

# Funding in Place: Local Financing Trends Behind Today's Global Terrorist Threat

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## Abstract

Over the last decade, the terror finance landscape has changed dramatically. The proliferation of un- or under-governed spaces has allowed terrorist organisations to exploit local populations and resources to support their operations. Together with a trend toward self-radicalised lone actors and self-financed individuals or small cells, this has led to a discernible trend toward localised terrorist financing, or funding in place. As a result, some now call into question the value of traditional tools used to counter the financing of terrorism (CFT). Such critiques typically focus on the ineffectiveness of financial sanctions against territory-controlling terrorist organisation and/or the difficulty financial institutions face in identifying and flagging terror-related transactions. However, the idea that the focus of counter-terrorist financing efforts is primarily on tracking the movement of funds through banks accounts and investigating reports of suspicious activity is false. Rather, CFT broadly includes strategic efforts to protect the integrity of the financial system from exploitation through standard-setting and diplomatic outreach; identification of emerging threats and typologies and international cooperation. Likewise, the use of financial activity by intelligence and law enforcement to track and analyse terrorist activity –so-called “financial intelligence”—extends well beyond bank-filed suspicious transaction reports.

In this study, the authors examine current trends in localised terrorist financing and the counter-terrorist financing tools available to deal with this shift away from transnational to more local financing. Specifically, how geography, ideology and a host of other practical concerns shape the manner in which terrorists raise, store and move funds. The study examines the various means terrorists use to move money, both tried and true methods, as well as emerging trends; how terrorist financing is not only a factor of cash money, but also of resourcing the materials a terrorist group requires; and the re-emergence of the abuse of charities as a CFT concern. Ultimately, they conclude that the underlying principles that have guided anti-money laundering and counter-terror finance strategies to date – such as standard-setting, information sharing and international cooperation – remain effective even in the face of these new challenges.

**Keywords:** countering terrorist financing, al-Qaeda, terrorism, financing, charities, anti-money laundering, financial system, homegrown extremists, cryptocurrencies

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At first, al-Qaeda financed its far-flung affiliate groups much as a venture capitalist might provide seed money for its start-up businesses. Later, as global counter-terrorism efforts began to take their toll and core al-Qaeda fell on hard times, the group's affiliates sent funds back to al-Qaeda leadership — a reverse directional flow that foreshadowed the group's declining prospects. Today, terrorist groups and their followers tend to follow a simpler model that is less reliant on funding from far-off places: funding in place. These groups still need to move money and need to find ways to plug into the global economy, but their funding models are more local than global, even as they leverage forces of globalisation to their advantage.

## Jurisdictional distinction and funding in place

Time and again the now old adage has proven true: by following the money, both governments and the private sector — from law enforcement and intelligence services to banks and other financial institutions — have helped thwart attacks, disrupt illicit networks, and constrict the environment within which terrorist operatives and groups operate. Of course, terrorist threats persist, and the nature of these strategic threats continues to evolve even in the face of tactical successes such as countering terrorist financing. Financial tools alone cannot solve the threat of terrorism, but they have proven to be especially effective at mitigating such threats by making it harder for terrorists to carry out their activities.<sup>1</sup>

But over the last decade, the terror finance landscape has changed dramatically. Sometimes a product of necessity, oftentimes of opportunity, terrorists have developed new ways to raise and move money. At the same time, they have also reverted to historically tried and true funding and transfer methods, including some — like abuse of charity — that authorities had effectively curtailed for a period

of time but later re-emerged as global events enabled their return. Today, following the money takes investigators down many paths, some familiar and others entirely new.

In part, this phenomenon is the product of globalisation and the advent of new technologies that facilitate the mobilisation and movement of people, goods and ideas — as well as the raising and transfer of funds — around the world. But when it comes to terrorist financing, an even greater factor contributing to this phenomenon is localisation. Terrorist groups today are much more likely to self-finance or fund-in-place than seek financial support from far off benefactors. When they do seek far-flung donors, these are typically secondary or auxiliary rather than primary financing sources. Again, this phenomenon is both a factor of necessity (counter-terrorism measures and intelligence tools that complicate international funding streams) and opportunity (control of territory and the ability to inspire followers to finance acts of individual or small-group terrorism of their own). Even groups that enjoy significant state-sponsorship, of the kind that Lebanese Hezbollah receives from Iran, sometimes find that events (the maximum pressure campaign targeting Iran, the drop in the price of oil, and the impact of the COVID-19 global pandemic) force them to diversify their financial portfolios and develop their own means of raising funds (in Hezbollah's case, largely criminal enterprises).<sup>2</sup>

Nearly two decades after 9/11, jurisdictional distinction — the particular means of raising, storing, transferring, and accessing funds most easily available in any given location — may best help explain why terrorists engage in one type of terrorist financing scheme over another.

The breakdown of political systems and the proliferation of un- and under-governed spaces have allowed terrorist organisations to increasingly control territory, creating a unique funding opportunity based on taxing and extorting local populations, extracting and

<sup>1</sup> Katherine Bauer and Matthew Levitt, "Can Bankers Fight Terrorism? What You Get When You Follow the Money," *Foreign Affairs*, November/December 2017. Available at <https://www.foreignaffairs.com/articles/2017-10-16/can-bankers-fight-terrorism>, accessed 11 November 2020.

<sup>2</sup> Matthew Levitt "The Lebanese Hizbullah Financing Threat in Europe," Research Briefing No. 1, Project CRAFT, Royal United Services Institute (RUSI), (April 2020). Available at: <https://www.washingtoninstitute.org/policy-analysis/view/the-lebanese-hizbullah-financing-threat-in-europe>, accessed 11 November 2020.

selling natural resources, and even selling rights to dig for antiquities in specific plots of land. Terrorist organisations have also capitalised on globalisation, which has facilitated ever-greater movement of ideas, people, and funds.

As groups have moved propaganda online, the trend toward self-radicalised lone actors and self-financed individuals or small cells has led some to call into question the value of combating the financing of terrorism (CFT). Many of these critiques focus on the difficulty financial institutions face in identifying and flagging terror-related transactions, as well as ineffectiveness of financial sanctions against territory-controlling terrorist organisation. However, the idea that the focus of counter-terrorist financing efforts is primarily tracking the movement of funds through bank accounts and investigating reports of suspicious activity is a misconception. Rather, CFT broadly includes strategic efforts to protect the integrity of the financial system from exploitation through standard-setting, diplomatic outreach, identification of emerging threats and typologies, and international cooperation. Likewise, “financial intelligence” – a term used by policymakers, law enforcement and intelligence authorities – extends well beyond bank-filed suspicious transaction reports.

The tools available to combat terrorist financing were never intended to defeat terrorism, but rather to disrupt terrorist networks and deny them the funding necessary to carry out their activities. Even here, such tools will always be more effective when employed as part of a larger strategy in tandem with other military, diplomatic, law enforcement and intelligence tools rather than instead of these.

In this paper we lay out the importance of jurisdictional distinction as a key element explaining the fundamental shift in terrorist financing trends away from international financing plots and toward localised funding in place. Such models are not mutually exclusive, but we demonstrate here that what started out as a shift in directional flow of international terrorist financing – from funds al-Qaeda core providing funds to actors abroad, to al-Qaeda affiliates and followers sending funds back to a financially depleted al-Qaeda core leadership – has expanded into an identifiable trend

focused on raising funds more locally.

On top of that, globalisation and the communications revolution has ushered in a complimentary trend where groups like the Islamic State and al-Qaeda need not recruit, train, fund and dispatch their own operatives when they can reach across borders through social media and communications applications to inspire lone actors to act on their own. These inspired plots cost the groups themselves nothing, and because they are typically low-cost attacks they can be self-financed by the inspired lone-actors through their own funds, small-scale criminal activities, otherwise licit financial loans, or similar self-driven efforts to secure small amounts of money needed for low-tech and low-cost operations.

Deciding how to raise, store, move, or access terrorist funds is also a factor of a group’s ideology, its geography and a host of other practical, even banal concerns. Does a group control territory? Does it prioritise independence over the benefits of state-sponsorship? Are there particular illicit financing activities available to a group by virtue of where it is located? Such considerations also contribute to the increase in localised terrorist financing activities.

Despite this trend, however, terrorists still need to move money and increasingly do so through informal banking and value transfer systems. Funds may be raised locally, but they sometimes have to be sent elsewhere, for example to pay for weapons or other resources. Banks are still used, especially by front organisations, but we explain that when terrorist groups need to move money they increasingly do so through Money Service Businesses, informal value transfer systems like hawalas and, in a trend just now beginning to gain traction, through virtual currencies.

Increasingly, counter-terrorism authorities are recognising that terrorist financing is not only a factor of cash money, but of resourcing the materials a terrorist group needs. In this regards, procurement plays an important role in the resourcing of terrorist groups. From the Islamic State to Hezbollah, groups now spend significant time, effort and resources procuring explosive material and other weapons. This,

too, factors into the trend toward funding in place we describe here.

Finally, we explore the return of abuse of charity as a CFT concern. Following post 9/11 crackdowns on the abuse of charity, this fell out of favour as a preferred illicit finance typology for terrorist groups. But with the advent of the war in Syria and other conflicts across the Middle East and North Africa, abuse of charity has once again become a terrorist vulnerability – and one intimately tied to our theme of localised funding in place.

Given this trend toward local terrorist financing, the paper concludes with a discussion about potential policy prescriptions to address this shift in terrorist financing trends.

## From shifting directional flows to funding in place

Counter-terrorist financing efforts post-9/11 were predicated on two principles. First, although the cost of an individual attack may be small, terrorist organisations rely on a steady flow of funds to support operational costs such as salaries, training, transportation, and even recruitment. Second, understanding how a terrorist organisation manages its assets is critical to depriving the organisation of funds and disrupting its activities in the long term.<sup>3</sup>

While these principles remain valid, the CFT regime stood up post-9/11 was designed primarily to counter an organisation – al-Qaeda – that largely relied on external donations and exploiting charitable organisations and the formal financial system to raise and move funds.<sup>4</sup> For terrorist groups, this dependence represented a considerable vulnerability to detection and disruption by law enforcement

and intelligence agencies. Targeted financial sanctions were deployed to block assets, publicly expose financiers and facilitators, and deter potential deep pocket donors. Furthermore, these targeted measures were demonstrations of multilateral and international resolve. While other tools in the counter-terrorism toolkit, such as counter-radicalisation, are generational and operations are most often clandestine, targeted financial sanctions represented an immediate and public response to the terrorist threat.

They were also largely effective. Whereas al-Qaeda's annual budget was estimated to be roughly \$30 million prior to 9/11, by 2004, it had fallen to a few million dollars a year; by 2010, al-Qaeda core's annual budget was estimated to be less than \$1 million.<sup>5</sup> Indeed, in 2005 the deputy leader of al-Qaeda, Ayman al-Zawahiri, sent a letter to the leader of al-Qaeda in Iraq (AQI), Abu Musab al-Zarqawi, asking for money and noting that “many of the lines [of financing] had been cut off. Because of this we need a payment...”<sup>6</sup>

The rise of a reverse-directional flow of money going from al-Qaeda affiliates toward the increasingly impoverished core precipitated decentralisation within al-Qaeda.<sup>7</sup> Along with the decline in funding came a “general weakening of the hierarchical relationship between the core and the affiliates,” according to former Treasury Undersecretary David Cohen. “The ability of Al-Qa’ida’s core to direct the activities and attacks of its affiliates has diminished, with those affiliates increasingly setting their own goals, specifying their own targets, and providing jihadist expertise,” he said.<sup>8</sup> In fact, documents recovered from AQI in 2009 revealed that in the intervening years (since that 2005 letter), al-Zarqawi’s organisation, then called the Islamic State in Iraq,

3 The Financial Action Task Force (FATF), “FATF Report: Emerging Terrorist Financing Risks,” FATF, (October 2015), p. 5. Available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/Emerging-Terrorist-Financing-Risks.pdf>, accessed 11 November 2020.

