Draining the Ocean to Catch one Type of Fish: Evaluating the Effectiveness of the Global Counter-Terrorism Financing Regime

by Aimen Dean, Edwina Thompson, & Tom Keatinge

Abstract

Recognising that the rest of this issue looks in greater detail at how terrorists move money, this article will begin with just a brief review of one of the most resilient methods of fundraising for Jihad that we believe is not well understood – 'Tajheez al-Ghazi' – as well as the use of fundraising auctions and the 'justification' of criminality. It will then evaluate the international community's response to the terrorist financing threat, and, in particular, review the interaction of the global CTF framework with fragile states and the impact on financial inclusion. The article concludes by recommending some improvements to a regime that has grown relatively unchecked over the past decade and which, some suggest, has tried to 'catch one type of fish by draining the ocean'.[1]

Funding is clearly important for terrorist groups. Personnel records seized from al-Qaeda in Iraq (AQI) revealed the minute detail with which finances were managed, maintaining spreadsheets, expense reports, and receipts. This provided invaluable intelligence to Coalition forces, and demonstrated how critical financial housekeeping was for AQI's operations.[2] Similar financial prudence can be found in al-Qaeda's Manchester Manual, which advised operatives to divide finances into funds on the one hand to be invested for financial return and on the other to be saved for operations, and to spread the funds amongst the members of a cell so that if captured the source of the cell's financing is protected.[3] This article examines the extent to which the global counter-terrorism finance (CTF) regime has achieved the objectives set following 9/11, namely to infiltrate and shut down terrorist-financing. It also addresses the wider consequences of this CTF regime, particularly its effect on fragile states and Somalia in particular.

Financing Terrorism: The Reality

Proxy jihad

There is now a substantial body of literature on the fundraising and transportation methods of terrorist finance. However one of the most resilient methods of fundraising for jihad is not so well understood. Based on interviews with 65 former and current jihadist operatives in the field of recruitment, fundraising and movement facilitation,[4] we argue that if, over the years, this had been better understood, the international community might have developed a more proportionate, nuanced, and targeted CTF regime.

There are many examples from the Qur'an which illustrate the importance of giving generously to the cause of jihad and the war effort.[5] Islam recognised from the beginning that wars, whether defensive or offensive, cost money. Therefore Islam devised a mechanism by which people would voluntarily contribute, and contribute generously, to the war effort while considering such contributions as charity. As history shows, early Muslims took this message to heart. Contributions to the Jihad took many forms: some provided arms and shields, others food and livestock, or horses and camels. The most common method of contribution is '*Tajheez al-Ghazi*' – simply defined as fitting or arming a soldier, which allows for those who cannot, or will not, join the jihad physically for whatever reason, to achieve the honour and heavenly reward of waging jihad by proxy. The Prophet Muhammad encouraged this type of sponsorship: 'Whoever arms a Ghazi then he would be considered a Ghazi, and whoever looked after the family of an absent Ghazi, he will too be considered a Ghazi' (Bukhari, 2630). More popular than shields, armour, and horses is now money, which is paid to individuals aspiring to make their way to jihad theatres of conflict.

Jihad volunteers are the life and blood of such theatres in Afghanistan, Iraq, Yemen, Somalia, North Africa and Syria today. Therefore, without *Tajheez* being readily available for potential Jihadists the ability of groups such as al-Qaeda and the Taliban to sustain their level of activity in these theatres would be severely limited. From primary research that covers the period from 1991 to mid-2012, it emerged the *Tajheez* cost per jihadist was between US $3,000 and $4,000 in Bosnia (due to the number of countries that the volunteer needed to pass en route and the need to cover the cost of his AK-47), and US $2,000 to reach Afghanistan and have enough money to cover basic needs. In the case of the roughly 100 foreign jihadists who made it to Chechnya, the cost of *Tajheez* skyrocketed to more than US $15,000 per person due to the difficulty of entering Chechnya.

As jihad theatres emerge around the globe and attract public and media attention, local individuals, clerics and small fundraising cells organically emerge to organise and collect funding for *Tajheez*. Again, primary research conducted by one of the authors indicates that four out of ten Jihadists received their *Tajheez* from money raised or contributed by women. The funds are collected in cash, handled by individual and small cells, with almost no banking transactions occurring or with funds moving through officially registered charitable channels. Some contributors use their own credit cards to purchase tickets for traveling jihadists. *Tajheez* relies on hundreds of outlets, whether they are clerics or coordinators, dispersed over dozens of countries and with no organisational links between them or to a central authority, making it impossible to track them all. What unites them is a common cause.

The use of cash in mobilising jihadist recruits over the past two decades has clearly been one of the most effective and successful tools in the hands of radical Islamists. Using cash and relying on the goodwill and the secrecy or trust of thousands of contributors, clerics, and coordinators, has not only helped evade the scrutiny of authorities, but also allowed them to deliver the most important weapon of all; new recruits for the cause.

Auction Fundraisers

Auction fundraising evenings are also held to support armed struggle. In the autumn of 2012, one of the authors of this article attended such an event held on behalf of the Free Syrian Army in one of the Gulf countries as an observing guest. The sponsors of the fundraising evening, including a member of the national parliament and a senior judge, announced to those present that they were fundraising specifically for MANPADS (a shoulder-launched, anti-aircraft system). The aim was to empower the rebel Free Syrian Army to shoot down the helicopters and fighter jets of the Syrian regime's air force. Sufficient money was raised to cover the cost of 11 missiles (each costing US $75,000). Those who donated the money were told by the organisers that they were saving the lives of women and children in Syria who are subjected to daily bombardment by the air force of President Assad, and by paying for those missiles they should feel proud to have participated in relieving many civilians from this hell.

