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Terrorist Financing

The Failure of Counter Measures



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Foreword

This work is an analysis of why international efforts against terrorist financing are failing. There are three main reasons for the failure of international efforts against terrorist financing. These are simple enough to state but the factors giving rise to these reasons are complex, and will be addressed by studies of selected terrorist groups, their activities and their *modus operandi* in financing, and by the counter measures international efforts have deployed.

This work is not intended as negative criticism nor to apportion blame, and certainly not to glibly score clever debating points at the expense of the anti-terrorist authorities. Having a background in criminal intelligence prior to entering academia, the author includes himself in the collective mistakes, underestimations and oversights that have occurred in international efforts against terrorist financing.

Throughout the book selected terrorist groups and organizations have been studied. The groups are analysed in two chapters, Chapters 2 and 7. The former deals with groups or organizations that are apparently no longer engaged in conflict, the latter deals with those that continue their violent activities. This study of the terrorist groups does not claim to be an exhaustive overview of terrorist groups. However, the terrorist groups and organizations mentioned have been dealt with in considerable detail, for their background and their activities are essential in analysing what types of *modus operandi* are used in their financing and the changes in this *modus operandi*. The coverage of the terrorist groups and organizations may also serve as both useful background history and current information compendium for students of terrorism.

Finally, the author has been able to draw upon confidential sources from law enforcement government officials, financial regulatory agencies and the private financial sector. For obvious reasons their respective identities remain undisclosed, and they are sourced and referenced accordingly. Whilst at times some of these sources have been critical of the various efforts and the actions of their organizations or agencies, the criticism was made in good faith, and their commitment and dedication in fighting terrorist financing and terrorism in general was and is beyond reproach. As such the author holds them – those engaged with such com-

mitment throughout the world in combatting terrorist financing – in the highest respect. It is his most fervent – and vain – hope that at some point in the future their professional efforts will be deployed to other areas of criminality on the basis that their efforts against terrorism and terrorist financing are no longer required.

Abbreviations

AGAM	Angkatan Gerakam Aceh Merdeka
ALF	Arab Liberation Front
ANO	Abu Nidal Organization
APG	Asia Pacific Group
AQAP	al Qaeda in the Arabian Peninsular
AQIM	al Qaeda in Maghreb
ASC	Afghan Support Committee
BCCI	Bank of Credit and Commerce International
BR	Brigada Rosso
CEDAG	European Council of Associations of General Interest
CIA	Central Intelligence Agency (US)
CTC	Counter Terrorism Committee (UN)
DFLP	Democratic Front for the Liberation of Palestine
ECB	European Central Bank
ETA	Eskadi ta Askatasuna
ETIM	Eastern Turkestan Islamic Movement
ETLO	Eastern Turkestan Liberation Organization
FATF	Financial Action Task Force
FIS	Islamic Salvation Front
FIU	Financial Intelligence Unit
FLN	National Liberation Front (Algeria)
FTZ	Free Trade Zone
GAM	Gerakam Aceh Merdeka
GIA	Islamic Front
GSPC	Salafist Group for Preaching and Combat
HUM	Haraktul Mujahidin
ICPO	International Criminal Police Organization
IED	improvised explosive device
IMF	International Monetary Fund
IMU	Islamic Movement of Uzbekistan
IVTS	informal value transfer system
JAT	Jamaah Ansharud Tauhi
JeM	Jayash e Muhammed
JHA	EU Justice and Home Affairs Committee

JiH	Jamaat e Islami Hind
KAS	Basque Socialist Co-ordination
KLA	Kosovo Liberation Army
LTTE	Liberation Tigers of Tamil Eelam
MILF	Moro Islamic Liberation Front
MNLF	Moro National Liberation Front
NGO	non-governmental organization
NPO	non-profit organization
PFLP	Popular Front for the Liberation of Palestine
PFLP–GC	Popular Front for the Liberation of Palestine–General Command
PIRA	Provisional IRA
PKK	Parte Karkerani Kurdistan (Kurdistan Workers Party)
PLO	Palestine Liberation Organization
PNF	Palestine National Front
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TIP	Turkestan Islamic Party
UIC	Union of Islamic Courts
UTO	United Tajik Opposition
WUYC	World Uyghur Youth Congress