4 Regarding al-Qaeda’s reliance on abuse of charity, see John Roth, Douglas Greenberg and Serena Wille, “National Commission on Terrorist Attacks on the United States: Monograph on Terrorist Financing, Staff Report to the Commission,” National Commission on Terrorist Attacks Upon the United States, 2004, p. 4. Available at: [https://govinfo.library.unt.edu/911/staff\\_statements/911\\_TerrFin\\_Monograph.pdf](https://govinfo.library.unt.edu/911/staff_statements/911_TerrFin_Monograph.pdf).

5 Greg Bruno, “Al-Qaeda’s Financial Pressures,” Council on Foreign Relations, 1 February 2020. Available at: <https://www.cfr.org/background/al-qaedas-financial-pressures>; Roth et. al, “Monograph on Terrorist Financing,” 2004, p. 28.

6 Letter from Ayman al-Zawahiri to Abu Musab al-Zarqawi, 9 July 2005. English translation available at: [https://fas.org/irp/news/2005/10/letter\\_in\\_english.pdf](https://fas.org/irp/news/2005/10/letter_in_english.pdf), accessed 11 November 2020.

7 Matthew Levitt, “Al-Qa’ida’s Finances,” CTC Sentinel, Vol. 1 Issue 5 (April 2008). Available at: <https://www.ctc.usma.edu/al-qaidas-finances-evidence-of-organizational-decline/>, accessed 11 November 2020.

8 Press Center, “Remarks of Under Secretary David Cohen at Chatham House on “Kidnapping for Ransom: The Growing Terrorist

took the strategic decision to derive revenues locally, largely to avoid foreign dependence and direction, as well as disruption.<sup>9</sup>

By the late 2000s, most al-Qaeda affiliates had diversified their funding streams, most prominently engaging in such criminal tactics as kidnapping for ransom and extortion. In northwest Africa, al-Qaeda in the Islamic Maghreb (AQIM) received roughly \$100 million in ransom payments between 2008 and 2014.<sup>10</sup> In 2015, al-Qaeda in the Arabian Peninsula (AQAP) took advantage of the ongoing conflict in Yemen to take control of parts of Hadramawt governorate, seizing as much as \$100 million from a Central Bank branch,<sup>11</sup> extorting funds from the national oil company, and raising as much as \$2 million per day in taxes on goods and fuel coming into the port of al-Mukalla.<sup>12</sup> In Somalia, al-Qaeda-affiliated al-Shabaab generated as much as \$25 million in revenue from the illicit charcoal trade alone when it controlled Kismayo port from 2009-2012, according to the UN Monitoring Group on Somalia and Eritrea.<sup>13</sup> The group continues to generate significant revenue through extortion, even in areas it no longer controls: it is estimated to have made as much as \$13 million during the first six months of 2020 from checkpoints and mafia-style protection rackets targeting merchants and traders in Southern Somalia, including at Kismayo port.<sup>14</sup> “It’s no longer an insurgency but an economic power,” Rashid Abdi, an analyst specialising in the

Horn of Africa, told the *New York Times*: “It’s a shadow state that’s out-taxing the government even in areas it doesn’t control.”<sup>15</sup>

Today, observers note more “terrorist economies,”<sup>16</sup> where groups take advantage of weak, corrupt states lacking rule of law or full territorial control to tax, extort, and exploit local resources. Speaking in 2016, former US Deputy National Security Advisor Juan Zarate noted some of the challenges presented by such terrorist economies:

The constraints on our financial gameplan have been twofold: a lack of good information about the specifics of the ISIS economy and its continued control of territory that allows them access to populations and resources, like oil, antiquities, and granaries. There is also the problem that ISIS—in occupying major urban centers—has created economic defensive shields, understanding that we are not going to bomb all the banks in Mosul or starve the economy of millions of people. There are material constraints to what we can do while ISIS controls real territory and populations.<sup>17</sup>

Likewise, the collapse of the Islamic State’s (IS, or ISIS) territorial caliphate has fundamentally altered its financial structure and its relationship with global affiliates. Despite the Islamic State’s early prosperity, its

Financing Challenge,” US Department of the Treasury, 5 October 2012. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/tg1726.aspx>, accessed 11 November 2020.

9 Patrick B. Johnston et al., “Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005–2010,” (Santa Monica, CA: RAND Corporation, 2016) p. xxiv. Available at: [http://www.rand.org/content/dam/rand/pubs/research\\_reports/RR1100/RR1192/RAND\\_RR1192.pdf](http://www.rand.org/content/dam/rand/pubs/research_reports/RR1100/RR1192/RAND_RR1192.pdf), accessed 11 November 2020.

10 Rukmini Callimachi, “Paying Ransoms, Europe Bankrolls Qaeda Terror,” *The New York Times*, 29 July 2014. Available at: <https://www.nytimes.com/2014/07/30/world/africa/ransoming-citizens-europe-becomes-al-qaedas-patron.html>, accessed 11 November 2020.

11 Analytical Support and Sanctions Monitoring Team, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015), United Nations Security Council, 27 July 2018. Available at: <http://undocs.org/S/2018/705>.

12 Yara Bayoumy et al., “How Saudi Arabia’s War in Yemen Has Made al Qaeda Strong—and Richer,” *Reuters*, 8 April 2016. Available at: <http://www.reuters.com/investigates/special-report/yemen-aqap/>, accessed 11 November 2020.

13 Kim Sook, Letter exchange between the Chair and the President of the Security Council Committee pursuant to resolutions 751 (1992) and 1907 (2009) concerning Somalia and Eritrea, United Nations Security Council, 12 July 2013. Available at [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2013/413](http://www.un.org/ga/search/view_doc.asp?symbol=S/2013/413), accessed 11 November 2020.

14 Abdi Latif Daher, “Feared Shabab Exploit Somali Banking and Invest in Real Estate, U.N. Says,” *The New York Times*, 11 October 2020. Available at: [https://www.nytimes.com/2020/10/11/world/africa/feared-shabab-exploit-somali-banking-and-invest-in-real-estate-un-says.html?fbclid=IwAR2I8lvFB5TKPwJhRyO2PHt4HEMYxRstY-sYAz5vDb9lne9\\_0btajg6Vouw](https://www.nytimes.com/2020/10/11/world/africa/feared-shabab-exploit-somali-banking-and-invest-in-real-estate-un-says.html?fbclid=IwAR2I8lvFB5TKPwJhRyO2PHt4HEMYxRstY-sYAz5vDb9lne9_0btajg6Vouw), accessed 11 November 2020. See also: Marc Pecsteen de Buytswerve, Letter exchange between the Chair and the President of the Security Council Committee pursuant to resolution 751 (1992) concerning Somalia, 1 November 2019. Available at: <https://undocs.org/S/2019/858>, accessed 11 November 2020.

15 Daher, “Feared Shabab Exploit Somali Banking and Invest in Real Estate, U.N. Says,” 2020.

16 Bryan Price, “A View from the CT Foxhole: The Honorable Juan C. Zarate, former Deputy National Security Advisor for Combating Terrorism,” *CTC Sentinel*, Vol. 9, Issue 4 (April 2016). Available at: <https://www.ctc.usma.edu/a-view-from-the-ct-foxhole-the-honorable-juan-c-zarate-former-deputy-national-security-advisor-for-combating-terrorism/>, accessed 11 November 2020.

17 *Ibid.*

considerable expenses created vulnerabilities that the US-led Global Coalition to Defeat ISIS, along with the government of Iraq, effectively exploited. For example, in August 2015, the Iraqi government ceased paying salaries to employees in IS-controlled territories, thereby cutting the group's revenue from the taxation of salaries and reducing liquidity in those territories.<sup>18</sup> In late 2015, the Coalition also began to use air strikes to target and degrade Islamic State-controlled oil extraction, refining, and transportation.<sup>19</sup> Coalition airstrikes also targeted IS cash storehouses, destroying millions of dollars in cash currency—an especially effective tactic in traditionally cash-heavy terrorist economies where credit cards do not function.<sup>20</sup>

As such, the greatest impact on IS's bottom line has been the loss of territory, which deprived the organisation of local resources – including people – to tax and extort. Nonetheless, as of mid-2019, IS continued to provide some financial support to its branches, as well as to empower them to raise funds locally, according to the Financial Action Task Force (FATF).<sup>21</sup> As IS has reverted to an insurgency, it has returned to many of the fundraising methodologies deployed by AQI, including kidnapping for ransom (KFR), extortion of individuals and businesses, as well as some commercial activity.<sup>22</sup>

But funding in place is not just a function of terrorist group control of territory. It is also a function of the ability of terrorist groups to leverage social media and other platforms, as well as often-encrypted communication applications, to reach across borders to like-minded followers who can fund their own activities be they local attacks or their travel to join militants abroad.

## Foreign inspiration, local funding

Beyond its insurgent activities, IS remains a global terrorist concern largely due to the threat posed by inspired home-grown violent extremists (HVEs) who, acting alone or in small groups, present a particularly challenging terror-financing problem set. The same holds true for inspired networks of White Supremacist or other racially and ethnically motivated violent extremist (REMVE) groups. Once an individual or small group has become radicalised and is determined to carry out a terrorist attack, there are many ways he or she may fund an attack. Lone offender and small group attacks can be carried out very quickly, with minimal funding and preparation. As a result, authorities lose both the lag time within which they can run an effective investigation and the benefit of key tripwires – like the ability to follow travel, communications and financials trails – that previously proved productive to investigative inquiry.

The 2015 US National Terrorist Financing Risk Assessment notes the case of Michael Todd Wolfe, from Houston, who planned to fund his travel abroad to fight for radical groups in Syria by using an expected tax refund of \$45,000 to cover his expenses. The same type of simple self-funding could also underwrite attacks at home. “Of particular concern,” the assessment bluntly concluded, “is that these homegrown violent extremists may use this type of activity to fund domestic terrorist activity in support of extremist ideology espoused by a terrorist group, but without direct assistance from the terrorist group.”<sup>23</sup> According to an October 2020 US Department of Homeland Security

18 Daniel Glaser, “The Evolution of Terrorism Financing: Disrupting the Islamic State,” The Washington Institute for Near East Policy, 21 October 2016. Available at: <https://www.washingtoninstitute.org/policy-analysis/view/the-evolution-of-terrorism-financing-disrupting-the-islamic-state>, accessed 11 November 2020.

19 Ibid.

20 Katherine Bauer, Lori Plotkin Boghardt and Matthew Levitt, “Defeating the Islamic State: The Economic Campaign,” The Washington Institute for Near East Policy, 24 February 2016. Available at: <https://www.washingtoninstitute.org/policy-analysis/view/defeating-the-islamic-state-the-economic-campaign>, accessed 11 November 2020.

21 FATF, “FATF Actions to Identify and Disrupt ISIL, Al-Qaeda and Affiliates’ Financing,” FATF, 21 June 2019. Available at: <http://www.fatf-gafi.org/publications/methodsandtrends/documents/fatf-action-against-terrorist-financing-june-2019.html>, accessed 11 November 2020.

22 Analytical Support and Sanctions Monitoring Team, “Twenty-sixth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” United Nations Security Council, 3 July 2020, p. 17. Available at: <https://undocs.org/S/2020/717>, accessed 11 November 2020.

