

## **A Financial Profile of the Terrorism of Al-Qaeda and its Affiliates**

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### ***Abstract***

*This working document offers an analysis of the sources of financing of the Al-Qaeda network including some of its affiliated groups. The development of Al-Qaeda's financing has been similar to the evolution of its operational structure. The organization is currently under significant financial pressure. However, the number and magnitude of terrorist attacks attributed to Al-Qaeda in a number of countries implies that the network continues to have access to substantial financial resources to support its activities. The international community has so far not succeeded in cutting off many of Al-Qaeda's sources of financing; the organisation continues to access funding from wealthy benefactors, legitimate business and criminal activities.*

### ***Introduction***

Since its foundation in 1988, *Al-Qaeda* has used various methods to obtain funding. Currently, its cells, branches and affiliated groups are obliged to act autonomously; many of them have, to a great extent, to finance themselves, including by means of ordinary crime. These groups have also had to resort to *hawala* (a trust-based informal banking system) and cash couriers to move money or operate on the margins of the formal financial system. There are also other methods that are used by terrorist groups to transfer funds with little risk of detection. International trade is particularly vulnerable, due to its size and the complexity of methods of payment. The emergence of new methods of payment through new developments in information technology present additional risks for the authorities as these enable terrorists to move money with total anonymity.

The measures established by the United Nations Security Council, based on asset freezing, have failed to disrupt *Al-Qaeda's* activities to a significant extent. On the other hand, the enforcement of due diligence with bank clients has been helpful in detecting some terrorist operations, although in general reports of suspicious financial transactions made by financial institutions are currently of limited value in actually seizing assets of terrorist organisations.

### ***Al-Qaeda's Operational Costs***

According to a CIA report, *Al-Qaeda's* financial requirements before the 11 September 2001 attacks amounted to 30 million US dollars annually.[1] This money was earmarked for carrying

out attacks, for the maintenance of its quasi-military apparatus, for training and indoctrination of its members, for contributions to the Taliban regime but also for the occasional support of associated terrorist organisations. It is currently very difficult to make a reliable estimate of the operating cost of *Al-Qaeda*, as it now acts through a large number of cells and satellite terror groups which are more or less autonomous.

The means these terrorist groups use to perpetrate attacks (vehicles, maps, components of explosives, surveillance material, etc.) are of relatively low cost compared to the damage they can cause. Certain estimates, whose accuracy may be open to question, provide an idea of the ratio of the approximate direct costs of certain attacks carried out by *Al-Qaeda* or its affiliates and the damage caused in terms of economic destruction and loss of human lives.

Table 1: Cost of Carrying out Various Terrorist Attacks

<i>Attack</i>	<i>Date</i>	<i>Estimated Cost [2]</i>
London Underground/ Bus	7 July 2005	8,000 GBP [3]
Madrid Railway (Atocha)	11 March 2004	100,000 EURO [4]
Istanbul	15 & 20 November 2003	40,000 US \$
Marriot Hotel Jakarta	5 August 2003	30,000 US \$
Bali Bombings	12 October 2002	50,000 US \$
New York Twin Towers	11 September 2001	400,000-500,000 US \$ [5]
USS Cole, Aden	12 October 2000	10,000 US \$
US Embassies in Kenya and Tanzania	7 August 1998	50,000 US \$

However, terrorist organisations have to defray both the costs of carrying out an attack and the more substantial structural costs of maintaining the organisation and disseminating its ideology. In addition to purchasing weapons, vehicles, explosive material and detonators to be used in attacks, terrorist groups need to anticipate other needs, such as:

1. Subsistence living costs for its members and sometimes also their families. These expenses are considerable, despite the terrorists' generally frugal life styles. Costs vary according to the

proximity of terrorists to their targets. The costs of activities in Western Europe will be considerably higher than those in African or Asian countries.

2. A terrorist cell also needs for its members reliable channels of communication, including highly secret channels to its leadership, from which it receives its instructions. Although communications costs have been reduced considerably through the use of mobile telephones, pre-paid cards and e-mail (often sent from Internet cafés), the procurement and use of communication tools can entail significant expenses.

3. Training new recruits constitutes a large investment for terrorist groups, both in terms of ideological indoctrination as well as the procurement of practical items to prepare for attacks. Although part of the general preparation can be carried out in terrorist training camps, some specific operations may require specialist skills (such as piloting planes) which can only be achieved with expensive training.

4. Travel costs for group members in preparation of an attack and acquiring false documentation papers, which may also involve travel. Further travel is required to meet other members of the network, to meet senior members of the hierarchy or to meet individuals able to provide material or financial support.

5. Propaganda for the cause via various channels of communications. *Al-Qaeda's* capability of using camrecorders to broadcast its video footage is well-known. This terrorist organisation also makes extensive use of the Internet for recruitment, to spread its jihadi message and to raise funds. Al-Qaeda has managed to develop powerful propaganda materials that advocates violence, suicide attacks and the murder of infidels – which includes many Muslims deviating from Salafist ideals as understood by the group and its affiliates.

6. Charitable activities as a means of social legitimisation in order to win and maintain a constituency are another significant cost for some organisations that pursue their goals by means of terrorism (however, this does not apply to Al-Qaeda as much as to some other terrorist groups).

The points listed above lead us to conclude that although individual terrorist attacks can be performed at relatively low costs, organizations that are responsible for them need to be able to finance a considerable infrastructure to sustain themselves and to promote their objectives.

