

Money is Key to Success Even in Terrorism

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Abstract: Since the introduction of Lydian Coins in 650 BC to ancient Asia Minor, capital has played a central role in many systems of human society, both for better and worse. Thus, as terrorism becomes a more prevalent issue in the global security narrative, the relationship between monetary funds and the ability to commit atrocities has come under scrutiny, especially in regards to the sources of their financing. Recent research has shown that funding for terrorism largely comes from organized crime, such as money-laundering, international drug trade, blackmail operations, and human trafficking. Moreover, due to the complexity of international financial and legal systems, terrorists can exploit disadvantages and loopholes in a way that conceals illegal transfers of money. In this paper, an in-depth analysis of terrorism financing will be given with an emphasis on international crime and state sponsorship. Then, suggestions are provided on how to improve current regulations in a way that will prevent further exploitation.

Key Words: Sponsorship, International Crime, Exploitation, Global Trade, Money-Laundering, Narco-Terrorism

Introduction

While terrorism was already a security concern in many countries by the twenty-first century, the tragic events of 9/11 brought it even more into focus on a global scale. Many international and governmental organizations began to look even closer at the causes and supporting factors of terrorist attacks. One such factor was the ability of terrorist organization(s) and/or individual(s) to gain or access monetary funds

for their illegal efforts. Research reveals that a secure financing network is critical to the effectiveness and maintenance of ones' operation. This was reflected in a statement declared by a former al-Qaeda Chief Treasurer, Sheik Saeed: "funding is the mainstay of jihad"²²⁸.

Though individual attacks have been found to be relatively cost effective, the running costs of organizations, such as recruitment, housing, propaganda, and intelligence gathering, require substantial funding. In fact, recent estimates put the maintenance of the entire Islamic terrorist network at billions of dollars²²⁹. Comparatively, al-Qaeda, by itself, is thought to have a \$30–50 million operating budget per year²³⁰. This is not to say that terrorist attacks do not require some form of financing; in 2004, the national commission report found that al-Qaeda spent \$400,000–500,000 to execute the 9/11 attacks²³¹. By examining these numbers, it becomes clear that terrorists can do immense damage at a low expense to themselves. For this reason, cutting off terrorists from their respective financial networks is recognized as crucial to creating preventive measures against terrorism. This was made apparent following the events of September 11, when former American president George W. Bush famously stated, "We will starve the terrorists of funding ... From this day forward, any nation that continues to harbor or support terrorism will be regarded by the United States as a hostile regime"²³². Though governments and organizations agree on

²²⁸ Ari Shapiro, Morning Edition: Obama Stays the Course on Terrorist Financing (NPR radio broadcast Mar. 11, 2009, 12:17 AM), available at <http://www.npr.org/templates/story/story.php?storyId=101676777>.

²²⁹ Rachel Ehrenfeld "Funding Evil: How Terrorism is Financed – and How to Stop It" (Chicago, IL: Bonus Books, 2003) P. 2.

²³⁰ National Commission on Terror Attacks Upon the United States "The 9/11 Commission Report" (Washington, D.C. 2004) Full report accessible at https://govinfo.library.unt.edu/911/report/911Report_Exec.htm. See also Baradaran, Shima "Funding Terror" (University Pennsylvania Law Review, 2014) P. 480.

²³¹ National Commission on Terror Attacks Upon the United States "The 9/11 Commission Report" (Washington, D.C. 2004) Full report accessible at https://govinfo.library.unt.edu/911/report/911Report_Exec.htm.

²³² Bush, George W. 2001 "Address to Joint Session of Congress and the Nation" Transcript of Speech Delivered at Congress in Washington D.C., America. September 20, 2001. https://www.washingtonpost.com/wp-srv/nation/specials/attacked/transcripts/bushaddress_092001.html.

the importance of this matter, it will take the cooperation of public, private, and international entities to locate the sources of funding and determine effective countermeasures.