23 US Department of the Treasury, “2015 National Terrorist Financing Risk Assessment,” US Department of the Treasury, 2015, p. 44. Available at: <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/National%20Terrorist%20Financing%20>

assessment, the most likely terrorist threat comes from “ideologically motivated lone offenders and small groups,” with domestic violent extremists posing the “primary terrorist threat” inside the United States.<sup>24</sup>

HVEs may raise funds for several purposes, including to carry out attacks at home, to fund their own or others’ travel to foreign conflict zones, or to provide material support to a terrorist organisation at home or abroad. Looking back at home-grown plots in the West — including both homegrown networks and lone offenders — several key patterns emerge.

## Low-cost attacks

As large, complex terror plots are becoming increasingly difficult to carry out, many terrorists are setting their sights lower and are planning smaller, cheaper attacks. Lone offender and small terror cells are able to keep costs low for their plots since they have few members to train and equip, rely on simple weapons, and in contrast to larger terrorist organisations, are not subject to the high and indirect costs of developing and maintaining a terrorist organisation and sustaining its activities and ideology.<sup>25</sup> According to a 2015 Norwegian Defence Research Establishment report, 75 percent of the forty jihadi plots studied in Europe between 1994 and 2013 cost less than \$10,000 to execute.<sup>26</sup>

For example, in 2013, Michael Adebolajo murdered Lee Rigby, a British soldier in London. Adebolajo first ran Rigby over with his car and

then stabbed him to death with a machete and a knife. Adebolajo purchased the knives the day before the attack, likely for no more than £20 or £30.<sup>27</sup> In another case, in September 2014, Ahmad Numan Haider used a knife to attack two counter-terrorism police officers in Melbourne, Australia.<sup>28</sup> In December that same year, Haron Monis held eighteen people hostage in a café in Melbourne, and ultimately killed one person, using an unregistered sawn-off shotgun in the attack that is thought to have been purchased for a low-price on Australia’s “grey market.”<sup>29</sup>

## Self-financing

In many cases, lone offenders or small groups may self-finance their activities through legal means, such as dipping into their own bank accounts, taking out a loan, or receiving welfare payments. In Europe, since 2001, the proportion of cells that are self-financed through licit activities is higher than those cells that receive external funding.<sup>30</sup> A review by the Program on Extremism at George Washington University of 209 individuals charged for Islamic State-related offenses in the US between 2013 and 2020 concluded that the vast majority of US-based IS supporters relied on self-financing.<sup>31</sup>

As demonstrated above, self-financed attacks tend to be cheaper, less sophisticated, and smaller-scale than more expensive attacks. But because they are less likely to raise suspicions, self-financed attacks are more likely to be successfully carried out than attacks that receive external funding. According to the

Risk%20Assessment%20E2%80%93%2006-12-2015.pdf, accessed 11 November 2020.

24 Catherine Herridge and Victoria Albert, “China, Russia and white supremacy top DHS’ first public threat assessment,” CBS News, 5 October 2020. Available at: [https://www.cbsnews.com/news/china-russia-and-white-supremacy-top-dhs-first-public-threat-assessment/?utm\\_source=iterable&utm\\_medium=email&utm\\_campaign=1587190\\_](https://www.cbsnews.com/news/china-russia-and-white-supremacy-top-dhs-first-public-threat-assessment/?utm_source=iterable&utm_medium=email&utm_campaign=1587190_), accessed 11 November 2020.

25 Emilie Oftedal, “The financing of jihadi terrorist cells in Europe,” Norwegian Defence Research Establishment (FFI), 6 January 2015, p. 7. Available at: <https://publications.ffi.no/nb/item/asset/dspace:2469/14-02234.pdf>, accessed 11 November 2020.

26 Ibid., p. 3.

27 Laura Smith-Spark and Kellie Morgan, “What led Michael Adebolajo and Michael Adebowale to murder Rigby?” CNN, 19 December 2013. Available at: <http://www.cnn.com/2013/12/19/world/europe/uk-soldier-killing-profiles/index.html>, accessed 11 November 2020.

28 James Dowling, “Inquest finding into the death of radicalized teen Numan Haider,” Herald Sun, 31 July 2017. Available at: <http://www.heraldsun.com.au/news/law-order/inquest-finding-into-the-death-of-radicalised-teen-numan-haider/news-story/2e7b7bb84e585b41433f06ee21bf5c51>, accessed 11 November 2020.

29 Tom Keatinge and Florence Keen, “Lone-Actor and Small Cell Terrorist Attacks: A New Front in Counter-Terrorist Finance,” RUSI Centre for Defence and Security Studies, 24 January 2017. Available at: <https://rusi.org/publication/occasional-papers/lone-actor-and-small-cell-terrorist-attacks-new-front-counter>, accessed 11 November 2020. ; Australian Associated Press, “Sydney siege inquest: Man Haron Monis was a ‘psychopathic lone wolf terrorist,’” The Guardian, 2 May 2016. Available at: <https://www.theguardian.com/australia-news/2016/may/02/sydney-siege-inquest-man-haron-monis-was-a-psychopathic-lone-wolf-terrorist>, accessed 11 November 2020.

30 Oftedal, “The financing of jihadi terrorist cells in Europe,” 2015, p. 7.

31 Lorenzo Vidino, John Lewis and Andrew Mines, “Dollars for Daesh: Analyzing the Finances of American ISIS Supporters,” Program on Extremism at George Washington University, (September 2020). Available at: <https://extremism.gwu.edu/sites/g/files/zaxdzs2191/f/Dollars%20for%20Daesh%20final%20report.pdf>, accessed 11 November 2020.

Norwegian Defence Research Establishment report, “among entirely self-financed cells, 53 percent have managed to carry out their plans, compared to only 21 percent among those that receive some external support.”<sup>32</sup>

In several cases, home-grown violent extremists in the US too have used their own salaries to fund attacks. For example, Christopher Lee Cornell saved his own money to buy supplies for his plot to set off bombs near the US Capitol. In 2015, Cornell had enough money to purchase two semiautomatic weapons and 600 rounds of ammunition with the intention of building, planting, and bombing the US Capitol and shooting people as they ran away.<sup>33</sup> The FBI caught Cornell before he was able to execute his plan; however, he had still managed to raise enough money to carry out his attack.

Some lone offenders and small cells that do not have sufficient salaries accept money from their families, or take money without their knowledge.<sup>34</sup> In other cases, self-financed terrorists ask to borrow money from friends and families without disclosing its usage.<sup>35</sup> Mohammed Merah received some financial and material support from his family before carrying out a series of shootings in France in 2012. For example, his sister Suad bought him cell phones, allowed him to use her internet while planning his attack, and purchased plane tickets for him.<sup>36</sup> In an interview, she admitted to giving him her credit card to buy plane tickets from France to Damascus, though she

said he paid her back afterwards.

## Criminal activities

Crime has the potential to bring in sufficient funds for a home-grown attack as well. While criminal groups, lone offenders, and small cells may differ ideologically, they often cooperate and collaborate in criminal ventures to raise money for attacks.<sup>37</sup> In Europe, petty crime appears to be the second largest source of funding for lone offenders and small cell groups.<sup>38</sup> In Southeast Asia, particularly in the Philippines and Indonesia, terrorists have raised funds for attacks by theft, smuggling, kidnaping, and extortion.<sup>39</sup>

Although receiving help from his family, Mohammed Merah, who carried out three attacks in France in 2012, relied on criminal activities as his main source of funding (namely theft, robbery, and drug trafficking).<sup>40</sup> Merah earned \$58,000 by acting as a drug courier between Spain and France, and was also heavily involved in a criminal network in France.<sup>41</sup> He had at least eighteen convictions from French courts for his involvement in burglaries, thefts, robberies, and other petty crimes.<sup>42</sup> Merah used this money to fund his travel to Pakistan in 2011, where he received training at a camp controlled by Tehrik Taliban Pakistan and al-Qaeda in Waziristan. When he returned to France in November 2011, he had approximately \$24,500, but wanted to raise additional money.<sup>43</sup> Merah refused to admit to

32 Oftedal, “The financing of jihadi terrorist cells in Europe,” 2015, p. 21.

33 United States of America v. Christopher Lee Cornell, Criminal Complaint, United States District Court for the Southern District of Ohio, 14 January 2015. Available at: [https://www.justice.gov/sites/default/files/opa/press-releases/attachments/2015/01/15/cornell\\_complaint.pdf](https://www.justice.gov/sites/default/files/opa/press-releases/attachments/2015/01/15/cornell_complaint.pdf), accessed 11 November 2020.

34 Oftedal, “The financing of jihadi terrorist cells in Europe,” 2015.

35 Gerald Roberts, “Money Flow in the Age of ISIS,” Washington Institute for Near East Policy, 15 May 2015. Available at: <http://www.washingtoninstitute.org/policy-analysis/view/money-flow-in-the-age-of-isis>, accessed 11 November 2020.

36 Nicola Hebden, “Intel agency monitored gunman's sister: report,” The Local, 3 September 2012. Available at: <https://www.thelocal.fr/20120903/intel-agency-monitored-gunmans-sister-report>, accessed 11 November 2020.

37 Roberts, “Money Flow in the Age of ISIS,” 2015.

38 Oftedal, “The financing of jihadi terrorist cells in Europe,” 2015, p. 7.

39 AUSTRAC, “Terrorist Financing Regional Risk Assessment 2016: South-East Asia and Australia,” AUSTRAC, December 2016. Available at: <https://www.un.org/sc/ctc/wp-content/uploads/2016/12/2016-12-12-Session-III-1500-1630-Claudine-Lamond-AUSTRAC.pdf>, accessed 11 November 2020.

40 Associated Press, “Exclusif - Transcription Des Conversations Entre Mohamed Merah et Les Négociateurs,” [Exclusive - Transcription of conversations between Mohamed Merah and the negotiators] Liberation FR, 17 July 2012. Available at: [http://www.liberation.fr/societe/2012/07/17/transcription-des-conversations-entremohamed-merah-et-les-negociateurs\\_833784](http://www.liberation.fr/societe/2012/07/17/transcription-des-conversations-entremohamed-merah-et-les-negociateurs_833784), accessed 11 November 2020.

41 Tamara Makarenko, “Europe’s Crime-Terror Nexus: Links between Terrorists and Organized Crime Groups in the European Union,” European Parliament Directorate-General for Internal Policies, 2012, p. 45. Available at: [https://www.europarl.europa.eu/RegData/etudes/etudes/join/2012/462503/IPOL-LIBE\\_ET\(2012\)462503\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/etudes/join/2012/462503/IPOL-LIBE_ET(2012)462503_EN.pdf), accessed 11 November 2020.

42 Paul Cruickshank and Tim Lister, “How Did Mohammed Merah Become a Jihadist?” CNN, March 26, 2012. Available at: <http://www.cnn.com/2012/03/26/world/europe/france-shooting-suspect/index.html>, accessed 11 November 2020.

43 Thibault Raisse, “Le Pacte Secret de Merah Avec Un Lieutenant de Ben Laden,” [Merah's secret pact with bin Laden's lieutenant] Le Parisien, 21 March 2014. Available at: <https://www.leparisien.fr/faits-divers/le-pacte-secret-de-merah-avec-un-lieutenant-de-ben->

the exact crime, but he said he reconnected with his criminal networks and “did some work with them,” earning him a little over \$12,000.<sup>44</sup>

Merah claims that al-Qaeda offered to finance his attacks, but he refused, claiming it was “easy to get money in France.”<sup>45</sup> By March 2012, he had purchased the weapons he would use in his attack, as well as additional arsenal, guns, and ingredients for petrol bombs that were later found in his apartment.<sup>46</sup>

## Licit financial loans

Lone offenders and small cells around the world have exploited loans to fund attacks. For example, Ahmedy Coulibaly, one of the three terrorists in the 2015 Paris attacks, funded his plot by taking out a £6,000 loan from the credit agency Cofidis.<sup>47</sup> He provided the agency with a phone bill, pay slips, and identification in order to obtain the loan and finance his operation.<sup>48</sup> The San Bernardino shooter, Syed Rizwan Farook, who killed fourteen people in the 2015 shooting, borrowed \$28,500 from Prosper Marketplace, a San Francisco online lender, just two weeks before their December attack.<sup>49</sup> Officials believe that this loan may have financed the ammunition, pipe-bomb parts, and shooting practice at local gun ranges.<sup>50</sup>

Online loans are an easy way to gain fast access to large sums of cash. While banks and money lenders are required to check customers’ names against a federal database of known terrorists and criminals, lone offenders and home-grown violent extremists are often not known to law enforcement authorities and may slip under the radar.