*Sources of Al-Qaeda's Financing*

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In the past eighteen months, groups associated with *Al-Qaeda* have made many appeals for funds. A leader of *Al-Qaeda*, Mustafa Abu al Yazid, also known as Jeque Saeed, complained in a declaration published in extremist forums on 10 June 2009 that “many of the mujahidin have been inactive and failing to participate in jihad through lack of money”.[6]

Various extremist Internet sites have discussed the risks militants face while fundraising and laundering the money obtained by various methods. A report published in April 2009 warned members of *Al-Qaeda*'s network that intelligence services could identify jihadists through banks, money transfer services, credit cards and online websites.[7]

Such statements indicate that *Al-Qaeda* is under significant pressure resulting from international measures aimed at freezing its assets and cutting off its traditional sources of income. According to the US Treasury Department, *Al-Qaeda* is in its worst financial position for many years.[8] In addition, the organisation cannot transfer money with the same ease as in the past. Parts of the purportedly charitable organisations that formed the backbone of its financing have been liquidated by national authorities and added to the UN list of organisations that support terrorism. However, the number and magnitude of terrorist attacks attributed to *Al-Qaeda* throughout the world indicate that the network continues to have access to considerable funding to support its activities.

In order to understand how the organisation currently finances itself, it is necessary to study the development of its operational structure. Since the 11 September 2001 attacks, *Al-Qaeda* has morphed into a decentralised organisation. Currently, three distinct but interlinked entities co-exist within *Al-Qaeda*. The first and original entity, established by its previous leaders and led by Osama Bin Laden, retains its importance and influence. It is most likely located in the rugged area on the border between Afghanistan and Pakistan.

The second group, consisting of veteran combatants who had received training in Afghanistan, extends to dozens of countries. It serves as an example and provides training and instructions to new recruits wish to become part of the jihadist enterprise.

The third group consists of newly radicalised militants who form local cells. They neither depend on a centralised authority, nor are they directly linked to it. Although these cells share fundamental objectives with *Al-Qaeda*'s leadership, they are quite independent of it. They are anonymous and to a great extent invisible until they decide to carry out an attack. These cells

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exist in various parts of the world and include individuals from widely different social status, education, age and racial background.[9]

Among the sources of *Al-Qaeda*'s income we find since its inception funds diverted from charitable organisations, profits gained from businesses run by its members and sympathisers and money collected by fundraisers seeking donations. It is currently highly unlikely that the local groups receive significant financial support from the core leadership. Although they may receive funding from other traditional sources, the *Al-Qaeda* cells, branches and affiliates are currently obliged to act independently, and to a great extent finance themselves to varying degrees also from criminal activities such as kidnappings, and, in some cases maybe also drugs trafficking.

#### *Fundraisers*

Since its inception, *Al-Qaeda* has used a core of fundraisers tasked to solicit money from a range of donors.[10] The main group of donors is based in the Gulf area, principally Saudi Arabia, but donors also exist in other parts of the world. Some of these donors have been fully aware of the final destination of their money; others were not. Many donors make their contributions to money collectors. Other funds come from corrupt employees of charitable organisations, in particular during the holy month of Ramadan. Fundraisers often have also access to imams in the Mosques and obtain part of *zakat* (obligatory almsgiving) donations to support the cause of radical Islam. Fundraisers have sometimes used legitimate charitable organisations; in other cases they have used front organisations and legitimate businesses to provide cover for their activities. This mix of fund raising methods has enabled *Al-Qaeda* to construct a considerable financial network throughout the Muslim world and in foreign diasporas allowing it to obtain the money needed to operate.

Many of the original fundraisers, such as Khalid Sheikh Mohamed, a senior leader of *Al-Qaeda*, have been arrested. New fundraisers have been added to the UN Security Council's Sanctions Committee list.[11] Although the names of some of these fundraisers are known, and the funds and the businesses they use are subject to assets freezing orders in many countries, a good number of them have been able to continue their activities without major problems. In some cases, *Al-Qaeda* has been able to replace known fundraisers with as yet unknown individuals and organisations.

#### *Charitable Organisations*

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Charities have certain characteristics that make some of them particularly vulnerable to exploitation for the financing of terrorism. They generally enjoy the confidence of the public and have access to significant resources, in many cases in the form of cash. In addition, many of these organisations have a transnational presence which provides them with the necessary infrastructure to enable national and international transactions. In certain countries they are subject to only limited or no regulation at all (in terms of registration, accountability, transparency and audits of their accounts). They are also often easy to establish where there is no need for initial capital and where no background checks on employees are made).[12]

Since its inception, *Al-Qaeda* has made attempts to use charitable organisations to finance some of its activities. Charities enable a number of terrorist organizations to collect, transfer and distribute the necessary funds for the purposes of indoctrination, recruitment and training. They also enabled them often to meet logistical and operational requirements.

Charity is one of the fundamental principles of the Islamic religion, and all those who have a certain amount of money are obliged to pay *zakat* (2.5% annually of savings and assets). Apart from the obligatory *zakat*, the Koran and Islamic tradition also advocate *sadaqah* (voluntary contributions) to the most needy. Most Muslims pay these contributions to Islamic charities and to their mosque, which use them to finance a great variety of religious, humanitarian and social activities.

*Al-Qaeda*'s strategy has been to infiltrate employees in charities to divert money from the charities' legitimate humanitarian or social programmes towards its own illicit activities. In some cases, *Al-Qaeda* has created its own networks of charitable institutions as a cover to obtain funds directly. Some of these networks originated during the *jihad* against the Soviet occupation of Afghanistan in the 1980's. *Al-Qaeda* has also used charitable organizations to disseminate and teach the most radical forms of Islamic fundamentalism. In a number of countries, these organisations function outside the scrutiny and supervision of state authorities. It has proven difficult to shut them down completely, even in cases where they have been investigated and accused of financing terrorism.

