



## A Review of Sources on Terrorist Financing

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**Abstract:** Terrorism financing is one of the most complex problems the democratic world is facing today. The transfer of funds to support terrorist activities has created enormous challenges across the world. This has fuelled several inter-religious and nationalist hate, and as such has put many nations into war with terrorist organisations. The main objective of this study is to review the sources of terrorist financing. The paper relies on secondary data that were drawn from various books, journals, as well as from institutional materials relevant to the issues raised. It concludes that terrorists are exploiting established financial systems at the global level to move their finances, and that informal systems remain the biggest challenge to thwart terrorist activities.

**Keywords:** transfer; model; activities

**JEL Classification:** F30; F65; G21

### 1. Introduction

Terrorism has a global reach, in terms of its activities and funding sources. Money is the engine that propels terrorist activities. A vital aspect of the global “war on terror” over the past decade has been the fight against financing terrorism

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(Raphael, 2003). According to Interpol (2007), “the frequency and severity of acts of international terrorism are often proportional to the financing that terrorists may obtain, so it is important that law enforcements target sponsors who make the financing of terrorist activities, and not just the perpetrators or actual terrorist acts”.

Elaborating on the importance of combating terrorism financing, Ayers (2002) states that the war on terror should be fought in the halls of our financial institutions and cannot be won from the destruction of the site of the battle. Since the September 11, 2001 terrorist attacks in America (11/9), threats from international terrorist networks have assumed a more international dimension, thus posing a major challenge to international peace and security (Krieger & Meieriks, 2011). In response to the events of 9/11, the US and indeed the international community launched a war against terrorism in many respects, of which one of the greatest agendas was to go after terrorist financing in what is called “the next war against terrorism” (Heng & McDonagh, 2008).

Despite the many efforts to end terrorism, the international community still grapples with the complex realities. We have witnessed many casualties in recent years, and terrorism continuously threatens the relevant values endorsed by the democratic world (Bantekas, 2003). The purpose of this research is to review the sources of terrorism funding, methods and channels of movement of terrorist finances.

## **2. Literature Review**

While it is essential to have an understanding of what terrorism really means, before we talk about how it is financed and fought, it is essential to note that the search for an inclusive definition from an academic, political or international legal perspective has continued for decades and continues to this day, notwithstanding that the practice has gained much more prominence in the last two decades as one of the greatest threats to international peace and security. Jenkins (1980), stressed that “terrorism has become part of our daily diet of news ... the phenomenon of terrorism has become a growing concern for governments and increasing interest for researchers.”

The difficulty of finding a universal definition according to Schmid (2004) is because terrorism has been put- and thus, implicitly defined- in different contexts such as crime, politics, war, propaganda and religion. Depending on the frames we

choose, it exposes some aspects of terrorism, while others are located “outside image” if only a frame is utilized. After reviewing some 109 definitions of terrorism, Schmid and Jongman (1988) have identified 22 recurrent elements in the various definitions, and tried to incorporate them into a consensus definition: “Terrorism is a method anxiety inspired to action repeat violent, employing individuals, groups or actors (semi) state clandestinely, for ideological reasons, criminal or political, whereby - in contrast to assassination - the direct targets of violence are not the main targets.”

Immediate human victims of violence are chosen at random (usually targets of opportunity) or selectively (representative or symbolic targets) from a target population, and serve as generators message. Processes based on threats and violence communication between terrorist (organization), (risk) victim, and targets the key used to manipulate the main target (audience), turning it into a target of terror, a target requirement, or a target of attention, depending on whether intimidation, coercion, or propaganda is primarily sought.

Cash in terrorists’ hands is money that kills. If radical ideology and extremism are at the heart of terrorism today, finance is the life-blood. The threat of so-called “new terrorism” is not the only challenge that terrorists might pose, but also their ability to buy and to use relevant weapons through innovation, and meeting complex funds and techniques to transfer those funds (Acharya, 2009).

Although the actual costs of specific terrorist acts can be relatively inexpensive for strategic attacks, terrorist organisations require much higher budgets for general operation (Freeman, 2011). Above all, terrorist groups often need money to fund operations, infrastructure, equipment and logistics, because as with all human efforts, terrorism successful requires resources (Gordon & Rossman, 2009). Thus, access to funds transfer channels is essential for feeding terrorist organisations and decisive in the formulation and implementation of their activities (Acharya, 2009).

