

DOLLARS AND SENSE: ADDRESSING THE PROBLEMS PRESENTED BY TERRORIST  
FINANCING

by  
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**Abstract:** This study is an analysis of how terrorist organizations finance their operations, specifically through criminal activity. Financial models of terrorist organizations are the life of terrorist organizations and determine how successful groups are in executing terrorist attacks. The fact that terrorists are engaging in criminal activity presents a number of problems to the United States when establishing policy and counterterrorism efforts to combat terrorism. To what extent are these organizations relying on illicit activity as a method of funding and recruitment and what problems does that present to the United States when it comes to establishing policy and counterterrorism efforts to terrorism? This study reviews otherwise legal and illicit ways that terrorist organizations fund their operations to see which methods are most beneficial and more useful to their operations. Analysis of Al Qaeda, Hezbollah, and Hamas and their engagement in criminal activities as a main source of funding show that terrorist organizations rely heavily and mostly on illicit activities for the majority of their funding and sustainability. U.S. policy that encourages a U.S. whole of government approach is necessary to tackle terrorist financing.

U.S. policy has established that tracking terrorist finances is a priority for the United States Government (USG), but the different roles and opinions of U.S. government agencies and resources available to them are obstacles that the USG must overcome to fight terrorist financing. Luke-warm U.S. policies with minimal guidance to certain agencies does not help the U.S. Government work closely together to address organizational differences and form a strong approach when implementing counterterrorism efforts. Further analysis suggests that policymakers and leaders of agencies within the USG should work together to address these issues. This study provides an in-depth assessment of current obstacles the United States faces as a result of criminally financed terrorism, while also articulating how the USG can address gaps between policy in theory and operational realities that prevent a true whole of government

approach to combating terrorist financing.

Readers: Dr. Rameez Abbas and Dr. Ken Masugi

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## ***Introduction***

Terrorist financing is the fuel that provides terrorist organizations with the resources needed to carry out acts of terrorism. After the September 11, 2001 terrorist attacks on U.S. soil, the United States established more policies and programs to fight terrorism. The United States found that organizations needed money to execute their operations and saw the need to aim counterterrorism efforts at terrorist financing as a way to track organizations and to cut off the flow of funds in hopes of tearing terrorist organizations down by disrupting operations by harming their financial models. This study evaluates in depth, the problems terrorist financing presents to U.S. counterterrorism efforts by evaluating how terrorist organizations finance their operations, both legitimately and illicitly. Evaluating specific instances where organizations the United States sees as a threat have used specific illicit activities to fund their operations, and taking a closer look at the internal issues that must be overcome by the U.S. Government to implement an effective whole-of-government approach to fight terrorist financing is important to disrupt terrorist financing. It is vital to U.S. national security efforts to see if and how terrorist organizations are financing their operations through illicit activity and to review current U.S. counterterrorism efforts and policy in place regarding terrorist financing. To address the problem of terrorist financing, a U.S. whole-of-government approach that overcomes internal obstacles and the current state of terrorism must be implemented to effectively fight terrorism. Ideally, a strong whole-of-government approach would allow each agency to work together and benefit from each other's strengths, while sharing resources and an overall mission.

Terrorist organizations that present threats to the United States are able to be successful in carrying out their operations by having strong and diversified financial mechanisms in place to earn and move funds. These organizations used a number of both legitimate and illicit activities

to finance their operations and carry out acts of violence against the United States and others. This presents many problems to the United States in establishing and executing counterterrorism efforts. In the last decade, there has been a distinct decrease in terrorist organizations using legal business ventures to raise money and an increase of their use of criminal activity as a main resource of fundraising.<sup>1</sup> Most likely organizations have moved to this method, because funding through illegal activity allows for faster hard-cash flow, and is much harder to trace.<sup>2</sup>

### ***Chapter 1: Overview of Terrorist Funding & Funding Methods***

This study looks at disparate groups, methods, and processes that terrorist organizations have used to be successfully fund their operations. It is important to this study to review the different methods to better understand how these methods have evolved and better grasp the challenges the United States faces when implementing policy and counterterrorism efforts to stop terrorist financing. Chapter one looks at various organizations that conduct terrorism and reviews many methods including state sponsorship, various criminal activity, and legitimate processes such as the traditional funds transfer process (Hawalla) that are and have been used to finance terrorist organizations and operations. To better comprehend the level of dependency terrorist organizations have on criminal activity, this study takes a closer look at how reliable major groups that present threats to the United States are on licit and illicit forms of funding. This can best be seen through researching the methods these organizations use to finance their operations, including the criminal activities they engage in that and to what extent they rely on criminal activity for funding.

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<sup>1</sup> Jeanne K. Giraldo and Harold A. Trinkunas, "The Political Economy of Terrorist Financing," *Terrorism Financing and State Responses: A Comparative Perspective*, (Stanford, California: Stanford University Press, 2007), pg. 9-10,

<sup>2</sup> Ibid, 11.

## ***Chapter 2: A Look at Terrorist Financing Through Criminal Activity: Al Qaeda, Hezbollah, Hamas***

Chapter 2 looks closer at the dependency terrorist organizations have on criminal activity for funding. There are a number of benefits that contribute significantly to the reason why terrorist organizations such as Al Qaeda, Hezbollah, and Hamas use crime as a means of funding their operations. However, the most glaring fact revealed by looking at the three groups, is that terrorist organizations prefer gaining funds through crime because it is more difficult for their financial patterns and operations to be traced when they use illicit activities to earn funds. Although all of these organizations have mixed methods for funding case studies reveal that Al Qaeda and its affiliates, Hezbollah, and Hamas are engaged heavily in criminal activity as a main resource of funding. This presents a problem as crime provides hard and quick cash flow that is easy to hide and move, making the challenge to stop terrorist financing more difficult for the U.S. government.

## ***Chapter 3: Overcoming Obstacles: The Need to Establish A Whole-Of-Government Approach***

Terrorist financing through criminal activity, presents obstacles that U.S. policymakers and agencies tasked with protecting U.S. interests from terrorist need to overcome to cut off terrorist financing. Although there are many policies and efforts in place to combat terrorism through monitoring and preventing the flow of funds linked to terrorism and terrorist organizations, there are discrepancies within current policy and within different government agencies, and departments that must be addressed for the United States to collectively fight terrorist financing. One major hurdle exposed in this study is that the U.S. government needs to carefully evaluate each agency's mission and role in the fight against terrorist financing and



ensure the government agrees to a shared mission to counter the problem. Policymakers and officials must also address organizational cultural differences and the lack of resources and support agencies have access to within the U.S. government when they are being tasked with slowing down and preventing terrorist financing. Analyzing the issues U.S. agencies and policymakers face provides guidance on how and where the United States government should focus efforts and resources to combat terrorist criminal activity and financing.

This study will ultimately expose the dangers that illicit terrorist funding poses to the United States and U.S. interests, and assist in providing policy recommendations and guidance on how the United States should approach making changes to current policy and counterterrorism efforts. This study will also prove valuable when it comes to establishing supportive policy, dedicating resources, and defining roles and responsibilities in a whole of government approach that will allow the United States to combat terrorism through eliminating terrorism by cutting off the financial flow to terrorist organizations.

## ***Chapter 1: Overview of Terrorist Funding***

Terrorist organizations are very creative when it comes to funding their operations. Major organizations have been known to use both legitimate business ventures as well as illicit activities to gain profit to run operations and carry out acts of violence. In the last decade, there has been a decrease in terrorist organizations using legal business ventures to raise money and an increase of their use of criminal activity as a main resource of fundraising.<sup>1</sup> For example, organizations such as Al Qaeda and the Haqqani Network have progressively moved from the use of legitimate businesses to gain profit to the use of various criminal activity, a favorite method being kidnapping.<sup>2</sup> Funding through illegal activity has become an ideal method for terrorist organizations to use as it allows for faster hard-cash flow, making it easier for terrorist organizations to transport and use the funding.<sup>3</sup>

Gaining a stronger perspective and understanding of how specific terrorist organizations fund their activities and gain resources is pertinent to see how prevalent terrorist criminal activity has become a tool to gain resources and carry out goals and actions. Evaluating the economic patterns and trends that major terrorist organizations have been known to use will paint a clearer picture of how terrorist networks are increasingly becoming more dependent on criminal activity to raise funds for their operations and how terrorist criminal activity raises overall concerns for American national security.

The focus of this chapter will expose how different terrorist organizations fund their networks, whether that is through legal or illegal methods. Although some policy and legislation

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<sup>1</sup> Jeanne K. Giraldo, and Harold A. Trinkunas, "The Political Economy of Terrorist Financing," *Terrorism Financing and State Responses: A Comparative Perspective*, (Stanford, California: Stanford University Press, 2007), pg. 9-10,

<sup>2</sup> Christopher C. Harmon, *Terrorism Today*, (New York, New York: Routledge, 2008), 78, and Gretchen Peters, *Haqqani Network Financing: The Evolution of an Industry*, The Harmony Program: The Combating Terrorism Center at West Point, July 2012), pg. i,

<sup>3</sup> Giraldo et. al 11,

to mitigate terrorist funding will be introduced in the chapter, it will be addressed in depth in the third chapter of the thesis. This chapter's purpose is solely to get an idea of how terrorist organizations fund their networks and operations and set up their financial models, which will reveal how many terrorist organizations have turned to the use of criminal activity as a method of funding their networks and operations.

Understanding terrorist financing and how it relates to criminal activity is vital to establishing counterterrorism policies. To delve in deeper and evaluate how terrorist organizations use criminal activity as a tool to gain resources and recruit members, this study will focus on several terrorist organizations' funding and financial patterns. Additionally, the research will review how different terrorist organizations have funded themselves in the past and the present using different methods. Grasping a better perspective of trends within terrorists organizations' funding patterns, will assist in answering the overarching question: Should policymakers and national security officials focus counterterrorism efforts toward stopping terrorist criminal activity as a way of limitation to resources, networking, and recruitment?

There are many groups that are considered to be terrorist organizations. Some of these terrorist organizations are small and politically or ideologically motivated, while others are large insurgent groups, all motivated by different end-goals. When deciphering economic patterns of terrorist organizations, it is important to understand and identify the different organizations and networks as they all vary in capability, size, motive, and end-goals. The differences among groups considered to be terrorist organizations can influence where funding sources come from and spending behavior of each organization.<sup>4</sup>

Counterterrorism efforts have shifted after September 11, 2001, to focus on how terrorist

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<sup>4</sup> Ibid, 8-9,

organizations fund their networks and operations. Interrupting the flow of revenue will help disrupt operations. But unfortunately, a vast majority of organizations are trained well and have become very skillful at hiding and moving their resources, which in turn makes it difficult to identify and see a clear picture of their financial patterns.<sup>5</sup> United States law enforcement officials say that tracking terrorist funds is extremely difficult.<sup>6</sup> However, by evaluating collected information and investigating various resources and research on what has been gathered on the topic of terrorist funding, it is easier to compare and analyze patterns to better understand and see just how terrorist organizations are using criminal activity. Additionally, this information and research will reveal what challenges that bring to securing national security against the terrorist threat.

### ***Methods of Terrorist Funding***

Many studies conducted to evaluate trends of terrorist funding can trace economic patterns on a timeline beginning from the Cold War to the present. Funding patterns from the 1960s and 1970s show that most terrorist organizations received the majority of their funds from state-sponsored funding as most organizations around that time had political goals and ties to their home-state. After the Cold War, terrorist activity expanded. Terrorist organizations began forming from insurgent groups as the result of failed states and even for religious and ideological purposes and goals.<sup>7</sup>

Trends show that in the 1990s following the conclusion of the Cold War, state sponsor funding decreased and self-sufficient funding increased, which included the rise of criminal

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<sup>5</sup> Ibid, 8-10,

<sup>6</sup> Nozar Alaolmolki, *Militant Islamists*, (Westport, CT: Praeger Security International, 2009), 52,

<sup>7</sup> Giraldo et al. 11,

activity as a means of income.<sup>8</sup> State-sponsored funding of terrorism has allowed terrorism to thrive following the Cold War and terrorist organizations have been able to become more independent without state funding and support.<sup>9</sup> State funding was a popular source of funding during the Cold War because governments could use guerilla and revolutionary groups covertly to achieve goals of the state. These groups enjoyed the supply of money and other resources from the state. Sometimes the state's goals were not in the best interest of foreign relations so these groups provided a way for the government to achieve goals through unpopular means. If caught, the state could often deny they offered support to these groups. Examples of state sponsored terrorism include the group of individuals who took Americans hostage in Iran in 1979. These individuals thought to be a revolutionary group of Iranian students, were actually found to have the support of Ayatollah Khomeini and his regime. The same individuals were also found to be behind other acts of terrorism. It is likely that many terrorist organizations that are now thought to independently use different methods and business ventures, would not have had enough support without the state to survive and maintain themselves. Many scholars suggest that terrorist organizations heavily prevalent today, are able to be more diverse when it comes to gaining profit due to the rapid expansion of globalization, "the development of an increasingly integrated global economy marked especially by free trade, free flow of capital, and the tapping of cheaper foreign labor markets."<sup>10</sup> Terrorist organizations "enjoy many advantages of globalization,<sup>11</sup>" by allowing the opportunities for terrorist organizations to be involved in international business ventures, both licit and illicit and to be creative in how they gain profit to

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<sup>8</sup> Ibid, 9,

<sup>9</sup> Library Index, "International Terrorism-State Sponsored Terrorism." Accessed December 05, 2013. <http://www.libraryindex.com/pages/1913/International-Terrorism-STATE-SPONSORED-TERRORISM.html>,

<sup>10</sup> Merriam-Webster Dictionary Online, "Globalization." <http://www.merriam-webster.com/dictionary/globalization>,

<sup>11</sup> Giraldo et al. 9,

maintain their networks and for operations. With the expansion of globalization also came many failed states that various organizations could hide behind to delve into criminal activity as a way to gain resources and funding.<sup>12</sup>