An example of this lack of control can be found in one of the largest co-ordinating institutions of Islamic charities, the International Islamic Relief Organisation (IIRO), based in Jeddah (Saudi Arabia). Although most of its activities are dedicated to religious, educational, social and humanitarian programmes, IIRO and some of its subsidiary organisations have reportedly been

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used, knowingly or otherwise, to finance *Al-Qaeda*. The International Islamic Relief Organisation has subsidiaries throughout the world, although most of its financial contributions come in the form of private donations from Saudi Arabia. It has established an Endowment Fund (*Sanabil al Khair*) to generate a stable flow of revenues to finance its activities. It also works in close co-operation with the Global Islamic League. Many prominent individuals and financiers from the Middle East are associated with this Islamic charity. Various reports have linked it also to the financing of terrorist operations.[13]

Another case that has raised suspicion is the Al Haramain Islamic Foundation headquartered in Saudi Arabia. It presented itself as a private non-governmental organisation with charitable and educational objectives. Considered a single entity, Al Haramain was one of the principal NGO's operating worldwide and allegedly supporting *Al-Qaeda*. The financing generally came from individual donors but special campaigns were also directed at certain commercial enterprises throughout the world.

The founder and former head of the Al Haramain Islamic Foundation, Aqeel Abdul Aziz Al Aqeel, and Al Haramain's subsidiaries in other countries, were accused of providing financial and material support to *Al-Qaeda* and other terrorist organisations such as Jemaah Islamiya, Al Itihaad al Islamia, the Egyptian Islamic Jihad and Lashkar e Tayyiba. These terrorist organisations had received funding from Al Haramain; they also used it as a cover for collecting funds.[14] In 2008, the US Treasury accused the entire Al Haramain organisation, including its Saudi Arabian headquarters, of financing the *Al-Qaeda* network. Between 2002-2004, three of its subsidiaries in various countries were designated financiers of terrorism. However, its leaders succeeded in re-establishing part of the organisation and continue to operate under another name. [15] According to a 2009 report from the Pakistani police, Al Haramain had contributed approximately 15 million dollars to jihadist groups in Pakistan. Most of the funding went to the Tehrik e Taliban (TTP), which was responsible for several suicide attacks and also accused of the assassination of Benazir Bhutto.[16]

Although the Saudi Arabian government took some counter-terrorism measures immediately after 9/11, only *Al-Qaeda* attacks against Saudi Arabia in 2003 and 2004 marked a clear change of mind for Saudi authorities. They began to combat terrorist financing and considered *Al-Qaeda* as a threat to the regime itself. Despite these developments, the United States has recently demonstrated its concern about the ability of certain charities to support terrorism outside Saudi Arabia and about their use of money transfers to move funds to various remote locations.[17]

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Another charitable organisation, based in Kuwait, called the Revival of Islamic Heritage Society (RIHS) has also been accused of providing material and financial support to *Al-Qaeda* and its affiliates. For their support of *Al-Qaeda*, RIHS delegations in Afghanistan and Pakistan were in 2002 designated as terrorists by the US government and the Sanctions Committee of the UN Security Council. Yet there was at first no evidence indicating that RIHS's headquarter itself was aware that subsidiaries were financing *Al-Qaeda*. Since then, however, the authorities have established proof of the express consent of its leaders to the illegitimate use of the organisation's funds. RIHS subsidiaries in Albania, Azerbaijan, Bangladesh, Bosnia, Cambodia and Russia have been closed down by their respective governments on suspicion of supporting the financing of terrorism. In countries where RIHS activities were banned or placed under State supervision, the central organisation developed various ways of continuing its activities. Among these was the channelling of funds through another organisation or changing the name of the subsidiary to avoid control by the authorities. Amongst other charges, the RIHS headquarter has been accused of lending financial and logistical support to Lashkar e Tayyiba (LeT), a Pakistani terrorist organisation linked to the *Al-Qaeda* network and involved in the 2006 train attacks in Mumbai and the attacks on the Indian parliament in 2001. It was a key source of financing that enabled the Bangladesh terrorist organisation known as Jamaat Mujahidin Bangladesh (JMB) to carry out a series of co-ordinated attacks in 2005 that left 2 people dead and 64 injured. Followers of *Al-Qaeda* in Somalia said that they had received significant amounts of money from RIHS.[18]

The current situation of many of these charities is opaque. Despite the freezing of assets, in many cases financial activities have continued in the same locations, using bank accounts and resources in the name of third parties.

#### *Offshore Entities and Companies*

*Al-Qaeda* has used commercial companies to finance itself as well as to transfer funds. One example is Barakaat, a network of companies which, in 2001, had a foothold in 40 countries operating its telecommunications, construction, money remittance and cash exchange services from the United States and Somalia.

For Bin Laden, Barakaat was a suitable instrument for making cash transfers; he had invested in its telecommunications network. Barakaat acted as a source of financing and arranged cash transfers for him. Its owners channelled millions of dollars every year from the USA to *Al-Qaeda* or its associates. Barakaat also managed, invested and distributed funds for *Al-Qaeda*. Most of

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Bin Laden's transactions were carried out between Mogadishu and Dubai, Mombassa (Kenya) and Nairobi. In general, these funds were interlinked with transfers made in the name of non-governmental organisations such as Al Haramain and the International Islamic Relief Organisation.[19]

Another case is the one of the Somalian group Al Itihaad Al Islamiya which, according to UN officials, led terrorist training centres and collected money from followers in Europe and the Middle East. Al Itihaad Al Islamiya financed its activities with distinct commercial operations. Among these activities was the export of coal to the Middle East, the provision of transport, security and protection services, telecommunications, commercial centres, running *hawalas* and other financial services, agricultural and hotel companies and was even involved in the distribution of fishing rights. Some of these services held genuine monopolies in certain areas; they were also employed by international relief organisations.[20]

The use of fictitious companies and offshore fiduciary companies to shield the identity of individuals or entities taking part in terrorist financing poses difficult problem for those trying to regulate business transactions. These are companies, funds, entities or businesses that are registered in an extra-territorial financial centre. One example are International Business Corporations (IBC) which are used to create complex financial structures. They can be established using bearer shares and do not have to publish accounts. Residents of financial centre can act as fictitious directors or shareholders in order to disguise the genuine directors or owners. These entities are attractive to investors who seek anonymity or wish to carry out their activities beyond the official scrutiny of their national government.