Vast amounts of research and legislation on this topic provide details about the financial networks of terrorist organizations, especially in reference to state sponsorships and international crime operations. Concerning state sponsorship of terrorism, it is seen as the driving force of modern terrorism. Historically, terrorist organizations had to dedicate more time to the pursuit of revenue for specific, individual attacks. However, now in part thanks to the monetary funding by nation-states, terrorist organizations are able to possess larger, better organized, and well-informed operations²³³. This form of financing has been expressly discouraged by the international community since 1934 with the enactment of the League of Nations' *Convention for the Prevention and Punishment of Terrorists*, which says nations have the responsibility, "to prevent and suppress such subversive activity against foreign Governments as assumes the form of armed hostile expeditions or attempts to commit common crimes against life or property"²³⁴. Unfortunately, the international community since then has not been able to clearly define a standard definition of terrorism; this inability has allowed limitations to be placed upon international conventions regarding state sponsors and subsequent consequences²³⁵.

The second prominent form of financing comes from criminal activity, such as exploitation, drug trafficking, and money-laundering. While these forms have different circumstances with varied overlaps, all exploit the vulnerabilities of global and domestic financial systems to

²³³ McFayden Jr., Elgie "Global Implications of State Sponsored Terrorism" (SSRN Electronic Journal, 2009).

²³⁴ Lassa Oppenheim, *International Law* (Hersch Lauterpacht ed, 8 ed 1955), Vol 1, 292–293.

²³⁵ Maogoto, Jackson "War on the Enemy: Self-Defence and State-Sponsored Terrorism" (2006) Accessible at https://www.researchgate.net/publication/228161177_War_on_the_Enemy_Self-Defence_and_State-Sponsored_Terrorism.

conceal monetary transactions in a layer of anonymity and ambiguity²³⁶. By effectively working outside of traditional economic forums, terrorist organizations are able to sustain larger operation costs.

In an effort to prevent the financing of terrorist organizations by states, public entities, or individuals, many nations have written legislations surrounding the status of groups. For example, the United States has formed a list designating seventy-two groups as Foreign Terrorist Organizations (FTO). By designating who constitutes as FTOs, the government is able to place legal ramifications on the providing of material resources to organizations by persons or corporations within the jurisdiction of the United States²³⁷. The UN has also drafted and enacted pieces of legislation on the act and prevention of terrorist financing. These resolutions deal with a variety of types of financing from extortion to state sponsorships. The UN's Security Council has also included in many of their resolutions a need for a unifying enforcement body on legislation in order to effectively cut terrorist funding.

Sponsorship: State versus Individual Investors

Sponsorship is the act of an organization or individual financing a project, event, or organization which is controlled by a separate actor or actors²³⁸. With regards to terrorist-related sponsorships, the exchange of funds can be traced back to a variety of "open" funding bodies connected to the public domain rather than the criminal underworld. Primarily these bodies contain national governments or states, financial

²³⁶ "IMF and the Fight Against Money Laundering and the Financing of Terrorism" (International Monetary Fund, 2021) Accessible at <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/31/Fight-Against-Money-Laundering-the-Financing-of-Terrorism>.

²³⁷ Bureau of Counterrorism "Foreign Trade Organizations" Accessible at <https://www.state.gov/foreign-terrorist-organizations/>.

²³⁸ *American Heritage® Dictionary of the English Language, Fifth Edition*. S.v. "Sponsorship money". Retrieved July 16 2021 from <https://www.thefreedictionary.com/Sponsorship+money>.

institutions, charity organizations, and wealthy executives. Head of the IDF Intelligence, Major General Herzi Halevi, would argue these forms of funding are truly key in any efficient terrorist activity, saying “behind every successful terrorist organization stands a financial system and in many cases, it’s a country”²³⁹.

Many scholars define sponsorship as governmental support and provision of resources to non-state actors for the purpose of committing violent attacks against others²⁴⁰. As of now, four countries have been designated as state sponsors of terrorism by the United States: Syria, Iran, North Korea, and Cuba. All four countries have been formally connected to terrorist activity since the late 1970s and 80s. For example, North Korea was attributed with organizing and funding the bombing of a South Korean civilian plane as it was in-flight²⁴¹.