While it is widely accepted that the struggle of the Syrian people against Assad's dictatorship is a legitimate aspiration, it is also important to highlight the presence of al-Qaeda and jihadist elements within the ranks of the Syrian opposition forces; indeed it is generally acknowledged that they are some of the most organised, well-armed, and effective of the opposition forces,[6] raising the risk that al-Qaeda might exploit the Syrian conflict to divert weapons and funds, as in previous cases, to other jihad theatres such as Afghanistan, Yemen and North Africa.

The Justification of Use of Criminal Means

As the insurgencies against the US, NATO, and their regional and local allies have grown, so has the need to secure additional funds to sustain such efforts. For the past fifteen years, some radical clerics have provided theological justifications for theft and other illegal financial gains in order to finance jihad. London-based clerics such as Abu Qatada (now in Jordanian custody) and Abu Hamza (now in US custody) led the way in providing a theological basis for theft and criminality to obtain financial aid for jihad. They justified this based on certain interpretations of Islamic theological principles by dividing the world into 'Darul Islam' (the land of Islam) and 'Darul Harb' (the land of war). According to both clerics and their followers, almost all lands that are not governed by their strict interpretations of Sharia rules are 'Darul Harb' – even Saudi Arabia did not escape being classified as such.

Based on such extreme interpretations, some clerics gave a free hand to their followers, allowing jihad operatives in Australia, Europe, and North America to commit 'legitimate' fraudulent acts against banks, telecommunication companies, and government welfare programmes. Members of certain North African and Pakistani communities were particularly active in this type of criminality, with credit card fraud being a favourite method. Mortgage fraud and loan fraud, enabled by a proliferation of fake European passports and identity documents were also popular, stemmed but not eradicated by the introduction of 'chip and pin' credit and debit cards as well as biometric passports.

The Global CTF Regime: Intentions and Realities

The first step of the Bush administration post-9/11 was to sign Executive Order 13224 with the aim of launching 'a strike on the financial foundation of the global terror network' and to 'starve the terrorists of funding'.[7] The White House hailed CTF a success within 100 days of the attacks, reporting that 'assets of more than 150 known terrorists, their organizations and their bankers have been frozen by the United States. 142 countries have issued freezing orders of their own. The result: more than US $33 million in terrorist assets have been blocked inside the United States, more than US $30 million more have been blocked abroad by our partners in the international coalition'.[8] Despite this outcome, Osama bin Laden seemed unconcerned, claiming in an interview in October 2001 with a Pakistani newspaper that Al-Qaeda's finances were organised by backers who were as 'aware of the cracks inside the Western financial system as they are aware of lines on their hands'.[9]

The importance of CTF has been emphasised by several Western leaders following further terrorist plots; for example, in light of the foiled transatlantic 'liquid-bomb' plot in 2006, then-UK Chancellor Gordon Brown said in a speech to Chatham House:

> *'What the use of fingerprints was to the 19th century, and DNA analysis was to the 20th century, so financial information and forensic accounting has come to be one of today's most powerful investigative and intelligence tools available in the fight against crime and terrorism.'[10]*

Brown went on to call for the creation of a 'modern Bletchley Park' with 'forensic accounting of such intricacy and sophistication' that it can achieve the same results as the code-breakers of the Second World War.

These examples highlight two of the core elements of the CTF debate, namely (in the words of Jonathan Winer, former Deputy Assistant Secretary of State for International Law Enforcement under President Clinton) the 'big ideological divide' between 'the asset freezers and the people who want to follow the money as it changes hands'.[11] Bin Laden's confidence also brings to the surface the larger existential question about the CTF regime as a whole, for where there are cracks, there will always be a way to move money – thus, should states invest the majority of their effort attempting to cover those cracks, or should they strive to address the root cause of the threat?

A Polarised Debate

The relative merits and burdens of CTF have certainly generated a polarised debate, from those who see it as critical to the fight against terrorism and meaningfully curtailing the ability of terrorists to act – for example, former Treasury Secretary John Snow who claimed in 2004 that, 'The work to track and shut down the financial network of terror is one of the most critical efforts facing us today, and we have achieved important successes in the mission to bankrupt the financial underpinnings of terrorism'[12] – to strong critics such as anti-money laundering specialist Dr Dionysios Demetis who has labelled the CTF effort a 'farce'.[13] A study undertaken for a 2011 IMF report on the effectiveness of the global AML/CTF programme makes disappointing reading, and supports the view that compliance and implementation remain poor.[14]

One of the most vocal groups currently opposing the impact of the global CTF regime is the Somali money service business (MSB) community based in the US and the UK. These businesses are continually being forced to adapt operating procedures and enhance compliance systems under the threat of loss of their bank accounts [15] and the perceived lack of understanding amongst 'outsiders' of their unique situation and the business model they have to operate as a result.[16]

Ultimately it is the financial services industry – both formal and informal – that is on the frontline of CTF. As noted by former Assistant Secretary for Terrorist-Financing, Juan Zarate, 'there has been an enormous burden placed on financial and commercial actors since 9/11'.[17] For these companies, compliance with CTF requirements is a financial balancing act, a judgment between, on the one hand, blind compliance with whatever regulations are published through fear of the reputational and financial damage caused by exposure as non-compliant, and, on the other hand, the considerable and increasing cost[18] (estimated at £250 million and over US $1 billion per annum in the UK and US respectively[19]) of implementing AML/CTF regulations.