In Spain, according to investigations made by the Fiscalía of the High Court (Audiencia Nacional), the former Salafist Group for Preaching and Combat (GSPC), -now integrated into *Al-Qaeda* in the Islamic Maghreb (AQIM) - obtained funds that its front men and couriers transported to Algeria and Syria. In order to do this, they used inactive companies or companies in the process of liquidation in tax havens such as the Bahamas and Delaware. The Audiencia Nacional followed the trail of an Algerian citizen in Spain with bank accounts in Palma de Mallorca in the name of an American company formed in Delaware. He transmitted funds totalling US \$ 200,000 with the supposed purpose of paying invoices for the services of an IT company with bases in the Netherlands and Germany. The company concerned denied having issued these invoices these turned out to be false. This led investigators to believe that this money had left Spain for other purposes.[21]

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*Drugs Trafficking and other Common Crime*

The Afghan Taliban is an insurgent-cum-terrorist organization that makes extensive use of taxing proceeds from drugs to finance itself. In Afghanistan, the links between both pro- and anti-government elements and drugs trafficking is well-established.[22] Unlike the *Al-Qaeda* network, the Afghan Taliban is an insurgent group whose activities and range is (so far) limited to Afghanistan and Pakistan. Although the Taliban receives (or received) support from *Al-Qaeda* and private donors from the Gulf States, a large part of its revenue in Afghanistan and Pakistan is derived from collections in Mosques, contributions from sympathisers and taxes on opium.

The Taliban practises extortion at several points in the heroin business in Afghanistan: taxing poppy farmers, laboratories where the drugs are processed and traffickers who transport precursors into the country and heroin out of it. Currently, many of those involved in the destabilisation of Afghanistan are directly or indirectly involved in illicit drug production, processing or procurement. In addition, the Taliban also raises “taxes” on legitimate business seeking to operate in Afghanistan.[23] It is more than likely that part of the money that these activities generate leaves the country and enters the international financial system.

*Al-Qaeda* and its associated groups have greatly diversified their methods of raising money to finance jihad. They finance themselves to varying extents through common crime, according to the conditions and opportunities in the locations in which they operate. It is therefore often difficult to distinguish between terrorist groups, insurgents and organised crime groups since these categories often overlap. Their methods and sources of financing are often similar if not the same.

Amongst other sources of income, *Al-Qaeda* in the Islamic Maghreb (AQIM), which is active in the desert region between Mauritania, Mali and Algeria, obtains money from kidnapping ransoms, contraband and apparently also from drugs trafficking. The discovery of the remains of a Boeing 727 in the Mali desert raised serious suspicions amongst intelligence services in Europe and the United States that Latin American drugs traffickers have been using some areas partly controlled by AQIM to transport drugs from Colombia’s FARC to European markets. From West African coastal countries such as Guinea-Bissau, the illicit drugs are reportedly taken across Mauritania, Mali and Niger to Egypt and Libya, from where they are transported further in containers.[24]

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According to Spanish police informants, drugs trafficking groups operating in the North African enclaves Ceuta and Melilla send a portion of the profits from hashish trafficking to finance Islamic terrorist groups, with whose cause they sympathise. A report from the National Intelligence Centre (NIC) dated 27 October 2003 concluded that members of *Al-Qaeda* sleeper cells are financed by drugs trafficking and credit card theft.[25]

The 11 March 2004 bombings in Madrid represent an example of how attacks were funded by drug money and crime. Various members of the unit that carried out these bombings were involved in drugs trafficking, falsification of documents and other crimes by which they managed to raise substantial amounts of revenue. This criminal structure was used to acquire explosives for those who commit terrorist acts, with the ultimate aim is to establish a Sharia-based Islamic State.[26]

Some radical groups which have financed themselves in Spain for years through hashish trafficking have taken a step further in their strategy to seek new resources. According to Spanish counter-terrorist sources, AQIM uses revenue from trafficking cocaine and synthetic drugs between Spain and Algeria to finance a campaign of terror in northern Africa. Having obtained cocaine from Latin America and synthetic drugs pills manufactured in the Netherlands and elsewhere in Europe, they resell these in Algeria, where the price is reportedly substantially higher than in the EU.

Such drugs trafficking activities form another link in a large chain of criminal activities to raise financing across borders. Joint investigations by the Spanish, Italian, Swiss and French police have revealed how robberies and drugs trafficking in Spain, robberies in Switzerland and tax fraud in Italy generate a significant amount of money which is then used to finance armed attacks and terrorist training. In addition to hashish trafficking, Moroccan radicals have specialised in robbery and the resale of all kinds of modern information technology such as GPS, new generation mobile telephones and electronic diaries. In many cases such items are later resold in Morocco or Spain.[27] According to another official Spanish investigation, the sale of designer watches, gold bracelets and emerald necklaces stolen from around 20 villas on the Costa del Sol by a Salafist group that goes by the name "Group of the Truth" was used to finance several murders in Algeria and Mauritania. [28]

There is also an emerging relationship between Islamic terrorist groups and the commission of cyber crimes. According to investigations led by the UK police, three members of a terrorist cell that planned to carry out attacks in the US, Europe and the Middle East used several stolen credit