Ironically, the challenges posed by lone offender and small group terrorism should not have come as a surprise to practitioners. Indeed, the 9/11 Commission Report forecasted that increasingly self-sufficient terrorists would likely emerge:

Though progress has apparently been made, terrorists have shown considerable creativity in their methods of moving money. If al Qaeda is replaced by smaller, decentralized terrorist groups, the premise behind the government’s efforts—that terrorists need a financial support network—may become outdated. Moreover, some terrorist operations do not rely on outside sources of money and may now be self-funding, either through legitimate employment or low-level criminal activity.<sup>51</sup>

## The role of ideology, geography, and other practical concerns

A number of factors influence decisions by terrorist organisations on how and where to raise funds, including ideology, geography, but none more than prosaic and practical concerns. The amount of money an organisation requires is determined by its size and objectives. Organisations that control territory, engage in insurgency, or provide social services require additional resources. The larger and more complex an organisation’s mission, the greater need it has for specialised procedures and personnel to handle financial matters. For example, the Islamic State recruited “an

laden-21-03-2014-3693621.php, accessed 11 November 2020.

44 Associated Press (Liberation FR), 2012.

45 Virginie Andre and Shandon Harris-Hogan, “Mohamed Merah: From Petty Criminal to Neojihadist,” *Politics, Religion & Ideology*, Vol. 13, No. 2 (June 2013), p. 309. Available at: <https://doi.org/10.1080/21567689.2013.792655>, accessed 11 November 2020.

46 Ibid.

47 Rukmini Callimachi and Jim Yardley, “From Amateur to Ruthless Jihadist in France: Chérif and Saïd Kouachi’s Path to Paris Attack at Charlie Hebdo,” *The New York Times*, 17 January 2015. Available at: <http://www.nytimes.com/2015/01/18/world/europe/paris-terrorism-brothers-said-cherif-kouachi-charliehebdo.html>, accessed 11 November 2020.

48 Ibid.

49 James Rufus Koren and Jim Puzzanghera, “Loan to San Bernardino shooter draws scrutiny to online lending industry,” *Los Angeles Times*, 11 December 2015. Available at: <http://www.latimes.com/business/la-fi-prosper-regulation-20151210-story.html>, accessed 11 November 2020.

50 Ibid.

51 Thomas H. Kean and Lee Hamilton, “The 9/11 Commission Report: Final Report of the National Commission on Terrorist Attacks Upon the United States,” National Commission on Terrorist Attacks Upon the United States, 2004, p. 383. Available at: <https://govinfo.library.unt.edu/911/report/911Report.pdf>, accessed 11 November 2020.

army of accountants”;<sup>52</sup> al-Qaeda is known for requiring receipts<sup>53</sup>; and the 9/11 hijackers even reportedly returned their remaining funds days before the attacks.<sup>54</sup> Such financial operations may create vulnerabilities to detection and serve as key nodes for disruption.

As such, while IS may today present a more limited global threat as an organised institution and a less reliable financial backer of its affiliates and operatives, its changed objective means it remains dangerous. IS has pivoted from its organised, global model of terror operations to one that encourages small, cheap, and decentralised cells. In other words, the group has lost access to much of its revenues but no longer needs anywhere near as much money as it once did. Unlike large attacks orchestrated over time by large groups, lone offender and small group attacks can be carried out very quickly, with minimal funding and preparation.<sup>55</sup>

Ideology can also play a significant role in financing decisions. An organisation’s desire for autonomy of action may make state sponsorship untenable. Those averse to donors’ conditioning aid on the exercise of restraint, moderation, or participation in a political track will face a problem set different from proxies like Lebanese Hezbollah or Islamic

Jihad. Syrian affiliate, Jhabat al-Nusrah’s break from al-Qaeda in mid-2016 was likely as much a ploy to retain Gulf donors that viewed it as the “moderate extremists”<sup>56</sup> of the Syrian conflict, and an effort to evade international sanctions, as its stated desire to declare its ideological and operational independence as a Syrian–organisation (as opposed to a transnational one).<sup>57</sup>

Geography also has a significant influence on an organisation’s ability to self-fund. AQIM targeted the European extractive industry operations in the Sahel because it thought it was likely to recover sizable ransoms for kidnapping Europeans there.<sup>58</sup> IS benefitted from established smuggling networks to move oil and other resources from the territory it controlled to market, as well as sizable populations under their control to tax and extort.<sup>59</sup> However, because of differences in the nature of oil production between the Sahel and Levant, and lower population density in Libya, IS’s Libyan province did not have similar successes.<sup>60</sup>

Sophisticated terrorist organisations will look to diversify sources of funding, perhaps to help mitigate dependence on a foreign or state donor, supplement such support, or fund local operations without risking transnational

52 Harriet Alexander and Alastair Beach, “How Isil is funded, trained and operating in Iraq and Syria,” *The Telegraph*, 23 August 2014. Available at: <https://www.telegraph.co.uk/news/worldnews/middleeast/iraq/11052919/How-Isil-is-funded-trainedand-operating-in-Iraq-and-Syria.html>, accessed 11 November 2020.

53 Conner Simpson, “Al Qaeda Are Strict About Keeping Track of Their Receipts,” *The Atlantic*, 29 December 2013. Available at: <https://www.theatlantic.com/international/archive/2013/12/al-qaeda-are-strict-about-keeping-track-theirreceipts/356552/>, accessed 11 November 2020.

54 John Roth, Douglas Greenberg and Serena Wille, “Appendix A: The Financing of the 9/11 Plot,” *National Commission on Terrorist Attacks Upon the United States*, 2004, p. 133. Available at: [https://govinfo.library.unt.edu/911/staff\\_statements/911\\_TerrFin\\_App.pdf](https://govinfo.library.unt.edu/911/staff_statements/911_TerrFin_App.pdf), accessed 11 November 2020.

55 Matthew Levitt, “Targeting the Dematerialized Caliphate,” *NATO Defense College Foundation*, 6 December 2018. Available at: <https://www.washingtoninstitute.org/policy-analysis/view/targeting-the-dematerialized-caliphate>, accessed 11 November 2020.

56 Katherine Bauer and Matthew Levitt, “Al-Qaeda Financing: Selected Issues,” in Aaron Y. Zelin, ed., “How Al-Qaeda Survived Drones, Uprisings, and the Islamic State,” *The Washington Institute for Near East Policy*, June 2017, p. 101. Available at: <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>, accessed 11 November 2020.

57 Colin P. Clarke, “Al Qaeda in Syria Can Change Its Name, but Not Its Stripes,” *The RAND Blog*, RAND Corporation, 23 March 2017. Available at: <https://www.rand.org/blog/2017/03/al-qaeda-in-syria-can-change-its-name-but-not-its-stripes.html>, accessed 11 November 2020.

58 According to the US Government, as of 2011, AQIM was planning to target mainly Europeans, not Americans, for kidnapping operations because AQIM believed that some European governments were more likely to pay ransoms. See: Press Center, “Kidnapping for Ransom: The Growing Terrorist Financing Challenge,” 2012.

59 Erika Solomon and Ahmed Mhidi, “Isis Inc: Syria’s ‘mafia style’ gas deals with jihadis,” *Financial Times*, 15 October 2015. Available at: <https://www.ft.com/content/92f4e036-6b69-11e5-aca9-d87542bf8673?shareType=nongift>, accessed 11 November 2020; Erika Solomon, Robin Kwong and Steven Bernard, “Inside Isis Inc: The journey of a barrel of oil,” *Financial Times*, 29 February 2016. Available at: <https://ig.ft.com/sites/2015/isis-oil/>, accessed 11 November 2020.

60 Katherine Bauer, “Beyond Syria and Iraq: Examining Islamic State Provinces,” *The Washington Institute for Near East Policy*, 9 November 2016, p. xvii. Available at: [https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus149\\_Bauer.pdf](https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus149_Bauer.pdf), accessed 11 November 2020; also, as of June 2020, ISIL-Libya raised funds by extorting small businesses and kidnapping local dignitaries for ransom, according to the United Nations. See, See: Triansyah Djani, “Twenty-sixth report of the Analytical Support and Sanctions Monitoring Team,” 2020, p. 9.

funds transfers. While organisations such as Hezbollah and Shia militia in Iraq are primarily funded by Iran, they too have sought to complement that state sponsorship with a broader stream of funding from supporters and criminal activity both locally and abroad, mostly to contend with the effect of sanctions targeting Iran and the fall in the price of oil.<sup>61</sup> Organisations that are reportedly self-sufficient in terms of financing, such as Hayat Tahrir al-Sham (HTS)<sup>62</sup>, are likely continue to receive external support, but they are no longer reliant on it.

Even where organisations are able to mobilise sufficient funds locally, they rely on external financial networks to procure goods, support foreign fighter travel or other operational activity, send financial support to affiliates abroad, and store or secret away financial reserves. Indeed, IS's external financial and logistics networks have undoubtedly become more important since the decline of the territorial caliphate. Relatedly, even when foreign financial flows constitute a small share of a group's revenue, donors—both states and individuals—will likely continue to exercise ideological influence on groups, such as has been the case with certain Iranian proxies in Iraq.<sup>63</sup>

## Plus ça change, plus c'est

## la même chose: terrorists still need to move money

An organisation's location, relationship to state or other donors, and ability to exploit and monetise local resources will all have a bearing on its method of raising funds. In turn, the means by which a terrorist organisation deploys such funds will rely on similar factors, including banking and internet penetration in a given locale, access to hard currency, and the ability to engage in trade and procurement activities. Even when terrorist groups control territory or rely on the self-financing of inspired fellow travellers, they will still need to find ways to transfer funds. To do so, however, they are likely to use a combination of means, some of which will be sophisticated and new while others will be more simple and well-known.

### Money service businesses

Terrorists will always look for the cheapest, fastest, and most anonymous method to move funds. Alongside cash and banks, money service businesses (MSBs), such as exchange houses or hawala-style transfer companies,<sup>64</sup> are the most commonly used channel for terrorist financing.<sup>65</sup> Where access to banks is limited or unavailable, MSBs provide important

61 Matthew Levitt, "Hezbollah's Criminal Networks: Useful Idiots, Henchmen, and Organized Criminal Facilitators," in Hilary Matfess and Michael Miklaucic, eds., *Beyond Convergence: World Without Order*, (Washington DC: National Defense University, 2016) pp. 155-156. Available at: <http://www.washingtoninstitute.org/uploads/Documents/opeds/Levitt20161025-NDU-chapter.pdf>, accessed 11 November 2020; Michael Knights, "Iran's Expanding Militia Army in Iraq: The New Special Groups," CTC Sentinel, Vol. 12, Issue 7 (August 2019). Available at: <https://ctc.usma.edu/irans-expanding-militia-army-iraq-new-special-groups/>, accessed 11 November 2020; Press Releases, "Treasury Sanctions Key Hizballah, IRGC-QF Networks in Iraq," US Department of the Treasury, 13 November 2018. Available at: <https://home.treasury.gov/news/press-releases/sm546>, accessed 11 November 2020.