Recent Banking Trends

As primarily private sector, shareholder-owned companies, financial institutions seek to defray or reduce this cost in a number of ways, each of which has an inadvertent negative consequence for CTF. In some cases, particularly where NGOs and MSBs are concerned such as in the Somali case, and where legitimate clients are unable to meet the more stringent customer due diligence requirements, banks are terminating relationships and service provision as this class of client is simply 'unbankable'. [20]

In other cases, where possible, financial service providers seek to rid themselves of regulatory burdens and costs by closing down their operations or withdrawing services from a particular jurisdiction – for example withdrawing correspondent banking services or the provision of bank accounts to so-called 'Politically Exposed Persons', an ever-broadening categorisation. And finally, the burden of this increased regulation is likely to lead to more expensive transaction costs. This encourages customers to seek cheaper means of moving their money, which inevitably means operating in the informal and unregulated sectors. In turn, this reduces the ability of the authorities to monitor cash movements, thus damaging efforts to prevent the global financial system from being misused, and in many cases leading to exclusion from the financial system – precisely the reverse of what the authorities have been trying to achieve.

Within the financial services industry, there is clearly a belief that these rising compliance costs are disproportionate to their outcomes, are poor value-for-money, and, due to inconsistent global application, a competitive disadvantage to strict adherents. The additional compliance has resulted in a significant burden of reporting and monitoring requirements for the formal financial sector. To protect its reputation, a financial institution is motivated to report excessively, and has no incentive to consider the quality of the data it submits to its national authority. 'Suspicious Activity Report' filings (or SARs), for example, have increased dramatically, swamping the authorities – the US Treasury Department's FinCEN has seen SARs rise by a factor of ten since 9/11, reaching a total of over 1.5 million in 2011.[21] The number of SARs filed in the UK over the same period has experienced a rise of similar magnitude to almost 280,000 as of September 2012.[22] Given the amount of raw information provided to the authorities and their track-record in managing large volumes of data, it is questionable whether they are actually able to follow up and act upon many of the submitted suspicious activity reports. In developing nations, matters are worse, with law enforcement and regulatory authorities often too inefficient or corrupt to process the majority of reports that are made.

Smaller operators, such as the Somali money transfer companies that find it expensive to keep up with the compliance requirements, complain that it is the mainstream banks that are responsible for the bulk of deliberate and inadvertent facilitation of the movement of billions in criminal money, despite their heavy investment in AML/CTF systems. For example, HSBC received a record US $1.9 billion penalty for deliberately breaking sanctions and providing a conduit for 'terrorists, drug lords, and rogue regimes'[23]. The digital money service Liberty Reserve, which held seventeen bank accounts, is said to have helped criminals to launder US $6 billion around the world.[24] This shows not only that even the largest and most sophisticated institutions are still vulnerable to abuse, but that there is an important question of proportionality that must be addressed in the application of the global CTF regime.

The Financial Action Task Force (FATF)

Post 9/11, the key to starving terrorists of funding was believed to lie in the globally co-ordinated development and enactment of guidelines, and thus global authorities turned to the Financial Action Task Force (FATF). Established at a G7 summit in Paris in 1989 to spearhead the fight against criminal money-laundering, particularly in the drugs-trade, FATF quickly became the thought-leader for global CTF. Its original mandate had been to examine money-laundering techniques, review national and international prevention activity, and propose remedial measures and international standards. After 9/11, as the international community urgently sought to boost the global CTF regime, it seemed logical to extend the FATF mandate to include terrorist-financing.

FATF published its *Eight* (increased to *Nine* in 2004) *Special Recommendations on Terrorist-Financing*,[25] endorsing the UN's CTF efforts under UNSCR 1267 and 1373, calling upon countries to criminalise terrorist-financing and to freeze assets accordingly, and aiming to set international standards for cooperation, reporting suspicious transactions, and regulating and controlling NGOs, wire transfers, and cash couriers.

There is no doubt that using FATF and its pre-existing AML communication and implementation framework allowed global CTF efforts to advance more rapidly. However, taking this existing regime and directing it against the financing of terrorism implied that there is significant commonality between (drug) money laundering and the financing of terrorism. Yet that is not the case. Terrorist-financing originates from a diversity of sources, ranging from state sponsorship, to individual donations and petty crime. Furthermore, in contrast to most money laundering, it is not undertaken for profit.