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cards to buy items such as GPS systems, night vision goggles, sleeping bags, telephones, knives and tents from hundreds of websites. These were meant to be sent to jihadists in Iraq. Among their purchases were hundreds of pre-paid mobile telephones and more than 250 airline tickets. These were bought with 110 different credit cards from 46 different airline companies and travel agencies. The three men involved also laundered money plundered from bank accounts with the help of on-line gambling sites. Numerous stolen credit cards and hacked bank accounts were also used to buy web-based services in the United States and Europe with the apparent aim of creating an online network to be used by jihadist cells throughout the world to exchange information, recruit members and plan attacks. The three cell members involved spent 3.5 million dollars from credit cards stolen by phishing on hundreds of websites. They also distributed spyware contained in emails or websites which enabled them to gain control of infected computers.[29]

Pakistani extremists based in Spain developed operating methods of their own. These groups have close relations with radical cells in the UK that specialize in stealing credit cards. Such cards are cloned and sent to Spain, where hundreds to thousands of euros in charges are made by a certain business owner who then transfers the money to radical organisation, asking a commission of 10% for himself. Radical Pakistani groups also obtain funds by collecting a 'revolutionary tax' from fellow countrymen based in Spain. On occasions they even engage in so-called *express* kidnappings which end once family members pays a ransom in Pakistan.[30]

According to Interpol, there are also important links between intellectual property crimes and the financing of Islamic terrorist networks. Some terrorist groups participate directly in the production and sale of fake items and divert part of the profits to finance attacks. Also, part of the profits from the sale of non-genuine items (such as illegally copied CDs) apparently go to fundamentalist networks and such monies are eventually sent to terrorist groups via informal money transfers.[31]

### *The Movement of Terrorist Funds*

In the more than twenty years of its existence, *Al-Qaeda* and later its affiliates have used various methods to transfer funds with the aim of avoiding detection by the authorities. Among them are informal systems of money transfers such as *hawala*, cash transfers and the use of official financial systems. However, other mechanisms such as external trade and new methods of payment allowing anonymity have emerged in recent years.

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*Hawala*

Alternative money transfer systems are a cheap and rapid way of sending funds and making transactions. Originally they mainly served those who did not have a bank account, particularly in remote areas without a functioning normal financial system. One of the most frequently used informal mechanisms is *hawala* (“transfer” in Arabic), a form of transporting financial obligations from one place to another without the physical movement of money and often also without a paper trail. What distinguishes *hawala* from other informal systems are trust and a strong sense of honour as these often exist in extensive family networks based on regional and tribal connections of those who use it. The security, anonymity and the versatility of *hawala* is also attractive for criminals and terrorists who wish to move legally obtained funds or launder money raised by illegal activities.

These informal systems constitute a risk factor for the authorities since operators usually do not need to reveal the true identity of their client or apply official due diligence procedures. *Hawala* is widely used in the Middle East, the Indian subcontinent, in South East Asia and parts of Africa, particularly in rural areas where people have no access to the formal financial system. It is also prevalent in countries populated by émigrés and refugees, who use this system to send money to families in their countries of origin in order to avoid paying excessive bank charges.

Before 9/11, *Al-Qaeda* moved a large part of its funds through *hawala* networks. After the organisation’s leadership moved to Afghanistan in 1996, there was no practical alternative as the Afghan national banking system was antiquated and insecure. Later, *hawala* became again *Al-Qaeda*’s system of choice when the government-regulated official financial systems stepped up controls on bank-based money transfers across national borders.

Many *hawala* transactions originate in, or are destined for, Dubai or Yemen, or pass through these places. Some countries such as the UAE have tried to regulate *hawala* operations and require users to register and provide information about the identity of remitters and beneficiaries on special forms which must be submitted periodically to the Central Bank. There are also requirements to report suspicious transactions. Currently in Afghanistan, all businesses that offer *hawala* services must obtain a licence, and report transactions to a financial intelligence agency of the Central Bank.[32]

However, other countries have paid no attention to informal money transfer systems, or simply attempted to prohibit them. Although the vast majority of these unregulated services transmit

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legitimately obtained funds, terrorist organisations such as *Al-Qaeda* and the Taliban use them to hide or manage many of their legal and illegal financial transactions. They are often used to transfer funds obtained from charities, common crime, drugs trafficking or wealthy donors.

### *Cash Transactions*

The physical movement of money across borders is predominant in countries where bank transfers are rarely used by common people. Couriers carrying money are also used where financial institutions have increased the efficiency of due diligence practices with clients. It is also one of the methods used by terrorist organisations such as *Al-Qaeda* to move funds whilst avoiding anti-money laundering and counter-terrorism financing measures implemented by national and international financial institutions. The investigation into the 9/11 attacks provided a good example of how *Al-Qaeda* used human couriers to move money. One of the financial backers of the attack, Khalid Sheikh Mohamed, passed a large amount of money (possibly as much as US \$ 200,000) to Abdul Aziz Ali in Dubai, who subsequently transferred it to the hijackers in the US.[33]

Various counter-terrorism operations have demonstrated that money couriers moved funds between Middle Eastern and South Asian countries. They often did so by using indirect flights between origin and destination, with large numbers of couriers and frequent exchanges of money. Moving money by using couriers can be more expensive than a simple transaction, but it leaves no trace even if the courier is detained, since the origin and final destination of the money might be unknown to him or her. Some terrorist groups have converted the money into high-value goods where the source is difficult to trace, such as gold and precious stones, moving smuggling activities away from formal financial systems.