### ***Terrorist Organizations & Terrorism***

Reviewing how specific terrorist organizations fund their networks and operations will reveal that terrorist organizations are reverting to criminal activity to fund their organizations. By evaluating these specific terrorist organizations, it is clear that terrorist organizations heavily benefit from mixing criminal activity with legal methods of funding to sustain operations and strengthen their networks. According to Title 22 of U.S. Code, Section 2656f(d), a terrorist group is defined by "any group practicing, or which has significant subgroups which practice international terrorism."<sup>13</sup> The groups addressed in this study, have all partaken in terrorism and the players involved in earning and contributing funds are to be held accountable for terrorism just as those who carry out the actual acts of terrorism.<sup>14</sup>

### ***The Haqqani Network***

In 2012, the United States designated the Haqqani Network as a terrorist organization.<sup>15</sup> The Haqqanis are a semi-autonomous network within the Taliban, connected to the State of Pakistan and it is thought they have ties to Al Qaeda. The Haqqani Network is considered to be one of the most dangerous and organized terrorist networks with some of the best business skills

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<sup>12</sup> Ibid, 10-11,

<sup>13</sup> 22 U.S.C. § 2656f(d), <https://www.law.cornell.edu/uscode/text/22/2656f>,

<sup>14</sup> Matthew Levitt, "Status Report on Countering Terrorist Financing." *Washington Institute*, <http://www.washingtoninstitute.org/levittTestimony20150513.pdf>,

<sup>15</sup> Phil Stewart and Andrew Quinn. "U.S. Designates Haqqani Network a Terrorist Group." *Reuters*, September 08, 2012. <http://www.reuters.com/article/2012/09/08/us-usa-security-haqqani-idUSBRE88606I20120908> (accessed December 21, 2013),

when it comes to their funding and financial matters. The Haqqanis have flown under the radar for quite some time which has allowed them to engage in many different legal and illegal business ventures to fund their organization and execute terroristic operations.<sup>16</sup> In 2002 documents seized from one of the Haqqani networks showed that the network relied mostly on the Pakistan's Intelligence Agency (ISI) for cash and supplies for the majority of the 1990s.<sup>17</sup> The Haqqani's have expanded and diversified the ways that they receive funding over the years. The network has been found to be involved in real-estate, construction, and even run their own businesses which double as a cover to launder money earned from criminal activity that they partake in. When it comes to gaining profit through illegal methods the Haqqani Network besides engaging in money laundering, they also use kidnapping and extortion of different businesses to earn funds. They have also been known to engage in charging to protect and assist in smuggling operations, which includes human smuggling and the transportation of narcotics and precursor chemicals used to make illegal narcotics.<sup>18</sup> The precursor chemicals are hidden through legitimate businesses, such as hiding behind the face of hospitals and medical centers for medicinal purposes. This illegal activity relies on the fact that Haqqani leaders are minor stakeholder owners of the medical centers and hospitals taking part in the illegal transportation of precursor chemicals.<sup>19</sup>

The structure and hierarchy of the Haqqani Network is small but efficient. Started by Jalaluddin Haqqani, the network is now controlled by his sons and made up of only twelve players who hold leadership positions.<sup>20</sup> Jalaluddin started early building close relationships with political, military, and local business community to establish supportive ties to the network that

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<sup>16</sup> Peters,

<sup>17</sup> Ibid, 17,

<sup>18</sup> Ibid ,21-22; 45-46,

<sup>19</sup> Ibid, 46,

<sup>20</sup> Ibid 17,

has assisted the organization financially over the years. Looking at the history of the group prior to 2005, when Jalaluddin retired as leader of the network and passed it on to his sons, Sirrajuddin and Badruddin, reports show that most of the network's sources of income were through legitimate means. The Haqqani Network uses real-estate ventures, gives out small loans, as well as operates its own businesses to gain profit. After 2005 to diversify and hide their economic patterns, Haqqani's sons have engaged the organization in various criminal activities as another source of profit along with the legitimate businesses they were previously involved in. This illicit activity shows how the network relies on the relationships they formed with political and military leaders to have protection while engaging in illegal activity for profit.

Another reason the Haqqani Network has been financially successful is because of its meticulous record keeping of funds.<sup>21</sup> Documents show that not only is the group careful and particular with spending, but they keep record of every receipt, payment, and transaction ever made on behalf of the network. Although this is a great method to keep their finances in order, it can also be a vulnerability to the group because it reveals their financial cycle; where their money is coming from and where it is going. In a 2012 report on Haqqani Network Financing, Gretchen Peters suggest that because of the Haqqani Network's size and recording methods, they can easily run into cash flow issues, but they also know how to work with very little funding and are experts at adapting themselves to work with whatever resources they may have. The Haqqani Network use what leverage they have with the State of Pakistan along with their ties to Al Qaeda and the Taliban to continue their growing and successful operations.

The Haqqani Network has been compared to the Italian Mafia because they are a small network that utilizes political relationships and crime to gain resources.<sup>22</sup> Just recently added in

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<sup>21</sup> Ibid, 17,

<sup>22</sup> Ibid,



2012, to the United States State Department list of Terrorist Organizations, this group is unique because its strengths also double as its weaknesses. Their records help reveal their financial trends and patterns, but because they are extremely diversified when it comes to gaining financial profit, it is difficult to identify all of their operations, additional connections and resources alongside other unknown means they may or may not be involved in.<sup>23</sup> As counterterrorism efforts have moved to cut off resources and finances of terrorist organizations, it is important to review the Haqqani Network's financial model and even more importantly see how they use both licit and illicit methods to their advantage to be successful. Understanding the financial patterns and operation of small terrorist organizations, such as the skilled Haqqani Network, will open up many possibilities for American national security officials and policymakers to identify similar patterns within other terrorist organizations.

### *Al Qaeda*

Like the smaller Haqqani Network, Al Qaeda and its affiliates are considered to be one of the most intelligent Terrorist organizations when it comes to fundraising and financing their operations. Al Qaeda has been known to use both licit and illicit methods to finance their operations. Al Qaeda has been found over the years to hide, move, and gain a profit using charitable organizations and mosques to mask funds.<sup>24</sup> Al Qaeda is also expert at gaining funds and sympathetic support from those who believe in their religious cause and purpose. A Council on Foreign Relations study showed that individuals and charities in Saudi Arabia were main donors of monetary support to Al Qaeda.<sup>25</sup> Al Qaeda relied on many Imams (head of the Mosque) to receive tithing funds from the congregation, known as Zakat. These Imams were able

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<sup>23</sup> Ibid,

<sup>24</sup> Ibid, 52,

<sup>25</sup> Ibid, 78,

to convince members of the mosque that these funds were going to a justifiable cause.<sup>26</sup> It is believed that terrorist organizations that use charities to either hide funds or to gain profit, penetrate the charity and convince those from the inside to contribute to their cause, or they establish the charity to use as a cover for money laundering purposes.<sup>27</sup> Also Al Qaeda receives funding from volunteers, many who would come from Saudi Arabia, who will bring money to pay for their own training at Al Qaeda camps and because these volunteers believe that they are contributing to a worthy cause and justifiable purpose.<sup>28</sup>

Branches of Al Qaeda, such as Al Qaeda Iraq and Al Qaeda Arabian Peninsula, have also hidden funds and gained profit through semi-legitimate companies such as import and export businesses and even banks. For example, a United States based member of Al Qaeda, Wadi Al-Hage, used the Darkazanili Import-Export Company based in Hamburg, Germany as a business cover to hide his identity and funds before assisting in the 1998 bombings in East Africa. An example of banks assisting in terrorist financing and hiding funds includes the Dubai Islamic Bank in the United Arab Emirates. Once it was discovered that the Dubai Islamic Bank was connected to Al Qaeda, the bank was shut down within the United States. Al Taqwa was another bank that was assisting both Al Qaeda and the Palestinian terrorist organization, Hamas, in moving funds used for operations.<sup>29</sup>

When it comes to organized criminal activity there has been debate among scholars and analysts that Al Qaeda engages in specific organized criminal activities such as drug trafficking and the conflict diamond trade ring in Africa.<sup>30</sup> Many branches of Al Qaeda have also been

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<sup>26</sup> Victor Comras, "Al Qaeda Finances and Funding to Affiliated Groups," *Terrorism Financing and State Responses: A Comparative Perspective*, ed. Jeanne K. Giraldo and Harold A. Trinkunas (Stanford, California: Stanford University Press, 2007), 116,

<sup>27</sup> Ibid 83,

<sup>28</sup> Ibid 10,

<sup>29</sup> Harmon 85,

<sup>30</sup> Giraldo et al., 27-28,

known to rely on kidnapping for ransom and human smuggling.<sup>31</sup> Al Qaeda members in Iraq are infamously known for kidnapping hostages for large amounts of ransom money. Some of these ransom fees would range from US \$50,000 to \$600,000.<sup>32</sup> These same members engaged in the criminal activity of the theft and smuggling of oil from the Bayji Oil Refinery, where they would siphon the oil into trucks and then sell the oil on the black market. Al Qaeda Iraq was thought to make almost \$2 Million a month off of stolen oil.<sup>33</sup> Al Qaeda, as of 2007, in Iraq began to rely on car theft as a main source of financing. They would set up fake checkpoints dressed as police officers, seize the car, change the license plate and then resell the vehicle. Iraqi Al Qaeda affiliates would also engage in contraband smuggling as a large resource to gain income.<sup>34</sup>

Because Al Qaeda is such a complex organization, it is difficult to track many of the methods they use for funding and it is possible that Al Qaeda does not partake in drug trafficking as much as other organizations as they have many other lucrative business skills.<sup>35</sup> The problems that arise when attempting to mitigate Al Qaeda's financial structure arise from the organization's fundraising methods as movement of these funds are difficult to track because they are extremely diverse and they tend to move small amounts that are hidden very carefully, sometimes moving by engaging in the Hawalla System of Tradition Funds Transfer System (TFTS) that will be addressed later in this chapter.<sup>36</sup> Al Qaeda is a prime example of a large terrorist organization that is religiously and, as some would argue, sometimes politically motivated terrorist organizations that operates on many different levels to finance their operations. Al Qaeda is one of the most closely watched terrorist organizations as they present one of the largest threats to the western

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<sup>31</sup> Comras 116,

<sup>32</sup> Williams, Phil, *Criminals, Militias, and Insurgents: Organized Crime in Iraq*, (Strategic Studies Institute, 2009), 231,

<sup>33</sup> Ibid, 231-232,

<sup>34</sup> Ibid, 233,

<sup>35</sup> Ibid, 77,

<sup>36</sup> Ibid, 23-24,

world. It is important to understand their financial model and methods of funding since they have been successful in carrying out violent attacks and engage in different and advanced, and many times extremely violent, forms of criminal activity to gain financial resources.

### ***Other Networks***

Although Al Qaeda, the Haqqani network, and other Taliban Terrorists organizations are important to understand when it comes to funding, it is also important to look at other networks both large and small. Many terrorist organizations that prove to be threats to the United States and other parts of the world may not have the size to use legitimate businesses and organizations to gain profit and hide funds like larger organizations have the ability to do. It is also important to understand that many terrorist organizations work hand-in-hand together with other terrorist organizations. As such the smaller organizations tend to model themselves after larger organizations such as Al Qaeda, and some even engage with organized crime organizations that may not be considered or classified as a terrorist organization, such as the relationship between Hezbollah and Mexican drug cartels.

The National Liberation Army (ELN) of Colombia is a small organization but is business savvy when it comes to funding and running their operations. The ELN was designated a communist or socialist motivated terrorist organization by the United States in 2005. Recovered disks found within a safe house used by the National Liberation Army (ELN), revealed that the ELN was a wealthy organization. On the discovered disks, there was information that mapped out exactly how much money was being obtained from extortion, theft and robberies, and from drug trafficking. This group is less wealthy than the larger communist terrorist organization, The Revolutionary Armed Forces of Colombia (FARC), but ranked 45th among Colombia's

legitimate corporations and the larger and wealthier FARC ranked 23rd.<sup>37</sup> This shows that these organizations work together and engage in similar activity and methods when it comes to financial trends and funding their organizations.

Various terrorist organizations have been known to buy and sell self-produced counterfeit goods such as clothing, handbags, and even tobacco products. Major groups have been caught producing and selling counterfeit goods within the United States and then placing the money raised on these counterfeit items back within their organizations.<sup>38</sup> The Lebanese based organization, Hezbollah, has been known to raise funds through the reproduction of designer clothing and the resale of counterfeit tobacco products, usually cigarettes, taking advantage in selling tobacco without paying the state tax prior to sale.<sup>39</sup>

Many terrorist organizations and networks even rely on robbery and hostage taking. The Irish Republic Army (IRA), an old organized crime ring considered to be a terrorist organization in the United Kingdom<sup>40</sup>, has been known to raise funds through robbery and hostage taking; they are also experts at extorting local businesses to fund their organization. Similar to hostage taking, kidnapping is a popular method to raise funds among most terrorist organizations.<sup>41</sup> Kidnapping is a favorite means of funding among Latin American terrorist organizations just as it is with Al Qaeda and the Haqqani Network. Groups such as Al Qaeda in the Islamic Maghreb (AQIM), Al Shabaab, and Boko Haram-- all affiliates with Al Qaeda engage in kidnapping for ransom as it is easy way to earn a large amount of cash. Many times they receive support from

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<sup>37</sup> Harmon 74,

<sup>38</sup> Ibid,

<sup>39</sup> U.S. House Committee on Homeland Security and Governmental Affairs. *Counterfeit Goods: Easy Cash for Criminals and Terrorists Congressional*, Hearing May 25, 2005 (S. Hrg. 109-202). Washington : U.S. Government Printing Office, 2005,

<sup>40</sup> Government of the United Kingdom, "Proscribed Terror Groups or Organisations." Last modified December 12, 2013. Accessed December 21, 2013. <https://www.gov.uk/government/publications/proscribed-terror-groups-or-organisations--2>,

<sup>41</sup> Harmon 75,

regional organizations to gain weapons used in the kidnappings and to conduct the kidnappings.<sup>42</sup> Kidnappings not only have the potential to ensue fear of the organization to prove that they are capable of harm and violence, but also allow the organizations to carefully target wealthy families for the best ransom transaction that will benefit the organization.