FATF made several further flawed assumptions when grafting nine extra anti-terrorist measures onto the existing forty anti-crime measures. For example, they assume that individual nations have a level of control that is in reality 'often lacking'[26]; that information is easily available in each country it visits; that first-world standards apply in the 'Global South'; and that complying (if that were possible) with its Recommendations is as high a priority for all countries as it is for FATF's sponsors – this is often simply not the case where greater, existential social and security issues deserve the more urgent attention of a government.[27] Indeed the level of engagement and alignment of countries critical to the successful implementation of a global CTF strategy is often questionable. The Wikileaks U.S. Government cable files shine a light on this shortcoming, with a US State Department cable revealing in December 2009 that 'it has been an ongoing challenge to persuade Saudi officials to treat terrorist-financing emanating from Saudi Arabia as a strategic priority,' and in the case of Kuwait that 'it has been less inclined to take action against Kuwait-based financiers and facilitators plotting attacks outside of Kuwait'.[28]

Financial Exclusion and Marginalisation: The Unintended Consequences

Against this background of significantly tightened global AML/CTF standards and the withdrawal by banks of many financial services deemed too risky (or not sufficiently profitable to justify the perceived risk), it is important to consider the consequences of these actions on the important matter of financial inclusion. As the FATF notes, '...applying an overly cautious approach to AML/CFT safeguards can have the unintended consequence of excluding legitimate businesses and consumers from the financial system'[29] – a side-effect that is particularly prevalent in high-risk and fragile state environments such as Somalia.

According to the World Bank, 'three quarters of the world's poor do not have a bank account, not only because of poverty, but [also] the cost, travel distance and amount of paper work involved in opening an account.'[30] For many of these 2.5 billion people, informal mechanisms play an important role, in particular as a means for delivering much-needed assistance through diaspora remittances and investment to hard-to-reach places.[31] In Muslim communities, many use the traditional method of *hawala* (or simply 'transfer'), which attracted the acute attention of law enforcement agencies and regulators when they searched how the attacks of 9/11 were financed. Islamic charities and the third pillar of Islam – *zakat* – also offer a vital source of supplementary income across the Middle East, Africa and South East Asia. Much like the informal financial system, however, seen as vulnerable to diversion to terrorism and criminality.

Research undertaken by the World Bank and the Consultative Group to Assist the Poor (CGAP) reaches important conclusions with regards to the interaction between the provision of financial services to the poorer sectors of society and the establishment of an effective AML/CTF regime. The research notes that these objectives are 'complementary' as 'without a sufficient measure of financial inclusion, a country's AML/CFT system will safeguard the integrity of only [the formal] part of its financial system... leaving the informal and unregistered components vulnerable to abuse.'[32] Broadening financial inclusion should be seen as a key and desirable element of establishing an effective AML/CTF policy and thus steps taken by banks and authorities that exclude users from the financial system and make the use of the underground economy appear more attractive are counterproductive.[33]

The challenges facing remittance payments destined for Somalia from the UK and other Western nations is a current case in point. The vast majority of these transactions are small but critical for the recipient. According to data provided by several members of the Somali Money Service Association (SOMSA) in the UK, the average transaction for many remitters is a mere £25 per person, whilst three Minnesota-based members of the Somali-American Money Service Association (SAMSA) in the US provided information to the American Refugee Committee indicating that the average transaction size is $170[34]—these funds are almost certainly destined for some of the world's poorest people.

On balance, in the case of fragile states such as Somalia, the creation of greater financial inclusion is likely to benefit security rather than detract from it, and global regulatory authorities thus need to monitor closely whether the counter-terrorism measures they promote support or undermine security. For instance, given the instability of Somalia, many have emigrated to find work and protection. As a result, remittance flows from the diaspora, currently estimated at US $1-2 billion per annum,[35] are extremely important to the welfare of family members who remain in the homeland or refugee camps in neighbouring countries. Often, no formal, viable financial link exists to connect these families with their overseas source of money, thus restricting the flow of payments to these people leaves open a vacuum that can be filled by assistance from local terrorist organisations such as al-Shabaab, leading to increased support for the organisations that the international security community is trying to restrict via CTF measures.

Other consequences may also follow: the inability of large Somali populations based in border regions, such as the world's largest refugee camp in Dadaab (Kenya), to receive supplementary support from family members abroad may lead to national security concerns in countries hosting substantial and growing Somali refugee populations; diaspora communities in Western nations frustrated by their inability to transfer funds may experience an increase in radicalisation, and as highlighted by a Somali cab driver in Minnesota in response to a question about what he thinks would happen if the banks shut down the accounts of Somali money transfer companies: 'If there is no *hawala*, there will be no more people in Somalia. They will move to another place. Maybe join their families illegally'.[36]

In Afghanistan, there is evidence of over a decade of misguided engagement with financiers there, leading to marginalisation of the very sector that could contribute to the growth of the economy and to lifting the country out of poverty. Policymakers shared a lack of understanding of the innovative yet informal systems that emerged during crisis and conflict periods, encouraged by the Bush administration's view of starving terrorists of funds (leading to the attempted closure or disruption of *hawala* networks).[37] If the Western donors and Coalition troops had constructively engaged with financial networks such as *hawala* earlier, then they would have been able to assess how to work with them creatively in important areas such a facilitating payments to police, military, and other government workers. Such a strategy would have been likely to have encouraged traditional actors to move to a more modern system, which would then support the current 'transition' process.

Counter-Terrorism Finance: A Regime Fit-for-Purpose?

From a standing-start in 2001, the efforts of the US Treasury Department were graded A-minus by the 9/11 Public Discourse Project in December 2005.[38] Yet this grade was for effort, not the effectiveness of the proliferation of policy papers, recommendations, and guidance that emerged around the AML/CTF regime. Likewise, in assessing FATF-compliance, countries and financial institutions are judged by supervisors often more interested in 'box-ticking' rather than the effective implementation of these global standards – standards which are often irrelevant and/or impossible to implement given the circumstances of a particular country situation. It is hard to imagine FATF receiving such a lofty grade.

