

# Terrorism Funding: Sources, Methods, & Implications

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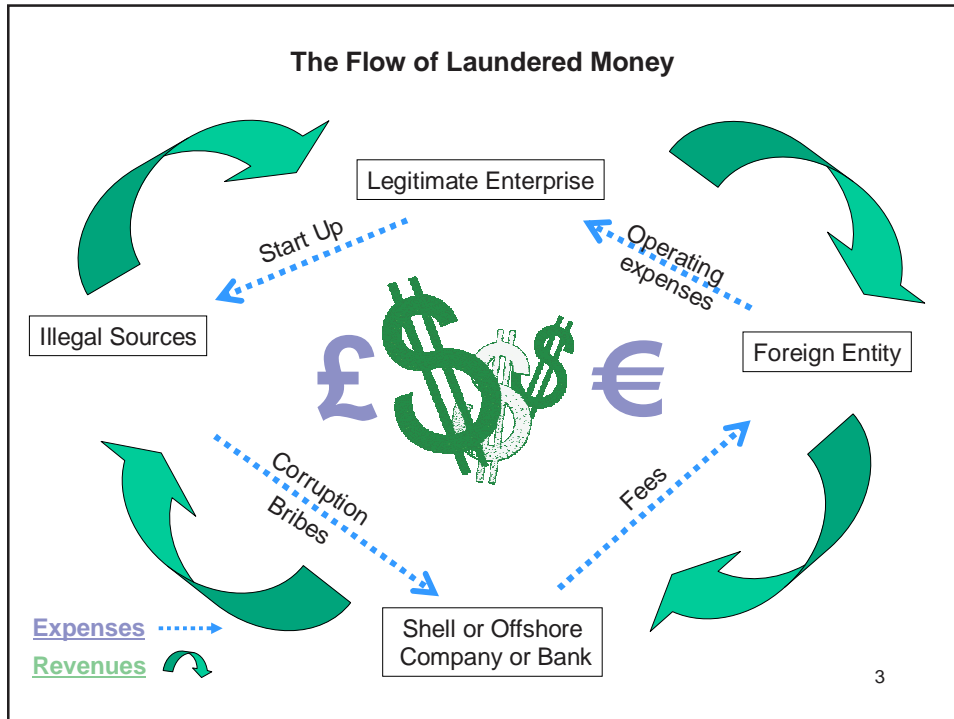
1

## Money Laundering



- Money laundering is not just big business, it is global and large scale.
- International Monetary Fund (IMF) estimates that it accounts for 2 to 5 % of the World's GDP (gross domestic product) with a value of as much as 2 trillion US dollars in today's market.
- A significant portion of laundered money actually serves as a positive influence in local economies.
  - It does pay people legitimate salaries even when the business or other entity is only a "legit" cover for other activities.
  - It even pays taxes when channeled through legitimate businesses.
- When accomplished through smuggling or other criminal enterprise it pays no taxes, duties or fees.
- Bottom line – it often pays terrorists bills when these groups use laundering as a method to move large sums of money or in related barter/in kind transactions.

2



- ### AQ Thinking Overview & Organizational Culture
- Al Qaeda Characteristics
    - Pragmatic but Ideologically Driven Transnational Network
    - “... unlike other terrorist leaders... bin Laden is not a military hero, a religious authority, or an obvious representation of the downtrodden and disillusioned. He is a rich financier.”
      - Council on Foreign Relations Independent Task Force - 2002
    - “Al Qaeda’s leadership, its membership and some of its associate groups genuinely believe that they have created a new Islamic Universal Order. Although Al Qaeda has lost its physical base... it has compensated for this loss... by building a global network.”
      - Recall work of Rohan Gunaratna, 2003
- 4

### AQ Overview - Financing

- Al Qaeda: Basic Structure and Financial Requirements
  - Multi-organizational field
    - Each with own C<sup>3</sup>I structure
  - Compartmentalized
    - Cellular - tactic and strategies developed in anticipation of security apparatus response.
  - Core of “the Base”
    - Transnational recruitment network
    - Transnational coalition
  - 1998 reorganization - 4 distinct entities
    - Pyramidal Structure
    - Global terrorist network
    - Base for guerrilla warfare in Afghanistan
    - Loose coalition