Another favorite method among many terror organizations is the illicit activity of drug production and sales for profit as it brings in large amounts of income. In the late 1990s, the Revolutionary Armed Forces of Colombia (FARC) became more reliant on drug production and trafficking for profitable income to run their operations.<sup>43</sup> In 2002 the United States Congress discovered that the FARC and ELN of Colombia were making a profit of at least \$2 million dollars a day from drug production and trafficking of Cocaine.<sup>44</sup> Hezbollah has also been suspected of engaging in drug production and trafficking as a source of income. Not only is Hezbollah involved in trafficking Cocaine and other narcotics throughout the Mediterranean,<sup>45</sup> but also there has been much concern voiced by United States officials that Hezbollah is in business with and has ties to major Mexican drug cartels. This raises concerns that not only is there a presence of Hezbollah members operating in the United States' neighboring country of Mexico, but that Hezbollah and other terrorist organizations can take advantage of the drug trafficking routes and possibly use the routes to not only smuggle drugs, but also people, into the United States.<sup>46</sup>

Other organizations earn profit from the support of Diasporas, or communities of natives

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<sup>42</sup> Dario Cristiano and, Riccardo Fabiano , "AQIM Funds Terrorist Operations with Thriving Sahel-Based Kidnapping Industry," *Jamestown Foundation*, 2010, [http://www.jamestown.org/single/?tx\\_ttnews\[tt\\_news\]=35963#.VdNATpc7cy](http://www.jamestown.org/single/?tx_ttnews[tt_news]=35963#.VdNATpc7cy),

<sup>43</sup> Giraldo 14,

<sup>44</sup> Harmon 75,

<sup>45</sup> U.S. Library of Congress, Federal Research Division. (May 2002) *A Global Overview of Narcotics-Funded Terrorists and other Extremist Groups*, pg 75-79,

<sup>46</sup> Nelson, Ed. U.S. Border Control, "Hezbollah is Working with Mexican Drug Cartels, Following Their Routes into U.S.." Last modified April 29, 2010. Accessed November 15, 2013. <http://www.usbc.org/terrorism/hezbollah-is-working-with-mexican-drug-cartels-following-their-routes-into-u-s/>,

who have relocated or colonized outside of their native homes. The Sri Lankan Liberation Tigers of Tamil Eelam (Tigers of Tamil, or LTTE) turned gaining support from Diasporas of Tamil communities in both Canada and Great Britain into a profit-making business by charging members of these communities for taking part in cultural and social organizations as well as Tamil media outlets.<sup>47</sup> Tamil Diasporas within North America, Europe, and India have been known to provide the LTTE with money, weapons, and shelter. The Canadian Diaspora has been known to provide the Tamil Tigers with monetary support. Although the Tamil Tigers still receive some support from the different Diasporas, peace talks of the early 1990s caused the LTTE to shift their main resource of funding to legitimate business ventures that offered a more stable form of income.<sup>48</sup>

Similar to Al Qaeda and the LTTE receiving support from Tamil community members, the Palestinian Hamas organization funds its operations from the support of individuals, but their main resource was through charitable organizations. Hamas banks on the perception to many Palestinians' that they are an organization that is charitable in areas where the Palestinian government has failed. Hamas has also been successful in gaining income through charitable associations and organizations, also known as Dawa activity, within Europe and the United States. Although some of the Dawa funds are used for humanitarian aid, it is impossible to separate what amounts are used for aid and what amounts go to terrorist activity.<sup>49</sup>

### ***Traditional Funds Transfer System (Hawalla)***

Another important factor to look at is how terrorist organizations take advantage of

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<sup>47</sup> Giraldo 13,

<sup>48</sup> U.N. Monitoring Group, *Second Report of the Monitoring Group Established Pursuant to Resolution 1363 (2001) and Extended by Resolutions 1390 (2002) and 1455 (2003), on sanctions against Al-Qaeda, the Taliban and Individuals and Entities Associated with Them*, As cited in : Phil Williams, "Warning Indicators and Terrorist Finances," *Terrorism Financing and State Responses: A Comparative Perspective*, ed. Jeanne K. Giraldo and Harold A. Trinkunas (Stanford, California: Stanford University Press, 2007), 74, Footnote 4,

<sup>49</sup> Globalsecurity, "Hamas Funding." Last modified March 26, 2012. Accessed November 23, 2013. <http://www.globalsecurity.org/military/world/para/hamas-funds.htm>,

completely legal processes and use them illegally such as Hawalla, or the Traditional Funds Transfer System (TFTS), which is the old way of banking throughout Asia and African society, meaning bill of exchange "transfer," or promissory note in Arabic.<sup>50</sup> People within these countries use a third party businessperson or Hallawandar, to make transactions to avoid high banking fees and to expedite the process of transferring funds. Although this is a traditional method of banking for many people who want to make legal business transactions, it became an alarming concern to United States officials and those trying to combat terrorism that many terrorist and criminal organizations were able to move funds and conduct business by using the Hawalla process. The use of the Hawalla process is a safe method that terrorist organizations can move money and partake in business, moving funds quickly, making it nearly impossible to trace funds and business transactions moved through TFTS.

On November 14, 2001, the United States Senate held a hearing that addressed concerns that terrorist organizations were using TFTS as an "underground pipeline" to transfer terrorist network funds. Hawalla was used as a way to transfer the funds used to execute the terrorist attacks on United States soil on September 11, 2001. Understanding how terrorists were funding their actions became a high priority in counterterrorism efforts following the attacks of September 11, 2001. United States Congress addressed the issue that the use of the Hawalla fund transfer system could be used to transfer illicit funds used to fund terrorism or even mask funds by using the system to launder money. In 1994, the United States Congress made a strong effort to regulate the TFTS by drafting a legislative amendment to the Banking Secrecy Act (BSA) of 1970, that would require all informal financial entities doing business with the United States to register with the government, however the regulations for this law remained unpublished, allowing Hawalladars (the Hawalla operator and person who facilitates the transfer and informal

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<sup>50</sup> Nozar Alaolmolki, *Militant Islamists*, (Westport, CT: Praeger Security International, 2009), 49,



business transaction)<sup>51</sup> to continue to legally operate and do business within the United States without supervision.<sup>52</sup> However, after the Patriot Act was passed in 2001, new regulations under Title III of the act (also known as the International Money Laundering Abatement and Financial Anti-Terrorism Act) amended the Banking Secrecy Act and other financial laws used to prevent money laundering and other white-collar criminal activity.<sup>53</sup> Other countries have made the TFTS process completely illegal. These countries are concerned that the Hawalla process has not only played a huge role in terrorist financing, but also appeals to criminals across the board, as it is difficult to trace movement of funds.<sup>54</sup>

It is important to understand the Hawalla or Traditional Fund Transfer System and to see what role the system plays in terrorist financing. It is extremely beneficial to understand trends of terrorist financing and how organizations are financing themselves and moving the funds whether gained through licit or illicit means and seeing how terrorist organizations have used legal systems for malicious purposes. The TFTS has been around for hundreds of years and what was once a convenient method for anyone to move funds and avoid the high costs of banks and move funds fast. Terrorist organizations have taken the system and have manipulated it to serve as a function that helps launder money and move profit gained by illegal methods. This shows that terrorist organizations are willing to use any method to achieve their goals and are willing to partake in both illegal and legal activities to gain resources as well as abuse legal systems by tailoring them to meet their financial needs.

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<sup>51</sup> Ibid, 50,

<sup>52</sup> U.S. Senate Subcommittee on International Trade and Finance, *Hawala and Underground Terrorist Financing Mechanisms*, Hearing, November 14, 2001.(S.HRG 107-660). Washington: U.S. Government Printing Office, 2002,

<sup>53</sup> Financial Crimes Enforcement Network: United States Department of Treasury, "FinCen's Mandate from Congress." Accessed December 15, 2013. [http://www.fincen.gov/statutes\\_regs/bsa/](http://www.fincen.gov/statutes_regs/bsa/),

<sup>54</sup> Alaolmolki 53,

### ***Conclusion: The Future of Terrorist Financing***

It is evident that terrorist organizations are creative and diverse when it comes to using different methods in gaining and maintaining profit to fund terrorist operations. Although many terrorist organizations are extremely diverse from each other when it comes to size, goals, and motives, most engage in both licit and illicit methods to fund their networks and operations. Each terrorist organization tailors their methods based on their individual resources and needs. For example, Al Qaeda does not engage in drug trafficking to earn profit, but the FARC and ELN of Colombia use drug trafficking as a main resource of funding. The rapid expansion of globalization over the last couple of decades has allowed terrorist to engage themselves in different transnational business ventures both legal and illegal.

There is no doubt that the majority of terrorist organizations have more than one method of fund raising for their organization. The majority of terrorist organizations partake in one or more type of criminal activity to raise funds and as a means to gather resources. Much of this activity is difficult to track and if they are caught, they have the opportunity to move on to a different method for profitable financial intake. Globalization and the constant changing and evolutionary world of technology allow terrorist organizations to take advantage of different business ventures and even engage in fraud and cyber criminal activity. Many terrorist organizations have already moved to computer hacking as a source of financing. As technology keeps evolving, concerns have risen that terrorist organizations will use cyber crime such as credit-card fraud and even phishing schemes as a way to gain profit to fund operations.<sup>55</sup> As terrorist organizations began to be self-sufficient they have all moved to using a number of diversified methods as means to gain funds and maintain their financial networks to sustain themselves and carry out their operations. Understanding how terrorist organizations fund

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<sup>55</sup> Alaolmolki 55,

themselves and move their funds is pertinent to evaluate how terrorist organizations are using diversified criminal activity as a main method to gain resources and even recruit members. Although there are many laws and policies that address criminal activity and terrorism, the question then becomes, are current laws and policies addressing the threats that present themselves when terrorist organizations use criminal activity to achieve their goals? Should counterterrorism efforts be focused on deterring terrorist criminal activity? Criminal activity serves as a way to earn profit and even as a diversion for terrorist organizations to use to cover their terroristic activities and operations.<sup>56</sup> This overview of terrorist funding reveals how terrorist organizations benefit from criminal activity and even turn completely legal processes into illegal tools of terrorism.

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<sup>56</sup> Harmon, 11.

## ***Chapter 2***

### ***A Look at Terrorist Financing Through Criminal Activity: Al Qaeda, Hezbollah, Hamas***

Since the terrorist attacks of September 11, 2001, United States counterterrorism efforts have been made to gather intelligence regarding how terrorist organizations ultimately fund their activities in hopes of cutting off the flow of financial resources to debilitate these groups and keep them from successfully reaching their violent goals.<sup>1</sup> Terrorist organizations present many different threats to U.S. National Security. These organizations cannot operate without financial means. The following terrorist organizations are creative when it comes to funding their networks and actions, and receive support through licit and illicit financing. Although organizations in the past were predominately state sponsored, organizations are moving into their own business ventures, and depending more on criminal activity to gain, hide, and move funds. The criminal activity itself could be considered a threat, but just how dependent are terrorist organizations on criminal activity when it comes to funding? It is important to note that the United States considers all acts and links to terrorism a crime, but this study defines criminal activity as acts of traditional organized crime, such as theft or kidnapping, or white collar crimes dealing with money laundering and illegal businesses, not the acts or operations of terror themselves. Ultimately, cutting off illegitimate resources to these organizations would inhibit their overall operations and activities as they heavily rely on criminal activity as a main resource of funding.

To better understand the level of dependency terrorist organizations have on criminal activity, it is important to look at the amount of reliability major groups such as Al Qaeda, Hezbollah, and Hamas are on licit and illicit forms of funding through researching their methods

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<sup>1</sup> Jeanne K. Giraldo, and Harold A. Trinkunas, "The Political Economy of Terrorist Financing," *Terrorism Financing and State Responses: A Comparative Perspective*, (Stanford, California: Stanford University Press, 2007,

of how they finance their operations and delve deeper into finding what crimes, if any, contribute to funding and to what extent. As a result of the conclusion of the Cold War, research has shown that terrorist organizations have moved away from being predominantly state funded and have moved to self-sufficient ways to finance their operations.<sup>2</sup> There are a number of benefits that contribute significantly to the reason why terrorist organizations such as Al Qaeda, Hezbollah, and Hamas have moved to different methods for funding. However, the most important is that it is more difficult for their financial patterns and operations to be traced.

Although Al Qaeda, Hamas, and Hezbollah have all gained profit from legitimate businesses, after several major terrorist attacks on the west in the early 2000s, counterterrorism efforts were expanded to seek out organizations and learn the ins and outs of what allowed a group to be successful and continue to thrive. This exposed organizations using legitimate means to finance themselves. This included the exploitation of charities set up to gain donations for their cause and those receiving state funds. Because legitimate businesses are easier to trace, Al Qaeda, Hamas, and Hezbollah have moved away from legal methods of funding such as state sponsorship and legitimate businesses and charities, and have increasingly moved to criminal activity as a main resource of income and funding. This becomes problematic for national security efforts as crime inherently presents threats and risks to public safety in general, but these crimes are contributing to funding the ultimate act of terror.

It is no mystery that Al Qaeda, Hamas, and Hezbollah all engage in criminal activity to fund and sustain their operations, however there are different views of why these organizations partake in particular crimes and how much they actually rely on criminal activity as a resource. Almost in all cases when it comes to terrorist funding, state sponsorship of terrorist organizations

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<sup>2</sup> Ibid,

overlaps with other sources of funding, such as criminal activity.<sup>3</sup>

### *Al Qaeda*

Al Qaeda funding comes mostly through the infiltration of charities and sympathetic islamists as sponsors through donations, or through the tithing process known as Zakat.<sup>4</sup> Studies show that Pre-9/11 resources could have come from Osama Bin Laden himself, that the organization set-up their own businesses, that Al Qaeda was and is potentially engaged in the African Conflict Diamond trade, that they were funded by foreign governments sympathetic to their cause, and that they were involved in international drug trade. Victor Comras makes the claim that it is currently challenging to prove what other resources and means contribute to Al Qaeda's financial infrastructure and how much funding actually comes from other sources, such as criminal activity. However, because Al Qaeda operates in small and local geographical cells, they most likely rely heavily on criminal activity financing to remain covert, and to quickly move and hide funds.