Too much emphasis has been placed on 'regulatory ritualism,'[39] creating global and national standards that rely primarily on paper compliance, rather than engagement with the target audience.

Conclusion

Based on a cursory review of the reality of terrorist financing *per se*, several conclusions emerge. Throughout the beginnings of the modern Jihad during the Soviet invasion of Afghanistan, money was moving freely through banking channels without great scrutiny. There was also widespread use of couriers with large pouches. Following 9/11, and with advances in fraud detection and prevention technology implemented by banks and other financial institutions (for example biometric passports, ID cards, and 'chip and pin' technology), groups such as al-Qaeda have certainly faced increased challenges.

However, as the world's governments and financial authorities became more sophisticated in their hunt for terrorism finance following 9/11, Al-Qaeda's terrorists adopted simpler, under the radar methods to avoid detection. These methods did not just extend to the movement of finance, but also to the exchange of information and instructions between leaders and cells – avoiding almost all means of direct electronic communications through cell phones and emails became the best tool of survival for many of al-Qaeda's leaders, cells and operatives. Instead al-Qaeda and other Jihadist groups placed greater emphasis on the 'human element' when exchanging money, messages, information and instructions to avoid the American's ability to monitor electronic signals. Al-Qaeda's use of human couriers for such tasks is well documented, and it enabled Bin Laden to escape detection for almost a decade.

The intense regulatory and governmental pressure on the formal and informal financial services sector has led terrorist financiers to find means of raising and moving funds outside regulated channels, leading to unintended negative consequences from the CTF regime, such as the rise in kidnap-for-ransom, the increase in financial exclusion, and the mounting cost of compliance. With such a large portion of terrorist-financing activity occurring outside the formal financial system, the burden placed on those within that system appears on the whole increasingly wasteful and redundant.[40]

What therefore can be done to improve and focus the contribution that CTF makes to international security? We offer the following six recommendations by way of conclusion.

Recommendation 1: Dialogue

Traditionally, the relationship between financial service providers in high risk corridors and those administering the AML/CTF regime has been confrontational,[41] characterised by inflexibility and an unwillingness or inability to consider alternative points of view. This is not helped by the fact that each also derives legitimacy from different audiences – international institutions gain legitimacy from 'above' through state structures, whereas more informal markets gain legitimacy from 'below' through domestic concerns of the people or local dynamics.[42] The lack of constructive dialogue or engagement between the two forms of economic governance has contributed to inappropriate and ineffective regulatory regimes that are oblivious to the realities on the ground. A more open dialogue must occur between these communities so that companies attempting to formalise and improve their standards have the opportunity to share their concerns, and understand the perspective of regulators and banks.

In addition to improving dialogue between the more informal and formal spheres, information must flow in both directions between the regulators and the banks, and intelligence should be shared. KPMG's 2011 *Global Anti-Money Laundering Survey* revealed that a significant proportion of banks desire 'more guidance' and a more 'collaborative' and focused approach, noting 'there's no sharing of information back from government... it's a waste of energy without [providing] key information to us.'[43] Financial institutions have highly sophisticated systems for sorting through the millions of pieces of data they receive from their various business lines each day. Given the right guidance by the authorities, the financial industry could provide higher quality, valuable data to the security services. Developing this connection into an effective partnership is critical to the upgrading of CTF efforts.

Recommendation 2: FATF Reform

In 2011, the IMF characterised FATF's assessment policy as being comprehensive and inflexible, without taking into account the circumstances of individual countries.[44] Certain participants of FATF recognise the extent of the burden their proscriptive and detailed model imposes on businesses and nations, adding costs and compliance demands that are significant and in many cases simply unachievable. In preparing for its next round of country reviews due to begin shortly, FATF is aiming to 'zoom out' and encourage a more 'risk-based approach'. Whilst the new Recommendation 1 is a welcome step, encouraging the 'efficient allocation of resources across… AML/CTF regimes,'[45] it is critical that a more nuanced approach is taken that reflects local realities and risks, moving away from the current burdensome, rigid, and granular requirements, that are often irrelevant at best and counterproductive at worst.

Recommendation 3: International Cooperation

International cooperation must be significantly, and willingly, enhanced. A 2010 study of FATF mutual evaluation data by the AML/CFT Group revealed that of 156 countries, 122 and 130 respectively were non- or only partially compliant with Special Recommendations I and III ('Ratification and Implementation of UN Instruments' and 'Freezing and Confiscating Terrorist Assets').[46] Simply put, after almost 10 years of effort, approximately 80 per cent of countries were not meeting the most basic standards.

Why is this so? Clearly some of the failure comes from a lack of technical capability, for example where identity verification is not possible, or where a lack of cooperation between ministries and political parties makes passing laws challenging. But the primary reason is that for many countries, the relevance of CTF is unclear at best, and at worst is seen as a self-serving

Western-sponsored initiative. Thus, to secure true international political support and reverse the negative perception caused by hasty and unwarranted designations, the sponsors of the global CTF regime must demonstrate that these efforts are effective in reducing crime and terrorism, and that that they are manifestly as important as the existential social and security issues that many partially compliant and non-compliant countries already face.

Recommendation 4: Financial Inclusion of the Unbanked

A concerted, apolitical effort should be made to address the dilemma of facilitating the fast, efficient and cost-effective flow of finance to the poorest people in the world, while fighting terrorism. The UK Government's project on whether and how principles of a 'safe corridor' can be established to facilitate legitimate payments while isolating criminal and terrorist finance is a current case in point. Part of this task will involve addressing the specific vulnerability presented by and to the humanitarian sector.[47] Another element will involve addressing the delicate task of migrating people from traditional and informal funds transfer systems to engagement with modern and formal systems such as 'mobile money'. This also requires the collaboration of many different parties.