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1. Terrorist financing, hitherto neglected

Terrorist groups or organizations have been described as needing three essential components: men, money and munitions. The men – and women – of the organizations are prominent, if not in revealing their individual identities then in the actions they perpetrate and the public statements they circulate and their attempts to establish an empathy with certain sections of the population affected by their actions. The munitions used by the organizations are prominent in that they are the instruments which destroy buildings, damage and ruin businesses and severely wound and kill individuals by explosive impact tearing human bodies apart. The money is less high profile, and has received less attention, vigilance and counter measures. Nonetheless, it was and remains essential in order for terrorism to be perpetrated.

Terrorist attacks are deemed to be inexpensive to carry out. The paradigm, or model, of inexpensive terrorism has derived from the fact that relatively simple devices, such the devices attached to the suicide bomber, or improvised explosive devices (IEDs) are indeed inexpensive to manufacture. This has proved to be entirely correct when dealing with structured organizations, such as the Palestinian organizations of the 1970s and the Algerian organizations of the 1980s,¹ and is demonstrated in both eras by the comparative indifference of the Provisional IRA (PIRA) to outlay and expenses. However, to apply the idea that perpetrating terrorism is inexpensive to the entirety of the al Qaeda and Islamic extremist affiliate network, 'brings to an end the war against terrorism financing'.²

The costs of an operation or a single terrorist act may be small relative to the impact, fatalities and damage caused. However, a distinction should and must be made between the cost of equipment and materials and outlay used in carrying out a single terrorist attack, on the one hand, and on the other, the financing of terrorism, and the continuous active operations of a particular organization or terrorist group. There is a need to comprehend

¹ J.C. Brisard, *Terrorist Financing: Roots and Trends of Saudi Terrorism Financing*, Report prepared for the UN Security Council (JCB Consulting, 19 December 2001) p. 6.

² *Ibid.*

the difference due to the fact that efforts against terrorist financing tend to be focused on assessing and calculating individual operational costs, and the significance of auxiliary support or infrastructure is not yet fully apparent to organizations and agencies engaged in counter terrorism.

Yet al Qaeda, for example, has made this difference clear in distinguishing between organizational funds and operational outlay in various documents, circulars and its training manual. In terms of operational costs, al Qaeda views these as having a dual objective. The first is to invest in enterprises or criminal activity that can yield a financial return to maintain both local cells and the organization as a whole; and the second is to carry out terrorist operations. In the words of a distinguished international counter terrorism specialist:

Apart from the operational level, one must not confuse the requirements of al Qaeda in terms of daily logistics and the superstructure level . . . Al Qaeda is not only a combatant organization, it is also . . . a confederation of militant organizations around the world.

The first purpose of money for al Qaeda at this level is 'to fund them, to stabilise and leverage their support'.³ A terrorist organization or group, to be operationally active and expanding, requires funds to maintain recruitment; training facilities; trainers (who are operatives whose operational activity the organization is deprived of in order for them to devote their time to training); accommodation, both permanent and temporary; safe houses; food; equipment, explosives, weaponry; identity and travel documentation; intelligence gathering and communications. Further costs are incurred for media publicity, via publications, television, videos and Internet sites. Finally, post-operation expenses are required to support undercover or 'sleeping' operatives and families and dependants of operatives who have been killed or have been imprisoned. All told, this ongoing semi-permanent outlay is substantial, and the same distinguished international counter terrorism specialist cited above has estimated that the proportional expenditures of al Qaeda, in terms of the semi-permanent outlay compared to individual operational costs (including reconnaissance, planning, transport and the attack itself) is that of 90 per cent to 10 per cent.⁴

Over the long term, international recognition of the necessity of efforts against terrorist financing has been tardy. Indeed, prior to 9/11, international legal efforts against financing of terrorism were comparatively few and ill-supported. Between 1970 and 1997, UN Conventions were promulgated against various types of terrorist attacks on diplomatic, maritime installation and economic targets and on the aviation sector. It was not

³ *Ibid.* p. 7.