The overthrow of the Taliban and Al Qaeda base camps in Afghanistan caused Al Qaeda to splinter into local cells that operate autonomously. The Taliban and Al Qaeda are responsible for their own fundraising. This raises another challenge as these groups are harder to track because they rely on locals for donations, internet solicitation, petty crime, and drug trade for financial resources.<sup>5</sup> Mark Basile explains that Al Qaeda's Operational Doctrine actually calls for these cells to financially function autonomously so their funding operations and activities are

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<sup>3</sup> Joshua Alexander Geltzer, "Taking Hand-Outs or Going It Alone: Nationalization versus Privatization in the Funding of Islamist Terrorist Groups," *Studies in Conflict and Terrorism*, 34 (2011):144-170,

<sup>4</sup> Victor Comras, "Al Qaeda Finances and Funding to Affiliated Groups," *Terrorism Financing and State Responses: A Comparative Perspective*, ed. Jeanne K. Giraldo and Harold A. Trinkunas (Stanford, California: Stanford University Press, 2007),

<sup>5</sup> Ibid,

harder to track down.<sup>6</sup> Michael Scheuer also explains that part of Osama Bin Laden's "business plan" for Al Qaeda was to "build and strengthen" the autonomous sectors, or "off-shoots", of Al Qaeda and diversifying funds is one way to do so.<sup>7</sup> Juan Miguel del Cid Gómez, reiterates Scheuer's main point of how Al Qaeda's financial network functions by explaining how Al Qaeda has used white collar crime such as moving funds through charitable organizations and through illegitimate businesses as a ploy to hide funds and protect their financial infrastructure. Al Qaeda then takes advantage of the Hawalla (traditional funds transfer system), which uses a third party individual to move and safe keep funds. This completely legal process is used to launder money earned to finance the organization.<sup>8</sup> Al Qaeda's funding patterns and trends are difficult to detect because they have gotten better at hiding their financial patterns, which is an attribute of the use of criminal activity. It will take collaboration of private sector groups and the intelligence community to better track and mitigate Al Qaeda's funding mechanism.<sup>9</sup>

Phil Williams' work highlights Al Qaeda's criminal activity in Iraq. Al Qaeda in Iraq has been found to engage in criminal activity such as kidnapping, oil theft and smuggling, fraud, and even on occasion automobile theft.<sup>10</sup> Williams claims that Al Qaeda in Iraq receives some amount of funding from criminal activity. Again, it is challenging to find out just how much funding is coming from the illicit activities since much of the activity is covert.<sup>11</sup> A U.S. Government intelligence estimate released in 2006 claimed that Al Qaeda Iraq was making between \$70 million to \$200 million a year from criminal activity alone and they were able to

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<sup>6</sup> Mark Basile, "Going to the Source: Why Al Qaeda's Financial," *Studies in Conflict and Terrorism*, 27: 169-185, (2004),

<sup>7</sup> Michael Scheuer, "The Zawahiri Era," *The National Interest*, September-October (2011): 18-25,

<sup>8</sup> Ibid,

<sup>9</sup> Juan Miguel del cid Gómez, "A Financial Profile on Terrorism of Al-Qaeda and its Affiliates," *Perspectives on Terrorism*, 4, no. 4 (2010): 3-27,

<sup>10</sup> Phil Williams, *Criminals, Militias, and Insurgents: Organized Crime in Iraq*, (Strategic Studies Institute, 2009),

<sup>11</sup> Ibid,

sustain themselves on funding from criminal activities.<sup>12</sup> Williams is more hesitant and reluctant to make the claim that Al Qaeda Iraq depends on criminal activity as a main resource of funding as they still depend on donations from volunteers and benefactors.

Like Al Qaeda Iraq, Al Qaeda Arabian Peninsula (AQAP), funds itself by merging state sponsored funds and criminal activity to fund their organization. It was reported in 2010, that Saudi Arabia was providing financial support to AQAP and that they too were engaging in other criminal activity like their counterparts Al Qaeda Iraq.<sup>13</sup> Other Al Qaeda affiliates such as the Somali group Al Shabaab and the Algerian group, Al Qaeda in the Islamic Maghreb (AQIM), also received mixed funding from state and private sponsors, as well as engage in piracy, kidnapping, human trafficking and drug trafficking.<sup>14</sup> Modeling their financial mechanisms after their larger affiliate has allowed these groups to fund themselves and carry out operations. Like the other organizations highlighted, a move from state and local government sponsors have encouraged groups to diversify their financial models and engage in more criminal activity and a main resource of funding.

### ***Hezbollah and Hamas***

Hezbollah's funding is unique because they are partially state-sponsor funded through the Iranian government.<sup>15</sup> Iran gives Hezbollah monetary aid yearly. However, trends show Hezbollah has moved from depending solely on Iranian government funds to depending on diasporas in Latin America and through the engagement of criminal activity.<sup>16</sup> Like Al Qaeda,

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<sup>12</sup> Ibid,

<sup>13</sup> Ibid,

<sup>14</sup> William Constanza, "Hizbollah and Its Mission in Latin America," *Studies in Conflict and Terrorism*, 35 (2012): 193-210,

<sup>15</sup> Ibid,

<sup>16</sup> Martin Rudner, "Hizbollah Terrorism Finance: Fund-Raising and Money-Laundering," *Studies in Conflict and Terrorism*, 33 (2010): 700-715,



Hezbollah and Hamas receive funds through charitable organizations.<sup>17</sup> Jennifer Hesterman suggests that Hezbollah engages in criminal activity in Latin American countries to be closer to the west and to build coalitions with major Latin organized crime groups.<sup>18</sup> Through growing partnerships with these organized crime groups and often drug cartels, Hezbollah has taken advantage of international drug trafficking, the drug routes themselves for human smuggling and trafficking, and additional trade-offs by working with these organizations.<sup>19</sup>

According to Michael P. Arena, other criminal resources Hezbollah taps into are the production and sale of counterfeit goods. One major example of this is the production and sale of counterfeit produced cigarettes within the United States.<sup>20</sup> Hezbollah has also been found to engage in intellectual property crime.<sup>21</sup> Nathan Vardi claims that Hezbollah is able to diversify their funds through different criminal activities.<sup>22</sup> Hezbollah is less dependent on Iran for funding and sustains themselves through other means of funding. This allows Hezbollah to be adaptable and self-sufficient.<sup>23</sup>

The Hamas terrorist organization has been known to use white collar crime to launder money through charitable organizations and businesses, including banking institutions to earn and hide funds.<sup>24</sup> Like Hezbollah, Hamas has a heavy presence and ties to Latin America and

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<sup>17</sup> Jennifer Hesterman, "Hezbollah Advises Mexican Cartels?" *The Counter-Terrorist*, February/March (2013):60-67,

<sup>18</sup> Luke Bencie, David Rosen, et. al, "The A-Team: Hezbollah in Latin America," *Journal of Counterterrorism & Homeland Security International*, 19 no. 3,

<sup>19</sup> U.S. House Committee on Homeland Security and Governmental Affairs. *Counterfeit Goods: Easy Cash for Criminals and Terrorists Congressional*, Hearing May 25, 2005 (S. Hrg. 109-202). Washington : U.S. Government Printing Office, 2005,

<sup>20</sup> Michael P. Arena, "Hizbollah's Global Criminal Operations," *Global Crime*, 7 no.3-4 (August-November 2006):454-470,

<sup>21</sup> Nathan, Vardi, "Hezbollah's Hoard." *Forbes*, August 14, 2006, 46,

<sup>22</sup> Ibid,

<sup>23</sup> Congressional Research Service, "Foreign Policy and Support for Terrorist Groups," *Iran: U.S. Concerns and Policy Responses*, 37-53,

<sup>24</sup> Ibid,

Latin American criminal organizations.<sup>25</sup> Hamas has also depended on its ties to Iran for financial support. In July of 2012, due to political disputes, Iran began reducing the amount of funding it was contributing to the Hamas terrorist organization.<sup>26</sup> Although a Congressional Research Service report reveals that Iran and Hamas are mending their relationship, Hamas could be looking for ways to diversify their funds and stand on their own without the monetary assistance of Iran.<sup>27</sup>

Most research conducted on terrorist financing shows that funding has shifted from state sponsorship to more autonomous means of funding, many of them using methods that are illegal and considered criminal activity. Joshua Alexander Geltzer claims many Islamic terrorist organizations do both, but there are advantages and disadvantages to both state-sponsored terrorism, which he deems as "nationalization," and autonomous funding, which he deems as "privatization."<sup>28</sup> Geltzer's main argument suggests neither "privatization" funding nor "nationalization" funding is better than the other; it is relative to a terrorist organizations need to either enhance their constituency through state-sponsorship, or need to drive their agenda by autonomous funding.<sup>29</sup> He also makes a key point that groups that are "privately funded" and lack consistency of funds, which means terrorist organizations that engage in criminal activity most likely receive funding from other sources.<sup>30</sup> While this may be true, it is also important to note it allows terrorist organizations to sustain themselves if a state decides to cut off funding to an organization. As the United States has identified government leaders involved in funding terrorism, government sponsors have progressively moved away from funding organizations,

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<sup>25</sup> Ibid,

<sup>26</sup> Ibid,

<sup>27</sup> Ibid,

<sup>28</sup> Joshua Alexander Geltzer, "Taking Hand-Outs or Going It Alone: Nationalization versus Privatization in the Funding of Islamist Terrorist Groups," *Studies in Conflict and Terrorism*, 34, (2011):144-170,

<sup>29</sup> Ibid,

<sup>30</sup> Ibid,

forcing groups self-fund to move their financial models underground.<sup>31</sup>

Another claim that Michael Jacobson makes is how the use of the internet has allowed terrorist organizations to solicit funds and rally support. Some of this internet activity is completely legal, while other internet activity has been maliciously used to commit crime and fraud to steal for profit and launder money.<sup>32</sup> The access to the internet has allowed various organizations to expand licit and illicit business ventures.<sup>33</sup> Michael Jacobson claims that Al Qaeda, Hamas, and Hezbollah have all utilized the internet as a mode of fundraising. According to Michael Scheuer, Iraq has allowed Al Qaeda to engage in the use of the internet to "practice, refine, and teach," new methods, which has also been a resource for funding and recruiting new members.<sup>34</sup> Expansion of technology and internet use has opened up the global market and has also allowed financial crime, as well as other crimes, to be as easy as a click of a button. This has offered terrorists a new tool to commit crime for funding purposes.

The lack of data on terrorist organizations' use of criminal activity makes it difficult to weigh how dependent each organization is on criminal activity as a source of funding. However Al Qaeda, Hezbollah, and Hamas all engage in criminal activity to earn funds and diversify their financial model to sustain their networks and better hide their financial patterns and overall activities. Because each of these organizations is considered to be a major threat to the west, they have broken off into autonomous groups to better hide themselves and to remain active; the benefits of the organizations financing their operations and goals using underground, illicit activity outweigh more open methods of funding.

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<sup>31</sup> Cristiano, Dario and, Riccardo Fabiano , "AQIM Funds Terrorist Operations with Thriving Sahel-Based Kidnapping Industry," *Jamestown Foundation*, 2010, [http://www.jamestown.org/single/?tx\\_ttnews\[tt\\_news\]=35963#.VdNATpc7cy](http://www.jamestown.org/single/?tx_ttnews[tt_news]=35963#.VdNATpc7cy),

<sup>32</sup> Michael Jacobson, "Terrorist Financing and the Internet," *Studies in Conflict and Terrorism*, 33 (2010): 353-363,

<sup>33</sup> Ibid,

<sup>34</sup> Ibid,

### ***Methodology and Approach***

By reviewing through careful analysis how the Al Qaeda and Hezbollah organizations depend on a specific major criminal activity as a way to fund their operations, it will paint a clearer picture of how counter-terrorism efforts can be focused on going after the criminal activity as a way to cut off financing and ultimately inhibit and deter these organizations' operations overall. Note that these organizations also use other organized criminal activity mentioned through this study as a resource of funding, but this chapter focuses on two specific areas of crime that each organization is heavily dependent on for funding: The illicit drug trade and production and the illicit sale of legal goods. These particular instances show to what extent Al Qaeda, Hezbollah, and Hamas and even other organizations that present a threat to the west engage in these organized criminal activities to rely on funding and that these organizations are skilled and organized criminals, using crime to keep their organizations financed to achieve bigger goals.

### ***Al Qaeda the Taliban's Involvement in Illicit Drug Trade***

Drug trafficking is one of the most successful, illicit methods used to earn profit, allowing them to have fast and ready cash for operations. The market for illegal drugs is huge, as drug use is an international problem. In 2013 Afghanistan remained the largest producer of illicit opium at 296,720 hectares, which is about 733,211 acres of land worth of opium.<sup>35</sup> The early 1990s saw a shift in where vast amounts of opium were being produced. Originally most opiates were grown and produced in the "Golden Triangle," (Myanmar, Laos, and Thailand) but the majority of the product was now coming from the "Golden Crescent" (Pakistan, Afghanistan,

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<sup>35</sup> United Nations Office on Drugs & Crime, *World Drug Report 2013*,

and Iran).<sup>36</sup> According to the United Nations Crime and Drug report from 2013, this was a 36 percent increase of production since 2012. In the aftermath of the U.S. attacks on 9/11, counterterrorism efforts were blindingly focused on going after the Taliban and Al Qaeda with a militaristic approach to combat the organizations. It was not until 2003, when the American Navy found a submarine filled with \$3 million dollars' worth of heroin guarded by two men that were wanted for being affiliated with Al Qaeda, that the U.S. really believed that Al Qaeda and the Taliban were using the lucrative opiate production as a major resource for the organization.<sup>37</sup> A few months following this incident, U.S. agents raided a drug smugglers' hideout in Kabul and found a satellite phone that had called a number of suspected terror cells in Western Europe, Turkey, and the Balkans. After further investigation, U.S. officials found more links between terrorist organizations and narcotics traffickers throughout Afghanistan and Pakistan.<sup>38</sup>

The Taliban, without doubt, are heavily involved and infiltrated within the growth production and trafficking of opium and heroin. They also tax farmers an *ashr* tax, which is a type of religious tax that profits the organization.<sup>39</sup> Al Qaeda was accused of being involved in the drug trade. Al Qaeda leadership denied involvement of trafficking drug; however, it is the lower level autonomous members of Al Qaeda that were found to be involved in drug running and protecting drugs for profit.<sup>40</sup> Like instances where state sponsors backed away from financially sponsoring terrorist groups, the hierarchal make-up of Al Qaeda, allows leadership to deny the organization's involvement in drug trafficking. It is highly likely leadership encouraged members to engage in drug trafficking but denied involvement when low level men were caught

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<sup>36</sup> Dr. Sanchita Bhattacharya, "Narco Terror: A Thriving Industry of Pakistan," *Journal of Counterterrorism & Homeland Security International*, 20 no. 2,

<sup>37</sup> Gretchen Peters, "Seeds of Terror: How Heroin is Bankrolling the Taliban and Al Qaeda," (New York, New York: Thomas Dunne Books, 2009),

<sup>38</sup> Ibid,

<sup>39</sup> Ibid,

<sup>40</sup> Ibid,

participating in illicit drug trade. Al Qaeda also takes advantage of sharing drug routes with drug trafficking organizations within the Golden Crescent region.<sup>41</sup> Not only has Al Qaeda been found running opiates within the Golden Crescent regions, but they have also profited off smuggling Cocaine from Latin America to Europe.<sup>42</sup> In a sense these organizations are religiously against using drugs as it is against Islam, but they have found a loophole in the process, justifying the earning of profit from drug trafficking and the trafficking of opiates as contributing to their greater cause of creating a pure Islamic world.

