

# CUTTING OFF THE HAND THAT FEEDS IT: COUNTERING TERRORIST-FINANCING IN THE 21<sup>ST</sup> CENTURY

## Terörü Besleyen Kaynakların Kesilmesi: 21. Yüzyılda Terörün Finansmanı ile Mücadele

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### Abstract

This paper examines a variety of counter-terrorist financing strategies on several continents, particularly those that have worked or have not worked since the September 11, 2001 attacks on America. This paper will also offer recommendations for improving international cooperation directed at countering terrorist financing. The groups and countries that will be examined as examples include the FARC in Colombia; the ETA in Spain; al Qaeda in Saudi Arabia and the PKK in Turkey and Europe. What's more the paper examines the responses by the United States and the United Nations to terrorism financing over the past decade as well as the pitfall of over-regulation and poorly thought out counter-terrorism funding regimes.

**Keywords:** Terrorism, terrorist financing, counter-terrorist financing

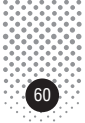
### Özet

Bu makalede, Amerika'daki 11 Eylül 2001 saldırılarından sonra terörün finansmanı konusunda farklı kıtalarda uygulanan başarılı ve başarısız birçok mücadele stratejileri incelenmiştir. Makalede ayrıca terörün finansmanı ile mücadeleye yönelik uluslararası işbirliğini geliştirecek öneriler sunulmuştur. Bu bağlamda örnek olarak incelenen terör örgütleri ve ülkeler şunlardır: Kolombiya'da FARC, İspanya'da ETA, Suudi Arabistan'da El Kaide, Türkiye ve Avrupa'da PKK. Makalede ele alınan diğer konular, son yirmi yılda terörün finansmanı ile mücadelede Birleşmiş Milletler ve ABD'nin yaptıkları aşırı hukuki düzenlemelerden kaynaklanan muhtemel tehlikeler ile terörün finansma-

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nıyla mücadelede tam olarak düşünülmeden uygulanan ve eksiklikleri olan yöntemlerdir.

**Anahtar Kelimeler:** Terörizm, terörün finansmanı, terörün finansmanı ile mücadele

## Introduction

Some experts have opined that before the 1990s counterterrorism financing (CTF) activities played less of a role in overall counterterrorism strategy, a time when its efforts were mainly directed at targeting state sponsors or winning over domestic populations (Giraldo and Trinkunas, 2007). Since then there has been a sea change in CTF. Some authorities suggest that when considering the fight against terrorism, “the avenues of cooperation that may be working the best are efforts to suppress terrorist financing” (Richard, 2005: xiii). A number of authorities insist that CTF is a key component in the “war on terror”, a war that will be “fought in the halls of our financial institutions” and “may be won by the destruction of checkbooks instead of battlefields” (quoted in McCulloch and Pickering, 2005: 470). Others are not so sure how CTF will work in the long run. In the months after 9/11 the United States and other countries had some success in freezing and seizing funds; however in recent years it has been recognized that due to insufficient methods in preventing unregulated and unmonitored money remittance systems we are now in a state of diminishing returns. As one authority put it, since terrorist groups have so many choices for terrorist financing (TF), law enforcement agencies have been forced “to use a shotgun approach in hopes of successfully hitting a terrorist financial target” (Lehmkuhler, 2003: 1).

Scholars, law enforcement and counterterrorist agencies have been studying TF since at least the 1970s. The Provisional Irish Republican Party has been acknowledged for breaking new ground in modern TF by establishing sophisticated financial networks that are still used by many of today’s larger and longer lasting terrorist groups, particularly the Euskadi Ta Askatasuna (ETA), the Basque separatist group vying for independence in northern Spain (Jonsson and Cornell, 2007). During the 1970s terrorist groups relied on fairly basic strategies for raising money—chiefly state sponsors, violent crime and “diaspora support”. This was especially true for the IRA which received a substantial part of its funding from the Irish community in the United States under the guise of NORAID. By comparison, the ETA benefited from neither state sponsorship nor any significant support from a Basque diaspora, relying instead on a “revolutionary tax” forced on most businesses in the Basque region (Jonsson and Cornell, 2007).

Unlike many of today’s organizations, the IRA and the ETA were more pragmatic, perhaps due to their secular motivation. In response to negative public opinion the more politically oriented groups ended activities that were unpopular or involved “excessive risk relative to average returns” (Jonsson and Cornell, 2007: 70). The IRA moved away from

serious organized crime in an attempt “to internalize and diversify its sources of income”, placing more emphasis on such “victimless crimes” as oil smuggling, tax and value added tax fraud and money laundering (ML). But this decreased as well after the IRA distanced itself from organized criminal activities in 2005. Most evidence asserts that the ETA and IRA did not rely primarily on drug trafficking as a source of income. Early on during the 1970s, the IRA dabbled in drug trafficking but found it lost credibility in the Catholic communities and withdrew from this business. Since then the IRA has embraced a zero tolerance policy against drug abuse and has even resorted to knee-cappings to get its message across (Jonsson and Cornell, 2007).