62 According to the United Nations Analytical Support and Sanctions Monitoring Team, as of June 2020, HTS raised as much as \$13 million per month through the taxation of businesses and public utilities; collection of customs and tolls at Turkish border crossings and internal lines of control; and the control of petroleum sales and charitable operations in Idlib. See: Analytical Support and Sanctions Monitoring Team, "Twenty-sixth report of the Analytical Support and Sanctions Monitoring Team," 2020, p. 7.

63 Alex Vatanka, "Iran's use of Shi'i Militant Proxies: Ideological and Practical Expediency Versus Uncertain Sustainability," Middle East Institute, June 2018. Available at: [https://www.mei.edu/sites/default/files/publications/Vatanka\\_PolicyPaper.pdf](https://www.mei.edu/sites/default/files/publications/Vatanka_PolicyPaper.pdf), accessed 11 November 2020.

64 "Money service business" is a term used by regulators to cover business that (i) provide currency conversion services; (ii) transmit funds and (iii) are not banks. In other words, they are not depository institutions. This category often includes what are commonly called exchange houses. Unregulated MSBs can also include trading companies that provide remittance services and hawala-style transfer companies. The term hawala is traditionally associated with a money transfer mechanism that originated in South Asia along traditional trade routes in Middle East and parts of East Africa. It operated as a closed system within familial, tribal or ethnic groups. In recent times, the term hawala is often used as a proxy to describe a wider range of financial service providers, beyond these traditional and geographically tied systems. The Financial Action Task Force (FATF) defines hawalas as money transmitters, particularly with ties to specific geographic regions or ethnic communities, which arrange for transfer and receipt of funds or equivalent value and settle through trade, cash, and net settlement over a long period of time. See: FATF, "The role of Hawala and other similar service providers in money laundering and terrorist financing," FATF, October 2013, <https://www.fatf-gafi.org/media/fatf/documents/reports/Role-of-hawala-and-similar-in-ml-tf.pdf>, accessed 11 November 2020.

65 FATF, 2015, p. 21. See also: Press Centre (US Department of the Secretary), 2018, p. 3.

services in terms of sending and receiving remittances, including humanitarian support, including to conflict zones and their environs. However, MSBs can also act as a conduit for comingling illicit funds with licit remittances. Indeed, according to the UN Monitoring Committee for al-Qaeda and IS, unregistered MSBs remain one of the most prevalent means of initiating transfers involving IS and al-Qaeda.<sup>66</sup>

Even in non-conflict areas with sizable populations lacking bank access, MSBs act as bridge between cash-based informal economies and the banks upon which they rely to effect international transfers. This layer can help obfuscate illicit financial activity from the global financial institutions that it transits. As such, it is not that banks are not involved in the transfer of terror funds, but rather, that MSBs, especially those that are un- or weakly-regulated, can serve as gateways to the regulated financial channels.

Exchange houses or MSBs are among IS's preferred means of moving funds to affiliates and procuring goods, and are likely used to secret-away reserves.<sup>67</sup> Beginning in late 2015, the Central Bank of Iraq (CBI) banned more than a hundred exchange houses operating in or around IS-controlled territory from participating in the country's currency auctions, cutting them off from access to the hard currency needed to convert funds and effect

cross-border transactions. In the intervening years, the United States-led Global Coalition to Defeat ISIS coalition, working closely with the Iraqi Central Bank and Counter-Terrorism Service, has continued to unravel IS exchange house networks, which reach from Iraq to Turkey, the Gulf, and beyond.<sup>68</sup>

For example, IS exploited pre-established financial networks, such as the Rawi network of hawala and exchange houses, established in the 1990s to help the former regime of Saddam Hussein evade international sanctions.<sup>69</sup> In December 2016, the US and Iraq jointly designated the leader of the network, Syrian Fawaz Muhammad al-Rawi, who had pledged loyalty to IS in 2014.<sup>70</sup> According to the US Treasury, the Rawi network handled millions of dollars for the Islamic State, including regularly transferring hundreds of thousands of dollars on behalf of the IS Department of Oil to "buy and sell gold and eventually revert the gold proceeds back into cash for ISIS."<sup>71</sup> Another member of the network, Abd-al-Rahman Ali Husayn al-Ahmad al-Rawi, was "one of the few individuals who provided ISIS significant financial facilitation into and out of Syria," including from Turkey, before he re-located there.

Indeed, as the territorial caliphate collapsed, IS likely moved some funds to or through Turkey, via hawala<sup>72</sup> dealers on the Syria/Turkish border, and possibly via other militants based

66 Kais Kabtani and Dian Triansyah Djani, "Joint report of the Counter-Terrorism Committee Executive Directorate and the Analytical Support and Sanctions Monitoring Team," United Nations, June 3, 2020, p. 16. Available at: <https://undocs.org/S/2020/493>, accessed 11 November 2020.

67 The Islamic State often uses exchange houses to collect international funds, pay its fighters and employees and make purchases. With the majority of its territory lost, exchange houses are now particularly useful to move funds out of Syria and Iraq. See: Katherine Bauer, "Survey of Terrorist Groups and Their Means of Financing," Testimony submitted to the House Financial Services Subcommittee on Terrorism and Illicit Finance, The Washington Institute for Near East Policy, 7 September 2018, p. 6. Available at: <https://www.washingtoninstitute.org/uploads/Documents/testimony/BauerTestimony20180907.pdf>, accessed 11 November 2020; Katherine Bauer and Matthew Levitt, "Denying the Islamic State Access to Money-Exchange Houses," The Washington Institute for Near East Policy, February 3, 2016. Available at: <https://www.washingtoninstitute.org/policy-analysis/view/denying-the-islamic-state-access-to-money-exchange-houses>, accessed 11 November 2020; Kabtani and Djani, "Joint report of the Counter-Terrorism Committee Executive Directorate and the Analytical Support and Sanctions Monitoring Team," 2020.

68 Office of the Inspector General, "Operation Inherent Resolve - Summary of Work Performed by the Department of the Treasury Related to Terrorist Financing, ISIS, and Anti-Money Laundering for First Quarter Fiscal Year 2020," US Department of the Treasury, January 6, 2020, p. 4. Available at: <https://www.treasury.gov/about/organizational-structure/ig/Audit%20Reports%20and%20Testimonies/OIG-CA-20-009.pdf>, accessed 11 November 2020; US Department of the Treasury, "Treasury Designates Key Nodes of ISIS's Financial Network Stretching Across the Middle East, Europe, and East Africa," US Department of the Treasury, April 15, 2019. Available at: <https://home.treasury.gov/news/press-releases/sm657>, accessed 11 November 2020.

69 Ibid.

70 Thomas Jocelyn, "US designates members of Rawi network for financing Islamic State," FDD's Long War Journal, April 16, 2019. Available at: <https://www.longwarjournal.org/archives/2019/04/us-designates-members-of-rawi-network-for-financing-islamic-state.php>, accessed 11 November 2020.

71 US Department of the Treasury, "Treasury Designates Key Nodes of ISIS's Financial Network Stretching Across the Middle East, Europe, and East Africa," 2019.

72 See FN 64 above for definition of hawala.

in Idlib province.<sup>73</sup> IS-linked exchangers claim to have sent millions of dollars through other militant organisations in Turkey, then onward to Europe.<sup>74</sup> In August 2017, the US and Iraq jointly designated IS finance Emir Salim al Mansur, who is believed to have moved from Iraq to Turkey in early 2017, under its counter-terrorism authorities.<sup>75</sup> Six months later, the US designated Yunus Emre Sakarya and his company Profesyoneeller Elektronik in Turkey, also under counter-terrorism authorities, due to his involvement in procuring unmanned aerial vehicle (UAV, or drone) equipment worth \$500,000 in 2016 for the Islamic State.<sup>76</sup> In mid-March 2018, Turkish police raided a currency exchange in Istanbul with alleged ties to the Islamic State, arresting two and recovering \$1.3 million, as well as gold, silver, British pounds, and weapons.<sup>77</sup>

More recently, the United Nations Monitoring Team for the Islamic State, al-Qaeda and the Taliban has raised concerns about money transfer services operating in the so-called “foreigners” annex to the al-Hawl refugee camp in north-eastern Syria, which houses women and children, some of whom are alleged to have ties to IS.<sup>78</sup> The team’s January 2020 report said that funds sent to detainees originate as “wire transfers via traditional banking channels to neighbouring states which are subsequently collected and couriered into the Syrian Arab Republic or transferred via hawala networks.”<sup>79</sup> In June 2020, the monitoring team highlighted the use of social media campaigns to raise

money for the families of foreign terrorist fighters who remained in conflict zones and in the al-Hawl camp, in particular. A number of IS-affiliated women reportedly escaped from the camp during this period. It is suspected that they used the funds to bribe guards and pay smugglers to assist with their escapes.<sup>80</sup> In July 2020, the US Treasury sanctioned Faruq Hamad for operating a branch of the Tawasul hawala in al-Hawl camp. According to the Treasury, Tawasul hawala, a separate branch of which was designated in November 2019, served IS members and transferred payments for IS from outside Syria.<sup>81</sup>

In another case involving state sponsorship of terror, in May 2018, the US and United Arab Emirates exposed an exchange house network employed by the Iranian Islamic Revolutionary Guard Corps (IRGC) Quds Force to procure and transfer millions of US dollars (USD) in bulk cash for distribution to Iranian proxies.<sup>82</sup> With US sanctions hindering Iran’s ability to access its oil revenue and other foreign currency reserves, the IRGC sought access to USD because its proxies have little use for Iranian Rial. Hezbollah, for example, operates in a highly-dollarized economy; the organisation, like IS, needs hard currency to pay salaries, make cross border payments, and procure goods. Since 2013, the US Treasury has raised concerns about Iran’s use of exchange houses and general trading companies to evade US and multilateral sanctions.<sup>83</sup>

73 Ibid.

74 Erika Solomon and Ahmad Mhidi, “Isis finds escape route for the profits of war,” Financial Times, 23 August 2017. Available at: <https://www.ft.com/content/b2f616d4-8656-11e7-8bb1-5ba57d47eff7>, accessed 11 November 2020.

75 US Department of the Treasury, “Treasury Collaborates with Iraqi Government to Sanction ISIS Finance Emir,” US Department of the Treasury, August 29, 2017. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/sm0149.aspx>.

76 US Department of the Treasury, “Treasury Sanctions ISIS Facilitators Across the Globe,” US Department of the Treasury, February 9, 2018. Available at: <https://home.treasury.gov/news/press-release/sm0284>, accessed 11 November 2020.

77 Associated Press, “Turkish police discover around \$2M in cash in Istanbul office of 2 Daesh-linked suspects,” Daily Sabah, 4 April 2018. Available at: <https://www.dailysabah.com/war-on-terror/2018/04/04/turkish-police-discover-around-2m-in-cash-and-gold-in-istanbul-office-of-2-daesh-linked-suspects>, accessed 11 November 2020.

78 Analytical Support and Sanctions Monitoring Team, “Twenty-fifth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” United Nations, 20 January 2020, p. 17. Available at: <https://undocs.org/en/S/2020/53>, accessed 11 November 2020 ; See also: Aaron Y. Zelin, “Wilayat al-Hawl: ‘Remaining’ and Incubating the Next Islamic State Generation,” The Washington Institute for Near East Policy, October 2019. Available at: <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyNote70-Zelin.pdf>, accessed 11 November 2020.

79 Analytical Support and Sanctions Monitoring Team, “Twenty-fifth report,” 2020, p.17.

80 Ibid.

81 US Department of the Treasury, “Treasury Designates Key ISIS Financial Facilitators in the Middle East,” US Department of the Treasury, 28 July 2020. Available at: <https://home.treasury.gov/news/press-releases/sm1070>, accessed 11 November 2020.