Of the four countries on the US list, Iran is seen as one of the largest contributors to state-sponsored terrorism. It has been actively connected to such terrorist organizations as “Hezbollah, Hamas, and Islamic Jihad” and individually committed terrorist attacks²⁴². These connections have been discovered in multiple ways; recently, Iran was even linked to several monetary transactions with affiliated bank accounts world-wide. This occurred in January 2021, when the United States gathered \$7 million in a civil forfeiture investigation in collaboration with global partners²⁴³.

²³⁹ Itai Zehorai, “The Richest Terror Organizations in the World,” *Forbes* (Forbes Magazine, January 29, 2018), <https://www.forbes.com/sites/forbesinternational/2018/01/24/the-richest-terror-organizations-in-the-world/?sh=12149a3e7fd1>.

²⁴⁰ Findley, Michael. “What is Terrorism? Why Should I Care?” (GOV 360S, TERRORISM/COUNTER-TERRORISM, University of Texas at Austin on August 27, 2020).

²⁴¹ Dianne Rennack, “State Sponsors of Acts of International Terrorism—Legislative Parameters: In Brief,” *Federation of American Scientists*, May 4, 2021, <https://fas.org/sgp/crs/terror/R43835.pdf>, 1–2.

²⁴² Iran’s Support For Terrorism In The Middle East: Hearing Before The Subcommittee On Near Eastern And South And Central Asian Affairs Of The Committee On Foreign Relations United States Senate, 2012, Leg., (Washington D.C. 2013) Opening Statement Of Hon. Robert P. Casey, Jr., U.S. Senator From Pennsylvania.

²⁴³ “U.S. Government Collects \$7 Million in Iranian Assets for Victims of Terrorism Fund,” *The United States Department of Justice*, January 5, 2021, <https://www.justice.gov/opa/pr/us-government-collects-7-million-iranian-assets-victims-terrorism-fund>.

In addition to states, financial institutions represent a second major source of sponsored terrorism. Financial institutions include banks, investment agencies, brokerage firms, and internet-based currencies. This is the traditional mode of funding that usually garners the most attention by investigation operations concerning terrorist financing. And while money-laundering is a frequent way that terrorist organizations use the vulnerabilities of these institutions, there are other methods of exploitation. For example, banks are used to collect loans, complete transactions, and transfer funds. Financing from these institutions is not just physical anymore, recently terrorist organizations have started to exploit insecurities found in crypto-currency and online banking. In August of 2020 for example, several terrorist organizations were caught campaigning through cyber-related sources, representing one of the biggest cryptocurrency seizures. These groups included the al-Qassam Brigades, Hamas's military wing, al-Qaeda, and the Islamic State of Iraq and the Levant. By promoting on social media, these campaigns were able to amass millions in donations on several cryptocurrency accounts. According to one report, "millions of dollars, over 300 cryptocurrency accounts, four websites, and four Facebook pages all related to the criminal enterprise"²⁴⁴ were seized from the campaigns by law enforcement. Crypto-currency is a largely favored form of financing due to the little governmental supervision and regulation placed on the institution. Moreover, many falsely believe that donations to bitcoin wallets are cloaked in anonymity; however, the crypto-currency tracks the IPN addresses of users' accounts²⁴⁵.

A third source of funding that has gained attention in recent years comes from charities and non-governmental organizations with connections

²⁴⁴ "Global Disruption of Three Terror Finance Cyber-Enabled Campaigns," The United States Department of Justice, August 13, 2020, <https://www.justice.gov/opa/pr/global-disruption-three-terror-finance-cyber-enabled-campaigns>, Top of Page.