With most terrorist groups having a religious bent over the past twenty years many of the devices they use for TF can be traced back to the funding of the “Holy War” against the Soviets in Afghanistan in the 1980s.

### **1. From Cold War to Globalization**

Although the end of the Cold War posed some challenges to a number of terrorist groups that had depended on the Soviet Union for financing, the significance of the decline in state funding has been overstated if not exaggerated as an explanation for the turn of ideologically motivated groups toward organized criminal activities. Indeed many Marxist-Leninist groups were already using criminal activities to supplement whatever state funding they received as far back as the 1960s and 1970s. So, in reality the loss of state sponsorship was not as crippling as one would believe to longtime terrorist groups such as FARC, LTTE, IRA, the Shining Path and others. On the other hand, the end of the Cold War lifted a number of barriers to globalization and illicit global trafficking activities, and has led to the proliferation of failed states and ungoverned regions, and in the process providing cover for various terrorist infrastructures. Nonetheless the decline in state funding since the end of the Cold War and the subsequent measures of the counter-terrorist finance regime inaugurated since 9/11 has “pushed groups to increasingly rely on sympathetic donors and crime sources” (Parkman and Peeling, 2007).

By the end of the Cold War many terrorist groups already had well-developed alternative revenue streams from private donations and organized crime. What’s more, terrorists were well aware how undependable state sponsors could be and realized fairly early on that they should maximize revenue with an eye to doing without state sponsorship. Terrorist fundraising therefore was spurred “more by the availability of opportunities than by shortfall in revenue from state sponsors” (Giraldo and Trinkunas, 2007). The world wrought by globalization has given terrorist groups more options for moving personnel across hemispheres and made it easier to mount operations. From a financing point of view terrorist groups have taken advantage of a “highly integrated financial system” which has made it easier for them to conduct financial affairs (Giraldo and Trinkunas, 2007).



## 2. Terrorist Groups Need Financing

Terrorist groups need money above all else. Money is required to pay for operations, food, transportation, safe houses, forged residency papers, and bomb making materials, among other things (Parkman and Peeling, 2007). Most terrorist groups are funded with legitimately obtained income, charitable contributions, non-governmental organizations, or informal money transfer systems. Many in CTF anticipate that at some point in time, during the funding of the aforementioned activities TF “will intersect with the recorded financial system”. According to one expert, “audit trails do not lie-they are diaries of terror” (Aufhauser, 2003: 301). But the biggest barrier thus far has been structuring an international regulatory regime that everyone agrees on.

In December 2004 bin Laden estimated al Qaeda expenses in Iraq alone ran to 200,000 euros per week (de Vries, 2005). However, this does not mean that terrorist groups are unable to create widespread havoc on a small budget as well. For example, the Government Accounting Office (GAO) estimated that the attacks on 9/11 cost between \$400,000 and \$500,000. However, this is just a drop in the bucket when one considers that the attacks cost the United States economy \$105 billion from the New York attack alone (GAO, 2002). By comparison the 2005 London bombings cost near \$15,000; but the U.K. economy took a \$3.7 billion hit. Likewise the 2002 Bali bombings reportedly were achieved for somewhere between \$20,000 and \$50,000; while the 2004 Madrid train bombings cost around \$10,000 and the 2003 Istanbul bombings cost around \$40,000. The September 11 Commission estimated that the 1998 twin embassy bombings in East Africa cost \$10,000 (FATF, 2008, Donohue, 2006; Parkman and Peeling, 2007; GAO, 2002).

## 3. Terrorist Financing Before and After 9/11

Few countries paid much attention to TF prior to 9/11. Before the 9/11 attacks no country in the Middle East had controls on TF (Winer, 2008). In the United States the popular notion was that there were better avenues to preventing terrorist attacks. In fact the U. S. Justice Department rarely used criminal charges against those who made contributions to terrorist groups (Donohue, 2006: 349). Prior to the September 11, 2001 attacks on America, TF was typically conducted in several ways, usually involving state sponsorship, charities, and self-funding through criminal activities. Those that used the latter often used the drug trade, as exemplified by such disparate groups as the Colombian FARC, the Kurdish Workers Party (PKK), and the ETA (Roth and Sever, 2008). Other stand-bys included the illicit trafficking in “legitimately produced commodities” such as cigarettes (Shelley and Melzer, 2008).