The Drug Enforcement Agency (DEA) estimates that opium provides the Taliban 70 percent of its financing.<sup>43</sup> It is more difficult to estimate how much drug trafficking contributes to Al Qaeda, because they are involved at lower levels and deny engaging in drug production, trade and trafficking at the hierarchal levels. However it is known that Al Qaeda does engage in drug trafficking and many low level Al Qaeda insurgents "have learned to live off drug money."<sup>44</sup> Also, the organization is able to earn funding for their own actions and sustain as the cost of to commit an act of terror is relatively low. For example, the 2004 Madrid bombing only cost the men \$70, 000 and 191 people lost their lives.<sup>45</sup> The men who carried out the bomb plot in Madrid had ties to Al Qaeda, but funded the operation on their own fundraising efforts by trafficking and selling drugs.<sup>46</sup>

According to an interview conducted by Gretchen Peters, DEA has reason to believe as of 2007, eighteen of forty-two Department of State designated terrorist groups had ties and were

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<sup>41</sup> Ibid,

<sup>42</sup> Nathan Vardi, "Al Qaeda's New Financial Model," *Forbes*, March 01, 2010,

<sup>43</sup> Ibid,

<sup>44</sup> Ibid,

<sup>45</sup> Robert Hendin, "DEA Digging Into Al Qaeda Drug Links" *CBS News*, July 18, 2008, <http://www.cbsnews.com/news/dea-digging-into-al-qaeda-drug-links/>,

<sup>46</sup> Ibid,

benefitting from drug trafficking.<sup>47</sup> In 2008, Michael Braun of the DEA said that like the FARC, Hezbollah, and Hamas, Al Qaeda was becoming more engaged in drug trafficking as a resource for financing. Another reason Al Qaeda began to increasingly engage in drug trafficking was their partnership and protection from the Taliban fighters.<sup>48</sup> The increased growth production of opium and seizures of opiates and Heroin show that criminal organizations within regions populated by the Taliban and Al Qaeda are continuously partaking in the illicit drug trade. The Taliban's tax on opium poppy farmers shows that they are still taking advantage of the funding as all but 20 percent of their finances come from illegal drug production and trade. Although it is more difficult to trace how much funding contributed to Al Qaeda's financing model, it is safe to say by what little we know from the case of the U.S. Navy finding Al Qaeda members running drugs via submarine, and the drug-funded bombing of Madrid, that they are benefitting from drug trafficking as resource to finance and sustain the organizations existence and operations.

### ***Hezbollah's Smuggling of Cigarettes***

Hezbollah is skilled at using different criminal activities and money laundering to fund their organization. They are extremely successful at manufacturing and selling counterfeit goods. Hezbollah has been found to be involved in a number of criminal activities that has spanned across the continental U.S.<sup>49</sup> One of Hezbollah's most profitable criminal schemes that reaped large amounts of money was a lucrative cigarette smuggling scheme that profited the organization approximately \$8 million U.S. dollars.<sup>50</sup> According to a *Federal Bureau of Investigation (FBI) Bulletin*, what investigators thought was just some Lebanese criminal ring was actually something much bigger.

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<sup>47</sup> Ibid,

<sup>48</sup> Ibid,

<sup>49</sup> Martin Rudner, "Hizbullah Terrorism Finance: Fund-Raising and Money-Laundering," *Studies in Conflict and Terrorism*,

<sup>50</sup> Ibid,

In 1992, Mohamed Youssef Hammoud came to New York on a fraudulent visa. The FBI began to investigate Hammoud and found that he and his relatives had ties to the Hezbollah terrorist organization. During FBI's investigation of Hammoud and his network, it was learned that he and others were actively engaged in criminal activity as a fundraisers for Hezbollah. FBI Special Agent Shwein, who investigated this case, stated that the cell members were "part-time terrorists and fulltime criminals."<sup>51</sup> These criminals were being directed by Hezbollah, who was gaining profit on the illicit activities taking place on U.S. soil.

In 1994, while working an off duty uniformed job at a convenience store, a North Carolina Detective, Robert Fromme, noticed a group of Middle Easterners walk into a convenience store he was patrolling with grocery bags filled with \$20,000 to \$30,000 dollars in cash. They used the cash to purchase a significant amount of cigarettes. This behavior raised a red flag and Detective Fromme began documenting how often this was occurring. On average the men would purchase 1,000 to 4,500 cartons of cigarettes during one purchase and the occurrence was an almost daily transaction. After contacting the Charlotte Division of the Bureau of Alcohol, Tobacco, and Firearms (ATF), they informed Fromme that he may be witnessing a "Cigarette Diversion Ring," where individuals take advantage of the state tax by purchasing the cigarettes where tax on tobacco is low and would then transport the cigarettes to states where the tobacco tax is much higher. Further joint investigation efforts by the ATF, FBI, and Department of State revealed that the group in North Carolina was meeting weekly with Hammoud to watch videos produced by Hezbollah, donate money to Hezbollah, and learn how to perfect the art of criminal activities, such as credit card and immigration fraud, and even learn the cigarette smuggling routes. In 2002 the North Carolina Cigarette Smuggling Cell was

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<sup>51</sup> Robert Fromme and Rick Schwein, "Operation Smokescreen: A Successful Interagency Collaboration," *FBI Law Enforcement Bulletin*, 76 no.12, 2007,



indicted in a joint investigative operation called "Operation Smokescreen." The indictments were possible because the investigation revealed that money from the criminal activity was being laundered and financing Hezbollah.<sup>52</sup> The cell members were making payments through Canadian based Hezbollah middle- man, Said Harb.<sup>53</sup> Precursor crimes, such as fraudulent marriages to obtain visas, were committed by the cell in the early 1990s to obtain access into the United States, although some of the members were married and had spouses in Lebanon, they convinced and engaged their "fake" spouses to take part in the cigarette smuggling ring.<sup>54</sup> Said Harb even bribed officials at the U.S. Embassy in Nicosia, Cypress and paid Americans to marry his family members.<sup>55</sup> The marriages were an illegal tactic used by the group to remain in the United States.; the cell was committing all sorts of crime to achieve their main goal of running the cigarette smuggling ring to earn revenue for Hezbollah.<sup>56</sup>

The cell's ongoing operation and organization shows the cell maintained an organized criminal mechanism that had many components and intricacies that were executed almost flawlessly, "the purchase, transportation, storage, and distribution of the cigarettes involved multiple levels of deception."<sup>57</sup> The operation would begin in North Carolina where a cell member would purchase the bulk cigarettes using a Shell company account or an alias. They would then store the cigarettes in rented storage space in either North Carolina where the purchase would take place, or Michigan, where the sales were taking place. Then members or recruits would transport the cigarettes using mini vans. The mini vans could make multiple trips a

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<sup>52</sup> Ibid,

<sup>53</sup> Sharon A. Melzer and Louise I. Shelley, "The Nexus of Organized Crime and Terrorism: Two Case Studies in Cigarette Smuggling," *International Journal of Comparative and Applied Criminal Justice*, 32 no. 1, 2008,

<sup>54</sup> Fromme et al,

<sup>55</sup> Ibid,

<sup>56</sup> Ibid,

<sup>57</sup> Ibid,

day and could carry loads worth up to \$13,000 per van.<sup>58</sup> The cell also got creative by hiring American women to drive rented vehicles that were disguised as the average American tourist vehicle to transport the cigarettes, to the extent they would even mount bicycles to the back of the vehicle being used.<sup>59</sup>

To make the purchases and remain covert, cell members used different credit cards to purchase the cigarettes and pay the transport and storage expenses, to keep the transactions separate and difficult to link.<sup>60</sup> Payments for the cigarettes were wired to accounts owned by the members of the cell under aliases.<sup>61</sup> One noted wire transfer of \$17,000 from Hussein Chahrour to Mohamad Hammoud as a payment for contraband cigarettes.<sup>62</sup> Another instance shows that a customer in Michigan wired almost \$500,000 to Hammoud, which was then made its way to two separate bank accounts in Charlotte, North Carolina.<sup>63</sup> With the money from the ring, the cell members laundered the money by opening tobacco store used to sell the smuggled cigarettes and by taking the money and opening up other businesses or through investments.<sup>64</sup>

The operation would have probably sustained longer if Detective Fromme had never noticed the group of men at the store he was working as an off duty assignment. If he had not witnessed the odd transaction and notified other government agencies, it is likely that it would have taken more time to connect all the pieces together and tie the group from North Carolina to the Hezbollah terrorist organization. According to Shelley and Melzer's study, terrorist organizations still make profit off of cigarette smuggling as U.S. law enforcement has done little to focus on the issue.<sup>65</sup>

What this case shows is that terrorist networks are taking advantage of globalization and an open

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<sup>58</sup> Ibid,

<sup>59</sup> Ibid,

<sup>60</sup> Ibid,

<sup>61</sup> Ibid,

<sup>62</sup> Ibid,

<sup>63</sup> Ibid,

<sup>64</sup> Ibid,

<sup>65</sup> Melzer,

trade market, through partaking in illegal trafficking of a completely legal product. Since most use autonomous cells to sustain the organization, it is easier to hide from the public, whether that be the United States, or their home country to execute different crimes that bring in funding. The case of Hezbollah shows how complex and organized terrorist organizations are as they move to criminal activity as a main resource. In the case of the North Carolinian Hezbollah cell, the operation lasted the time span of just over ten years, and brought in millions of dollars.

### ***Challenges to Combat Terrorism through Crime Fighting***

The case studies reveal not only the issues of terrorist organizations using crime to finance operations, but show that there is a transnational drug use problem. Combating the crime could be a short term solution, but until the issue of drug abuse is addressed people will continue to purchase illicit drugs which may be contributing to terrorist organizations using drug trafficking as a resource. To counter the problem in the United States, the White House has kept drug-use prevention at the top of its list to counter the drug problem and lower the consumption of illegal drugs within America, in hopes of slowing down and mitigating illicit drug trafficking operations.<sup>66</sup> This would most likely affect terrorist organizations linked to Latin American drug rings, and even the drug rings and trafficking operations within the Golden Crescent. This also shows that as long as there is a market for illicit goods criminals will take advantage of selling coveted items to earn a profit. This is how many terrorist organizations are involved in illegally selling drugs, arms and weapons, counterfeit goods, or as we saw in the case study on Hezbollah and the cigarette smuggling operation, even legal goods sold on a black market.

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<sup>66</sup> *National Control Drug Control Budget: FY 2015 Funding Highlights*,  
[http://www.whitehouse.gov/sites/default/files/ondcp/about-content/fy\\_2015\\_budget\\_highlights\\_-\\_final.pdf](http://www.whitehouse.gov/sites/default/files/ondcp/about-content/fy_2015_budget_highlights_-_final.pdf),

## ***Findings and Conclusions***

From the analysis of the case studies it is clear that the Taliban, Al Qaeda, and Hezbollah are financed through illicit activities. Also, as stated earlier in this study, other organizations partake in illegal activities, as globalization allows an open market that terrorist groups have the ability to take advantage of to earn profit. These groups engage in diverse criminal activities, but the case studies reveal how skilled these organizations are by highlighting specific activities that the Taliban and Al Qaeda, and Hezbollah have executed that reaped great financial benefits. After review the studies show that terrorist organizations are becoming skilled and organized criminals. This also reveals how terrorist organizations operate and can work autonomously at lower levels to earn money and sustain the group to contribute to their organization's radical goals.

When it comes to level of dependency each organization has on criminal activity as a main financial resource, we cannot determine hard numbers of how much money comes from illicit funding due to the covert action of criminal activity and anonymity of terrorist organizations. We can see from the case studies of those caught committing crimes, such as Hezbollah smuggling cigarettes and the men caught trafficking drugs, and reviewing reports of production and seizure of opiate production and trafficking and surveys taken within the Golden Crescent region linking farmers to paying production tax to the Taliban, that terrorist organizations are surviving on criminal activity as a main resource of funding. The analysis of literature and case studies show that even those organizations receiving state sponsored funds and private donations are looking for more undercover and fast ways to finance their actions and operations through a variety of criminal activities.

Prior to 9/11 the U.S. government did not see a need to pursue drug traffickers in the

Middle East. According to Gretchen Peters, Secretary of Defense, Donald Rumsfeld, had concerns that going after these drug trafficking rings would be a costly and ongoing battle, similar to the drug issue in Colombia.<sup>67</sup> It was then left to law enforcement to combat the issue. Peter's view argues that if the military had assisted law enforcement efforts in the Middle East drug trafficking fight, it could have had a huge impact in the war on terrorism.<sup>68</sup> Today, law enforcement and intelligence experts do see the transnational criminal and terrorism nexus as a major issue. Many experts believe that counterterrorism efforts should be focused on mitigating and preventing the crimes that terrorist organizations are partaking in for funding. This method would serve as a major blow to terrorists financial mechanisms, which would ultimately inhibit the organizations ability to operate and possibly prevent the organizations from being successful and possibly even bring them to their end. Money sustains terrorist organizations, so stopping the cash flow would ultimately bring these groups to their demise.

