi.gov/archives/news/stories/2008/november/hlf112508> (accessed December 31, 2017)

¹¹ Stewart Bell and Sean Craig, "Government Revokes Group's Charity Status, Audit Cites Possible Funding Of Pakistani Militants" *Global News Canada*, June, 19, 2017, <https://Globalnews.ca/News/3606224/Government-Revokes-Groups-Charity-status-audit-cites-pakistani-militants/> (accessed December 31, 2017).

¹² Alex Delmar-Morgan and Peter Osborne, "Why Is The Muslim Charity Interpal Being Blacklisted As A Terrorist Organisation", *The Telegraph*, November 26, 2014, <http://www.telegraph.co.uk/news/religion/11255294/Why-is-the-Muslim-charity-Interpal-being-blacklisted-as-a-terrorist-organisation.html> (accessed December 31, 2017).

risks of regional terrorism financing, which included the misuse of charitable funds.¹³ As a result of a growing concern in this sector, a regional terrorism financing risk assessment for non-profit organisations was conducted in 2017, which rated their risk as medium. Indonesia faces the highest risk, as there are 337,000 known charities, and inevitably some have links to terrorist organisations.¹⁴ Four Indonesian charities have been listed by the UN Security Council for targeted financial sanctions.¹⁵ Others have been identified on national lists, such as Mujahedeen Kompak (Indonesia), an organisation that channels disaster relief funds towards political violence.

Methods for using non-profit organisations to finance terrorism include setting up bogus charities for fundraising using social media and crowd funding, and siphoning off funds properly raised for social welfare to fuel politically violent acts. Another method is for personnel of bona fide non-profit organisations to exploit their positions to support terrorism by diverting funds and resources. These methods are more effective when the financial affairs of charities are less transparent, which is often the case. When the donors and the actual charity operations are located in different countries, jurisdictional separation obstructs administrative oversight mechanisms required for direct organisational accountability.

Case Study: Australian Charities Funding Terror

Between 2012 and 2017, the Australian government paid Habitat for Humanity AUD\$12.7 million (USD \$10.1 million) for a six-year development assistance project to build classrooms, science laboratories and school libraries in the Autonomous Region of Muslim Mindanao in the southern

¹³ Agus Santoso and Sylvia Laksmi, "Regional Terrorism Financing Framework: Southeast Asia and Australia", *Counter Terrorist Trends and Analysis* 8 (2016): 21.

¹⁴ Non-Profit Organisations and Terrorism Financing – Regional Risk Assessment, *Commonwealth of Australia*, 2017, http://www.austrac.gov.au/sites/default/files/regional-NPO-risk-assessment-WEB-READY_ss.pdf (accessed 2017).

¹⁵ *Ibid.*

Philippines.¹⁶ However, Habitat for Humanity subcontracted the project to Alhayam Sultana Construction, which belonged to members of the Maute family clan that had publicly pledged allegiance to ISIS in 2014. The subcontract was terminated in late 2015 when Habitat for Humanity was sacked for underperforming. However, the Maute clan brothers who were responsible for the 2017 siege of Marawi city may have received millions of dollars through the sub-contracting.¹⁷

A recent Australian case further afield is the diversion of charitable funds from World Vision to Hamas in Gaza. World Vision is the largest charitable group in Australia with annual revenues exceeding AUD\$400 million.¹⁸ According to Israeli prosecutors, 60% of World Vision's annual operational budget funding in Gaza was diverted by its Gazan director to support Hamas. To facilitate diversion of funds over ten years, fictitious projects were created supposedly to help farmers, the disabled and fishermen. Methods like false registration of employees, fictitious receipts and inflated invoices, favouring complicit tenderers and disguising warehouse transfers were used.¹⁹ The funds financed the salaries of fighters in its al-Qassam Brigades,²⁰ as well as infrastructure, military weapons and salaries for officials. From 2013 to 2016, the Australian federal government had given away approximately

AUD\$5 million (US\$4 Million) to World Vision Australia for projects in the Gaza Strip.²¹