Most of the same fundraising strategies that existed prior to 9/11 are still in use today. Numerous charities still collect funds for these organizations although many may do so unknowingly. Criminal activities continue to dominate, helped by a global financial system that can be easily manipulated. A number of groups have adopted structures that are flexible and allows the group to shift from one fundraising activity to another, quickly responding to

new trends in the world of transnational crime. One method that has found a welcome niche among TF strategies is called the “Starburst technique”. This strategy involves placing illicit funds in a bank with standing instructions to wire it in small, random amounts to hundreds of banks around the world, both onshore and offshore. This technique is difficult to trace due to legal technicalities and multiple jurisdictions (Verdugo-Yepes, 2008).

#### **4. The United Nations Response to Terrorist Financing**

One of the knocks on the United Nations response to TF has been its lack of imagination and pragmatism. Over the past forty years many of its resolutions “were cobbled together from a menu of traditional coercive mechanism” that had been created to go after “African warlords and other recalcitrant actors” (Carisch, 2007: 168). As a result a number of its resolutions in this arena have been used over and over again, including the usual role that call of suspects such as arms embargoes, economic sanction, individual travel bans, diplomatic restrictions, and targeted financial sanctions. All have been sued against Al Qaeda and the Taliban except for economic sanctions and diplomatic restrictions (Carisch, 2007).

However, over the past decade the United Nations has been at the forefront in terms of international conventions against CTF, beginning with U.N. Security Council Resolution 1267 in 1999<sup>1</sup> (Carisch, 2007), which imposed sanctions on the Taliban and al Qaeda. The 1267 List was made up of almost 500 different names and “entities” linked to the aforementioned two groups. According to this resolution all UN members are expected to freeze the financial assets and restrict the travels and armed trade of designated entities (Pollock and Jacobson, 2008). However, by most account this resolution has had limited impact (Richard, 2005).

Four days after 9/11 the U. N. Security Council passed Resolution 1373. On September 28 it was adopted by its member states. It requires members to install comprehensive measures against TF, with most countries criminalizing TF. What’s more, it also requires the licensing and registration of Hawaladars in most jurisdictions. This is significant because in many countries sizeable parts of their underground economies and alternative remittance systems have been brought closer to the formal banking system. The US was interested in this measure “because it provided a foundation for bilateral agreements with nations to increase regulation and law enforcement cooperation” (Winer, 2008: 121).

#### **5. Financial Action Task Force**

The Financial Action Task Force (FATF) has had an important role in shaping international standards with respect to TF that had already begun with a number of UN conventions prior to 9/11. What had formerly been an anti-money laundering organization expanded its mission to counter terrorist financing with 8 special recommendations on TF and creating

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<sup>1</sup> The very first terrorist-related UN convention was passed in 1963.

a Working Group on TF to put these standards into effect across the globe. In 2004 a ninth recommendation focused on cash couriers. It was hoped these and other changes would make the “system less vulnerable to anonymous movement of funds”. There is somewhat mixed attitude in CTF circles as to the significance of the FATF in this fight, with some suggesting that its recommendations are “now considered to be the gold standard of measures against the financing of terrorism” (Carisch, 2007: 164), while others criticize it from a regulatory perspective, citing the fact that its members cannot even agree on the definition of “charity” (Donohue, 2006: 380).

### **Financial Action Task Force on Money Laundering Special Recommendations on TF:**

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- I. Ratification and Implementation of UN Instruments (1999 Convention).
  - II. Criminalizing financing of terrorism and associated money laundering.
  - III. Freezing and confiscating terrorist assets.
  - IV. Reporting suspicious transactions related to terrorism.
  - V. International Cooperation
  - VI. Alternative Remittance  
(Licensing and registering anyone that provides transmission service)
  - VII. Wire Transfers (better recording of)
  - VIII. Non-Profit organizations (better transparency of)
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#### **5.1. Failures in Implementing FATF Standards**

Like other counter-terrorism strategies any attempts at suppressing fundraising activities by terrorist groups is usually hampered by international jurisdictional issues, not just among police forces, but among banking sectors, a notoriously clandestine realm. What is most needed at this point is some type of effective and comprehensive anti-money laundering regime. Up to the present the most important FATF initiatives were established by the then G-7 nations in Paris in 1989. However, the greatest barriers have been a lack of a universal criminalization of money laundering (ML) and TF according to United Nations instruments and the existence of financial institutions with secrecy laws some jurisdictions (Verdugo-Yepes, 2008). In some nations Financial Intelligence Units are not fully operational (or lack the power to conduct investigations). In other situations financial regulators lack the authority to conduct investigations or have limited access to resources for surveillance, investigation, and inspection.