5

### AQ Overview Organizational Structure & Financing

- Al Qaeda: Basic Structure and Financial Requirements
  - Hierarchy
    - Emir general
    - Consultative council (*shura majlis*)
      - Ideological and cultural basis for recruitment/promotion into council
    - Four Operational Committees (as of 2003 / 2004)
      - Military
      - Finance and Business
      - *Fatwa* and Islamic Study (What is a *fatwa*?)
      - Media and publicity
    - Financial Requirements and output
      - Core strength 3,000 members in Afghanistan (obviously reduced) and agent network. \$36 million/annually
      - Annual budget \$50 million
      - Subsidies to other entities including Taliban \$100 million

6

### Al Qaeda Origins

- Nexus of War, State Failure, Covert Economies, and Terrorism
  - Afghanistan
    - Al Qaeda's rise and financial networks conceived in context of Soviet invasion of Afghanistan and resistance to it
    - Creation of an infrastructure...
      - That was captured by Al Qaeda
      - Construction of infrastructure trained Al Qaeda
    - Covert Financial and Armaments Flows
      - United States
        - » Funding to and weapons to *mujahidin*
        - » Tolerated narcotics outflow
      - Allied States
        - » Pakistan
        - » Saudi Arabia
        - » United Kingdom

7

### Al Qaeda's Financial Inception

- "Financial backbone."
  - Complex network of entities and actors that... "helped finance the *mujahidin* throughout 1980s." (Source: CFR ITF 2002.)
- Bin Laden seed money
  - Inheritance \$25-30 million
  - Important but small component of vast financial network and flows
- Other sources:
  - Islamic Charities and NGOs
  - Legitimate business fronts
  - Smuggling: Narcotics, precious metals.
  - Taliban
  - Pakistan Inter Services Intelligence Agency
  - Saudi contributions to financial infrastructure

8

## Al Qaeda & Islamic Banking, Finance Systems

- **Zakat** The giving of alms for the poor and needy, as prescribed by the Quran. Zakat is the primary means within the Muslim world for terror organizations to “legitimately” receive money.
- **Islamic Banking** When conducted as prescribed by the Quran, serves to legitimately facilitate funds collection and disbursement. This is particularly true of Zakat funds.
- **Hawala** An informal funds transfer system, is the primary means of distributing smaller sums of money around the world in a safe and record free manner.
- **Money laundering** A criminal endeavor by which millions of dollars can be transferred around the world in a single transaction or a series of transactions. Common to offshore, Western banking havens. Limited open-source information available to us for Islamic banking data.

9

### Al Qaeda's financial network: unique target, Part 1

- Islamic financial network (Part 1)
  - *Zakat*
    - Religious duty of Muslims to give 2.5% of income to humanitarian causes
    - *Zakat* donations given to “community leaders” to distribute
    - Unregulated
    - Al Qaeda receives funds from donations
    - Often original donors have no knowledge of ultimate destination of donations
  - Islamic banking system
    - Legitimate financing and investment system that abides by *sharia*
    - Prohibits earning of payment of interest
    - Regulation is loose due to regulatory underdevelopment and religious autonomy

10

### Al Qaeda's financial network: unique target, Part 2

- Al Qaeda's financial network: unique target
  - Islamic financial network (Part 2)
    - *Hawala* (or *Hundi*) Banking System (hə-wä'lə) "HE-WAL-A"
      - Means "transfer, trust"
      - A system for remitting money, primarily in Islamic societies, in which a financial obligation between two parties is settled by transferring it to a third party, as when money owed by a debtor to a creditor is paid by a person who owes the debtor money. *Hawala* transactions are usually based on trust and leave no written record.
      - "Underground" Banking System
      - Money Transfer w/o wire transfer
      - Legitimate used by millions
      - Pakistan: Estimates up to \$7 billion annually

11

### Al Qaeda's financial network: unique target, Part 3

- Al Qaeda's financial network: unique target, Part 3
  - Informal Funds Transfer (IFT) System
    - *Hawala* one of many IFTs
    - IFTs originally developed for trade financing
    - Dangers of carrying currency and precious metals
    - China and East Asia
    - *Fei-Ch'ien* (China), *Padala* (Philippines), *Hundi* (India), *Hui Kuan* (Hong Kong), *Phei Kwan* (Thailand)
  - Configuration of *Hawala* System
    - Cash Business
    - Few electronic records
    - Difficult to audit flows
    - Multiple vectors of access
      - » Storefronts, bazaars, souks, social endeavors
    - Anonymous
    - Penetration Difficult - dense social networks
    - Unregulated
    - Interacts with other alternative banking systems