82 US Department of the Treasury, “United States and United Arab Emirates Disrupt Large Scale Currency Exchange Network Transferring Millions of Dollars to the IRGC-QF,” US Department of the Treasury, 10 May 2018. Available at: <https://home.treasury.gov/news/press-releases/sm0383>, accessed 11 November 2020.

83 Office of Foreign Assets Control, “The Use of Exchange Houses and Trading Companies to Evade US Economic Sanctions Against Iran,” US Department of the Treasury, 10 January 2013. Available at: <https://www.treasury.gov/resource-center/>

## Virtual currency

Perhaps contrary to conventional wisdom, a 2019 RAND Corporation study of terrorist use of cryptocurrencies concluded that “[c]urrent concerns about cryptocurrency as a significant enabler of terrorist groups are almost certainly overblown, but coming improvements in cryptocurrency technologies will likely have a significant long-term effect on CTF.”<sup>84</sup> Yet, in August 2020, the US Department of Justice announced an operation that led to the largest seizure of terrorists’ cryptocurrency account ever and the dismantling of three different “cyber-enabled” terror finance campaigns by Hamas’ terrorist wing (Al-Qassam Brigades), al-Qaeda, and IS.<sup>85</sup>

Terrorist groups clearly believe that cryptocurrencies might provide a measure of anonymity and thus undermine law enforcement efforts to monitor illicit financial transactions, as US officials assert was the case in this disruption. Indeed, according to a 2018 European Parliament study of cryptocurrencies and blockchain, “[t]he key issue that needs to be addressed in the fight against money laundering, terrorist financing and tax evasion via cryptocurrencies is the anonymity surrounding cryptocurrencies.”<sup>86</sup> In fact, most cryptocurrencies are pseudonymous, not anonymous, and with proper sleuthing, addresses can often be linked back to actual identities.

For example, in the Hamas case, the al-Qassam Brigades posted a call online for Bitcoin donations to fund the group’s terrorist activities. Hamas “boasted that bitcoin donations were untraceable and would be used for violent causes. Their websites offered

video instruction on how to anonymously make donations, in part by using bitcoin addresses generated for each individual donor,” the Department of Justice explained. Unfortunately, for the donors, these donations were not, in fact, anonymous. Federal agents tracked and seized 150 cryptocurrency accounts and executed criminal search warrants for US-based subjects who donated to the Hamas fundraising campaign. They then seized the actual infrastructure of the Hamas websites, and proceeded to run them covertly such that when people made donations intended for Hamas, the funds actually went to bitcoin wallets controlled by United States authorities.<sup>87</sup>

In another case indicted in the United States, al-Qaeda and other terrorist groups — mostly in Syria — reportedly operated a bitcoin money laundering network on several social media platforms. They solicited cryptocurrency donations to fund terrorism, sometimes posing as charities. Authorities identified 155 virtual currency assets tied to this campaign and filed a complaint in court seeking their forfeiture. Likewise, in the IS case, authorities filed a forfeiture complaint targeting the social media accounts of an IS facilitator who reportedly managed IS hacking operations and was selling fake personal protective equipment in a COVID-19 online scam.<sup>88</sup> Such plots are beginning to pop up elsewhere as well. In October 2020, police in France arrested thirty and charged eight with financing Islamic extremists in Syria through a complex cryptocurrency scheme.<sup>89</sup>

## Procurement as a form of resourcing

sanctions/Programs/Documents/20130110\_iran\_advisory\_exchange\_house.pdf, accessed 11 November 2020.

84 Cynthia Dion-Schwarz, David Manheim and Patrick B. Johnston, “Terrorist Use of Cryptocurrencies: Technical and Organizational Barriers and Future Threats,” RAND Corporation, 2019, p. 55. Available at: [https://www.rand.org/content/dam/rand/pubs/research\\_reports/RR3000/RR3026/RAND\\_RR3026.pdf](https://www.rand.org/content/dam/rand/pubs/research_reports/RR3000/RR3026/RAND_RR3026.pdf), accessed 11 November 2020.

85 Office of Public Affairs, “Global Disruption of Three Terror Finance Cyber-Enabled Campaigns,” US Department of Justice, 13 August 2020. Available at: <https://www.justice.gov/opa/pr/global-disruption-three-terror-finance-cyber-enabled-campaigns>, accessed 11 November 2020.

86 Robby Houben and Alexander Snyers, “Cryptocurrencies and Blockchain: Legal Context and Implications for Financial Crime, Money Laundering, and Tax Evasion,” Policy Department for Economic, Scientific and Quality of Life Policies, Directorate-General for Internal Policies, European Parliament, July 2018, p. 9. Available at: <https://www.europarl.europa.eu/cmsdata/150761/TAX3%20Study%20on%20cryptocurrencies%20and%20blockchain.pdf>, accessed 11 November 2020.

87 Office of Public Affairs, “Global Disruption of Three Terror Finance Cyber-Enabled Campaigns,” US Department of Justice, 13 August 2020. Available at: <https://www.justice.gov/opa/pr/global-disruption-three-terror-finance-cyber-enabled-campaigns>, accessed 11 November 2020.

88 Ibid.

89 Associated Press, “8 Charged in French Cryptocurrency to Finance Jihadis,” 2020.

Even as terrorist groups turn to local financing, lessening their dependence on financial support from abroad, they will still need to move funds cross border to get what they cannot get at home. Procurement of weapons and other necessities is not a new phenomenon in the context of terrorist financing, but the scale and scope of such activities can be far more significant today in the context of terrorist control of territory and terrorist economies. Indeed, the evolution and growth of certain terrorist actors into larger, better-resourced, and better-financed organisations has also portended a shift from as-needed procurement to the development of bureaucratic and large-scale resourcing enterprises.

“Terrorist resourcing,” as conceptualised by the Canadian Integrated Threat Assessment Centre, looks at all of the ways that terrorist organisations get the various resources they need (be those funds, goods, or less tangible forms of support) to those involved in terrorist acts and those who direct and support them.<sup>90</sup> Whereas terrorist financing is traditionally characterised as a linear process that runs from collection to transmission and use of funds, the model suggests that the terrorist resourcing trail is a broad river with many branching tributaries. In this sense, resourcing is seen as a process that involves many items from a variety of sources to many recipients through multiple channels for different uses. As such, terrorist procurement often relies on networks of intermediaries, including those with no relation to the terrorist group. In this sense, such networks are especially vulnerable to disruption through exposure because they must maintain an air of legitimacy, especially in order to obtain items that could be dual use.

At the height of the territorial caliphate, improvised explosive devices (IEDs) were the weapon of choice for IS, according to the United Nations.<sup>91</sup> Although the components were the same as they were roughly a decade earlier, during the Iraq war, procurement evolved to meet the scale. Likewise, since it was harder to predict access to inputs at any given time, considering the territory’s isolation, IS engaged in more stockpiling and warehousing. Indeed, in June 2017, the US Treasury sanctioned an IS leader who, in addition to his work on chemical weapons and missile development, was part of an IS group that ran a factory in Hajjah, Iraq manufacturing IEDs, mines, and up-armed car or truck bombs, also known as vehicle-borne improvised explosive devices (VBIEDs).<sup>92</sup>

A US Defense Department official described IS IED procurement as following a cone shape, with the person using the IED at the tip and the broad range of legitimate suppliers comprising the conical base.<sup>93</sup> In fact, according to a 2017 study by Conflict Armament Research (CAR), which mapped the legal trade in components ultimately recovered from IEDs in and around IS-controlled territory, IS acquired many components quickly after they were lawfully supplied to distributors and smaller commercial entities in other countries.<sup>94</sup>

Documents recovered in Iraq related to IS’s drone program detailed how IS managed its weapons development programmes, including acquisition forms, mission reports, and supply lists.<sup>95</sup> Although the documents do not reveal how the Islamic State actually acquires such materials, they do provide specific price information. The dollars and cents suggest a reliable, stable supply source, supporting the conclusion that IS was likely acquiring some of

90 FATF, “FATF Report: Terrorist Financing in West Africa,” FATF, October 2013, p. 10. Available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/TF-in-West-Africa.pdf>, accessed 11 November 2020.

91 Analytical Support and Sanctions Monitoring Team, “Eighteenth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2253 (2015) concerning Islamic State in Iraq and the Levant (Da’esh), Al-Qaida and associated individuals and entities,” United Nations Security Council, 19 July 2016, p. 7. Available at: <https://www.undocs.org/S/2016/629>, accessed 11 November 2020.

92 Press Center, “Treasury Targets ISIS Leader Involved in Chemical Weapons Development,” US Department of the Treasury, 12 June 2017. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/sm103.aspx>, accessed 11 November 2020.

93 Bhojani, Fatima, “How ISIS Makes IEDs: The Supply Chain of Terrorism,” Foreign Affairs, 2 March 2016. Available at: <https://www.foreignaffairs.com/articles/2016-03-02/how-isis-makes-ieds>, accessed 11 November 2020.

94 Conflict Armament Research, “Tracing the Supply of Components Used in Islamic State IEDs,” Conflict Armament Research, February 2016. Available at: [https://www.conflictarm.com/wp-content/uploads/2016/02/Tracing\\_The\\_Supply\\_of\\_Components\\_Used\\_in\\_Islamic\\_State\\_IEDs.pdf](https://www.conflictarm.com/wp-content/uploads/2016/02/Tracing_The_Supply_of_Components_Used_in_Islamic_State_IEDs.pdf), accessed 11 November 2020.

95 Don Rassler, Muhammad al-Ubaydi and Vera Mironova, “The Islamic State’s Drone Documents: Management, Acquisitions, and DIY Tradecraft,” CTC Sentinel, 31 January 2017. Available at: <https://www.ctc.usma.edu/ctc-perspectives-the-islamic-states-drone-documents-management-acquisitions-and-diy-tradecraft/>, accessed 11 November 2020.

this equipment through third parties outside their territory.

This acquisition typology is of course not unique to IS.<sup>96</sup> Although Hezbollah receives hundreds of millions of dollars a year from Iran, it has long employed a worldwide network for financial and logistical support: to store, move, and raise funds; procure weapons and dual-use items; obtain false documents; and more.<sup>97</sup>

US law enforcement have disrupted multiple Hezbollah attempts to procure arms and other dual-use and military items from the US. In a notable early case, a Hezbollah procurement cell in Charlotte, North Carolina arbitrated cigarette tax rates between that state and Michigan to raise funds for Hezbollah. The proceeds were sent to Canada, where Hezbollah-affiliated individuals purchased night vision goggles and other dual-use equipment and shipped it to Hezbollah in Lebanon.<sup>98</sup>

Hezbollah also employs front companies globally to obscure its involvement in the purchase of sensitive and dual-use goods. In 2014, the US Treasury sanctioned Kamel and Issam Mohammad Amhaz,<sup>99</sup> their consumer electronic business Stars Group Holding in Beirut, and its subsidiaries in the UAE and China. According to the Treasury, “[i]tems obtained by Hizballah using the Stars Group Holding network have directly supported the group’s military capabilities, including the development of unmanned aerial vehicles

(UAVs), which have been used most recently to support Hizballah’s military activities in Syria and to conduct surveillance operations in Israel.”<sup>100</sup>

In another recent example, Lebanese nationals Issam and Usama Hamade pled guilty in US federal courts in March and May 2020 respectively to conspiring to violate US sanctions and export controls laws. From 2009 to 2013, the Lebanese brothers allegedly acquired sophisticated technologies, such as piston engines, video-recording binoculars, inertial measurement units and digital compasses and exported them to Hezbollah. In a prime example of the “tributary model” of resourcing, the Hamade scheme involved the transit of money and goods through the United States, United Arab Emirates, South Africa, Japan, Germany, and Lebanon.<sup>101</sup>

Combatting the financing of terrorism is not just about money, but about resources and procurement as well. Whether terrorist groups raise money locally, as we have detailed here is increasingly the case with AQ and IS, or whether they receive significant funds from a state sponsor, like Hezbollah, they will need to move funds cross border to resource themselves. While it is true that there is a general shift to funding in place, that is not the case in every instance or case. Consider the case of Abdullah Ramo Pazara. According to a federal indictment, throughout 2013, a Bosnian-American couple in St. Louis, Missouri raised funds and purchased military equipment

96 FATF, “FATF Report: Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL),” FATF, February 2015, p. 36. Available at: <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>, accessed 11 November 2020.