#### **6. American Response to Terrorist Financing After 9/11**

Little attention was dedicated to CTF in the United States prior to 9/11. Not a single unit of the FBI focused on TF, nor did the Criminal Division of the Department of Justice have a

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national terrorist financing program (Donahue, 2006: 361). Even former counterterrorism head Richard A. Clarke admitted that “the departments were doing a lousy job of tracking and disrupting international criminal financial networks and had done little or nothing against terrorist financing” (quoted in Eckert, 2008: 214).

President George W. Bush “globalized” the so-called “war on terrorism” on September 24, 2001 when he announced Executive Order 13224, “Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism”, (Biersteker and Eckert, 2008: 214)”. This was followed by the USA PATRIOT Act which changed American CTF policy “180 degrees”. The pure scope of its measures, and the devotion of an entire section (Title III) to CTF, “emphasized the centrality of finance” to the American CTF strategy<sup>2</sup> (Donohue, 2006: 370).

The American counter-terrorist response to TF following 9/11 was predicated on several interrelated objectives. Results were mixed at best. Firstly, attempts were made to locate, isolate, and freeze terrorist assets in the United States and around the globe. Secondly, steps were taken to disrupt terrorists’ financial infrastructures. This was onerous since it required accounting for both formal and informal methods for transferring funds across borders and between cells (Hawala for example).

The United States has created a Counterterrorism Finance Unit directed at stemming the flow of money to terrorist organizations. This strategy is considered second only to bringing them to justice. It coordinates the delivery of technical assistance and training to governments around world. One of its early successes followed the 2002 terrorist bombings in Bali after it provided assistance to the Indonesian government that led to the country to amend its anti-ML legislation to meet international standards. Since then the Indonesian Central Bank has introduced new rules and regulations that have put the squeeze on private sector banks involved in ML and what’s more, the country’s Financial Intelligence Unit “has become fully operational” (U. S. Department of State, S/CT Success Stories, 2010).

### **6.1. Recommendations and Results**

Few would argue that criminal prosecutions in the U.S. have had much impact on terrorist financing. Hampered by insufficient prosecutorial resources and the higher standards of proof required for criminal convictions, this strategy needs a reassessment. More recently it has been suggested that civil prosecutions might be a more effective prosecutorial tool. Smith and Cooper assert that civil cases funded by private plaintiffs offer the government a potentially more effective and less expensive tool for going after TF since they require

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<sup>2</sup> This section was Title III, which expanded the list of “predicate offenses” for freezing and forfeiture of property and amended existing provisions. It provided “extraterritorial jurisdiction and brought foreign persons laundering money in the U. S., foreign banks, and other entities within the reach of the judiciary” (Donohue, 2006: 376).

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less law enforcement resources and less resource intensive evidence gathering procedures (Smith and Cooper, 2008: 7-8).

In some cases the victims of terrorist attacks have filed lawsuits against banks that allegedly provided financial services to terrorist groups. Thus, by demonstrating that certain banks have failed to implement sufficient controls on high risk accounts to safeguard against ML and TF, banks may be exposing themselves to liability, a position that creates incentives for banks to tighten compliance procedures and cut the flow of money to terrorist and organized crime organizations through formal bank channels (Smith and Cooper, 2008: 14).

What makes asset forfeiture such an important tool in the “prosecutor’s toolbox” is not the amount of money recovered but its utility as a significant deterrence factor against those contemplating contributing to terrorist organizations or fronts (Smith and Cooper, 2008). Despite the push for regulatory measures, banking transparency and other measures, CTF measures in the United States have been “spectacularly unsuccessful in making a significant dent in terrorist operations” (Donohue, 2006: 390).

## **7. Revolutionary Armed Forces of Colombia (FARC)**

Founded in 1964 as an opposition movement against the conservative government, the Revolutionary Armed Forces of Colombia, *Fuerzas Armadas Revolucionarias de Colombia* (FARC) received funding from the Soviets until the 1980s (Duffey, 2009). Today, countries including Cuba, Ecuador, and Venezuela have been tied to TF in Colombia. Meanwhile FARC has made the transition in many respects from a staunch Marxist-Leninist group to a criminal organization. Over the past several years FARC has undergone a strategic crisis following the killing of several important leaders. The question often arises as to whether the group has also made the transition from Marxists to capitalists; especially when one takes into account the entrepreneurial finesse of the group as it borrows money-making methods from global crime groups that include extortion, drug trafficking, kidnapping and hostage taking for ransom (and of course the dole provided by its state sponsors). Some estimates suggest that FARC brings in \$500-\$600 million annually from the drug trade alone. In 2009 the U.S. GAO reported that FARC was responsible for 60% of the total cocaine exported to the U.S. from Colombia<sup>3</sup> (GAO, 2009).

