

## **Terrorist financing: the need for a new mindset**

Terrorist financing baffles banks and law enforcement. The fact that small sums of money are used to finance a bomb sends MLROs, police and intelligence running for cover.

The fallacy in most thinking is that terrorist finance is a subset of money laundering. In fact, we need a new methodology. Terrorist money delivers a service. Unlike private sector cash, it does not seek to reproduce itself.

Warning bells triggered by the movement of money are not a necessary part of the terrorist system. If they are used, it is only incidental. Law enforcement must not rely on those bells ringing.

Terrorist finance requires a new model, a new mindset.

### **Four Basic stages between funder and bomber**

- 1. Making the money**
- 2. Moving the money**
- 3. Distributing the money**
- 4. Spending the money**

Level One: the terrorist group must make money to acquire the materiel for its nefarious activity

Level Two: the terrorist group must move the money from the sources of the funds to the people on the ground

Level Three: people on the ground move the money between themselves to ensure the money is in the right place to buy airlines tickets, pay rent and so on

Level Four: the money is dispensed on the goods required for the ultimate terrorist act.

### **Level One: Making the money**

Terrorist money is made in two ways. First, donations can be acquired from wealthy individuals supportive of their cause. Noraid, in the United States, enabled the Irish Republic Army to maintain an extended campaign. Political opponents to the Saudi regime undoubtedly support Al Qaida and other Islamic groups.

Wealthy sponsors may support terrorist groups to attain their own political ends. Osama Bin Laden and his heirs continue to fund Al Qaida. The sponsor is both financial supporter and political inspiration. That makes him more visible and more palpable target.

Terrorist groups create their own fund-raising corporations. The Tamil Tigers have a strong foothold in the world's canned fruit industry, owning and running companies across Asia and Europe. They seek to operate in the legitimate economy in poor countries where their clout is greatest.

Terrorist groups also operate with organised gangs in the drugs industry, in Afghanistan or the diamond industry in West Africa. Money from criminal operations is siphoned into terrorism, where gangleaders see a shared interest.

## **Level two: Moving the money**

Criminal or terrorist money is most vulnerable when it is on the move. Terrorist money does not stand still. It must reach terrorists in the theatre of terrorism. Money starts to become vulnerable to surveillance.

Disguises for money on the move take many forms. The use of the charitable institution to act as a package for terrorist money is best known. Law enforcement agencies are investigating how charities can be abused.

## **Charities**

Charities provide an apparently innocent front to slip under the radar screen of enforcement agencies. Charities are also conduits for moving money around the world. Charities managed by genuine agencies can have genuine funds diverted for criminal purposes. Money raised by not-for-profit organisations set up for non-violent political purposes can be diverted into terrorist activities without alerting administrators. Details about beneficial ownership and the control of charities are frequently opaque.

Charities like the Benevolent Foundation are notorious. It raises funds in places where Islamic support is greatest and dispenses them in parts where terrorist support is most rife.

The presence of criminal money within genuine charities, no less than bogus charities, should trigger red lights. An unknown charity that arrives on the scene in a suspicious part of the world or a change in the movement of funds by an existing charity will attract suspicion. Finally, financial ties between criminals, terrorists and charities will sound loud warning bells.

## **Corporate structures**

Corporate structures owned or controlled by a sponsor of terrorism will serve as a funding source and as a front and legal and accounting structure for moving criminal money.

The tools and disciplines designed to sniff out money laundering pertain to the identification of terrorist finance.

The international fruit packaging company that grows its fruit in the Middle East and moves that fruit to the UK for packaging and sale has a genuine physical presence. It obtains receipts from fruit sales in the UK. Sales may be over-stated and product diverted into a separate or shadow company selling fruit on the black market to fund a terrorist group.

## Level Three: Distributing the money

This company acts as a potential terrorist banker, distributing funds under the cloak of the shadow company around terrorist 'sleepers'. These are dormant terrorists merged into the background, before being activated.

Anonymous bank cards have been used to finance operatives on the ground, eliminating the risk of a link between financial recipients and donors. Credit cards issued in a tax haven or ATM cards with pre-programmed balances are the favoured tool.

Paper trails are the enemy of secrecy. Cash is the classic commodity for the terrorist. It carries its own risk. An individual found with a significant amount of cash on his person is a terrorist as well as a drugs suspect.

Hawalah or informal systems of funds transfer are suspected conduits for terrorist money across borders. They provide anonymity, secrecy and flexibility within an ethnic group. Financial authorities have yet to fully map, let alone regulate this secretive and nebulous sector.

Asian, Chinese, Latin American, East African and Eastern European communities harbour their own hawalas. Fax or email transmissions by agents are virtually invisible, almost cost-free and unregulated.

## Level Four: Spending the money

Those who handle terrorist money are unlikely to involve themselves in terrorism. The mastermind of terrorist finance, like the drugs financier, keeps a sealed compartment between the money and the purchasers of explosives, timers, detonators and weaponry. Occupations in civil society give them some patina of day-to-day plausibility to acquire their funds, fix their financial arrangements.

Low value goods like explosives are still prerequisites of a bomb, and have still to be bought. So money must still reach the illegal explosives market.

While financial intelligence agencies follow cash trails, military and trade intelligence follows the market in physical materiel. A pincer movement should result. Money must be seized before it can be used.

## Conclusions: The role of Banks, Government, and Security

Money is essential for the terrorist enterprise. But all trace is lost as soon as the explosion occurs. Terrorist money must be found before the bomb. The retrospective traces revealed by the anti-money laundering tools are of limited use.

Countering terrorist financing depends on the elements of the financial system working together with a reduced bureaucratic burden. Legal, administrative, technical and personal relationships are critical. It also depends on the intelligent use of databases and published blacklists. The risk of repeated false positives has given them a bad name.

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Insights into the logistics and geographic structures of global terrorists are at a premium. The expanding offshore world toughens the enforcement task. Petty dictators are able to hide their wealth in lawless unregulated territories. Sudan was Bin-Laden's first hidey-hole outside Saudi Arabia. Afghanistan was Bin-Laden's second base. Regulation in both is as good as non-existent.

Terrorist groups understand tax and legal loopholes at least as well as our tax and corporate accountants. Knowingly or unwittingly, some of our best brains are working for groups linked to groups, linked to terrorists.

Networks between unlikely elements in the private, public and political classes need to be unravelled if terrorist financing is to be stanchied. Societies own structures hold the clue to unravelling the financing of these crimes of our times.