12

## Al Qaeda's financial network: unique target, Part 4

- Al Qaeda's financial network: unique target, Part 4
  - Operation of the *Hawala* System
    - Network of *Hawaladars*
      - » Customer gives *Hawaladar (A)* money
      - » *Hawaladar (A)* contacts another *Hawaladar (B)* via phone or other communications network
      - » *Hawaladar (B)* then distributes money
      - » *Hawaladar* networks based on trust and familial, clan or ethnic networks
      - » Settlement of accounts - long delay
      - » Accounts also settled through at times complex arrangements
      - » Financing of imports/exports

13

### A Hawala Primer

*The informal structure of hawala makes it an effective way to transfer money quickly—and, on occasion, illegally. The key to hawala is that money is transferred but not moved. Here's how it works:*

**The backbone of the system is the hawala dealer, and the key ingredient of any hawala deal is trust.**



A Pakistani working in New York as a taxi driver wants to send \$5,000 to his brother in Karachi. He can go to a bank, but the bank is likely to want him to open an account. It also will charge him to change and send the money.

**1** Instead, the taxi driver chooses a hawala dealer. They negotiate a fee and exchange rate. And he gives her the \$5,000 and her fee.



\$5,000

**2** The dealer then calls, faxes or sends an e-mail to another dealer in Karachi.

Dealer 1

Dealer 2

**3** The Karachi dealer arranges to have the equivalent of \$5,000 delivered in rupees to the brother. The transaction takes one or two days.



239,500 rupees

**4** The Karachi dealer will carry the debt until he needs to send money to New York. Eventually, the books of the two dealers should balance.

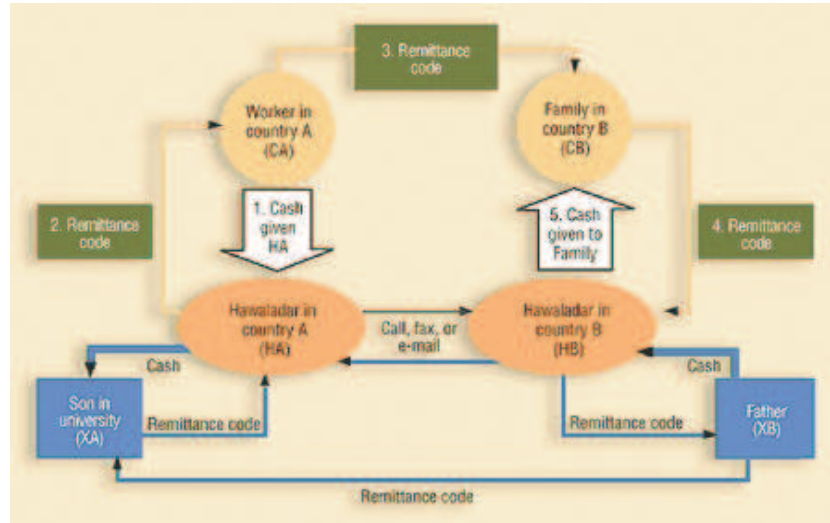
The taxi driver has sent the money more quickly and cheaply than possible through a bank and avoided the complications inherent in an overseas bank transaction. He also has avoided the bureaucracy—no papers are necessary to send money through hawala, and no paper trail is generated. If the New York dealer has any record of the transaction at all, it probably will focus on her financial relationship with the Karachi dealer.

SOURCE: "The Hawala Alternative Remittance System and its Role in Money Laundering," by Patrick M. Jost and Harjit Singh Sandhu, Treasury Dept. Financial Crimes Enforcement Network/Interpol

BY MICHAEL DREW—THE WASHINGTON POST

## Al Qaeda's financial network: unique target, Part 5

- Operation of the *Hawala* System



15

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### Al Qaeda's financial network: unique target, Part 6

- Al Qaeda Financial Network
  - Businesses and Charities used as covers
    - Over-invoicing a typical action
  - Physical Transportation of Cash
    - Cash Smuggling
    - Rampant throughout Middle East
    - Difficult to control - poor border regulation
  - Precious Metals and Gemstones.
    - Symbiotic relationship with *Hawala* system
  - Al Qaeda rides off of pre-existing smuggling networks
    - Relies on traditional smuggling methods
    - Parallel with arms and narcotics trafficking networks
  - Rides off of other terrorist and “rogue” state networks
    - May have inherited air logistic networks used by Taliban and other African insurgencies