⁴ *Ibid.* p. 7.

until 1999 that the United Nations agreed an international Convention against terrorist financing, the International Convention for Suppression of Financing of Terrorism. Even this attempt remained moribund; by the beginning of 2001, of the 22 UN member state ratifications needed to bring the 1999 Convention into force, only four had been obtained.

Until comparatively recently, terrorist financing has not occupied a significant place in writings on terrorism. In 1978, J. Bowyer Bell, author of a monumental history of the IRA, published an overview of terrorism and the response of societies.⁵ It was comprehensive, dealing with contemporaneous terrorist groups such as PIRA, Croatian terrorists, South Moluccans, ETA, the Palestinian factions, both left and right-wing Italian groups and Baader Meinhof. It serves as a valuable archival primary document of the developing threat of international terrorism in the 1970s. Yet, despite dealing with terrorism on a global scale, and the impact upon countries and their responses, Bowyer Bell made no mention of terrorist financing. A reader in search of this aspect is falsely drawn to a summary chapter which has the subheading 'The IRA assets', only to find that this term is used synonymously with advantages, as opposed to in the financial sense, and deals with the aspects of 'traditional legitimacy', 'old attitudes' and 'new role'.⁶ In its entire 292 pages, there are six sums of money mentioned: five are sums demanded or gained from one-off hostage ransom demands, whilst the sixth is the cost of a clandestine government propaganda exercise funded by the US Central Intelligence Agency (CIA).⁷ There is no mention of costs, amounts involved, financing, transfer of funds relating to any terrorist group. Terrorist financing is entirely absent.

In 1986, a highly respected journalist, James Adams, wrote a book specifically about financing of terrorism.⁸ He dealt with the prominent groups of the period, the IRA, Palestinian and Colombian organizations. Any book on insurgency published in that era was also set against the all-pervasive backcloth of the Cold War, and therefore state-sponsored terrorism, as either CIA or Warsaw Pact funding was often deemed to be a prominent factor in terrorism. Adams cast doubt upon the overemphasis on state-sponsored terrorism. In doing so he wrote:

In all that has been written on terrorism, I have not discovered any serious study which deals with where the terrorists get their money and how they spend it.⁹

⁵ J. Bowyer Bell, *A Time of Terror: How Democratic Societies Respond to Revolutionary Violence* (Basic Books, 1978).

⁶ *Ibid.* pp. 226–8.

⁷ *Ibid.* pp. 46, 160, 193 and 250.

⁸ J. Adams, *The Financing of Terror* (Simon and Shuster, New York, 1986).

⁹ *Ibid.* p. 3.

He even advocated that law enforcement agencies and governments should allocate as much resources to tracing the sources of terrorist funds as they do in counter measures against bombings and assassinations.¹⁰ His work is a laudable attempt to analyse and explain the financing of terrorist groups. However, equally significant is his use as a starting point of the terms 'where get the money' and 'how spend', together with the subtitle of his work, 'How the groups that are terrorizing the world get the money to do it'. Even Adams, in his forward thinking, concentrated only on illicit revenue raising and not its flow; his work was on terrorist fund-raising not terrorist fund transfer, omitting one of the two vital components of terrorist financing.