Stressing the importance of financing terrorist organisations, Ayers (2002) argues that, “Terrorists cannot terrorize without money, without resources. The training cost money, planning costs money, and explosives have cost, plane tickets cost money.” This is further supported by the international Criminal Police Organization (INTERPOL, 2007), which states that “the frequency and severity of international terrorist acts are often proportional to the financing that terrorists may obtain. The following estimates show that terrorist groups especially those larger and more proactive, have budgets that can go into hundreds of millions of dollars a

year” (Freeman, 2011). Al Qaeda's annual budget was estimated at 30 million US dollars (Passas, 2006); until shortly after the end of the Cold War, the Irish Republican Army (IRA) had an annual budget of about \$ 15 million (Horgan & Taylor, 1999). At the height of its activities in the 1990s, the Kurdish Workers Party (PKK) had a budget of \$ 86 million (Roth & Sever, 2010); Hezbollah's annual budget is estimated at \$ 100 million to 200 million and could be as high as \$ 400 million (Levitt, 2004).

### 3. Methodology

This research paper is conducted using secondary data, as it better fits the nature and purpose of the study. The data are drawn from a pool of very credible sources from respectable scholars and international institutions that deal with the phenomenon of financing of terrorist activities. Moreover, this research adopts narrative analysis to meet the relevant research goals and objectives.

### 4. Analysis

According to Navias (2002), the fight against the financing of terrorism is “a form of economic war, the context of which the global financial markets is and whose purpose is to limit the capacity of the enemy as to generate funds and to move money across borders for the support and maintenance purposes of international operation”.

Although the UK (as one of the first countries to realise the need to focus on activities that provide finance for terrorist organisations) established the “Terrorist Financing Unit” in response to a change in the *modus operandi* of IRA's activities in early 1980s (Giraldo & Trinkunas, 2007), before 11 September 2001, little international attention was given to the financing of terrorism. Winer (2008) notes, for example, that before September 11, not a single country in the Middle East had control of the Financing of Terrorism, and even the US believe that “had the best ways to prevent terrorist attacks” (Roth & Sever, 2010).

In the wake of the Sept. 11 attacks, the US launched a number of wars against terrorism. Some of the first moves included the passing of the Patriot Act and the targeting of terrorist financing by blocking financial transactions and freezing of assets of individuals and organisations allegedly related to terrorism (McCulloch &

Pickering, 2005). According to Taylor (2005), the rationale for Combating the Financing of Terrorism is “hatred puts gasoline to terrorism, but money makes the schemes deadly accessible. By breaking the backbone of financial terrorist groups and insurgents, we can prevent ambitions for the short term dismantling their long-term agendas. Termination of funds that helps terrorists can lead to the ultimate destruction of the terrorist organizations. With the prevalence and magnitude of terrorist attacks which is often proportional to the funding available to them, it is important that law enforcement aim financial sponsors of terrorist activities, not only the actual perpetrators of terrorist acts” (Interpol, 2007).

#### **4.1. Sources of Financing of Terrorism**

There are different views expressed by researchers on how terrorists raise funds. Harmon (2008), who rightly points out that this in itself is “organized, diverse, and dimension sometimes complex terrorist operations”. Krieger and Meierrieks (2011) are of the opinion that terrorist groups acquire financial resources primarily from (i) state funding (ii) financing legitimate means (e.g. by legitimate business, charities, support diaspora etc.), and (iii) private financing by illegal means, usually including a full criminal activity (bank robberies, drug trafficking, kidnapping, extortion).

In a slightly different context, Bell (2003) and Acharya (2009) suggest five models of financial resources of terrorists: state sponsoring model, popular support model, entrepreneur model, model of criminal proceeds and model of cybercrime financing.