Revelations of state sponsorship from Venezuela and Ecuador has thrown a new wrinkle into the strategies to suppress TF there (Hanson, 2009; Duffey, 2009). The seizure of computer files during a police raid on a FARC base in Ecuador offers tantalizing evidence that President Hugo Chavez of Venezuela recently provided \$300 million and has even offered

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<sup>3</sup> *There is still some controversy over this figure. Some sources suggest that FARC’s involvement in the trade is mostly local. According to one 2007 U.N. report the bulk of drug trafficking was being conducted by professional smuggling syndicates with FARC mainly focused on the cultivation and processing of coca.*

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the group rifles and enough uranium to build a “dirty bomb” (Reuters, 2008; *USA TODAY*, 2008; Duffey, 2009). Some sources point to the fact that Chavez felt beholden to FARC for providing \$150,000 for Chavez when he was imprisoned for leading a 1992 coup attempt. As for Ecuador, its support and involvement with FARC has been an accepted fact since it was revealed that the country allowed FARC to build and man bases there.

### **7.1. Recommendations and Results**

In response to the continued association of FARC with the drug trade the U.S. Treasury Department has taken steps to freeze assets of several individuals considered significant traffickers within FARC. However, international cooperation between Colombia and its neighbors has been less than promising. In 2005 Brazil picked up a senior member of FARC on an international arrest warrant. But rather than extradite the individual Brazil granted him amnesty and would not send him to Colombia (Duffey, 2009).

## **8. Euskadi Ta Askatasuna (ETA)**

ETA's presence in northern Spain has made it an important transit point and logistical base for terrorist organizations actively operating in Western Europe. During the 1970s almost half of its funding was raised through “revolutionary taxes” imposed on small and medium sized business in the Basque region. The rest came from bank robberies, extortion schemes, and the kidnapping of businessmen (Solomon, 2007).

Spanish police investigations have revealed funding from printing and publishing ventures, real estate, fisheries and entertainment and in one case discovered that a consortium of taverns in Basque country raised more than \$30 million through loans secured on properties and other assets (Richard, 2005).

The ETA, like other terrorist groups has misplayed its hands on more than one occasion, resulting in a drop in support from local Basques. In one case a businessman was murdered for standing up to the “revolutionary tax” collection, leading a number of businesses to move out of the region “making the tax and its collectors profoundly unpopular” among much of the Basque population (Jonssen and Cornell, 2007: 70). Like the IRA, the ETA backed away from TF strategies that were most unpopular among the ethnic community. For example they gave up kidnapping for ransom and bank robberies by the mid-1980s because the risk was not worth the possible rewards. The pragmatic leaders of the ETA recognized that the organization lost valuable support when their activities became increasingly violent and gained support when the government cracked down with a punitive regime. The ETA was quick to adapt, searching for TF that resulted in less public anger. In 1992 it began overtures toward developing an intricate web of organizations, cultural associations, and legal businesses associated with the ETA's political wing. Over the next decade it received half of its budget from Spanish state grants intended to further “Basque cultural and languages activities” (Jonssen and Cornell, 2007: 72).

Like other terrorist groups that have adopted the fundraising tactics of common organized crime syndicates the ETA diversified into other low-level crimes as well. One noteworthy scheme involved generating funds from the sale of counterfeit clothes and handbags in southern Spain. Cigarette smuggling and drug trafficking have been important sources of revenue since at least the mid-1980s. Recent investigations have tied the ETA to a scheme to trade cocaine, heroin, and hashish with the Italian Camorra for missile launchers and explosives (Curtis and Karacan, 2002).

The ETA has been known to jurisdiction shop for countries with few regulations for storing and moving money. In the past, ETA financial interests have been linked to Switzerland, Nicaragua, Mexico, Cuba, Venezuela, Uruguay, and the Dominican Republic (Turville, 2004).

Any investigation into money laundering, embezzlement of funds and extortion payments is hampered by a number of barriers. One of the most intractable obstacles for Spanish law enforcement has been the “airtight secrecy of authorities in tax havens” such as Gibraltar, a British enclave of almost 30,000 people (Inter Press Service, 2002). Its citizens are exempt from paying taxes while the authorities allow bank account holders anonymity. This perhaps explains why there are more than six companies for every one of the island’s inhabitants (Inter Press Service, 2002). By most accounts inhabitants register here only so they can open clandestine banking accounts. Madrid continues to lobby to take over sovereignty here.