Algerian and Moroccan cells based in Europe use human couriers, as the Italian police discovered when a bus company connecting France and Italy with Algeria was transporting three individuals at least twice a week, each of whom carrying an average of 1,500 euros. Pakistani radicals also sent money to the United Kingdom with the help of couriers who fly to the UK carrying the equivalent of thousands of euros.[34]

### *The Formal Financial System*

Government-regulated financial institutions and other regulated financial service providers constitute the formal financial system It is the world's principal gateway for financial

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transactions across borders. *Al-Qaeda* has in the past used the formal financial system as a means of moving money to support its own cells and affiliated terrorist groups, financing their actions. The speed and ease with which money can be moved via the international financial system enables terrorists to move funds efficiently, unfortunately often still with relatively small risk of detection.

The 9/11 terrorists used official financial institutions both within and outside the US to deposit, transfer and withdraw money. The money was deposited in US banks, generally via transactions, cash deposits and travellers cheques bought overseas. Some of them kept funds in overseas bank accounts to which they had access through cash-point machines (ATM) and credit cards. Of the overall cost of the 9/11 operation (between US \$ 400,000-500,000), at least US \$ 300,000 came from bank accounts in the United States. None of the terrorists or their backers were experts in using the international financial system. The money laundering controls at the time were primarily designed to detect drugs trafficking and large-scale financial fraud. Therefore bank employees at that time were not suspicious of apparently routine transactions as those carried out by the 19 hijackers.[35] One of those involved in the 7 July 2005 bombings in London financed the operation with his own funds, which were deposited in various accounts. These movements did not attract the attention of bank employees. [36]

Combined with other mechanisms such as offshore companies, the formal financial system can still provide terrorists with sufficient cover to carry out operations and launder crime money. The sheer volume and speed with which sums of money rush through the computer-linked international financial system make watertight CFT measures impossible.

Money remittance companies are particularly attractive to terrorist groups such as *Al-Qaeda*, which has used branches of such companies, which often operate globally, to send and receive money. These companies are in principle obliged to register identification details of the individual who has sent the money from one country and of the person who is meant to receive it in another. This should enable the authorities to track individual transactions by means of the logged details of every transaction. However, the lack of a consistent and worldwide application of due diligence procedures (involving identification, record keeping and report of suspicious transactions) are an obstacle for investigators when trying to track specific financial transactions.

#### *International Trade*

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International trade has a range of characteristics which make it vulnerable to abuse by terrorist groups such as *Al-Qaeda* because the enormous volume of international commercial transactions obscures individual transactions. International trade is characterised by the complexity of its transactions and payment methods. The mixture of funds from a variety of sources together with the limited resources available to customs agencies in tracing them makes it very difficult to detect illegal transactions without case-specific additional intelligence.

International commercial operations lend themselves often to the hidden transfer of currency. Various techniques are used for this: over-invoicing or under-invoicing of goods and services, anticipated payments which are never made and re-invoicing through free trade areas.[37] Laundering through over-invoicing and under-valuing of goods and services is a longstanding method of fraudulently transferring currency across borders; it continues to occur frequently. It involves attributing a set price to goods and services which differs from the actual market price. By invoicing goods and services at a price lower than the market, the exporter transfers currency to the importer, since the ultimate value will be lower than the amount the importer receives in selling them on the market. On the other hand, invoicing at an amount higher than the market price, the exporter receives currency from the importer since the price of the goods and services will be higher than their value.

In order for such operations to succeed, it is necessary that both the exporter and importer agree on manipulating prices. For example, if Company “A” exports 1,000 units of an item whose value is 2 euros per unit but invoices Company “B” at 1 euro per unit, it would lose 1,000 euros in the operation. This would make no sense unless both exporter and importer had agreed to carry out such a rigged transaction. Another possibility would be for the two companies to be controlled by the same organisation.

Banks play a fundamental (but no longer unique) role in making international transactions possible. They sometimes act as simple intermediaries to enable the movement of funds from one country to another, whilst in other cases they carry out a dual function of intermediary and guarantor to ensure that the conditions in the buying and selling contract are met. Payment methods that can be used in international trade vary in terms of the guarantees offered and the costs involved (personal and bank cheques, transfers, payment orders, banking remittances and credits). The participation of various parties in these operations and the complexity of payment methods can make the process of observing due diligence complicated. In addition, international trade is vulnerable to the use of falsified documents for the purposes of money laundering, terrorist financing and the avoidance of sanctions to breach international embargos. The use of

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front companies in high-risk jurisdictions can make it all the more difficult to track these operations. In other cases, international trade in services or commodities is used as part of more complex money laundering schemes such as the peso exchange black market, hawala and carousel fraud.

#### *New Payment Methods*

As an alternative to cash transfers and the use of bank accounts, various payment methods have evolved which are generally used by legitimate customers who lack access to regular banking services. They also are convenient for terrorist groups. Among these methods are pre-paid phone cards, online payment services, virtual money that is exchanged in the form of gold, silver and other metals and, most recently, mobile phone payments.[38]

Pre-paid phone cards are a much used alternative to cash. They can often be obtained with complete anonymity and are easily transported, making them particularly attractive. One type of such cards can be used to withdraw money from various ATM cash-point networks throughout the world. They do not require a bank account; nor do they require the user to deal with a bank employee who would verify the identity of the client to 'top' them up. They can also be used to buy items in shops. In some countries, these cards have become very popular amongst immigrants who wish to send money to their families overseas.

From the point of view of countering the financing of terrorism, these cards present a risk, since they can be 'topped up' by a member of a terrorist organisation in any country, allowing other members of the organisation access to money from cash-points. The vulnerability of these cards lies principally in the way they can be obtained. Terrorists can buy cards on the Internet, by fax and in those shops which do not require identification from customers or apply any system for tracing suspicious transactions. They can also move money through massive scale purchase of such cards and their subsequent sale.