##### **4.1.1. State Funding Model**

This is a situation where terrorist groups rely on state funding. This was particularly common in the era of the Cold War, where competing countries use terrorism as a deliberate instrument of foreign policy (Acharya, 2009). Funding of state terrorism mainly happens when goals (strategic and tactical) state sponsor coincide with sponsored groups, such as financing the group Western European terrorist movements and Third World liberation by the Soviet Union and its allies during the Cold War (Krieger & Meierrieks, 2011). Although this form of terrorism has declined since the 1990s, countries such as Iran and Syria are still active sponsors of terrorism (Freeman, 2011).

##### **4.1.2. Popular Support Model**

Almost every terrorist group or network enjoys support from some form of community types, whether domestic or extra-territorial (Acharya, 2009). Such support, logistical or monetary, is often based on a common identity, either religious, ethnic or ideological, and comes from charitable donations, members of the diaspora, as well as from membership fees and direct donations from members (Freeman, 2011). Be it from individuals or charitable organisations, charity has become one of the main means of raising revenue for terrorist groups with funds being collected from donors who are or are not aware that they are donating towards the financing of terrorism (Bantekas, 2003; Freeman, 2011).

The financing of terrorist groups and activities of diaspora communities attributed to the fact that when found out, the diaspora is interested in what is happening in their countries (Harmon, 2008). Making a withdrawal distinguishable between this form of funding and charitable donations, Freeman (2011) notes that, the support of the diaspora is based more on ethnic or racial connections and less religious.

#### **4.1.3. Entrepreneur Model**

One of evidence of the complexities of terrorism financing is that terrorists also operate under an umbrella of legitimacy, holding, management and running legitimate businesses and commercial enterprises to raise finances and also to move them (Biersteker & Eckert, 2008). These corporate cover consist of real estate, import-export and car sales companies, high-tech laboratories, shipping, civil engineering and financial construction companies. Financial firms and investment banks, and even trade in commodities such as precious metals and gems, provide cover for terrorist organisations, facilitate logistics and also generate profits that are channelled in the end to terrorism (Harmon, 2008).

Al Qaeda, for example in the 1990s, had several legitimate businesses such as farms, various trading companies, a tannery, construction, manufacturing and investment companies such as in Sudan, and elsewhere (Freeman, 2011). Osama Bin Laden himself had set-up a number of businesses under a holding company named Wadi al-Aqiq, reportedly owned by a merchant ship, and had invested \$50 million in a Sudanese bank (Acharya, 2009).

#### **4.1.4. Model of Criminal Proceeds**

The increased level of combat on the finances of global terrorism by various state and international organisations has pushed terrorist organisations to get increasingly involved in illegal financing activities (Bantekas, 2003). This often

happens when terrorist groups are no longer able to attract (or when they lose) support for their causes (Krieger & Meierrieks, 2011). This attraction to crime is further strengthened by the existence of a symbiotic dynamic link between transnational crime and terrorist organisations (Acharya, 2009). Terrorist involvement in criminal activities extend from drugs trafficking in human beings, fraud, robbery, extortion, smuggling, oil theft, forgery, money laundering (Raphael, 2003).

#### **4.1.5. Model of Cybernetic Financing**

The growth of information and communication technologies in recent decades has offered both opportunities for economic development and promote their fear of attracting crimes (Zerzan, 2010). This is especially true for the Internet, which has become a key tool for terrorists communication, radicalisation, recruitment and training, and for the establishment and movement of funds (Acharya, 2009).

Terrorists are increasingly becoming involved in cyber-crimes such as identity theft, credit card fraud, money laundering etc., to raise funds; also, they sometimes do this online via a direct request (Kemal, 2014). In a prayer on their website, the Global Jihad, for example, seeks donations to facilitate the growth of various jihadi movements around the world by supplying them with sufficient funds to buy weapons and train individuals (Kiser, 2005). The other aspect of cyber funding that is rapidly expanding, is cleaning and moving money online using money transfer and new technology payments, as banks and other financial institutions are offering their customers financial services online (Acharya, 2009).