### **8.1. Recommendations and Results**

In May 2003 Spain passed Law 12/2003 which was directed at the prevention and blocking of TF. This law gives Spanish law enforcement the power to: 1) block financial transactions and the movement of capital and assets; 2) prohibit the opening of accounts in financial institutions by anyone suspected of terrorists links; 3) confiscate any funds proven to have been the result of illegal activities; and 4) temporarily freeze any funds on the suspicion that they are proceeds from crime until it can be established otherwise. On top of this legislation in May 2008 the Spanish government announced plans to offer more specialized training in money laundering suppression and pledged to increase its number of anti-terrorist specialists.

The aforementioned law meshes well with Law 19/2003, the Law on the Prevention of Money Laundering, directed at regulating movements of capital and foreign transactions and implementing the EU Money Laundering Directives Law. What’s more it expects financial institutions to make monthly reports on large transactions, reporting on all international transfers of more than 30,000 euros and declaring and internal Spain transfers of more than 80,500 euros (Hall, 2008: 23).

Although these measures have been chiefly aimed at the ETA new challenges loom large with the increasing number of religious extremists in Spanish territory along with the

increasing popularity of informal money transfer systems. What's more some terrorist operations eschew the legitimate banking system, preferring the anonymity of making small money transfers that slip under the CTF radar. The main concern at this point is that the ETA is adopting these methods as well.

### **9. Kurdistan Workers' Party (PKK)**

Europol describes the PKK as an “ethno-nationalist and separatist terrorist group seeking international recognition and political self-determination” (Europol TE-SAT Report, 2010: 9). The main fundraising activities of the PKK have been extensively chronicled (Roth and Sever, 2007; Roth and Sever, 2008). The PKK involved in different types of criminal activities to finance its operations, while drug trafficking predominates over human smuggling/trafficking, extortion and firearms trafficking among others (Roth and Sever, 2007; Whaley, 2008). Radu (2006) estimates PKK's income from organized criminal activities as ten millions of dollars in 1990s. 2007 NATO Terrorist Threat Intelligence Unit Report estimated the PKK's annual financial gatherings as \$50-100 million, although Turkish government officials estimates it \$615-770 million annually (Jonsson and Cornell, 2008). Strategically located with long borders with Iraq, Iran and Syria, the drug trade has been especially alluring to the PKK over the past decades as Turkey remains one of the major transit routes for the flow of Southwest Asian heroin to European markets. Turkish borders are seductively porous for drug trafficking gangs (Jenkins, 2008). By most accounts the PKK plays a vital role in the transportation process via the Balkan route. The PKK has been linked to all phases of drug smuggling, from raw production in Pakistan and distillation in Iraq to street sales and taxation of non-PKK produced drugs. Its current structure has been able to take advantage of the Turkish and Kurdish Diasporas, which have provided strategic transit points for moving narcotics. Other major activities used to raise funds include human smuggling, legitimate business fronts, tax evasion, counterfeit money trafficking, illegal foreign currency exchanges, and extortion rackets. It has been estimated that fronts and legal loopholes facilitate the transfer of between \$50 and \$150 million annually from European criminal operations. Another \$12 to \$15 million is probably the result of legitimate and semi-legitimate commercial activities and donations (Onay, 2008). Front organizations have been particularly successful at launching donation campaigns under fraudulent intentions. These have been used to coerce supporters to purchase PKK publications, coordinate PKK money traffic, and help the illegal flow of immigrants (Roth and Sever, 2007; Onay, 2008; Laçiner, 2009; Europol TE-SAT Report, 2010).

Europe has become a prominent playing field for PKK funding activities, as it takes advantage of EU carelessness in policing front activities. One expert noted that the PKK “has enjoyed safe conduct in some European countries for quite some time”. It wasn't until 2008 that the British Foreign Office admitted that the PKK and its affiliates were active in England and other EU countries since 2001 (Onay, 2008).

### **9.1. Recommendations and Results**

As Europol report noted “Europe is important for financial and logistical support to the PKK” (Europol TE-SAT Report, 2010: 27). First of all European nations must cooperate against the PKK and recognize that the PKK is a terrorist organization. For example, as late as 2008 Norway had not yet come to this conclusion. In order to stem the flow of money to the PKK, its European activities need to be targeted (Onay, 2008). What’s more, the countries of the EU have been slow to implement and apply the laws of the EU Council’s 2002 Framework Decision on Combating Terrorism. A number of observers have suggested that the United States should play a bigger role in bringing Turkey and the EU together by facilitating joint actions among their law enforcement agencies. It has also been suggested that State Prosecutors need better training in recognizing the ML activities of the PKK. One suggestion that can be used against many terrorist organizations is to eschew neutral terminology (such as separatist, radical Kurds, and Kurdish Rebels) when referring to the PKK. In another strategy, in the 1990s Turkish authorities shut down all casinos on grounds they were controlled by underworld figures to launder drug profits, thus depriving the PKK of another source of income (Jenkins, 2008).