²⁴⁵ "Global Disruption of Three Terror Finance Cyber-Enabled Campaigns," The United States Department of Justice, August 13, 2020, <https://www.justice.gov/opa/pr/global-disruption-three-terror-finance-cyber-enabled-campaigns>, Top of Page.

to terrorist organizations. Through these relationships, terrorists can fundraise, indoctrinate new members, and create propaganda. One example is the charity *Holy Land Foundation for Relief and Development* that closed in 2001 after the Federal Bureau of Investigation (FBI) traced funding for Palestinian Hamas to them. Officials discovered that donations for the charity were being used to fund schools and indoctrinate children. NGOs affiliated with Islamic Salvation Front (FIS) serve as another example, who provided aid to Algerians after the 1989 earthquake. By aligning with these organizations, the FIS was able to garner popular support in the region²⁴⁶.

The Overlap Between Organized Crime and Terrorism

The Crime-Terror Continuum model is commonly used to describe the relationship between organized crime and terrorist activity. It states that these two types of organizations sit on opposite sides of each other: crime is on the left and terrorism is on the right. And organizations are placed on the continuum depending on their motivations with a caveat of flexibility to change. This model captures the differences along with the tendency for the two to blur in situations of similar motivation as will be illustrated for the remainder of this section, by examining shell companies, money laundering, and narco-terrorism²⁴⁷.

Similar to organized crime units, shell companies provide terrorist organizations with an easily accessible and anonymous financial tool. Shell companies are incredibly difficult for law enforcement to trace funds back to any particular individual, primarily because these companies

²⁴⁶ Ly, Pierre-Emmanuel. "The Charitable Activities of Terrorist Organizations". *Public Choice* 131, no. 1/2 (2007): 177–95. Accessed July 21, 2021. <http://www.jstor.org/stable/27698091>. 177–178.

²⁴⁷ Emma Björnehed, "Narco-Terrorism: The Merger of the War on Drugs and the War on Terror," *Global Crime* 6, no. 3–4 (2004): pp. 305–324, <https://doi.org/10.1080/17440570500273440>, 307.

allow terrorists the ability to disguise their true identities while transferring funds. In order to create a shell company, terrorists will present themselves as a charity or legitimate business. Terrorist-owned shell companies will seldom raise alert signals due to privacy, but also thanks to the prominence of the format amongst actual businesses. It is estimated that two million shell companies were created in the U.S. alone back in 2009. Even with the increasing scrutiny of governments, shell companies have found ways to adapt in order to continue to protect the privacy of owners. Understanding this system's lax regulatory nature regardless of new regulations, terrorists continue to exploit entities to circulate millions²⁴⁸.

Terrorist organizations and criminals, collectively, are thought to bring in two to four trillion dollars every year of laundered money²⁴⁹. Money-Laundering is the act of processing the resources and monetary assets gained through illegal means in a way that decouples them from their origin. Unlike some forms of financing, money-laundering occurs in a multi-step process: placement, layering, and integration. In the placement stage, the money received from illegal activities is placed into a legal financial institution. Next, during the layering stage, the money goes through several different institutions. Here shell companies (discussed in the section before) are used to avoid attracting any suspicion to the constant change of location. Lastly, the money is placed back into the economy through operations and transactions that appear legitimate.

This form of financing is widely used since the methods are diverse, complex, and ubiquitous. It also provides the terrorists with multitudes of ways to remain untraceable to law enforcement. A few channels

²⁴⁸ Shima Baradaran, "Funding Terror," in *University of Pennsylvania Law Review*, vol. 162 (University of Pennsylvania Law Review, 2014), pp. 477–495, https://www.researchgate.net/publication/256051603_Funding_Terror, 492–495.

²⁴⁹ "Anti-Money Laundering and Countering the Financing of Terrorism – United States Department of State," U.S. Department of State (U.S. Department of State, December 1, 2020), <https://www.state.gov/anti-money-laundering-and-countering-the-financing-of-terrorism/>.

fitting these criteria are casinos, precious metal industries, internet banking, brokerage accounts, and many more. Money-Laundering is also hard to shut down on an international scale because every nation has differing laws surrounding the crime. Therefore, most terrorists conduct business in the countries with weakest money-laundering laws, such as Afghanistan or Myanmar²⁵⁰.