At the turn of the twentieth century, Professor Walter Laqueur at Georgetown University, Washington, an expert on international terrorism, updated and published his work on the history of terrorism.¹¹ It gives an extremely comprehensive and analytical overview of terrorism starting from biblical times up to 2001 (before the 9/11 attacks). It is extremely incisive in describing the terrorist groups and counter measures by authorities and states. It deals with financial aspects, giving insights into former Yugoslavian terrorist groups, the Ustasa and the IMRO;¹² a breakdown of amounts gained by terrorists through kidnapping and ransom demands; a detailed schedule of incoming revenues of terrorists groups from the 1880s to the late 1970s; and deals trenchantly with the issues of state-funded or state-sponsored terrorists. However, in the concluding chapters,¹³ giving a summary assessment of threats and counter measures, no mention is made of terrorist financing. The only financial aspect referred to is that of the economics of terrorism, in terms of addressing the sociological issue of terrorism being a weapon of the poor.¹⁴

More recently, a comprehensive and scholarly work on international terrorism edited by Christopher Ankersen has included a chapter on international finances and terrorism, and in its discussion of the financing of terrorism it is stated that there are three major sources of funds relevant to terrorist organizations: state support, charities and fund movements.¹⁵ The *modus operandi* of moving funds is thus confused with a source of fund-raising. The chapter also refers to the Special Recommendations of the Financial Action Task Force (FATF) on anti-terrorist financing,

¹⁰ *Ibid.* p. 251

¹¹ W. Laqueur, *A History of Terrorism* (Transaction Publishers, New Brunswick, 2001).

¹² *Ibid.* pp. 87–8, 107, 89, 86–9.

¹³ 'Terrorism Today' and 'Conclusion' in *ibid.*

¹⁴ *Ibid.* p. 222, point 7.

¹⁵ M.S. Navier, 'Global Terrorism and International Finance in the Aftermath of 9/11' in C. Ankersen (ed.), *Understanding Global Terror* (Polity Press, Cambridge, 2007) pp. 180–2.

but lists only eight, despite the fact that the work was published as late as 2007 (in fact by 2006, the FATF had put into effect a Ninth Special Recommendation).

A further work, by Dr Rosemary O' Kane, also published in 2007, has been designed for university undergraduate and postgraduate courses.¹⁶ *Terrorism* is part of a series of histories of current affairs issues written by a distinguished academic, again published over half a decade after 9/11. It is extensive in coverage, dealing with many terrorist organizations and has chapters on international terrorism and the future of terrorism. Yet nowhere in its contents does it mention costs, amounts involved, financing, transfer of funds – in short, the whole issue of terrorist financing is absent.

An extreme approach regarding terrorist financing was adopted in 2011 in a work by an academic, Timothy Wittig, in which he postulated that the true significance of terrorist financing lies in relative value chains as opposed to the actual finances and movements. Furthermore, Wittig, who admitted that he was an academic and therefore would not postulate 'real world' practical conclusions, did formulate several recommendations, amongst which were the suggestions that as there are no experts in terrorist financing, (although law enforcement and regulatory practitioners may have a different and more informed view based upon practitioner experience); terrorist financing was largely concerned with trade flows and local socioeconomic inequalities; and that the term 'terrorist financing' should be replaced with 'threat economics'.¹⁷

Since 9/11, there has been an increase in published books on terrorism. However, the main detailed aspects of terrorist financing are to be found in legal and financial compliance works and textbooks. In these, the content consists of advice to financial institutions regarding their obligations under, compliance with, and how to avoid being in breach of anti-terrorist financing legislation. Such works give detailed information regarding the counter measures against terrorist financing; however, they do not analyse the effectiveness or otherwise of such measures, nor give detailed examination of the *modus operandi* of terrorist financing. (It was partly in reaction to this that Wittig expressed frustration and urged, in considering terrorist finances, less focusing upon banks and more on socioeconomic inequalities.)

Even after 9/11 strategic misperceptions amongst law enforcement and government agencies persisted. After 9/11, the European Union formed

¹⁶ R. O' Kane, *Terrorism*, A Short History of Big Ideas series (Longman, London, 2007) chs 8 and 9.