17

### Al Qaeda's financial network: unique target, Part 7

- Penetration of legitimate financial institutions
  - National Commercial Bank (Saudi Arabia)
    - Funds for attempted assassination of Mubarak tracked from Saudi NCB to US and UK banks
- Counterfeiting
  - Currency and credit cards
- Financial activity divided between cells
  - Financial security principles
    - Division between funds to earn financial return and operational funds
    - Operational funds dispersed to multiple accounts
    - Compartmentalized knowledge of funding
    - Security paramount while moving funds
    - Money left with nonmembers spent only when needed
  - Support cells generate funds, operational cells disburse
  - Feeder and operational accounts

18

### Al Qaeda: Actions taken to Surveil and Disrupt, Part 1

- Post-9/11/2001
  - Tactical
    - Identification and neutralization of nodes
  - Strategic
    - Changing Global Financial Regulatory Environment
- Tactical Actions
  - Intelligence Mobilization
  - Law Enforcement and intelligence co-ordination
    - Internal: Multi-Jurisdictional and inter-bureau/agency
      - Policy Coordination Committee (US Treasury)
      - Foreign Terrorist Asset Tracking Center
    - External: Bilateral, Multilateral
  - International Emergency Economic Powers Act
    - Designations applied to constellation of entities involved in Al Qaeda network

19

### Al Qaeda: Actions taken to Surveil and Disrupt, Part 2

- Post 9/11/2001: Actions taken to Surveil and Disrupt
  - Designations blocked assets in US banks
  - US persons barred from doing business with designated organizations
- USA Patriot Act
  - New money laundering regulations
  - Prohibit access to US financial system for states and external financial institutions w/o strong money-laundering controls
  - Leverage to force other states to strengthen money laundering controls
- FinCEN
  - Patriot Act Communication System (PACS)

20

### Al Qaeda: Actions taken to Surveil and Disrupt, Part 3

- Post 9/11/2001: Multilateral Actions taken to Surveil and Disrupt
  - United Nations Counter-Terrorism Committee.
  - International Monetary Fund
  - World Bank
  - Financial Action Task Force (FATF)
    - 29 Member Organization
    - Established in 1989 by G-7
    - Identifies money laundering havens
      - Working on establishing “best practices” for charities
      - Sponsored regional meeting to regulate informal banking systems
      - Example: Abu Dhabi Declaration on Hawala - May 2002
  - Effective?
    - New Laws passed by: Bahrain, Lebanon, UAE, Egypt

21

## AQ Financing & Terrorism Financial Surveillance

Issues for Domestic & International Legal  
Conventions:

Questions for All of Us:

How much surveillance?  
What is the “correct” balance of CT and  
protection for civil liberties?

22

## Conclusions

Terrorists and extremists around the world will continue to use multiple means to transfer monies to operatives. Whether the means are legal or illegal is of no concern so long as the process supports their operations.

These four key methods will continue to be exploited as long as government oversight is not present or is ineffective in policing the systems.

- Zakat is a positive contribution to the Islamic world being abused by those who see it as a means to fund terror's criminal element. Only a small percentage of funds given in compliance with Zakat are intended by a knowing giver for the purpose of terror. That small percentage is enough to allow the spread of terror and end lives around the world. Just the opposite of Zakats' intended use.
- Islamic banking must continue to become mainstream in their methodology and accountability in order to be recognized as trustworthy institutions. Failing that, they will remain a secretive grouping that raises suspicions as much as they attract business.
- Hawala was originally benign in its historical intent but is now consistently misused by those who take advantage of its efficiencies. It will remain as a cultural alternative to regulated banking but certainly will continue to adapt further to accommodate the modern world. The fact that it is being made illegal in more and more countries will not end the practice in the near term.
- Money laundering will continue to face pressures from authorities. Like Hawala, it will remain as a working part of the criminal enterprise system. Increased regulation in the traditional business environment will make laundering more difficult but will not carry it to extinction.
- Nations and organizations around the world are becoming more involved in the effort to track the in and out flows of terror's money through legislation and regulation. Regulatory efforts will serve to plug more of the financial holes that terror employs. However, as with all areas of crime, laws and regulations apply to all people and entities in a given jurisdiction but are only implemented and followed by those willing to be regulated.

23

## Resources / Background Reading – Early, Post-9/11 Emphasis

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24