Australian Risk Assessment of Charitable Financing of Terrorism

In 2015, a FATF regional mutual evaluation process concluded that Australia was not compliant with Special Recommendation 8 on terrorism financing by non-profit organisations. This was because it had not conducted the required national review of the adequacy of laws and regulations to suppress terrorism financing in the charity sector. Consequently, Australia's first risk assessment on countering terror financing through charities and non-profit organisations was released in August 2017 by the Australian Transaction Reporting and Analysis Centre (AUSTRAC), the national financial intelligence agency, together with the Australian Charities and Not-for-Profits Commission (ACNC). The report of the national risk assessment of the charities and not-for-profit sector identified 'significant links' between Australian charities and organised crime, giving rise to a 'medium' risk. Between 2012 and 2016, there were 28 'suspicious matter reports' related to terrorism financing received by AUSTRAC that were worth AUD\$5.6 million.²² These involved charities that demonstrated a sectoral capacity to quickly raise and camouflage the movement of large amounts of funds offshore to support individuals or groups engaged in foreign conflict.²³

Established in 2013, the ACNC is a new national regulator, designed to 'maintain, protect and enhance public trust and confidence in the [Charities and Not-for-Profit] sector through increased accountability and transparency; [to] support

¹⁶ Amanda Hodge, "Ausaid Cash Went To Marawi Terrorist", *The Australian*, November 11, 2017 <http://www.theaustralian.com.au/national-affairs/foreign-affairs/ausaid-cash-went-to-marawi-terrorist/news-story/69136cb9d46649d7a2c069fa308ab45a> (accessed December 31, 2017).

¹⁷ Ibid.

¹⁸ World Vision Australia, "About Us", <https://www.worldvision.com.au/about-us/faqs> (accessed December 31, 2017).

¹⁹ Israel Ministry of Foreign Affairs, "Behind the Headlines: Hamas exploitation of World Vision in Gaza to support terrorism", August 4, 2016, <http://mfa.gov.il/MFA/ForeignPolicy/Issues/Pages/Behind-the-Headlines-Hamas-exploitation-of-World-Vision-in-Gaza-to-support-terrorism-4-August-2016.aspx> (accessed December 31, 2017).

²⁰ Sophie McNeil, "World Vision Employee Pleads Not Guilty to Funding Hamas in Gaza" *Australian Broadcasting Service*, February 3, 2017, <http://www.abc.net.au/news/2017-02-03/world-vision-employee-pleads-not-guilty-to-funding-hamas-in-gaza/8238000> (accessed December 31, 2017).

²¹ Sophie McNeil, "Israeli Judge Allows New Charges In World Vision Manager Accused Of Diverting Millions To Hamas", *Australian Broadcasting Service*, January 13, 2017, <http://www.abc.net.au/news/2017-01-13/israeli-judge-allows-new-charges-in-world-vision-manager-trial/8179950> (accessed December 31, 2017).

²² Non-Profit Organisations and Terrorism Financing – Regional Risk Assessment, *Commonwealth of Australia*, 2017, http://www.austrac.gov.au/sites/default/files/regional-NPO-risk-assessment-WEB-READY_ss.pdf (accessed 2017).

²³ Ibid.

and sustain a robust, vibrant, independent and innovative not-for-profit sector; and to promote the reduction of unnecessary regulatory obligations on the sector'.²⁴ The ACNC sets out record keeping standards for charities and has monitoring powers. However, whether a charity is audited typically depends on its size and not necessarily on its overseas activities. Additionally, there are no special requirements for Australian charities with operations overseas. Special additional requirements for monitoring external conduct of charities that operate overseas are provided for in the ACNC Act but no such standards have yet been specified in the regulations.²⁵

The risks of charitable funds being diverted into political violence are higher when they are disbursed overseas especially into areas of armed hostilities. Unfortunately, the ACNC does not yet specifically address risks of terrorism financing by Australian charities operating abroad. The AUSTRAC/ACNC 2017 Risk Assessment for Australian charities and non-profit organisations noted that these problems are currently being examined.