¹⁷ T. Wittig, *Understanding Terrorist Financing* (Macmillan Palgrave, 2011) pp. 189–91.

a multinational law enforcement Task Force, housing and basing it at Europol in The Hague, Netherlands.¹⁸ At several preliminary strategic meetings representatives of the different countries put forward various areas upon which the Task Force could focus and deploy resources. One representative, when the issue of financial intelligence arose, attempted to dismiss the suggestion of the Task Force scrutinizing and investigating this area with the assertive outburst:

Detecting and investigating terrorist financing is too difficult. The amounts involved are small and there is little intelligence value. Any benefit from taking action in this area is far, far more trouble than it is worth. Leave alone.¹⁹

Fortunately, terrorist financing was not left alone by international law enforcement, and efforts have been made to combat terrorist financing, efforts involving commitment and dedication by law enforcement agencies which has been beyond reproach. However, they have to date failed, for three principal reasons: first, the inherent and multiple legal difficulties; secondly, a failure to perceive the full significance of the *modus operandi* of terrorist financing; and thirdly, the strategic mindset of governments and law enforcement intelligence agencies in the domain of certain types of financial crime and counter measures against terrorist financing.

Before considering these reasons in detail, Chapter 2 will support the analysis by setting the scene with a historical overview of some of the main terrorist groups, and how they raise and transfer their finances.

¹⁸ An extremely balanced and impartial assessment of the Counter Terrorist Task Force of Europol is given in D. Brown, *The European Union: Counter Terrorism and Police Co-operation 1992–2007* (Manchester University Press, 2010) pp. 127–31.

¹⁹ Representative of an EU Member State Intelligence /Security Service at Europol Anti Terrorist Task Force meeting, November 2001.

2. Terrorist groups, stood down but still financing?

This chapter serves as an overview of the main terrorist groups that were active in the latter two decades of the twentieth century and their methods of financing, but which are now less active and have disengaged from violence and armed conflict. International terrorism involves complex issues, so it would be oversimplistic to state that this is a historical overview of terrorist groups who have ceased activity. Nonetheless, they are less active, due to their officially engaging in peaceful dialogue, or having been defeated by the governments they were fighting, or having partially or fully achieved their objective(s). It is not an exhaustive coverage of all such terrorist groups – no overview could make such a claim – but it will be useful as background on both terrorist groups and the types of financing activities.

IRA

During the 1919–23 period of the first IRA, basic methods of fund-raising were used, particularly in the 1922–23 aftermath of the conflict against the British and immediately prior to the civil war. During the latter period, in which the anti-Treaty elements of the IRA unsuccessfully attempted a national insurgency, they resorted to blatant robbery for funds. In a three-week period in 1922, one division of the anti-Treaty IRA robbed 320 Post Offices, and engaged in coercive action against citizens for donations under the guise of ‘dog licences’.¹

However, despite the use of these basic methods, it may be argued that the most sophisticated and extensive search for financing in the history of the IRA was carried out during the very first period of its existence between 1919 and 1921. This search was effected by Michael Collins who, besides being a superlative head of Intelligence of the IRA, was also the clandestine republic’s Minister of Finance. Prior to the outbreak of hostilities, Collins identified the most pressing and demanding needs as being

¹ R. Kee, *The Green Flag* (Penguin History, London, 1972) p. 737.

the military resources for the Irish Volunteers (IRA) and the diplomatic expenses of the Irish delegation to the Paris Peace Conference and other international initiatives, which would facilitate *de facto* recognition of an Irish Republic. He successfully raised the equivalent of £250,000 in loans from the United States, thanks largely to de Valera who was active in the United States, and £250,000 within Ireland itself. The bonds sold within Ireland had been sold in units of £1, £5, £10, £20, £50 and £100, and the bonds sold in the United States were sold in similar US\$ units.