Narco-Terrorism

This term has been attributed to several different forms of terrorism over the years. It was once used to describe the violent actions of drug traffickers as a way to implement political change. However, for the purpose of this report, the DEA's definition will be used: "narco-terrorism may be characterized by the participation of groups or associated individuals in taxing, providing security for, or otherwise aiding or abetting drug trafficking endeavours in an effort to further, or fund, terrorist activities"²⁵¹. Of the 36 organizations designated by the United States' Foreign Terrorist Organization List, 12 fall under this definition of narco-terrorism. This relationship between terrorist organizations and the drug trade is estimated to be globally worth billions of dollars. Al-Qaeda, one of the twelve groups identified, was caught trading weapons and ammo for cocaine and \$2.5 million by United States law enforcement²⁵².

²⁵⁰ Shima Baradaran, "Funding Terror," in *University of Pennsylvania Law Review*, vol. 162 (University of Pennsylvania Law Review, 2014), pp. 477–495, https://www.researchgate.net/publication/256051603_Funding_Terror, 488–490.

²⁵¹ Hutchinson, Asa, "International Drug Trafficking and Terrorism" testimony given before the Senate Judiciary Committee Subcommittee on Technology, Terrorism and Government Information, Department of State, Washington DC, 13 May 2002, p. 1.

²⁵² Rachel Ehrenfeld "Funding Evil: How Terrorism is Financed – and How to Stop It" (Chicago, IL: Bonus Books, 2003) P. 3–4

Examination of Current Regulation

As terrorist activities intensify on a global scale, efforts to limit financing and, consequently, the effectiveness of terrorist attacks on a transnational and domestic level have also expanded. There is a general consensus that in order for counter-terrorism measures to be successful, financial intelligence must become more readily available between private and public sectors. Vital to their success is an emphasis on cooperation and coordination, especially in regard to intelligence sharing between nations. Historically, states have viewed international policies and “norms” of any type as a threat to state sovereignty; ultimately this perspective has limited global efforts on multiple fronts.

Due to this consideration, the UN Resolution 2462 stresses the importance of a complete commitment by international efforts to legal processes and human rights issues²⁵³. Though the UN has passed a series of resolutions dealing with the financing of terrorists, this section will only give an in-depth examination of Resolution 2462. In 2019, the UN Security Council passed this resolution with the goal of forming a united front to combat and criminalize the financing of terrorist organizations. The preamble of this resolution references past resolutions by the Security Council as a way of reminding member states of their obligations surrounding financial countermeasures. In the preamble, a broad definition of the prohibited activities is also provided to members. The resolution’s preamble presents members with information regarding ways that terrorist organizations receive funding. It states they receive funding through a “variety of means, which include but are not limited to abuse of legitimate commercial enterprise, exploitation of natural

²⁵³ “Countering the Financing of Terrorism | Office of Counter-Terrorism,” United Nations (United Nations), accessed July 21, 2021, <https://www.un.org/counterterrorism/cct/countering-the-financing-of-terrorism>.

resources, abuse of non-profit organizations, donations, crowdfunding and proceeds of criminal activity”²⁵⁴.

The Security Council addresses the need for nations to adopt legal measures that are concurrent with Resolution 2462, such as the “prohibition described in paragraph 1 (d) of resolution 1373 [which] applies to making funds, financial assets ... or other related services available, directly or indirectly, for the benefit of terrorist organizations or individual terrorists for any purpose”²⁵⁵. Resolution 2462 also stresses the importance of public and private sectors on an international scale openly and effectively coordinating efforts to share financial intelligence. To do this, the resolution also calls for member states to “establish or strengthen, at the national level, a framework”²⁵⁶ that deals with sharing of financial intelligence along with an international system that enforces the guidelines set forth in the resolution. Overall, as stated before, the resolution places an obligation on member states to safeguard human rights in their efforts against terrorism. This is in respect to not just stopping terrorism from expanding threats of violence and insecurity, but also to making sure governmental measures comply with international laws regarding human rights.