97 Levitt, “Hezbollah’s Criminal Networks,” 2016, p. 155.

98 “United States of America v. Mohamad Youssef Hammoud et al.,” Superseding Indictment, United States District Court, Western District of North Carolina, Charlotte Division, Docket No. 3:00CR147-MU, filed 28 March 2001, p. 33, pp. 41-50. Available at: [https://www.investigativeproject.org/documents/case\\_docs/121.pdf](https://www.investigativeproject.org/documents/case_docs/121.pdf), accessed 11 November 2020; US Department of Homeland Security, “Mohamad Youssef Hammoud sentenced to 30 years in terrorism financing case,” US Immigration and Customs Enforcement, 27 January 2011. Available at: <https://www.ice.gov/news/releases/mohamad-youssef-hammoud-sentenced-30-years-terrorism-financing-case>, accessed 11 November 2020. See also, Matthew Levitt, “Hezbollah Finances: Funding the Party of God,” in Jeanne Giraldo and Harold Trikunas, eds., “Terrorism Financing and State Responses: a Comparative Perspective,” The Washington Institute for Near East Policy, March 2007. Available at: <https://www.washingtoninstitute.org/policy-analysis/view/hezbollah-finances-funding-the-party-of-god>, accessed 11 November 2020.

99 Issam Amhaz was removed from the OFAC Specially Designated Nationals list in December 2019. No reason was given for his delisting. See: US Department of the Treasury, “OFAC Recent Actions,” US Department of the Secretary, 30 October 2020. Available at: <https://www.treasury.gov/resource-center/sanctions/ofac-enforcement/pages/20191205.aspx>, accessed 11 November 2020.

100 US Department of the Treasury Press Center, “Treasury Sanctions Procurement Agents Of Hizballah Front Company Based In Lebanon With Subsidiaries In The UAE And China,” US Department of the Treasury, 10 July 2014. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/jl2562.aspx>, accessed 11 November 2020.

101 Washington Institute for Near East Policy, “Lebanese Hezbollah: Select Worldwide Activity, Entry 644: Usama and Issam Hamade Arrested,” Washington Institute for Near East Policy. Available at: <https://www.washingtoninstitute.org/hezbollahinteractivemap/#id=644>, accessed 11 November 2020.

requested by Pazara and other IS fighters in Syria.<sup>102</sup> The couple received funds through Western Union and PayPal from sympathetic friends and then bought goods to ship to intermediaries in Saudi Arabia and Turkey for onward use by IS in Iraq and Syria.<sup>103</sup> FATF reports have documented other cases in which sympathetic donors sent material to IS based on appeals from IS fighters for equipment and supplies, often made via social media.<sup>104</sup>

More recently, in October 2020, the US Treasury sanctioned an al-Qaeda financial facilitator who used his Australia-based international gemstone business as a cover to move funds on behalf of the group.<sup>105</sup> Whatever the form of resourcing, be it cash or material, funds raised locally or internationally will need to be spent on things and terrorist groups will need to move money across borders to do it. This will remain a trend worthy of attention even as terrorist groups continue to shift to a more localised financing model overall.

## The return of abuse of charity as a CFT concern

For a while, it seemed like terrorist abuse of charity was outdated as a preferred illicit finance typology. Then came the war in Syria and a series of other conflicts across the Middle East and North Africa, and the issue is now back on the agenda as a counterterrorism priority.

Charities remain crucial for alleviating the accompanying humanitarian crises such wars bring in their wake, but it can be uniquely vulnerable to the misuse and abuse of funds. Auditing the delivery of humanitarian supplies to war-torn areas is no easy task. A report by Australia and six other Southeast Asian countries noted that Australia had “experienced suspicious ‘pop-up’ NPOs (non-profit organisations) that appear to dissolve after raising funds for ‘humanitarian efforts’ in Syria and Iraq.”<sup>106</sup> In Britain, the UK Charity Commission struck off two organisations from its official charity register in August 2017, after concluding that they had raised money and supplies for IS and AQ. The charities’ missions were ostensibly to help victims of Syria’s civil war, and Kurdish Muslims in the English city of Birmingham. Instead, the founder of the two organisations, Adeel Ul-Haq, bought “a high-powered laser pointer, night-vision goggles and a secret waterproof money pouch.”<sup>107</sup>

Another series of cases in Lebanon and Australia uncovered possible misdeeds in connection with the Sydney-based Dar al Quran wa Sunnah charity, which purported to help Syrian orphans, and operated in Lebanon, Turkey, and Bangladesh. In May 2015, Lebanese authorities arrested Ibrahim Barakat on charges of fundraising for jihadists and recruiting for the Islamic State. A second man with dual Lebanese-Australian citizenship was reportedly arrested, charged with funding jihadists, and later released.<sup>108</sup> A statement from the charity disavowed Barakat,<sup>109</sup> and

102 “United States of America vs. Hodzic et al.,” Indictment, United States District Court Eastern District of Missouri, 4:15CR00049 CDP/DDN, filed 5 February 2015. Available at: <https://extremism.gwu.edu/sites/g/files/zaxdzs2191/f/Hodzic%20et%20al.%20Indictment.pdf>, accessed 11 November 2020.

103 Seamus Hughes and Bennet Clifford, “First He Became an American—Then He Joined ISIS,” *The Atlantic*, 25 May 2017. Available at: <https://www.theatlantic.com/international/archive/2017/05/first-he-became-an-americanthen-he-joined-isis/527622/>, accessed 11 November 2020.

104 FATF, “FATF Report: Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL),” 2015.

105 US Department of the Treasury, “Treasury Designates al-Qai’da Financial Facilitator,” US Department of the Treasury, 21 October 2020. Available at: <https://home.treasury.gov/news/press-releases/sm1157>, accessed 11 November 2020.

106 Matthew Levitt, “Terrorist Abuse of Charity in the Age of the Islamic State and the Syria War,” Testimony submitted to the Senate of Canada, National Security and Defence Committee, 13 February 2017. Available at: <https://www.washingtoninstitute.org/uploads/Documents/testimony/LevittTestimony20170213.pdf>, accessed 11 November 2020.

107 William Watkinson, “Charity Commission punishes UK ‘charities’ that raised cash for Isis and Al-Qaeda,” *International Business Times*, 30 July 2016. Available at: <http://www.ibtimes.co.uk/charity-commission-punishes-uk-charities-that-raised-cash-isis-al-qaeda-1573367>, accessed 11 November 2020.

108 Lisa Main and Suzanne Dredge, “Islamic State: Member of Australian charity charged with raising funds for jihadists and recruiting for IS,” *ABC News*, 2 July 2015. Available at: <http://www.abc.net.au/news/2015-07-03/australian-charity-investigated-for-alleged-is-links/6591174>, accessed 11 November 2020.

109 Max Margan, “Sydney Muslim charity linked to a man accused of funding Islamic State ‘under investigation after raising \$800,000 in two years from Australian donations,’” *Daily Mail*, 28 July 2016. Available at: <https://www.dailymail.co.uk/news/article-3713791/Sydney-Muslim-charity-linked-man-accused-funding-Islamic-State-investigation-raising-800-000-two-years-Australian-donations.html>, accessed 11 November 2020.

in July 2019, the charity's registration was revoked by the Australian Charities and Not-for-profits Commission.<sup>110</sup>

In another case of charity abuse, in November 2019, Dutch and Belgian authorities arrested six men who established a foundation based in the Netherlands which raised some €200,000 to "provide assistance to war victims." In fact, authorities believe the men used some of the money to fund their travel to Turkey and Syria, provided around €130,000 to fighters of the Islamic State (IS), and also gave funds to another organisation affiliated with IS.<sup>111</sup>

Organisations funnelling money to al-Qaeda continue to come to light as well. Saudi Arabia and the United States jointly acted against the Al-Furqan Foundation Welfare Trust in April 2015.<sup>112</sup> The US Treasury identified Al-Furqan as the successor entity to two organisations it had previously designated, the Afghan Support Committee and the Revival of Islamic Heritage Society, and described it as a "charitable organization that is a major conduit of financial and material support for terrorist groups ... in some cases under the guise of humanitarian work."<sup>113</sup> In addition to supporting al-Qaeda, the Treasury also called out Al-Furqan for aiding the Taliban and the Pakistani jihadist group Lashkar-e-Tayyiba.<sup>114</sup> Simultaneously, Saudi Arabia designated Al-Furqan under its own counter-terrorism laws.<sup>115</sup>

Less than a year later, the US and Saudi Arabia again took joint action against four individuals

and two organisations, for supporting the same three terrorist groups in Afghanistan and Pakistan.<sup>116</sup> Among those sanctioned was the Al-Rahmah Welfare Organization (RWO), and its Scottish-born president, CEO, and chairman, James McLintock. According to the Treasury Department, RWO and other associated outfits received "large amounts of money from British donors who were not aware of the NGOs' Taliban ties."<sup>117</sup>

The Shi'a Lebanese terrorist organisation Hezbollah is a particularly adept fundraiser. A glaring example of Hezbollah raising funds through purportedly charitable donations was its use of the Islamic Resistance Support Organization (IRSO). The US Treasury designated the IRSO in 2006 for its weapons procurement fundraising,<sup>118</sup> but in the wake of reimplementation of US sanctions targeting the group's primary sponsor, Iran, the group has renewed its IRSO procurement fundraising campaigns.<sup>119</sup> Hezbollah Secretary General Hassan Nasrallah himself recently lamented the impact of sanctions and publicly called upon Hezbollah's members and sympathisers to donate funds to the group's Islamic Resistance Support Organisation (IRSO).<sup>120</sup>

As conflicts erupt in areas where terrorists groups operate, opportunities arise for terrorist groups and their supporters to raise funds fraudulently under the guise of legitimate charitable giving. This is especially the case in those situations where terrorists control territory, but also in cases where the need

110 Australian Charities and Not-for-profits Commission (ACNC) "Dar al Quran wa Sunnah Incorporated," ACNC, 11 July 2019. Available at: <https://www.acnc.gov.au/charity/cea2bc50ce0f7a0521be71f2e64e4eb8#overview>, accessed 11 November 2020.

111 Associated Press, "Two Belgian suspects arrested in international investigation into financing of terrorism," The Brussels Times, 12 November 2019. Available at: <https://www.brusselstimes.com/belgium/78178/two-belgian-suspects-arrested-in-international-investigation-into-financing-of-terrorism-netherlands-report-secret-services-war-victims-turkey-syria/>, accessed 11 November 2020.

112 US Department of the Treasury Press Center, "The US and Saudi Arabia Take Joint Action Against Terrorist Financing Entity Attempting to Evade U.S. and UN Sanctions and Violate Saudi Laws," US Department of the Treasury, 7 April 2015. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/j110019.aspx>, accessed 11 November 2020.

113 Ibid.

114 Ibid.

115 Ibid.

116 US Department of the Treasury, "United States and Saudi Arabia Designate Terrorist Fundraising and Support Networks," US Department of the Treasury, 31 March 2016. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/j10400.aspx>, accessed 11 November 2020.