Online payment services are often a service used by people without bank accounts or credit cards when they wish to make purchases over the Internet. People who use this service can first use their bank accounts, credit cards, electronic transfers or pre-paid cards or, in some cases, simply cash to open an account with an online intermediary which will then carry out payments. One of these online services is PayPal, which enables anybody or any business with email to send and receive money quickly over the Internet. It is more difficult to know the client's identity if the

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service provider does not insist on sufficient proof of identity or is willing to accept cash or giro transfers to open the account.

Other payment systems such as E-gold are based on virtual money which is exchanged via ounces of gold and other precious metals. One of the characteristics of such business transactions is that the funds which are transferred to them are automatically converted into a specific metal (for example, gold). At any time, the client can see the value of the gold in various monetary denominations such as dollars, euros, etc, and can make a payment of a specific amount of dollars.

These systems can be used to pay for articles exchanged for specific items through commercial websites. The CFT risks associated arise from registration of the online user with a limited amount of information, the lack of identification details, the speed of business transactions, access to items of any value whose price is difficult to establish, and fictitious transactions whereby companies do not guarantee delivery. All this can enable the transfer of money between members of a terrorist organisation pretending to pay for business transactions while the price of items is manipulated or the goods are simply not delivered.[39]

Payments via mobile telephones are another alternative to the use of cash and the formal financial system, principally in countries where it is difficult to find a reliable banking network. Technology enables the users of mobile telephones to pass funds between individuals in anonymity: the money sender buys a pre-paid phone card which is 'topped up' anonymously with funds which are subsequently transferred to the other person's card. This person can withdraw money from a cash-point using the pre-paid card. Thus, both the sender and receiver remain anonymous - another method that may be used by terrorist organisations to transfer money.

#### *The International Response to the Financing of Al-Qaeda*

A range of international organisations such as the World Bank, the International Monetary Fund (IMF), the United Nations and the International Financial Action Group (FATF-GATT) are involved in combating the financing of terrorism.

The World Bank and the IMF provide technical assistance to countries where the counter terrorist financing system is weak and where this can present a significant risk to good governance and development. Technical assistance from the World Bank and IMF is based on the introduction of

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new regulations based on best international practices, their application by authorities in the financial sector, the establishment of legal frameworks by financial intelligence bodies, the development of capitulation programmes and awareness-raising to address the concerns of the private and public sectors as well as co-operation with other organisations under multinational programmes and the development of training material.

In Resolution 1267 (1999), the United Nations Security Council established the “Sanctions Committee against Al-Qaeda and the Taliban”. Its original purpose was to monitor the application of sanctions against Afghanistan, then largely under control of the Taliban regime which supported Osama bin Laden and his several hundred men strong Al-Qaeda group.

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The sanctions regime has, especially since 2001, been modified and strengthened by subsequent Security Council resolutions. In this way sanctions were extended to individuals and entities associated with Al-Qaeda, Osama Bin Laden and the Taliban throughout the world. Those UN resolutions that have been approved under Chapter VII of the UN Charter require all member states to adopt a series of measures with respect to any person or entity associated with *Al-Qaeda*, Osama Bin Laden and the Taliban designated by the sanction committee. Among these measures are freezing their assets, preventing their members entry into a UN member states’ national territory or transiting it, and preventing the supply, sale or transfer, direct or indirect, of military arms and equipment.

The primary responsibility for the application of these sanctions falls on the member states; its effective application is their obligation. The individuals and entities suspected of terrorism feature on the consolidated List of the Sanctions Committee it is periodically updated or revised. The List consists of four sections and contains 507 names (according to the update of 3 December 2009):[40]

- A. Individuals associated with the Taliban (142)
- B. Entities and other groups or companies associated with the Taliban (none)
- C. Individuals associated with *Al-Qaeda* (254)
- D. Entities and other groups or companies associated with *Al-Qaeda* (111)

It is not necessary for charges to have been brought against an individual by a national court or a conviction in a trial in a court of law for a suspect to be added to the List because the sanctions are said to be of a preventative nature. States are obliged to disseminate the List fully to banks and other financial institutions, intelligence agencies, alternative money remittance services and

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charitable organisations amongst others. The Committee has a team tasked with providing analytical support for the sanctions; that team publishes progress reports periodically.

Although there has been significant progress, there remain systemic weaknesses in the application of the sanctions. The List contains imprecise and obsolete information, including the names of deceased individuals and defunct companies. On the other hand, some entities and individuals on the List have taken legal action in various countries to challenge their inclusion on the List. In other words, they challenge the Security Council's authority to impose sanctions based on dubious intelligence information only. Due to this, states are sometimes unable to put into practice decisions taken by the Security Council without contravening their own legislation. As a consequence, the international community is in such cases not fully able to apply co-ordinated measures against the financing of terrorism.[41]

The international community has so far failed to discover or block many of the sources of financing of *Al-Qaeda*. The organisation headed by Bin Laden continues to have access to money through various channels at the margins of the formal financial system. It also makes intensive use of alternative remittance systems and sometimes simply sends money via couriers.

*Al-Qaeda* has succeeded in moving a large part of its financial activities through its associated groups to areas in Africa, the Middle East and South-East Asia where the authorities often lack effective CFT institutions and where individuals who feature on the Security Council's List can continue their financing activities by using companies and fictitious businesses to hide their transactions. The bottom line is that despite the Committee's powers, *Al-Qaeda*, the Taliban and the network's associates are in a position to continue to seek, obtain, gather, transmit and distribute considerable sums of money to support their ideological, logistical and operational activities.

Another international organisation taking action against terrorist financing activities is the Organisation for Economic Co-operation and Development (OECD). In October 2001, the OECD adopted a set of eight special recommendations to combat terrorist financing. In combination with the already existing forty recommendations of its Financial Action Task Force (FATF) to combat money laundering, these 48 recommendations form the basic international framework meant to prevent and suppress terrorist financing and terrorist acts.