This chapter shows that terrorists rely mostly on illicit activities as a main financial resource. Clearly the U.S. government, the intelligence community, and law enforcement see this as an issue, not only is the crime a threat to American people, but it is a national security threat as it is funding organizations that have a vendetta with the democratic west. According to Michael Braun from the DEA, terrorism is expensive to maintain, and these groups are "part time terrorists and full time criminals."<sup>69</sup> The criminal, terrorism nexus has caught the attention of U.S. policymakers and officials as a problem that needs to be addressed, however, in some cases such as the Hezbollah Cigarette smuggling ring case, a whole-of government approach was successful and can prevent the problem and slow down terrorist financing. On the other hand, looking at the situation of drug trafficking in Afghanistan, the military refused to get involved

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<sup>67</sup> Peters,

<sup>68</sup> Ibid,

<sup>69</sup> Ibid.

and left it to agencies such as DEA, with little bandwidth to resolve an extremely complex situation, that is still unresolved. Also, policymakers and government task forces address the issue of stopping terrorist funding; they have had many successes but still face the difficult issue of connecting criminal activity to organizations and stopping the flow of cash. The third and final chapter of this study will review and analyze the effectiveness of U.S. policies and counterterrorism efforts to address the illicit funding of terrorist organizations. Terrorist organizations thrive and survive on funding, if their financial resources are cut off, they cannot continue operations and malicious acts of violence against the west.

### ***Chapter 3***

#### ***Overcoming Obstacles: The Need to Establish a Whole-Of-Government Approach***

Evidence from chapters one and two of this study reveal that terrorist financing through criminal activity presents numerous obstacles that U.S. policymakers and agencies tasked with protecting U.S. interests from the many dangers of terrorism must work together to overcome.. Although there are many existing policies focused on disrupting the funding and the flow of funds to terrorist organizations, there are gaps that need to be addressed. Specifically, gaps remain in coalescing various government entities into a whole-of-government approach to address the terrorist financing threats achieved through criminal activity. An ideal whole of government approach is one that establishes a shared mission that combines strengths and resources to deploy counterterrorism efforts but not encroach on each agencies traditions and overall operations.

One major hurdle that the U.S. government must address in terms of a whole- of - government approach to fight terrorist financing, is to see past what will be defined in this study as organizational culture differences. Organizational cultural differences is defined by the internal makeup of an organization where traditional roles and responsibilities have been established over time by each individual government agency and department. According to James Q. Wilson, many factors within bureaucratic U.S. government agencies provide organizational cultural differences that can prevent coordination efforts when establishing a whole-of-government strategy.<sup>1</sup> Wilson refers to internal goals that are established by executives, tradition of the organization, and the background and experiences that make up an organization.<sup>2</sup> These organizational differences, at many times with policy, prevent a whole of government

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<sup>1</sup> James Q. Wilson, *Bureaucracy: What Government Agencies Do and Why They Do It* , Basic Books, INC., 2000,

<sup>2</sup> Ibid,

approach because of what agencies and departments have been trained to handle, what policy allows them to handle, resource and bandwidth constraints, as well as legal hurdles that prevent and slow counterterrorism efforts to fight and prevent terrorist financing through criminal activity.

This chapter of this study will evaluate and analyze current policy and the current state of a whole of government approach to fighting terrorist financing by evaluating the organizational culture differences and the lack of resources and support agencies within the U.S. government encounter while being tasked with slowing down and preventing terrorist financing. Analyzing the issues U.S. agencies and policymakers face will provide clarity and guidance on how and where the United States should focus efforts and resources to combat terrorist criminal activity and financing. Further analysis will assist in providing policy recommendations on how the United States should make changes to current policy and counterterrorism efforts when it comes to establishing supportive policy, dedicating resources, and defining roles and responsibilities in a whole of government approach that will allow the United States to combat terrorism through eliminating terrorism by cutting off the financial flow to terrorist organizations.

There is a clear nexus between transnational crime and terrorism, especially when it comes to financing operations and recruitment methods. In 2011, the White House's National Security Council established a *"Strategy to Combat Transnational Organized Crime."* This strategy lays out a plan that calls for interagency collaboration to tackle transnational criminal organizations that present threats to U.S. interests and national security. Although on paper the strategy eludes to the idea that interagency collaboration will help stop transnational crime, like other policy it lacks the consideration of finite resources and stove piping that each government agency must address when fighting crime and terrorism that is often due to policy gaps and



congressional budgetary backing.

***Policy: The Bank Secrecy Act and Title III of the PATRIOT ACT***

In the 1970s Congress saw a need to pass the Bank Secrecy Act or Anti-Money Laundering Act, to better trace funds that could possibly be laundered finances used for criminal activity, by requiring "U.S. financial institutions to keep records of cash purchase of negotiable instruments, file reports of cash transactions exceeding \$10,000 (daily aggregate amount), and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities."<sup>3</sup> The Bank Secrecy Act serves as the basis to other U.S. policies that assist in tracking and stopping terrorist financing.

In October 2001, U.S. Congress passed the Patriot Act of 2001 to fight terrorism following the terrorist attacks on U.S. soil on September 11, 2001. Title III of the Patriot Act, also known as the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, amended the Bank Secrecy Act of 1970 and specifically laid out how U.S. Financial institutions and agencies should fight terrorist financing through requiring the filing of suspicious activity reports (SARs) to the U.S. Department of Treasury's FinCEN, requiring U.S. institutions to establish internal policies and programs that train employees on what to look for and how to report suspicious activity to the FinCEN.<sup>4</sup>

Title III, Section 314 also calls for cooperation from law enforcement authorities, regulatory agencies, and financial institutions. Section 314 encourages information sharing among financial institutions and appropriate government entities to allow each agency and law

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<sup>3</sup> U.S. Treasury, *What We Do*, [http://www.fincen.gov/statutes\\_regs/bsa](http://www.fincen.gov/statutes_regs/bsa),

<sup>4</sup> FindLaw; *Anti Money Laundering Initiatives Under US Patriot Act, 2008* <http://corporate.findlaw.com/litigation-disputes/anti-money-laundering-initiatives-under-the-usa-patriot-act.html>,

enforcement to conduct investigations and ultimately trace funds back to the people associated with numerous terrorist organizations. The act also required financial institutions to verify new customers and check them against a list of known and suspected terrorists. Although this part of the act, is not a heavy lift for banks, as banks are required to have this information on their customers, the raised concerns with privacy advocates, as customers do not have to be notified that their information may be reported to the FinCEN.<sup>5</sup> This part of Title III has not seemed to present issues to the U.S. government in the fight against terrorist financing. Other issues with the policy is the concern of FinCEN providing guidance on how financial institutions should implement their internal policies. As all financial intuitions are different, it difficult to give specific guidelines and implement regulations across the board to all U.S. financial institutions that may come across suspicious activity linked to terrorist operations.<sup>6</sup> Although this assist private companies and institutions from too much government oversight, it can present a challenge to the Department of Treasury when it comes to establishing metrics of reporting to congress to receive legislative backing and funding of programs and initiatives to fight terrorism through tracking and inhibiting terrorist financing through money laundering and banking activity.

Overall, U.S. policies and legislation in place are loosely tailored to allow companies and agencies to operate without many restrictions, but there are many areas in the whole of government approach where there is a lack of congruent policy that would require all agencies to be accountable when addressing some of the illicit methods terrorist organizations use to finance their operations and carry out acts of terrorism. However, it is a challenge to make policy when in

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<sup>5</sup> Daniel Lohse, *U.S. Department of Treasury, Terrorist Finance Tracking Program*, 2008  
<http://www.law.illinois.edu/bljournal/post/2008/02/11/USA-PATRIOT-Act-Title-III-The-Efficacy-of-Anti-Terrorism-Financing-Measures>,

<sup>6</sup> Ibid,

many instances it is extremely difficult to pinpoint whose viewpoint or reasoning behind acting or not acting, will be more beneficial to the overall fight against terrorism. This issue of organization cultural differences will be addressed throughout this chapter. Also, Title III's requirements help track and flag money laundering crimes, but there is no guarantee that it will actually help much in tracing funds linked to terrorist organizations. In some ways Title III may be more burdensome on the company or offer little to no intelligence value at all to the U.S. fight against terrorism.<sup>7</sup>

### ***Treasury: The Terrorist Finance Tracking Program & Financial Crimes Enforcement Network***

After September 11, 2001, the United States Department of Treasury established a Terrorist Finance Tracking program (TFTP) to “identify, track, and pursue terrorists...and their networks.”<sup>127</sup> The U.S. Department of Treasury program works to “identify, pursue, and track terrorists-such as Al-Qaida- and their networks.”<sup>8</sup> According through the TFTP, the program “has provided thousands of valuable leads to U.S. Government agencies and other governments that have aided in the prevention or investigation of many of the most visible and violent terrorist attacks and attempted attacks of the past decade.” Under the TFTP program, the U.S. Treasury Department issues subpoenas to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), a Belgium-based coalition of major central banks that include the U.S. Federal Reserve, the Bank of England, the European Central Bank, the Bank of Japan, and the lead overseer, the National Bank of Belgium that operates a worldwide messaging system used to transmit financial transaction information, to obtain information on suspected

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<sup>7</sup> Ibid,

<sup>8</sup> U.S. Department of Treasury; *Terrorist Finance Tracking Program*, <http://www.treasury.gov/resource-center/terrorist-illicit-finance/Terrorist-Finance-Tracking/Pages/tftp.aspx>,

international terrorists or their networks. Under the terms of the subpoenas, the U.S. Government may only review information as part of specific terrorism investigations. In 2009, SWIFT stopped storing certain sets of these critical data on its U.S. servers and hosts those data sets in the European Union (E.U.). As a result, the U.S. negotiated an agreement with the E.U. on the processing and transfer of this information to the U.S. Treasury Department that became effective in 2010. Based on information that identifies an individual or entity, the U.S. Government is able to conduct targeted searches against the limited subset of records provided by SWIFT in order to trace financial transactions related to suspect terrorist activity. SWIFT information assists the U.S. government in mapping out terrorist networks, and many times has filled in missing links in an investigative chain. The U.S. Government can act on the information gathered by the TFTP. When necessary, for counter-terrorism purposes, the TFTP shares leads generated by the TFTP with relevant governments' counter-terrorism authorities.<sup>9</sup> According to the TFTP, by following the money, the TFTP has allowed the United States and our allies to identify and locate operatives and their financiers, chart terrorist networks, and help keep money out of their hands.<sup>10</sup>

The Financial Crimes Enforcement Network (FinCEN), is an arm of the U.S. Treasury Department and falls under the Treasury Under Secretary of Terrorism and Financial Intelligence.<sup>11</sup> FinCEN's mission "is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities."<sup>12</sup> FinCEN collects, maintains, analyzes and disseminates financial data to law enforcement when action is

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<sup>9</sup> Ibid,

<sup>10</sup> Ibid,

<sup>11</sup> Financial Crimes Enforcement Network: United States Department of Treasury, "FinCEN's Mandate from Congress." Accessed December 15, 2013.[http://www.fincen.gov/statutes\\_regs/bsa/](http://www.fincen.gov/statutes_regs/bsa/),

<sup>12</sup> Ibid,

needed. FinCEN is also the lead U.S. government organization that has authority to regulate banks and financial intuitions to ensure they are compliant with the Bank Secrecy Act and Title III of the Patriot Act, which requires financial institutions to establish an internal anti-money laundering program and report information that is important when law enforcement and regulatory agencies are conducting investigations related to financial criminal cases, tax cases, and regulatory investigations and proceedings, and certain financial intelligence and counter-terrorism matters. The Director of FinCEN has the authority to implement, administer, and enforce compliance of the Bank Secrecy Act and other regulations in regards to anti-money laundering laws.<sup>13</sup> By the policy and legislation in place and the nature of the U.S. Department of Treasury, it seems that the Department of Treasury has the most authority and relationships and coalitions in place to receive information from U.S. Financial Institutions and share information with other intelligence community and law enforcement agencies when it comes money laundering and suspicious banking activity related to terrorist financing.

### ***The Federal Bureau of Investigation: Terrorist Finance Operations Section (TFOS)***

Title III of the PATRIOT Act encouraged the establishment of the Federal Bureau of Investigation's (FBI) Terrorist Finance Operations Section (TFOS). Prior to September 11, 2001, the FBI did not have a centrally focused and proactive approach to addressing terrorist financing. As a result, in the aftermath of the attacks of September 11, the FBI director made combating terrorism the top priority of the FBI and with that the FBI saw a need to establish TFOS. The mission of TFOS has expanded from its inception, to "identify, investigate, disrupt and dismantle incrementally, all terrorist-related financial and fund-raising activities."<sup>14</sup> TFOS "coordinates

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<sup>13</sup> Ibid,

<sup>14</sup> FBI, *Terrorist Financing Operations Section*, <https://www.fbi.gov/about->

efforts to track down terrorist financing and to exploit financial information in an effort to identify previously unknown terrorist cells, and to recognize potential activity and planning."<sup>15</sup> Similar to FinCEN, FBI's TFOS conducts "full financial analysis of terrorist suspects and their financial support systems."<sup>16</sup> By working with other government agencies, international law enforcement, the private sector, and regulatory agencies, the TFOS develops predictive models and analytical products that help identify unknown terrorist suspects.<sup>17</sup> According to a congressional testimony given by the FBI Assistant Director of the Counterterrorism Division John S. Pistole in 2003, TFOS, "is both an operational and coordinating entity with pro-active and reactive responsibilities. As a coordinating entity, the TFOS is responsible for ensuring that a unified approach is pursued in investigating terrorist financing networks. The TFOS achieves this directive by: 1) coordinating the financial aspects of FBI Field Office and Legal Attaché (Legat) terrorism investigations; 2) establishing overall initiatives, policy and guidance on terrorist financing matters; 3) participating in the National Security Council's Policy Coordinating Committee (PCC) on Terrorist Financing; 4) coordinating national liaison with the financial services sector; 5) cooperating in and coordinating criminal terrorist financing investigations with the Department of Justice; and 6) providing support and training to Field Offices to include the designated Terrorism Financing Coordinator (TFC) ."<sup>18</sup> The FBI's TFOS, like the other U.S. Government agencies, plays an important role in fighting terrorist financing and after a close look at their mission, execution of their operations, and their coordination efforts show that they

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us/investigate/terrorism/terrorism\_financing,

<sup>15</sup> Ibid,

<sup>16</sup> Ibid,

<sup>17</sup> Ibid,

<sup>18</sup> FBI, *Senate Committee on Banking, Housing and Urban Affairs*, September 2003; John S. Pistole <https://www.fbi.gov/news/testimony/identifying-tracking-and-dismantling-the-financial-structure-of-terrorist-organizations>,

like the other agencies that will be highlighted in this chapter, operate in their own way, specialize in specific investigation efforts, and although carrying out their own mission they also contribute to the U.S. government's shared goals of tackling terrorism through the disruption of terrorist financing.