There were certain legal difficulties. In the case of the bonds sold in the United States, there was an issue of contravening anti-fraud laws, as it was illegal to sell bonds on behalf of countries not recognized by the United States.² In the case of the Irish certificates, investment payments were to be made twice yearly, once the Irish Republic had received international recognition; in the case of the certificates sold in the United States, the purchaser received a bond certificate that could be exchanged for a gold bond paying 5 per cent interest, exchange and payment to be effective one month after the Irish Republic received international recognition. The conditionality of the establishment of the Republic was to have future legal consequences for ownership of the monies, as officially the Republic was not established until 1949 with full international recognition, and even then it could legally be argued that the Republic consisted of a 32 county sovereign state, not a 26 county state, a legal problem that prevented Ireland becoming a full member of NATO.³ However, neither legal difficulties in the United States or this conditionality in Ireland deterred purchasers and donors. By 1920, within 12 months of the loan being floated, Collins closed the Irish loan with the amount raised at £357,000.⁴ All in all, it was a remarkable feat by Collins of clandestine terrorist revenue raising, 'floating an illegal, though highly successful National Loan, from the back of a bicycle'.⁵

The work of the Ministry of Finance was carried out against a threatening backcloth of continuous raids and searches by British forces, anxious to disrupt the IRA and arrest their operatives. The original clandestine Ministry of Finance was based at Sinn Féin headquarters at 6 Harcourt Street; after Collins escaped during a raid by a prearranged route through a roof skylight and across the rooftops, he purchased another house at 76 Harcourt Street, with concealed closets to hide the financial records,

² T.P. Coogan, *De Valera: Long Fellow, Long Shadow* (Arrow Books, London, 1995) pp. 157–8.

³ Article 4 of the NATO Convention obligates member states to collectively guarantee the territorial integrity of all existing borders.

⁴ Kee, n. 1 above, p. 653.

⁵ Coogan, n. 2 above, p. 121.

and another escape route was prepared. After this escape route was used during another raid, Collins moved the clandestine Finance Ministry to another address, then another, then a fourth, all having secret rooms built in to house the relocated and growing financial records. The IRA also created individual secret rooms in the various successive buildings in which they placed their gold reserves in an empty child-sized coffin, which Collins had buried clandestinely under a fifth address.⁶

As part of the secretive work of the Ministry of Finance, a Land Bank was established,⁷ clandestine in registration, but nonetheless fully operating throughout southern Ireland. The funds were also used to appoint and fund the establishment of diplomatic representatives in seven European countries, one in Russia, and Irish consuls in four different US cities.

The concealment of the fund-raising and the funds themselves in bank accounts and financial structures, as well as the concealed physical structures where the financial records were stored, was an achievement in itself, and even more so considering Collins' other activities as the operational intelligence head of the IRA. These operational activities also included identifying and assassinating an individual who was employed by the British as financial investigator,⁸ his murder on a weekday morning in the centre of Dublin effectively halted investigations into the IRA finances just when a crucial point had been reached in inquiries.

The later PIRA of the 1970s era engaged in less sophisticated methods than raising bonds and loans from mainstream patriotism. In one six-month period, January to June 1978, PIRA acquired £1 million from bank robberies.⁹ A UK intelligence assessment carried out by a senior army officer, based upon intelligence sources and intelligent guessing, estimated PIRA annual revenue in the late 1970s at £950,000, with overall expenditure at £780,000, leaving apparently ample funds for obtaining arms and equipment. These calculations included payment to PIRA members of a weekly 'wage' of £20 a week, with more vital specialist members being paid £40 a week.¹⁰ The source of the incoming revenue was identified as theft including bank robberies, extortion, overseas donations and a small but significant proportion (about £30,000 per year) from the Green Cross 'charity' or republican prisoners' welfare funds.

During the 1970s, the later IRA and PIRA changed its methods

⁶ P. Hogan, address and presentation to the Collins 22 Society Conference, Kilkenny Branch, 16 October 2004, available at www.genberalmichaelcollins.com/CONFERENCE_161004/Phil_Hogan_Hogan_T_D.html.

⁷ F. Pakenham, *Peace by Ordeal* (PIMLICO Press, London, 1935) p. 41.

⁸ Kee, n. 1 above, p. 675.

⁹ T.P. Coogan, *The Troubles: Ireland's Ordeal 1966–1996* (Arrow Books, London, 1993) p. 251.

¹⁰ *Ibid.* pp. 252–3.