#### *Identifying Suspicious Operations*

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The current legislative framework for preventing the use of the financial system and other areas of activity for terrorist purposes based on the OECD's 48 recommendations is now in place in the majority of countries. The basic principles for combating terrorist financing have developed in a form essentially parallel to those regarding anti-money laundering measures. But there are some differences between the two issues. In money laundering, criminal elements generally need to deposit large amounts of money into the financial system. In financial transactions relating to terrorism, the amount of money used is considerably less and is usually consistent with the client's stated profile, which makes them look innocuous. All too often financial institutions are unable to separate suspicious transactions from those which are not.

Yet authorities often consider the financial sector to be in an ideal position to detect money laundering and terrorist financing activities. Reports of suspicious activities sent by financial institutions to national financial intelligence units form the basis of this preventative system. However, it is not easy for financial entities to detect suspicious terrorist financing operations. To qualify as a suspicious transaction, deviations from the client's profile and usual practices must be taken into account, which implies the application of a policy based on "know your customer". It is not enough to identify clients; it is necessary to know their usual practices and sources of income. When business relations are established, it is necessary to obtain information from the client about the nature of his professional or company business and establish beyond reasonable doubt the veracity of the information provided. In particular, it is necessary to pay particular attention to any operation that is complex, unusual or lacks an apparent financial or lawful purpose. In order that personnel of a financial institution or similar entity may detect suspicious operations when assessing transactions, it is the norm to use a number of indicators according to the sector of activities in which the client is involved. These indicators come from experience compiled by various government agencies, international organisations and financial intelligence units in various countries.

The financial sector uses various IT programmes aimed at detecting suspicious operations to evaluate transactions made by customers. Each client is given a specific profile that describes the expected usual practice of the said client. In general, this includes the number of transactions and the amounts involved which are expected to take place over a particular period of time with an acceptable margin of deviation from the norm. When the client's transactions go beyond this margin, the IT programme issues an alert. Yet when submitted to closer scrutiny, many of these transactions result in "false positives". Given that there is no single effective set of indicators to detect suspicious transactions for countering terrorist financing, it is necessary to evaluate a high number of activities to come to responsible conclusions as to whether something significant is

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going on or not. This is an inconvenience, since submitting a high number of “false positives” to further investigation takes up time and money. In order to avoid an excessive number of “false positives” without adversely affecting the control of operations, it is necessary to maintain a current profile of clients, consider adequate tolerance ratios for each type of transaction, establish an adequate frequency for review according to the risk presented, and take account of the conditions of the time and the market which may affect the operations being carried out.

There is currently a general concern within financial institutions that most of the indications they receive are orientated towards money laundering rather than terrorist financing. However, it is a common complaint that they receive scant or no information about high-quality indicators that enable the detection of financing for terrorism purposes. Consequently, many of the reports of suspicious transactions are valuable only if these actually trigger an investigation by the authorities. There is a significant imbalance between the high volume of reports on suspicious activities generated by financial institutions throughout the world and the scant value of terrorist assets located or frozen as a result of these reports. In many cases, the reports are clearly defensive to protect the institution against possible sanctions from the authorities and focus on the type of client rather than the nature of the transaction, which makes them of little use to investigators. The large volume of suspicious transactions filed by financial institutions tends to overburden the financial intelligence units tasked to analyse them. Backlogs are common which reduces the amount of actionable intelligence gained from monitoring suspicious transactions.

#### *Seeking a financial profile of terrorism*

Banks and other financial institutions continue to ask the authorities what more they should be looking for to detect possible transactions associated with terrorism. Many of the mechanisms available to financial institutions to detect money laundering activities are not directly applicable to detecting terrorism. The 11 September 2001 operatives are an example of this. The nineteen hijackers formed a simple plan to disguise their transactions without revealing their intentions. Although the US authorities had information that several of the hijackers might be members of *Al-Qaeda*, the banking personnel where they held accounts never suspected that their clients were potential terrorists.

Financial institutions and governments have made a considerable effort to create a profile of “the terrorist”. The FBI examined financial transactions made by the 9/11 hijackers focusing on the following: they visited the banks in groups, identified themselves as students, spent a large proportion of their income on pilot training schools and were financed to a large extent from

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money transferred from the UAE.[42] Yet other terrorist cells such as the London attackers used the legal income of one of their members deposited in various bank accounts to finance the attacks.[43] In other words, profiles may be of some help to detect more or less identical types of attacks, but do not help much to warn of attacks developed in a different way.

Terrorist financing does not always follow clearly recognizable guidelines. This is especially true in cases of local cells whose members save or collect money to finance their own activities. These cells can use their own legally obtained funds but can then carry out illegal operations. In all cases, including the latter, it is difficult to detect a terrorist motive or even a purely criminal one. It is not an easy task to create a general profile of financing and using funds for terrorist purposes. For example, when an Islamic charity receives money from small donations and then makes periodic financial transfers to areas such as Afghanistan or Chechnya, this might be to finance terrorist operations or might constitute humanitarian aid to a very needy population. Intelligence services and governments can hold information that may distinguish one use of funds from another, but it is unlikely that a financial institution would be capable by itself of determining the difference.

### *Conclusion*

Our conclusion is that financial information alone is not sufficient to detect the financing of *Al-Qaeda* and its affiliates. However, when combined with other types of information held by intelligence services, it may help a financial institution to detect signs of possible suspicious activity. In this sense, the development of intelligence-led indicators based on the study of evolving terrorist operating methods and the exchange of information between public and private sectors should be one of the pillars for the development of a more risk-based focus which can improve the detection of terrorist financing operations.

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## Notes

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