### ***The Drug Enforcement Agency (DEA) & The Department of Defense***

The DEA, although not directly tasked with handling financial crimes and investigations, does play a large role in the fight against terrorist financing. As seen in chapter two of this study, illegal drug production and trafficking has strong ties to certain terrorist organizations and substantial amounts of illegal drug money is greatly contributing to terrorist training, recruitment, and operations. The DEA's overall mission includes bringing to "criminal and civil justice system of the United States, or any other competent jurisdiction, those organizations and principal members of organizations, involved in the growing, manufacturing, or distribution of controlled substances appearing in or destined for illicit traffic in the United States..."<sup>19</sup> which includes, "the seizure and forfeiture of assets derived from, traceable to, or intended to be used for illicit drug trafficking; Coordination and cooperation with federal, state and local law enforcement officials on mutual drug enforcement efforts and enhancement of such efforts through exploitation of potential interstate and international investigations beyond local or limited federal jurisdictions and resources; Coordination and cooperation with federal, state, and local agencies, and with foreign governments, in programs designed to reduce the availability of illicit abuse-type drugs on the United States market through non-enforcement methods such as crop eradication, crop substitution, and training of foreign officials; Responsibility, under the policy guidance of the

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<sup>19</sup> U.S. Department Of Justice; DEA, *Mission Statement*, <http://www.dea.gov/about/mission.shtml>,

Secretary of State and U.S. Ambassadors, for all programs associated with drug law enforcement counterparts in foreign countries; Liaison with the United Nations, Interpol, and other organizations on matters relating to international drug control programs."

The mission of the DEA portrays their role in fighting terrorist financing. As a law enforcement agency tasked with tracking and fighting illicit drug production and trafficking, the DEA has become a vital asset through operations and working closely with military and other government agencies in the Middle East, Latin America, and domestically to fight terrorism being funded heavily by the growth and production of opiates. According to Peters' work, the Pentagon was hesitant to take on the drug problem in Afghanistan because U.S. commanders feared that the mission of addressing the drug problem would conflict with counterinsurgency efforts to "win over hearts and minds" in the countryside where the Taliban was active. Also, opium makes up 30 to 50 percent of Afghanistan's GDP, and other locals profit from opiate production, not just those with ties to the Taliban. Another issue is the Central Intelligence Agency and U.S. military worked with human sources that were often heavily involved in drug trafficking and in many cases, the intelligence value of the relationship with the source outweighed their involvement in illegal drug trafficking operations.<sup>20</sup>

In 2006 two policymakers, Congressmen Hyde, Chairman of the House Committee on Foreign affairs, and Congressman Kirk also a member of the House Committee on Foreign Affairs, saw a need for policy that addressed both "the drugs and related terror simultaneously."<sup>21</sup> In 2006, Secretary of Defense Donald Rumsfeld quarantined the two issues; the insurgency in Afghanistan as a Military problem and the opium trade and production was a

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<sup>20</sup> Peters, Gretchen. "Seeds of Terror: How Heroin is Bankrolling the Taliban and Al Qaeda," (New York, New York: Thomas Dunne Books, 2009),

<sup>21</sup> Ibid,



problem that law enforcement should handle.<sup>22</sup> Although a policy and operation that addressed both issues was what the two congressmen were strongly pushing for in Afghanistan, U.S. military would rarely intercept or address the drug problem when they came across the production and movement of opium and would reject the DEA's request to provide backup to their missions.<sup>23</sup> The Congressmen pushed the Pentagon to implement a plan that would "merge the military's counter insurgency mission with that of the DEA's drug-fighting mission."<sup>24</sup> The Pentagon's response stated that Great Britain was the "lead nation on narcotics issues within the coalition."<sup>25</sup> According to the Pentagon the U.S. supported the British counter narcotics initiative, but the liaison between the

United States and Great Britain was the U.S. State Department. The Pentagon's response at the time exposed organizational cultural differences through the difference in attitudes among leadership in the DEA and the DoD that did not encourage an active whole-of-government approach to tackling the drug problem in Afghanistan that was undoubtedly contributing to the Afghani insurgency and terrorist operations. Another concern that arose, was the idea that individual American units deployed in Opium production areas had the potential to become corrupt if they were to get more involved in assisting and paying closer attention to the drug problem in the region.

A prior DEA Chief, Jack Lawn, stated "In the war environment, you don't get from point A to point B without military assistance."<sup>26</sup> According to Meyers, as cited by Gretchen Peters, a congressional study revealed that in 2005, the DEA requested military airlifts to conduct operations on twenty-six occasions and were denied twenty-three times. However in 2006, the

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<sup>22</sup> Ibid,

<sup>23</sup> Ibid,

<sup>24</sup> Ibid,

<sup>25</sup> Ibid,

<sup>26</sup> Ibid,

Pentagon accommodated twelve of fourteen air support requests from the DEA.<sup>27</sup> Other issues included a lax policy within the military that did not enforce officers to command their units to intercept or address drug issues they were encountering in Afghanistan and no directive or guidance to work with and support the DEA.<sup>28</sup> To add to the problem, some military officials denied there was a link between the drug trade and the Taliban. By 2004 the United States could see that the linkage between the drug trade and the Taliban and even other terrorist organizations, and this became an issue. By that point the United States had left it up to Great Britain to handle the problem and Great Britain did not have extraterritorial drug laws and the DEA had to prove that the drugs were making it into the United States to be able to make a case in Afghanistan.<sup>29</sup> The mission in Afghanistan was the same, but differing views of how to approach the problem married with the lack of resources (DEA in this case) and training (U.S. Military) caused a divide in the United States' efforts to stop terrorism funding through the production and trafficking of drugs, it even affected the relationship with foreign allies and the international approach to tackle the issue.

In 2008, the DEA's Assistant Administrator and Chief of Operations, Michael Braun in his address to the Washington Policy Institute, explained the importance of addressing the illegal drug trade in the Middle East and Latin America that has ties to foreign terrorist organizations (FTOs). Not only do these terrorist organizations benefit from transnational crime that present other threats to U.S. interests, but these groups also share traits that are similar to those that global drug cartels possess; the major difference is the motivation behind the crime that will determine the use of the funds. Over the last thirty-five years the DEA not only expanded internal efforts to combat trade of illegal drugs in by operating sixty three countries, but has

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<sup>27</sup> Ibid,

<sup>28</sup> Ibid,

<sup>29</sup> Ibid,

made efforts to work closely with the Department of Defense to address the drug problem in the Middle East that the illicit profits are funding terrorist training and operations. After years of working with the Department of Defense through briefing DoD leadership, Braun explained that the DoD "lacks the organizational infrastructure and know-how to attack terrorist and insurgent groups that are engaged in global drug trafficking."<sup>30</sup> Braun's statement is an example of how different organizations have various roles and responsibilities, strengths, capabilities, and approaches when it comes to combating terrorism and terrorist financing. Braun's statement aligned with the DEA's goals and mission, but it may not have aligned with the DoD's goals at the time. Many times groups have to work together toward an overall mission. For example, the different branches of the military often work together in the same mission space, but although the military may share a mission, members of organizations will "defend and advance the interests of their parent organization when placed in an inter-organizational setting."<sup>31</sup> Although on face, these situations such as the DEA working with the military to combat illegal drug funding funneling into terrorism operation, in many ways encourages collaboration and sharing of capabilities it can also serve cause strife and polarization between U.S. government agencies and organizations when it comes to a whole-of-government and collaborative approach when implementing U.S. counterterrorism efforts and policy.

It's clear by looking at a few of the U.S. Government organizations that contribute to the fight against terrorism, that each has their own mission, but many times their missions overlap or conflict with other agencies missions and views of what is best to fight terrorism, as seen in the example of the DEA and U.S. Military in the Middle East when addressing the drug trade

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<sup>30</sup> Michael Braun, "Drug Trafficking and Middle Eastern Terrorist Groups: A Growing Nexus?", *Washington Institute*, 2008, <http://www.washingtoninstitute.org/policy-analysis/view/drug-trafficking-and-middle-eastern-terrorist-groups-a-growing-nexus>,

<sup>31</sup> Wilson,

contributing to terrorism. Also, each have legal limitations and specific authorities in the fight against terrorism financing as delegated by U.S. policy and legislation. This presents other challenges to agencies when faced with implementing operations in stopping terrorist financing. Many times when agencies are not in direct contact with each other, efforts are duplicated, which is problematic when fighting terrorism, as it takes up time and resources vital to operations.

Legal and authority limitations make it difficult at times to apprehend issues that are affecting the United States when abroad.<sup>32</sup> Also, when organization cultural differences, differing strengths, and views clash on counterterrorism and operational matters (especially within leadership and with U.S. policymakers), it is difficult to effectively fight terrorist financing collectively. Ultimately U.S. government agencies must work together and utilize their strengths and ensure they are communicating and have a mutual understanding to fight terrorist financing efforts.

### ***Current Challenges to the U.S. Government in Combating Terrorist Financing***

In addition to internal interagency obstacles that must be overcome to have a true whole-of-government approach to countering terrorist financing, in the past year Islamic State in Iraq and the Levant (ISIS) have presented a new terrorist threat to the United States., U.S. interests, and allies. According to a Financial Action Task Force report, ISIS, like other terrorist organizations, use diversified methods to finance their operations. There have been instances of the organizations' involvement in oil smuggling and trafficking, kidnapping and extortion, and other methods similar to those seen in chapter one of this study.<sup>33</sup> According to the report ISIS,

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<sup>32</sup> Peters,

<sup>33</sup> FATF Report, *Financing of Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, 2015 [www.fatf-gafi.org/topics/methodsandtrends/documents/financing.of-terrorist-organisation-isil.html](http://www.fatf-gafi.org/topics/methodsandtrends/documents/financing.of-terrorist-organisation-isil.html),

constantly changes their methods of financing through illicit methods which presents its own challenges but the organization, is also different in the way they use social media platforms as a means of crowd source funding and in the way they use social media and encourage and recruit individuals to act as lone wolf terrorists, using whatever they have onhand to act out an act of terrorism.<sup>34</sup> According to J.M. Berger, ISIS's use of their social media strategy “employs social-media strategies that inflate and control its message. Extremists of all stripes are

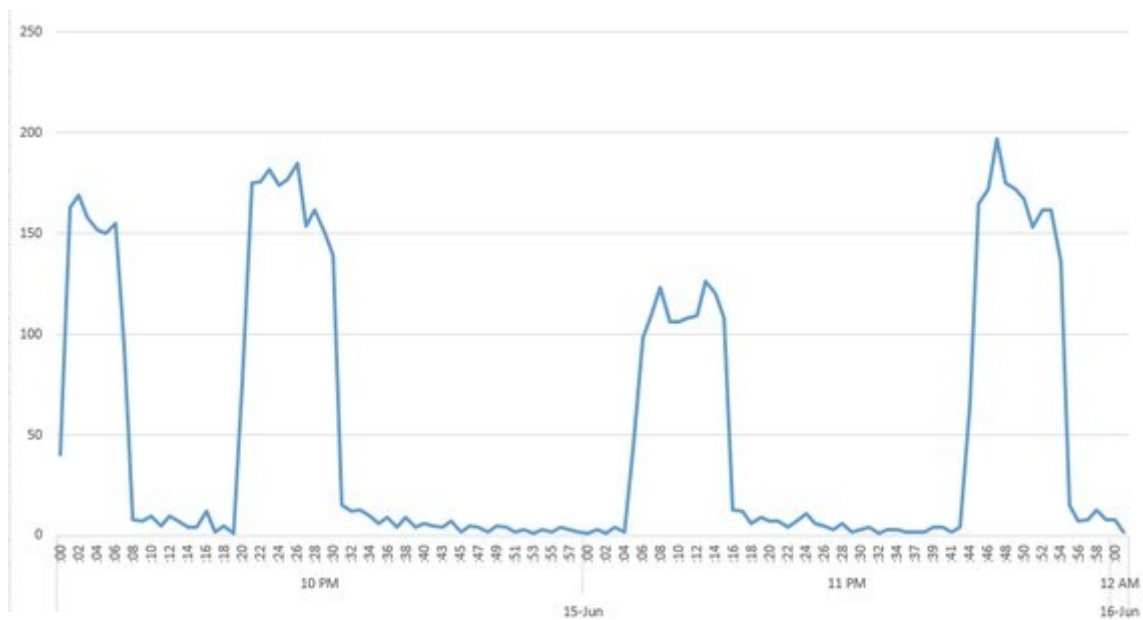


Chart 1

increasingly using social media to recruit, radicalize, and raise funds, and ISIS is one of the most adept practitioners of this approach."<sup>35</sup> Chart 1, shows ISIS's use of tweets sent in just over a

<sup>34</sup> Ibid,

<sup>35</sup> J.M.Berger, "How ISIS Games Twitter," *The Atlantic*, June 2014, <http://www.theatlantic.com/international/archive/2014/06/isis-iraq-twitter-social-media-strategy/372856>,

two-hour period. The chart shows how active the group is on twitter and this does not include other social media platforms that the group uses to message members and potential members for monetary purposes and for recruiting members and calling individuals to carry out acts of terrorism.<sup>36</sup>

ISIS presents a whole slew of problems to the U.S. government when it comes to counterterrorism problems. Another issue ISIS presents, is their large presence in numerous countries around the world and like Al-Qaeda networks, many individuals are self-funding their own training, actions, and participation in ISIL, which adds to the problem of the U.S. government tracking down funds feeding into ISIS and ISIL operations.<sup>37</sup>

Overall there are many policies and U.S. government efforts in place to combat terrorism through institutional requirements and monitoring to trace and prevent the flow of funds linked to terrorism and terrorist organizations. As seen by this study there are a number of internal issues and the problems within the current state of terrorism must have to be addressed to form a true whole of government approach that is the most efficient when fighting terrorism and establishing counterterrorism efforts that with help eliminate terrorism against U.S. people and interests, through tracing and stopping illicit terrorist financing.