117 Ibid.

118 US Department of the Treasury, "Treasury Designates Key Hizballah Fundraising Organization," US Department of the Treasury, 29 August 2006. Available at: <http://www.treas.gov/press/releases/hp73.htm>, accessed 11 November 2020.

119 Meir Amit Intelligence and Terrorism Information Center, "Hezbollah Launched a Campaign to Raise Money for Military Purposes Using the Islamic Resistance Support Association," Meir Amit Intelligence and Terrorism Information Center, 2 December 2019. Available at: <https://www.terrorism-info.org.il/en/hezbollah-launched-campaign-raise-money-military-purposes-using-islamic-resistance-support-association/>, accessed 11 November 2020.

120 Associated Press, "Nasrallah: Resistance needs support because we are in the heart of the battle," An-Nahar (Lebanon), 8 March 2019.

is most dire and time that might otherwise be spent conducting due diligence is fast-tracked to get support where it is most needed in an effort to save lives. Such calculations are understandable, but they also present a serious terrorist financing vulnerability directly related to the theme of localised funding.

## Responding to terrorist financing in place

When the Islamic State took vast swaths of territory in Syria and Iraq in 2014, it presented an unprecedented threat by virtue of its control of key resource-rich territory. Additionally, IS revenue sources were different from those of al Qaeda and most other terrorists groups in that its funds were primarily raised locally, within territories the group controlled. Already by October 2014, US Treasury Undersecretary David Cohen noted that “with the important exception of some state-sponsored terrorist organisations, ISIL is probably the best-funded terrorist organisation we have confronted.”<sup>121</sup> And yet, the response to the challenge of IS financing ultimately mirrored two traditional and interdependent objectives that stood as the cornerstone of counter-terrorist financing efforts: (1) cut terrorists off from their source of funds and (2) deny them access to the global financial system.<sup>122</sup> By suspending salaries to Government of Iraq employees in IS-controlled territory, authorities succeeded in lessening the liquidity for IS to tax and extort. The bombing of IS-controlled oil facilities and cash vaults hindered IS oil sales and destroyed one-time windfalls taken from banks vaults. Cutting off bank branches and exchange houses in and around IS-controlled territory made it harder for the group to move funds to support affiliates,

foreign fighter travel and procurement efforts. Ultimately, it was the territorial defeat of the caliphate that had the greatest impact on the organisation’s financial footings.

Such measures were novel only in their scale and scope since there is ample precedent for targeting industry and infrastructure funding terrorists controlling territory. A 2012 UN Security Council Resolution banned the charcoal trade in Somalia, taking aim at a lucrative source of revenue for al-Shabaab.<sup>123</sup> Authorities have struggled to combat Taliban funding through opium trade and illegal logging,<sup>124</sup> and both Egypt and Israel have targeted Hamas smuggling tunnels from Gaza into Sinai as a means of Hamas’ tunnel trade and the taxation revenue it generated for the group.<sup>125</sup>

Indeed, efforts to counter the financing of the Islamic State specifically and terrorist financing more broadly are built on earlier efforts supported by two underlying lines of action. Firstly, efforts to increase transparency in the financial system and ensure the traceability and track-ability of financial activity so that terrorists and others engaged in illicit finance cannot act anonymously. And secondly, marshalling and employing actionable information to support a range of targeted measures to disrupt terrorist financing.<sup>126</sup> These actions include financial sanctions, law enforcement actions, regulatory findings, information sharing with foreign governments. Together, the ability to use anti-money laundering and countering the financing of terrorism (AML/CFT) regulatory efforts to harden the financial system against potential exploitation and to collect actionable information on illicit financial activity, will prove the most effective tools to contend with the trend of terrorist financing in place.

121 US Department of the Treasury, “Remarks of Under Secretary for Terrorism and Financial Intelligence David S. Cohen at The Carnegie Endowment For International Peace, “Attacking ISIL’s Financial Foundation,” US Department of the Treasury, 23 October 2014. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/jl2672.aspx>, accessed 11 November 2020.

122 US Department of the Treasury, “Testimony of A/S for Terrorist Financing Daniel L. Glaser Before The House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade, and House Committee on Armed Services’ Subcommittee on Emerging Threats and Capabilities,” US Department of the Treasury, 9 June 2016. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/jl0486.aspx>, accessed 11 November 2020.

123 United Nations Security Council, “Security Council Committee Pursuant to Resolution 751(1992) Concerning Somalia,” United Nations Security Council. Available at: <https://www.un.org/securitycouncil/sanctions/751>, accessed 11 November 2020.

124 Gretchen Peters, “How Opium Profits the Taliban,” United States Institute of Peace, August 2009. Available at: [https://www.usip.org/sites/default/files/resources/taliban\\_opium\\_1.pdf](https://www.usip.org/sites/default/files/resources/taliban_opium_1.pdf), accessed 11 November 2020.

125 Raphael S. Cohen, David E. Johnson, David E. Thaler, Brenna Allen, Elizabeth M. Bartels, James Cahill, Shira Efron, “From Cast Lead to Protective Edge: Lessons from Israel’s Wars in Gaza,” RAND Corporation, 2017. Available at: [https://www.rand.org/content/dam/rand/pubs/research\\_reports/RR1800/RR1888/RAND\\_RR1888.pdf](https://www.rand.org/content/dam/rand/pubs/research_reports/RR1800/RR1888/RAND_RR1888.pdf), accessed 11 November 2020.

126 US Department of the Treasury, “Testimony of A/S for Terrorist Financing Daniel L. Glaser Before The House Committee,” 2016.

Over the past two decades, considerable efforts have been made at the systemic level to establish and encourage adoption of international best practices, such as FATF recommendations, designed to make the international financial system a hostile environment for terrorist support and other forms of illicit finance. This effort involves, *inter alia*, raising awareness of the risks of terrorist financing and facilitation and helping governments in high-risk jurisdictions develop tools to effectively implement such standards. Furthermore, by sharing actionable information, either confidentially or through public notification of sanctions actions, governments are incentivised—and sometimes compelled—to disrupt terrorists’ means to raise, store, and move funds.

One development that has proven particularly effective has been the growth of public-private partnerships and relationships focused on identifying and curbing illicit financial activity. Banks run financial intelligence units, which in several cases have provided “that missing piece of the puzzle to identify someone here or abroad who is planning or supporting plans to attack our interests,” according to Gerald Roberts, the former section chief of the FBI’s Terrorist Financing Operations Section.<sup>127</sup> In one particularly telling case, private sector financial data gleaned by finance ministries and shared with US military and law enforcement agencies helped identify financial targets for military strikes on IS oil infrastructure and cash depots.<sup>128</sup>

Alongside efforts to disrupt terrorist financing is another equally powerful tool: using financial data to gather intelligence. As the 9/11

Commission’s report concluded, “Expect less from trying to dry up terrorist money and more from following the money for intelligence, as a tool to hunt terrorists, understand their networks, and disrupt their operations.”<sup>129</sup> Financial intelligence (FININT) has provided valuable information in several high-profile investigations. In 2003, transactions between a known al-Qaeda suspect and a previously unknown figure in South Asia allowed the US government to track down Riduan Isamuddin, the mastermind of the 2002 Bali bombing.<sup>130</sup> The UK’s National Terrorist Financial Investigations Unit helped thwart the 2006 airline plot by tracking large money transfers disguised as “earthquake relief” from a British-based Islamic charity to the three suspected bombers.<sup>131</sup>

One particularly effective FININT program—the Terrorist Finance Tracking Program (TFTP)—produced more than 18,000 FININT leads that US authorities shared with their European counterparts through February 2016.<sup>132</sup> The TFTP collects data on international financial transactions to gain information about terrorist networks and plots.<sup>133</sup> The TFTP has successfully intercepted many illegal transactions and thwarted many plots, such as threats to the 2012 Summer Olympic Games in London and a 2011 assassination plot to kill the Saudi Arabian Ambassador to the United States.<sup>134</sup> In the case of small scale plots by lone offenders or small groups, where international transactions are less likely to take place, FININT, such as TFTP, will still prove to be an effective investigative tool in the wake of an attack, as it did in the investigations that followed the 2013 Boston bombings, the January 2015 shooting at the offices of the magazine *Charlie Hebdo*, and

127 Gerald Roberts, “Money Flow in the Age of ISIS,” The Washington Institute for Near East Policy, 15 May 2015. Available at: <http://www.washingtoninstitute.org/policy-analysis/view/money-flow-in-the-age-of-isis>, accessed 11 November 2020.

128 Yeganeh Torbati and Brett Wolf, “In Taking Economic War to Islamic State, U.S. Developing New Tools,” Reuters, 24 November 2015. Available at: <https://www.reuters.com/article/us-france-shooting-usa-sanctions-insightidUSKBN0TD0BJ20151124>, accessed 11 November 2020.

129 Kean, “Executive Summary”, 2004.

130 Eric Lichtblau and James Risen, “Bank Data Is Sifted by U.S. in Secret to Block Terror,” The New York Times, 23 June 2006. Available at: <https://www.nytimes.com/2006/06/23/washington/23intel.html?pagewanted=print>, accessed 11 November 2020.

131 Stephen Dametto, “Money trail is the best lead in the fight against terror,” *WAtoday*, 9 November 2014. Available at: <https://www.watoday.com.au/opinion/money-trail-is-the-best-lead-in-the-fight-against-terror-20141109-1j8ee.html>, accessed 11 November 2020.

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the November 2015 attacks in Paris.<sup>135</sup> While no one system can monitor every transaction, the TFTP is an important measure that the West has in place to address terrorists' exploitation of the international banking system. Perhaps most important, the TFTP program was designed—in cooperation with the SWIFT company—with multiple levels of privacy protections.<sup>136</sup>

Importantly, FININT is not limited to suspicious activity reports (SARs) submitted by financial institutions and TFTP alone. Rather, it also includes clandestine collection, business records and grey literature, as well as financial records, such as invoices, receipts and other pocket litter, recovered from law enforcement action or in and around conflict zones.

Some critics argue that in the age of the Islamic State, the traditional tools used to fight terrorist financing are ineffective at preventing the kinds of self-funded attacks that have recently become common.<sup>137</sup> However, such attacks often cost more than meets the eye; because even the cheapest attack is not free, when terrorists are frozen out of their bank accounts, they have to resort to riskier tactics.

Consider the case of Ismail Issa, an IS operative arrested while traveling from Germany to Syria. The group had to send Issa with cash to shop for supplies rather than wiring money to an operative already in the country, precisely because it had become too difficult for IS members to transfer money without being picked up by the authorities.<sup>138</sup> In this case as in others, jihadists have grown so worried that their transactions are being monitored that they are too scared to collect the funds.

“We have no illusion that we can entirely prevent the flow of funds to terrorist groups,” then Treasury Undersecretary David Cohen stated in 2010.<sup>139</sup> “Some funds will find a way to flow. But that does not mean the effort is futile—far from it. What we have learned

is that by deterring would-be funders and disrupting the financial facilitation networks, we significantly impede terrorists' ability to operate.”<sup>140</sup> Disrupting terrorists' financial transactions makes it harder for them to travel, bribe officials, procure materials, provide for their own families, and, ultimately, engage in operations. Denying terrorists—as well as insurgents and proliferators—easy access to financial tools forces them to use more costly, less efficient, and often less reliable means of financing their activities. Trends toward increased jurisdictional distinction and funding in place in terrorist financing matter, but while specific tactics and procedures may have to be adjusted to deal with developments like self-funded lone-offender terrorists or proto-state terrorists groups controlling territory, the underlying principles that have guided counter-terror finance strategies to date remain effective even in the face of these new challenges.

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