Recommendation 5: Cashless Systems

The bypassing by terrorist organisations of much of the financial and banking system via the use of cash couriers, the transfer of high value items such as diamonds and gold, and the use of charitable services for health and welfare provisions, renders the task of monitoring and policing such operations almost impossible. Compliance teams at banks cannot trace cash once it leaves the bank cashier; and their investigative teams cannot determine if the charities that bank with them are providing clandestine services for families of deceased Jihadists, or building clinics for dual use of both civilians and Jihad militants. Even if bank compliance teams were to investigate, the deception is of such a magnitude that only professional intelligence agencies could uncover it.

Therefore, money transfer companies serving high-risk corridors where remittances are key for livelihoods support and survival should plan to convert their operations to cashless systems. This involves collaboration with telecommunication companies at the global and national levels. Even then it will remain extremely difficult to assess the motivation behind a person's money transfer. Somali money transfer companies are deeply frustrated by the demand from banks that they report any transactions that appear as though they are intended to support terrorism – it is as difficult for them as discerning how someone in the West will spend cash they withdraw from an ATM.

Recommendation 6: Prevent Terrorism at the Source

Since 9/11, considerable effort has been made to target the raising of both legitimate and illegitimate financing by terrorists, and to inhibit the flow and distribution of these funds, with the closing of NGOs, Informal Value Transfer Systems (IVTS), and the ratifying and implementation of UN and FATF resolutions and recommendations. But the dispersed and clandestine nature of the fundraising efforts by al-Qaeda and other Jihadist groups make it almost impossible to disrupt. Even if dozens of *Tajheez* coordinators and fundraisers were to be arrested and their assets confiscated, this would represent only a very small percentage of the overall number of fundraisers and *Tajheez* coordinators/recruiters in operation. The reality on the ground shows that others always emerge to replace those arrested.

Terrorist organisations have also adapted their operational methods, by turning to greater use of criminal fundraising techniques (kidnap-for-ransom, bank robbery, internet fraud, etc), exploiting new payment technologies that often remain outside the purview of regulators, focusing more closely on domestically-sourced finance, and seeking to limit their electronic footprint to the greatest extent possible by using IVTS and cash couriers.

As Victor Comras (who worked for the UN Security Council al-Qaida and Taliban Monitoring Group) observes, 'Much of the investigation and research related to al-Qaeda has dealt with its funding mechanisms and not with the motivation that has generated the donations and dedication that has supported it.'[48] If the authorities are truly to 'starve' terrorists of funds, the source needs to be stemmed and donors need to be dissuaded from providing their support. The global CTF regime must therefore work with other multilateral organisations to blunt the most powerful fundraising tools in the armoury of terrorist organisations, namely a sympathetic ideology and general social misery caused by authoritarian regimes, for 'as long as there is a desire for people to contribute to radical Islamist causes, they will find a way to do so'.[49]

One of the most effective means to prevent the diversion of unwitting Muslim people's funds to terrorism is to introduce doubt about those whom they have entrusted with their money. Out of faith and trust, some people hand over their money to clerics or operatives thinking that it will be delivered to the poor. In cases where they have been deceived by those who harbour hidden Jihadist sympathies, the authorities should publicise these by showing clearly how they have used the money – either for Jihadist causes or to lavish certain luxuries on themselves. Targeting the integrity of those collecting the money with such motives will be a far more effective strategy than simply arresting them or seizing their assets.

The global CFT effort is at an important juncture. The easy tasks – improving standards in willing countries and at willing corporations – have largely been achieved. Yet many vulnerabilities remain, and new ones are emerging as terrorist organisations evolve. It is therefore critical that CTF efforts adapt to reflect the changes terrorist organisations are undergoing, and avoid wasting 'resources on countering threats of the past.'[50] Policymakers need to rethink why they have a CTF strategy, what are the explicit goals of this strategy, and how these goals are being benchmarked and measured. They should acknowledge and reflect the evolving shape of terrorist organisations and their operations, and if these goals are not being achieved then they should have the courage to modify, replace, or scrap them. It appears that since the initial urgency that 'something must be done' to target terrorist-financing in the immediate aftermath of 9/11, strategy in this arena has at best stagnated, and at worst continued down a sub-optimal path. Therefore significant reassessment is needed urgently. Without goal-setting and benchmarking, the CTF regime will continue unchecked on its current course, inflicting unnecessary cost and burden on corporations and nations, and restricting well-intentioned access to financial services for people in need, leading to greater use of the informal and black economies. This is clearly not the way CTF will play an effective role in international security.