To overcome these obstacles, the U.S. government agency leaders, department heads, and policymakers must take a close look at each agency that plays a role in the fight against terrorist financing and better understand each organization's mission and strengths. Also it is important to understand the internal make-up of each agency and not only their strengths, but their weaknesses and interests. Along with the evaluation of each organization's culture and mission space, it is important to note conflicting views before establishing operations where interagency

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<sup>36</sup> Ibid,

<sup>37</sup> FATF Report,

teams must work together to avoid the potential of holding up operations and missions. It is vital that the agencies support each other and work together to quickly execute missions in fighting terrorist financing. It is necessary to also see what limitations there are to each agencies jurisdiction and how that fits in their own mission and areas of responsibilities as well as how those limitations can encroach upon executing counterterrorism efforts that protect the U.S. and U.S. interests from terrorist attacks. If there are policies in place that slow down counterterrorism efforts and operations, then they should be reevaluated and amended to allow each organization to utilize their strengths and capabilities in the fight against terrorist financing.

Policymakers should also take a close look at current policy and see what limitations prevent the U.S. Government from being able to fully protect U.S. interests and are burdensome on financial institutions or inefficient in tracing and stopping terrorist financing. With that policymakers should consider establishing policy of authoritative orders that requires agencies to communicate and better share information with one another to avoid duplicate efforts and missions, and to ensure that all agencies address and acknowledge all issues that are tied to terrorist financing. With that this policy must not encroach internal operations or fuse many departments into one. In the case of the Military in Afghanistan, a lack of policy allowed the military to ignore requests from the DEA to address the drug problem in the Middle East until a year after the DEA and policymakers stressed continuously to the DoD that the drug problem had larger implications then just being an illegal drug problem and was fueling terrorism.<sup>38</sup> When considering implementing a true whole of government approach by establishing policies and requirements to offer the U.S. government guidance, it is important to do so to allow each agency to do its job, but should try to address the gaps that have prevented lost successes in the past when fighting terrorism.

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<sup>38</sup> Peters,

Although a cookie-cutter whole-of-government response to fighting terrorism is ideal, the organizational cultural and mission differences, difference of opinions amongst the agencies and policymakers, as well as policy gaps prevent such a plan to exist. However, better understanding of each U.S. government player and their roles, mission, and views can assist in establishing policy and counterterrorism efforts that can better fight terrorist financing contributing to organizations that present huge threats to U.S. people and interests. Evaluating current policy and considering new policy will also help form a better whole of government strategy to tackle terrorist financing, especially if the policy considers each organization and financial institutions involved. Also, with the current rise of ISIS and their use of social media for crowd source funding and call for members and supporters to commit acts of lone wolf terrorism, it may be best for the U.S. government to dedicate more resources and experts in the fight against terrorist financing to evaluate the technological methods organizations can use as a resource and re-evaluate if the costs of terrorism is not what it used to be and more disparate than seen in other groups, since ISIS has been successful in executing attacks through lone wolves who use their own money and resources to commit terrorism. Although their methods may change to adapt to current methods, financing is still important to their operations. A RAND report analysis suggested that policymakers and those in the U.S. Government should change their perspective and scope of terrorist financing to the term "terrorist economics" to expand the scope of thinking of the problem. I would agree with the analysis report. The problem is adaptive and should be looked at as a larger problem, not a singular mechanism and business model. Expanding this scope would help policymakers and the U.S. government understand the scope to establish



stronger counterterrorism to fight terrorist financing.<sup>39</sup>

There is no clear answer to solving the problem against terrorist financing, however as revealed by this chapter, it is important to consider a strong whole-of-government approach and if such an approach is possible for the U.S. government to work closely together to address differences that could potentially slow down the fight against terrorist financing. Policy or review should at the least be established to ensure that each agency has the resources and uses their strengths to go after terrorist financing. Ideally this would include information sharing and ensure that each groups operations do not get in the way of the other. Also, it is important to establish guidelines that allow each U.S. government entity involved in counterterrorism efforts to know when one mission may outweigh a short term operation (such as when intelligence value may provide more operational value than an arrest of a low-level drug trafficker.) Although terrorists are adapting to new methods, as technology continues to rapidly expand, it is still vital to trace and stop terrorist organizations supply chain by tracing and stopping the flow of illicit funds. The U.S. government must evaluate and establish policy that equips the U.S. government with a shared mission and goal that is resilient and adaptable to the threats that terrorist financing presents to the United States.

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<sup>39</sup> Benjamin Bahney, Howard J. Shatz, Carroll Ganier, et al., "An Economic Analysis of the Financial Records of al-Qa'ida in Iraq", *Rand National Defense Research Institute*, 2010, [http://www.rand.org/content/dam/rand/pubs/monographs/2010/RAND\\_MG1026.pdf](http://www.rand.org/content/dam/rand/pubs/monographs/2010/RAND_MG1026.pdf).

## ***Conclusion***

This study has revealed that terrorist organizations partake in one or more type of criminal activity to raise funds and as a means to gather resources. Terrorist financial activity is difficult to track and if they are caught, they have the opportunity to move on to a different method for profitable financial intake. The fast spread of globalization and the speed and expansion of technology allows terrorist organizations to take advantage of different business ventures and even engage in fraud and cyber criminal activity. Terrorist organizations use a number of diversified methods as means to maintain sustain themselves and carry out their operations.

Understanding how terrorist organizations fund themselves and move their funds is pertinent to evaluate how terrorist organizations are using diversified criminal activity as a main method to gain resources and even recruit members. The first chapter of this study reveals how terrorist organizations benefit from criminal activity and even turn completely legal processes into illegal tools of terrorism, which is important when establishing policy and counterterrorism effort to address the problem.

From the analysis of the case studies in chapter 2, it is clear that the Taliban, Al Qaeda, and Hezbollah are financed through illicit activities. Also, as stated earlier in this study, other organizations take advantage of illegal activities to earn profit. These groups engage in diverse criminal activities, but the case studies reveal how skilled these organizations are by highlighting specific activities that the Taliban and Al Qaeda, and Hezbollah have executed that reaped great financial benefits. After review the studies show that terrorist organizations are becoming skilled and organized criminals. This also reveals how terrorist organizations operate and work autonomously at lower levels to earn money and sustain the group to contribute to their

organization's radical goals.

When it comes to level of dependency each organization is on criminal activity as a main financial resource, we cannot determine hard numbers of how much money comes from illicit funding due to the covert action of criminal activity and anonymity of terrorist organizations. We can however, see from the case studies of those caught committing crimes (such as Hezbollah smuggling cigarettes and the men caught trafficking drugs, and reviewing reports of production and seizure of opiate production and trafficking and surveys taken within the Golden Crescent region linking farmers to paying production tax to the Taliban), that terrorist organizations are surviving on criminal activity as a main resource of funding. The analysis in chapter 2 shows that organizations receiving state sponsored funds and private donations are looking for more undercover and fast ways to finance their actions and operations through a variety of criminal activities.

Prior to 9/11 the U.S. government did not see a need to go after drug traffickers in Middle Eastern regions. According to Gretchen Peters, Secretary of Defense, Donald Rumsfeld, had concerns that going after these drug trafficking rings would be a costly and ongoing battle, similar to the drug issue in Colombia.<sup>1</sup> It was then left to law enforcement to combat the issue. Peter's view argues that if the military had assisted law enforcement efforts in the Middle East drug trafficking fight, it could have had a huge impact in the war on terrorism.<sup>2</sup> Today, law enforcement and intelligence experts do see the transnational criminal and terrorism nexus as a major issue. Many experts believe that counterterrorism efforts should be focused on mitigating and preventing the crimes that terrorist organizations are partaking in for funding. This method would serve as a major blow to terrorists' financial mechanisms, which would ultimately inhibit

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<sup>1</sup> Peters, Gretchen. "Seeds of Terror: How Heroin is Bankrolling the Taliban and Al Qaeda," (New York, New York: Thomas Dunne Books, 2009),

<sup>2</sup> Ibid.

the organizations ability to operate and possibly prevent the organizations from being successful and possibly even bring them to their end. Money sustains terrorist organizations, so stopping the cash flow would ultimately bring these groups to their demise.

The criminal, terrorism nexus has caught the attention of U.S. policymakers and officials as a problem that needs to be addressed, however, in some cases such as the Hezbollah Cigarette smuggling ring case, a whole-of government approach is successful and can prevent the problem and slow down terrorist financing, on the other hand looking at the situation of drug trafficking in Afghanistan, the military refused to get involved and left it to agencies such as DEA, with little bandwidth to resolve an extremely complex situation, that is still unresolved. Also, policymakers and government task forces address the issue of stopping terrorist funding; they have had many successes but still face the difficult issue of connecting criminal activity to organizations and stopping the flow of cash.

Ultimately the U.S. lacks a strong whole-of government approach and mission with strong policy backing to address terrorist financing in a quicker and more efficient manner. U.S. government agency leaders, department heads, and policymakers must take a close look at each agency that plays a role in the fight against terrorist financing and better understand each organization's mission and strengths. Policymakers must also address the de-confliction of clashing views before interagency teams work together on missions to avoid inhibiting collaborative counterterrorism efforts. As seen in chapter two and three, agencies must support each other and work together to fighting terrorist financing. When establishing policy and counterterrorism efforts to fight terrorist financing, the U.S. government needs to be aware of the limitations each agency may have when it comes to jurisdiction and areas of responsibilities as well as, how those limitations can encroach upon executing counterterrorism efforts that protect

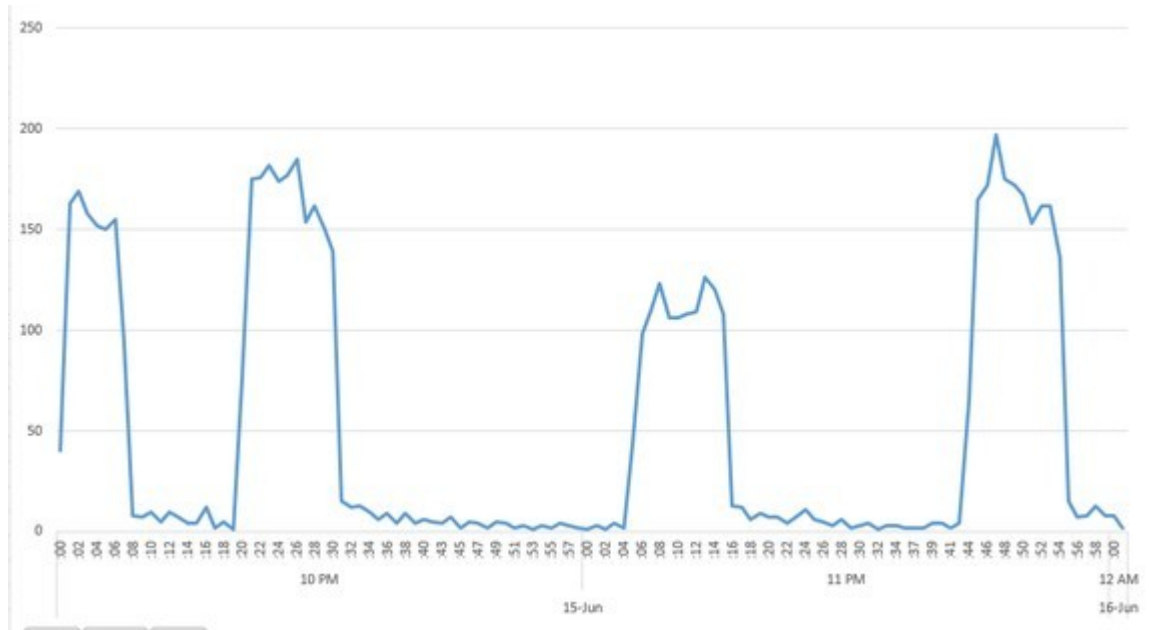
the United States and U.S. interests from terrorist attacks.

Policymakers should consider establishing policy of authoritative orders that require agencies to communicate and better share information with one another to avoid duplicative efforts and missions and to ensure that all agencies address and acknowledge all issues that are tied to terrorist financing. When considering implementing a true whole-of-government approach by establishing policies and requirements to offer the U.S. government guidance, it is important to do so to allow each agency to do its job, but should try to address the gaps that have prevented lost successes in the past when fighting terrorism.

Understanding the problems presented by terrorist organizations and their finance models shows that funding through criminal activity is a problem, and presents a number of issues to the U.S. in the fight against terrorism. This study revealed that fighting terrorist financing can cut off flows of funding to violent organizations and assist in stopping terrorist organizations from being successful in carrying out acts of terrorism. Reviewing each U.S. government player and their roles, mission, and views will assist in establishing strong policy and counterterrorism efforts that can better fight terrorist financing. Evaluating current policy and considering new policy will also help form a better whole-of-government strategy that can overcome internal obstacles and challenges to swiftly fight terrorist financing.

## Appendices

Chart 1: Tweets Sent by ISIS's Social Media Application Over a 2-Hour Period



Berger, J.M., "*How ISIS Games Twitter*", June 16, 2014  
<https://www.theatlantic.com/international/archive/2014/06/isis-iraq-twitter-social-media-strategy/372856>

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