## **10. Al Qaeda**

Saudi Arabia has been one of the most important sources for TF for a number of years. Funds from this country have been used to support groups such as al Qaeda, the Taliban, Laskhar-e-Taliba and other groups. But it was not until al Qaeda’s 2003 attacks in Riyadh that the Saudi government responded to al Qaeda’s operations in the Kingdom (Jonssen and Cornell, 2007). However, it did not pursue an equally aggressive path against TF. As late as 2007 a major American treasury official commented “if I could somehow snap my fingers and cut off funding from one country (for terrorism), it would be Saudi Arabia” (quoted in Jacobson, 2009). Other officials chided the Kingdom for only cracking down on terrorist activities at home while turning a blind eye to funds leaving Saudi Arabia for terrorists abroad. What makes CTF so difficult in Saudi Arabia is that as a “wealthy, cash based society where carrying or transferring large sums of money is not unusual”, it is difficult for authorities to track or detect illegal transactions (Jacobson, 2009).

### **10.1. Recommendations and Results**

In July 2009 Treasury Secretary Timothy Geithner lavished praise on recent Saudi efforts at combating TF. Geithner was responding in part to world in July that 330 persons had been convicted in of terrorism offenses in the Kingdom’s new “specialized terrorism court”. Although most of the cases were shrouded in secrecy, information had filtered out that a number of convictions were TF-related charges. Lest the government take complete credit for the initial crackdown, credit should also be given to a senior cleric, who issued a religious edict in which he warns prospective financial contributors to be careful about where their money

is spent (Jacobson, 2009). By most accounts, after years of turning a blind eye toward TF this was a major stride toward recognizing the significance of the problem. Nonetheless, according to the U.S. special envoy to Pakistan and Afghanistan Richard Holbrooke, Saudi Arabia continues to be a major source for TF (Jacobson, 2009).

### **11. Potential Pitfalls of Countering-Terrorist Funding**

As one expert put it, we must be careful of not raising expectations that the battle against terrorism is going to be won by “following the money” since up to now this strategy has “not been very impressive”. What is probably more important is that there be a regime in place that can insure that measures directed at cutting off the money supply are “proportionate to their potential effectiveness” (Pieth, 2006: 1077). As the experience in the United States has demonstrated there are a number of dangers inherent in CTF overregulation. For one thing there are limits to how much information can be processed at any given time, especially when it comes to separating “excessive amounts of non-essential information”. Since the passage of the USA Patriot Act in 2001 there has been a literal flood of suspicious transaction reports (CTF), but “with few related to TF” (Eckert, 2008: 295). In the United States the financial data CTF agencies are expected to scrutinize is overwhelming. For example in 2006 12 million currency transaction reports are filed each year (Donohue, 2006). This situation “dilutes and degrades the value of information provided to regulatory authorities.” Sage advice suggests, “processing information is far more important than simply accumulating it, and it is important that regulation be prudently designed with this in mind” (Eckert, 2008: 295).

There are a number of dangers associated with the freezing of charitable assets along with assets allegedly tied to TF. Unfortunately, with a heightened knowledge of alternate remittance systems and informal banking systems such as Hawala, there has been a tendency to tar all of this activity with the same brush. Investigative authorities must understand that these remittance systems are the norm in countries where formal banking systems are either poorly established or non-functioning. The evidence suggests that more often than not these are used “with complete legitimacy”. Communities hamstrung by poorly established banking systems consider alternative remittance systems the norm-providing “community based, extremely cost effective financial services based primarily on cooperation rather than competition and profit” (McCulloch and Pickering, 2005: 479).

It is important to recognize that many individuals are unable to distinguish between a legal charity or institution from non-legitimate ones used for ML and TF; nor can they be expected to distinguish legitimate opposition movements and fronts from terrorist and criminal organizations (Crelinsten, 2009). Furthermore, it is unlikely that some individuals can distinguish between terrorist fronts and their chosen charities. Using asset forfeiture and other sanctions against some Arab governments that sometimes have to straddle a thin line



between extremism and orthodoxy can often backfire. American allies in this region have to be selective in cooperating with foreign powers and required sanctions, lest this incurs the wrath of the populace, which is often skeptical about the intentions of its allies as well as the credibility being relied on to support asset freezing. The citizens of these countries are well aware that subterfuge and poor intelligence have led world powers to act on incorrect information. What's more, economic sanctions often trickle down from the terrorist targets to the civilian population that bears the brunt of the sanctions. On top of all of these issues the United Nations and the United States have been slow to develop procedures for defreezing assets, delisting businesses and even terrorist organizations (which might not be considered such at home). The utilization of policies that lack due process only goes to undermine CTF efforts (Pieth, 2006; Giraldo and Trinkunas, 2007).