Suggestions

After reviewing Resolution 2462, along with the U.S. Patriot Act, UN Resolution 2195, and many more, the following suggestions have been compiled by the author. These suggestions largely focus on the lack of international cooperation and mutual acceptance and enforcement of legislation. It should also be noted that these suggestions are

²⁵⁴ Security Council, “Resolution 2462,” United Nations, March 28, 2019, <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N19/090/16/PDF/N1909016.pdf?OpenElement>, 2.

²⁵⁵ Security Council, “Resolution 2462,” United Nations, March 28, 2019, <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N19/090/16/PDF/N1909016.pdf?OpenElement>, 3.

²⁵⁶ Security Council, “Resolution 2462,” United Nations, March 28, 2019, <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N19/090/16/PDF/N1909016.pdf?OpenElement>, 4.

formed with the understanding that the world is diverse on many notions of norms and standards.

To begin, an international consensus of the definition for terrorism must be created. By not having one, many legislation measures have been effectively limited due to nations being allowed to continue having different standards and agendas on the matter. At this time the author would like to present their definition of terrorism as a suggestion. Terrorism is a violent act or acts by an organization or individual(s) (regardless of nationality, religion, or political affiliation) against primarily non-combatants on a domestic or international scale with the goal of enacting political or social change.

Secondly, the international community needs to enact an effective enforcement body for legislation regarding financing of terrorism. The UN, international organizations, and individual nations can draft resolutions, treaties, and conventions as a way to prevent funding, but without a real way to enforce these agreements, they will not see a decline. As of now committees and sanctions are the tools commonly employed by the international community to encourage nation-states to follow legislation and norms. Both methods however face issues over their inability to actually impose the collective will on nations that sign such documents.

Committees are treaty bodies that governments and individuals can self-report compliance to legislation. Through this form, failures to comply can be brought to the attention of the international community. If such failures are found however, no penalties can be enacted to change the nation's behavior besides soft tactics (trade embargos, etc.). And if these transgressions are not reported to the committee, nations are often able to contradict themselves by signing one document, but doing something else. Sanctions, on the other hand, encompass a variety of tactics that international organizations or nation-states can employ in the pursuit of enforcement. Arms embargoes, trade restrictions, travel bans, and financial aid limitations are all forms of sanctions commonly used.

After the review of the enforcement methods, it is suggested that a model with sanctions, consequential actions, and investigative monitoring should be adopted. In this model sanctions would be continued to be used as a reactionary act after a breach of treaties. However, a consequential action would also occur at the same time. Consequential actions would include limitations being placed on international diplomatic power of future UN projects, international coercive pressure being applied to non-compliant states, and the calling of hearings on issues with current legislation as a way to address issues. An important note on coercive pressure should be made – it is not the author's intention for an international police force to be formed, but rather a call for greater coordination by individual nation-states. Before such reactionary actions are taken though, enforcement decisions should first be influenced by evidence that the country in question has actually breached the treaty. Along with self-reporting, a committee that investigates and monitors the conditions surrounding the agreement could be formed. These committees would not continuously monitor countries but would rather investigate on an agreed-upon general schedule. By doing this it would limit any suspicions regarding threats on state sovereignty, while still allowing a full conclusion to be reached.

Thirdly, nation-states need to frame structures on the domestic and international levels that better regulate financial institutions and businesses. Many forms of financing that are at the disposal of terrorists rely on the vulnerabilities of current financial systems. For institutions, such as internet banking, more monitoring is needed, especially when large transactions occur. Though customer privacy is important, perhaps banks could start a policy that reports abnormal transaction sizes based on employment records of the account holder. In order for this policy to effectively work, banks would also have to vet all account holders' information, which may limit fraudulent accounts.