#### **4.2. Methods and Channels of Moving Terrorist Finances**

For terrorist organisations, unlike criminal organisations, the need to disburse money is greater than the need to collect them (Acharya, 2009). In this way, terrorists keep trying to come up with new techniques to transfer funds and improve existing methods with the ultimate aim of avoiding detection (Gomez, 2010). The terrorists and their cohorts have developed more channels to identify the movement of funds across the world (Tofangsaz, 2015) – ranging from money laundering to the use of formal and informal systems of money transfer, internet, business, personal courier, charities, religious organisations and even diplomatic channels. Some of these are highlighted below:

#### **4.2.1. Money Laundering**

Money laundering is considered one of the biggest obstacles to maintaining an effective operating international financial system (Buchanan, 2014). Money laundering is a two-dimensional source for terrorist organisations. It is also a tool to raise money and also a tool to move them. According to the World Bank (2003), “Money laundering is the process by which revenues derived from criminal activity (i.e., the offense) are disguised in an attempt to disguise the origin of their situation and to legitimize the use in the future”. Although the financing of terrorism and money laundering are synergistic, in that terrorists and criminals use similar types of transactions that involve the use of inactive companies and deliveries of secret money, a lot of measures against money laundering have been expanded in the fight against the financing of terrorism.

While terrorism financing includes supporting terrorism through the injection of funds (legally or illegally earned) money laundering involves converting the money earned illegally into legitimate funds (Naheem, 2016). Terrorist financing is also referred to as “the opposite of money laundering” because it includes funding for the commission of crime and money laundering or illegally acquired funds includes crime (SIB, 2010).

#### **4.2.2. Financial Formal Systems**

Although security measures in the formal banking system is currently high, nonetheless, terrorists have used and continue to use the defects in the system. The September 11 attacks was for instance funded through a complex series of bank accounts, credit and debit cards, as well as international remittances and transfers from bank to bank (Acharya, 2009).

Terrorists not only rely on Western banks but also make enough use of Islamic banks, which operation are led under Islamic jurisprudence, and in some cases, terrorists or their financiers have controlling interests in banks (Brisard & Martinez, 2014). Osama bin Laden, for example utilised the Sudanese Bank Al Shamal Islam, in which he held a controlling interest. The bank had correspondent agreement with large banks across Europe and North America to transfer money to the account of an operative of Al-Qaida in the Bank of America, which was used to buy a small plane (Gomez, 2010).



It is pertinent to note however, that, except in cases where the banks are controlled by terrorist organisations or their financial facilitators, most financial institutions are not aware that terrorist financing flows through their network.

#### **4.2.3. Informal Systems of Funds Transfer**

Following the terrorist attacks of September 11, authorities around the world came under intense pressure to tighten the regulation and supervision of funds transfer systems, especially to review relevant processes which operated outside of conventional financial systems. Special emphasis was placed on the Hawala system because of its alleged role in financing illegal as well as terrorist activities (El-Qorchi, 2002). Hawala, which literally means “transfer” in Arabic, is essentially a form of “money transfer without moving money” (INTERPOL, 2002). It involves the transfer of money between a sender and recipients in every part of the world, using an intermediary known as Hawalader that takes money, and another Hawalader guides in the host country to pay the beneficiary for the amount transferred. It is characterised essentially by trust and the extensive use of alloys such as family relationships or regional affiliations. Hawala is found to be so vulnerable to abuse by terrorist organisations (Raphael 2003; Interpol, 2002), such that it has been dubbed “a banking system built on terrorism” (Time, 2001). Terrorists have managed easily to move large amounts of money without recourse of the formal banking system in order to finance their operations (Schramm & Taube, 2003).

### **5. Conclusion**

The fight against terror financing is a continuous battle and remains a challenge for many states and international institutions. Terrorists have greatly evolved their means of functioning and many times are ahead of law enforcement mechanisms.

The objective of this paper was to review the sources of terrorist financing and the relevant ways in which terrorists transfer funds. It was indicated in this study that, the recent advancements in technology has provided an effective tool for terrorists to communicate, unite, and to create platforms in order to conduct their missions effectively in regards to money transfer. We can conclude that formal financial systems still provides opportunities for terrorists to transfer money because of the inherent flaws. A greater supervision and control is imperative to prevent their activities. The biggest challenge will remain the supervision of the informal system

of money transfer. It will be very hard and sometimes might prove to be an impossible mission to monitor, given the specific way in which terrorists operate.

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