## **12. Back to the Future: Return to Bulk Cash Transfers**

Few would argue that a number of countries have been able to tighten their banking regulations while clamping down on sophisticated money-laundering schemes over the past decade. Transferring money using banks, wire transfers and other formal mechanisms have been made more difficult; most TF relies now on informal and mostly unregulated methods of moving money. Perhaps what was most unforeseen has been the trend in which some organized crime and terrorist groups are going "retro" falling back on older strategies and methods for moving money, especially falling back on hand delivery (Richard, 2005). None probably does it better than the Mexican drug cartels. By most accounts they have return to shipping bulk cash shipments across the border between the United States and Mexico. Only a small portion gets seized each year. U. S. authorities seized \$138 million in 2008, a drop in the bucket when compared to the estimated \$18 billion to \$39 billion smuggled (DEA) to Mexico each year (McKinley and Lacey, 2009). As far back as 2003 the GAO noted that "bulk cash smuggling is an attractive financing mechanism because US dollars are accepted as an international currency and can always be converted; there is no traceable paper trail; there is no third party such as a bank official to become suspicious of the transaction; and the terrorist has total control of the movement of the money" (GAO, 2003: 19).

One of the unforeseen results of the cat and mouse game of counter-terrorist financing has been the return to the least sophisticated forms of money movement, mostly revolving around the bulk shipment of cash. The Texas border with Mexico is the epicenter of much of this activity in the Americas. Despite efforts by law enforcement and the adoption of the newest technologies by most accounts hundreds of millions if not billions of dollars are flowing across the American border to Mexico and Colombia in cars and trucks. There will never be enough inspectors to check southbound traffic, especially when most inspectors are devoted to inspecting northbound traffic for drugs and immigrants (Pinkerton, 2010).

## Conclusion

It is folly to believe that one state or international organization can stem the flow of TF without the cooperation of the global community. In the push for global norms, cooperative arrangements can include mutual aid treaties, instruments of international law, formal requests between intelligence services, and even diplomatic pressure (Donohue, 2006: 380). In the long run it will be necessary for the international community to reach a consensus on an all-encompassing definition of terrorism. Likewise all jurisdictions enlisted in suppressing terrorist fundraising must criminalize ML and TF in a similar manner. What's more it is incumbent on the financial sector to loosen secrecy laws that have impeded the exchange of information and legal assistance.

A plethora of strategies have been directed at CTF over the past decade and a number of them should be revisited. One remedy calls for "country-specific" strategies that might include a mixture of cooperative efforts against agreed upon targets when possible, such as in the cases of Afghanistan, Pakistan, and Saudi Arabia; or call for multilateral support for comprehensive economic sanctions (Iran) (Winer, 2008).

One Council of Foreign Relations strategy calls for "robust dissemination" in which all information related to TF would be centrally analyzed and distributed to all relevant policymakers (Fenzel, 2002: 34-35).

In the battle against terrorist funding it is essential to enlist the aid of citizens in the countries where these groups make their homes. With proper support and respect from other countries there are a number of scenarios that can play out in which the terrorists loose support without the interference of outside powers. As the old adage goes, give them enough rope and they will hang themselves. In Iraq, Saudi Arabia, and Afghanistan there have been numerous examples where drug trafficking along with unpopular attacks on co-religionists have driven a wedge between al Qaeda and its financiers. Likewise the ETA and the IRA lost significant support after a number of misguided operations. In other cases the mere hint that a group is misappropriating its funding can lead to internal strife and mutual distrust that can undermine the unity of an organization.

When it comes to charities and donations there must be some type of safeguards to insure the funds are being used for charitable purposes. This also goes for alternate remittance systems, which likewise have a high potential for abuse due to the lack transparency (Lehmkuhler, 2003). One suggestion that should be considered is encouraging the adoption of Hawaladar registration, for instance in the United States, by developing some type of tax incentive to encourage registration (Fenzel, 2002). If this worked it would be a significant step toward achieving some type of transparency in the informal banking sector.

In order to succeed in CTF strategies, authorities need to target TF based on an intelligence led approach that includes improved sharing of information at every level of the intelligence collecting process, whether it is the private sector or governments; they are all in the same fight. What's more CTF initiatives alone will not stop funding; it is only one part of the equation (Biersteker and Eckert, 2008).



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