About the Authors:

Aimen Dean *and* **Dr Edwina Thompson** *share an extremely privileged level of access to some of the most opaque financial systems in the world. They collaborate because of their complementary knowledge and commitment to sharing a better understanding of systems that often evade the purview of government regulators. Edwina has conducted primary research into the hawala systems of Afghanistan, Pakistan and Somalia between 2000-2013, and continues to be consulted for expert contributions by various governmental, banking and NGO fora. Aimen has an unrivalled and also first-hand understanding of the methods of terrorist fundraising and funds transfer in the Middle East. This article draws heavily on their respective research.*

Tom Keatinge *is a banker with nearly 20 years' experience. He recently completed a sabbatical year studying for a Masters in the War Studies Department of King's College London where he wrote his dissertation on the question of the role played by the global counter-terrorist financing effort in international security. Significant portions of this article are drawn from practitioner interviews and literature reviewed for his dissertation.*

Notes

[1] 9/11 Commission (2004) *The 9/11 Commission Report: Final Report of the National Commission on Terrorist Attacks Upon the United States* (Washington, DC: National Commission on Terrorist Attacks upon the United States), p.382.

[2] Fishman, Brian (2008) *Bombers, Bank Accounts, and Bleedout*, Harmony Project (New York: CTC West Point).

[3] *Manchester Manual* (2000) English translation (accessed 19 August 2013) http://cgsc.cdmhost.com/cdm/singleitem/collection/p15040coll2/id/3642/rec/19

[4] This is the result of primary research on the Afghan Jihad against the communist regime in the 1980s and beyond; the Bosnian and Chechen Jihad effort in the mid- and late 1990s; Jihad training camps in Afghanistan from the mid-1990s until late 2001; post-9/11 Jihad theatres such as Iraq from 2003 until 2008; Afghanistan from 2005 until late 2011; Yemen from 2009 until late 2011; and Syria from late 2011 until mid-2012.

Further detail and rationale for numbers cited in this section can be found in Dean, Aimen A. (2012) *Holy Money: Understanding the World of Jihadist Finance*.

[5] Examples include: 'And wage Jihad with your wealth and your lives in the cause of God,' Qur'an 9:41; 'The ones who have believed, emigrated and striven in the cause of Allah with their wealth and their lives are greater in rank in the sight of God. And it is those who are the recipients of his reward,' Qur'an 9:20.

[6] Zelin, Aaron Y & Charles Lister (2013) (accessed 19 August 2013) at http://mideast.foreignpolicy.com/posts/2013/06/24/the_crowning_of_the_syrian_islamic_front

[7] US Department of the Treasury (2002) *Contributions by the Department of the Treasury to the Financial War on Terrorism: Fact Sheet* (accessed 19 August 2013), p.2.

[8] White House (2001), *Fact Sheet on Terrorism* (accessed 19 August 2013).

[9] US Congress (2001) *Hawalas and Underground Terrorist Financing Mechanisms: Informal International Financing Networks That Can Serve as a Pipeline of Funds for Terrorist* (Washington, DC: Government Printing Office), p.1.

[10] Brown, Gordon (2006) *Meeting the Terrorist Challenge*, Chatham House speech.

[11] Weiss, Martin A. (2004) *Terrorist Financing: Current Efforts and Policy Issues for Congress*, CRS Report for Congress, The Library of Congress, p.2.

[12] Snow, John (2004) 'About This Issue,' in *Economic Perspectives*, US Department of State 9(3), p.1,

[13] Demetis, Dionysios (2012), from speech (accessed 19 August 2013) http://www.gresham.ac.uk/lectures-and-events/unweaving-the-anti-money-laundering-and-counter-terrorist-financing-system

[14] International Monetary Fund (2011) *Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) - Report on the Review of Effectiveness Program*: (accessed 19 August 2013), http://www.imf.org/external/np/pp/eng/2011/051111.pdf, pp.8 - 9.

[15] See the websites set up in response to the perceived crisis in the UK (www.somsa.co.uk) and US (www.samsausa.org).

[16] As opposed to other financial corridors, MSBs are the only form of financial service provider in Somalia (with the exception of two, small and highly localised operations); MSBs are thus used by all international organisations and companies operating there. Without them the flow of funds would be severely disrupted, having dire humanitarian and security implications within and beyond Somalia. Furthermore, the nature of Somali society is such that technology is viewed as poor substitute for the social, trust-based verification that they have used historically.

[17] Zarate, Juan (2009) *Smart Financial Power and International Security: Reflections on the Evolution of the Global Anti-Money Laundering and Counterterrorist Financing Regime Since 9/11* (Center for Strategic & International Studies).

[18] According to KPMG, this cost rose 45 per cent between 2008 and 2011. KPMG (2011) *Global Anti-Money Laundering Survey 2011: How Banks are Facing Up to the Challenge*, p.12.

[19] These estimates are for compliance with both AML and CTF requirements. See The Economist (2005) *Financing Terrorism: Looking in the Wrong Places - Hindering Flows Across International Financial Networks is Costly and Does Not Stop Terrorists' Primary Activity* (accessed 19 August 2013) at http://www.economist.com/node/5053373, and Anderson, Jonas (2009) 'The War on Terrorist Financing: Collateral Damage From a Hard-Nosed Soft Law', *Revista Juridica Universidad de Puerto Rico* 73(3), p.794.

[20] Werner, Robert W. (2006), *Statement Before the Senate Banking Committee* (accessed 19 August 2013) http://www.treasury.gov/press-center/press-releases/Pages/hp101.aspx .

[21] US FinCEN (2012) *SAR Activity Review - By the Numbers* (Issue 17).

[22] Serious Organised Crime Agency (2012) *Suspicious Activity Reports Regime: Annual Report 2012*, p.12.