Managing the Risk of Charitable Financing of Terrorism

Australia recently took up a more active stance to counter terrorism financing in Southeast Asia, with implications for regional charities. On 22 November 2017, a new Counterterrorism Financing Working Group was announced to combat terrorism funding coming in to South East Asia from abroad and to prevent financial support from going to terrorist groups outside the region. The regional working group is co-led by AUSTRAC and the Philippines Anti-Money Laundering Council. In addition, it was announced in November 2017 that a new regional Counter ISIS Financing Group would be led by AUSTRAC. On 19 December 2017, the Australian government launched a

²⁴ "ACNC's Role", *Australian Charities and Not For Profits Commission*
https://www.acnc.gov.au/ACNC/About_ACNC/ACNC_role/ACNC/Edu/ACNC_role.aspx?TemplateType=P
(accessed December 31, 2017).

²⁵ Australian Charities and Not-for-Profits Commission Act 2013, *Commonwealth of Australia*, SLI No. 124, 2013.

program funded by AUD\$50 million to increase its international presence through the AUSTRAC International Intelligence and Regulatory Framework. An annual South East Asian regional counter-terrorism financing summit had already been established as an international program and has held three meetings hitherto.

At the domestic level, amendments were introduced in 2017 to the Australian *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF). In the 2017 AUSTRAC regional risk assessment for non-profit organisations, virtual currency transfers were identified as high-risk for financing terrorism, as they are forms of value storage and transfer that are easy to use but difficult for authorities to monitor or detect misuse. For the first time the proposed AML/CTF reforms would regulate the emerging virtual currency exchange sector. The current regulatory regime applies to 'e-currency' backed by a physical value, but not to a digital currency such as Bitcoin, which is based only on a cryptographic algorithm. However, these amendments do not address charitable funding of terrorism directly.

Public Funding of Humanitarian Aid Abroad

Terrorism financing through charities often implicates governmental humanitarian aid or development assistance where charities are independent delivery partners. The Australian cases highlight questions for managing aid projects in conflict-prone environments: Should the risk management regime be more demanding in conflict zones? What are the due diligence obligations of local and overseas managers of charitable funds that may be diverted into terrorism? How should responsibility be distributed between governments, local charities and the arms of charities abroad? What risk management frameworks might be realistically possible and most efficient for operations overseas? How could they be designed to be robust in conflict zones?

In the Australian case of charities that operate abroad, the ACNC has not yet specifically addressed terrorism financing. In future, the ACNC will need to be more situation-sensitive in performing risk assessment and to apply more rigorous

preventive measures in higher risk categories. Due diligence requirements imposed on charities need to be calibrated especially to manage risks of terrorism support in overseas environments prone to armed conflict. The utilisation of security intelligence could be considered when the risk factors and the track records of individual Australian NGOs are assessed. The ACNC counterterrorism education and checklist programme could respond better to differences across operating environments overseas. External conduct standards referred to in section 10-50 of the ACNC Act could be elaborated in ACNC regulations and charities could provide greater public transparency for their overseas operations.

In order to address specifically the issue of public funds which are provided by government agencies to non-profit organisations, a set of mandatory conditions appropriate to humanitarian relief in conflict zones abroad should be instituted and followed. A broad specification of best practice measures could include: risk assessment inputs from national intelligence and international agencies; financial institution informational networking on suspicious transactions; enhanced technology applications for financial intelligence analysis; distinct regional risk management codes; charity due diligence performance agreements; self and third party reporting; independent monitoring and inspections; public transparency and accountability systems; public complaints reception and response mechanisms; adequate administrative and human resourcing; and the imposition of civil liability and criminal sanctions on culpable charities and individual officials.

Further Research on Counter Measures

The measures suggested above are a few of those available to suppress terrorism financing in the charities and non-profit sector within Australia and beyond. However, further research is needed to evaluate them. Case studies could focus on identifying existing gaps or weaknesses in managing governmental funds disbursed overseas into areas of armed hostilities that have previously resulted in diversion of those funds into political violence. Furthermore, they could clarify the practical dimensions of

these respective measures in terms of their efficiency, effectiveness and costs.

Since governments provide substantial amounts of humanitarian funds that can be diverted into terrorism through partnerships with charities operating overseas, regulations and policies to suppress and eliminate this perverse occurrence are necessary. Governments set the terms for the diligent management of the funds that they provide and can easily impose safeguards, even where management is subcontracted to charitable third parties operating in conflict zones abroad. Positive outcomes are urgently needed and readily available when governments control the purse strings.

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