[23] In one case examined by a US Senate Subcommittee, two HSBC affiliates sent nearly 25,000 transactions involving US $19.4 billion through their HSBC US (HBUS) accounts over seven years without disclosing the transactions' links to Iran. US Senate Permanent Subcommittee on Investigations (2012) 'HSBC Exposed U.S. Financial System to Money Laundering, Drug, Terrorist Financing Risks' (16 July).

[24] Liberty Reserve has been linked to crimes including credit card fraud, identity theft, investment fraud, computer hacking, child pornography and narcotics trafficking. Cloherty, Jack (2013), 'Black Market Bank, accused of laundering US $6B in Criminal Proceeds,' *ABC News* (28 May).

[25] Financial Action Task Force (2010), *FATF IX Special Recommendations* (accessed 19 August 2013), http://www.fatf-gafi.org/topics/fatfrecommendations/documents/ixspecialrecommendations.html .

[26] 1267 Monitoring Team (2011) *Eleventh Report* (accessed 19 August 2013); http://www.un.org/ga/search/view_doc.asp?symbol=S/2011/245 , p. 19.

[27] Zerzan, Andrew (2011) *Policing Financial Services: Surveying the Anti-Money Laundering Regulatory Regime* (Bill and Melinda Gates Foundation), pp.21-22.

[28] US State Deparment (2009) *Terrorist Finance: Action Request for Senior Level Engagement on Terrorism Finance* (accessed 19 August 2013); http://www.cablegatesearch.net/cable.php?id=09STATE131801&q=131801 .

[29] FATF (2013) *Anti-money laundering and terrorist financing measures and financial inclusion* (accessed 19 August 2013) http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf, p.5.

[30] World Bank (2012) *Three Quarters of The World's Poor Are "Unbanked"* (accessed 19 August 2013) http://go.worldbank.org/61TLX5WSP0 .

[31] See Thompson, Edwina A. (2011) *Trust is the Coin of the Realm: Lessons from the Money Men of Afghanistan* (Oxford University Press).

[32] Bester, H., D. Chamberlain, L. De Koker, C. Hougaard, R. Short, A. Smith & R. Walker (2008) *Implementing FATF Standards in Developing Countries and Financial Inclusion: Findings and Guidelines*, The FIRST Initiative (Washington, DC: The World Bank) www.cenfri.org/documents/AML/AML_CFT%20and%20Financial%20Inclusion.pdf .

[33] Isern, J., and L. De Koker (2009) *AML/CFT: Strengthening Financial Inclusion and Integrity*, Focus Note 56. (CGAP, Washington, DC) www.cgap.org/gm/document-1.9.37862/FN56.pdf (accessed 19 August 2013).

[34] American Refugee Committee (2012) 'Facilitating Remittances to Somalia for Humanitarian Purposes,' Proposal submitted to USAID-Office of Foreign Disaster Assistance (USAID/OFDA) (30 March).

[35] Larson, Christian Nils, Michael Jonsson & Nir Artzi (2010) 'Tax Evasion: Dealing with Al Shabaab's Funding,' *Jane's Intelligence Review* (March), p. 6.

[36] Author's discussion with taxi driver, Minnesota, May 2013.

[37] At the most extreme end, the Coalition in Iraq launched an early campaign to shut down the *hawala* system in Baghdad over one night, called *Operational Maul-a-hawala*. This was unsuccessful due to the lack of appreciation of its importance to the running of the legitimate economy; it had to be 'reinstated'.

[38] Falkenrath, Richard (2005) *9/11 Commission: A Review of the Second Act* (accessed 19 August 2013) http://www.brookings.edu/research/opinions/2005/12/06terrorism-falkenrath .

[39] Thompson, Edwina A. *Trust is the Coin of the Realm*, op. cit. pp.268-78

[40] It should be acknowledged that money-laundering cases such as those revealed involving HSBC in 2012 and the recently revealed activities of Liberty Reserve highlight the need for appropriate systems and monitoring at financial institutions; they are certainly not blameless.

[41] See Thompson, Edwina A. *Trust is the Coin of the Realm*, op. cit., chapter 2. In Chapter 8, the author also explores the various 'bargains' that take place between the two at the operational level in a country such as Afghanistan.

[42] Ibid., p.279.

[43] KPMG (2011), *Global Anti-Money Laundering Survey 2011: How Banks are Facing Up to the Challenge*, p.9 & p38

[44] International Monetary Fund (2011), *Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) - Report on the Review of Effectiveness Program* (accessed 19 August 2013). http://www.imf.org/external/np/pp/eng/2011/051111.pdf, p.10.

[45] Financial Action Task Force (2012) *The FATF Recommendation: International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation* (accessed 19 August 2013) http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%20approved%20February%202012%20reprint%20March%202012.pdf .

[46] Author interview (2012).

[47] Refer to a recent publication commissioned by the United Nations and the Norwegian Refugee Council on the perspective of aid organisations. Mackintosh, Kate & Patrick Duplat (2013) 'Study of the Impact of Donor Counter-Terrorism Measures on Principled Humanitarian Action,' UNOCHA/NRC (July).

[48] Comras, Victor D. (2005) 'Al Qaeda Finances and Funding to Affiliated Groups,' *Strategic Insights* IV(1)

[49] Perl, Raphael (2005) 'Anti-Terror Strategy, the 9/11 Commission Report & Terrorism Financing: Implications for US Policymakers,' *Strategic Insights* IV (1)

[50] Biersteker, Thomas J. & Sue E. Eckert (2008) *Countering the Financing of Terrorism* (New York: Routledge), p. 294.