

Committee on Financial Services - Task Force to Investigate Terrorism Financing

A Dangerous Nexus: Terrorism, Crime and Corruption.

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Chairman Fitzpatrick, Vice Chairman Pittinger, Ranking Member Lynch, distinguished members of the House Financial Services Committee, it is an honor to testify before you today on this issue of perennial concern.

Inevitably, it is hard to disaggregate the amount of money raised and used by terrorists or terrorist groups within the trillions of dollars that move around the world in connection with other sorts of crime. But as this is the area where terrorists must – to a certain extent – come out into the open and engage with financial institutions, law enforcement agencies and all the trappings of the world they seek to change, they have to operate on our terms rather than ones purely of their choosing. Rightly or wrongly, we see terrorists as most vulnerable in their need for money, and it is in the financing of terrorism, that the international community has made most effort to limit their operational abilities, even more I would argue than in attacking them militarily.

Isolated acts of terrorism, such as the Boston Marathon bombing in April 2013, do not generally cost much, and are most often financed by the individuals concerned, whether through legal or illegal means. Legal funding – by definition - will be hard to spot. And although Suspicious Activity Reports filed by banks or other financial institutions may provide possible indicators of terrorist planning worthy of investigation by an alert official, SARs do not often initiate terrorist-related investigations. Typical sources of illegal funding for terrorist acts can also easily be lost against the background of the overwhelming quantity of credit card fraud, theft, benefits fraud and other forms of minor crime that occur on a daily basis and have nothing to do with terrorism.

Terrorist groups however, depending on their size and ambition, need more significant amounts of money to survive; whether to recruit members, train and equip them, or merely to meet all the ancillary expenses that any organization must meet, such as food, shelter and care for dependents. Inevitably, the size of the terrorist group's budget will determine its ability to function. There has therefore been considerable national and international effort since 2001 to analyze and restrict the ways in which terrorists raise, move and store their financial assets.

Although terrorism is a crime, it differs from most other forms of crime in that it does not have money as its principal objective. For terrorists, money is a means to an end, not the end in itself. While obvious enough, this is an important factor when

examining the nexus between terrorism, crime and corruption. While there are many examples of terrorist groups operating alongside or in conjunction with more normal criminals, the relationship is not always close. Criminals will not seek out the opportunity to work with terrorists just as terrorists will not naturally seek partnerships with criminals. For the criminals, association with terrorists increases the risk of attention from the authorities, undermines their relationships with corrupt officials, and increases the penalties if they are caught, including the risk of death. Terrorists also see increased risks in working with criminals who are motivated purely by money, especially as they cannot assume that the bonds that keep their own members under control, such as a shared belief or a loyalty to the leader, will keep their criminal associates from betraying them. Similarly, terrorist groups will fear that a criminal group, with its shifting and largely anonymous membership, is more likely to be known to the authorities than the tight knit, clandestine networks that make up their own membership.

Nonetheless, as terrorist groups have become larger and more organized and have sought to raise more money, they have been forced into closer cooperation with organized criminals and have copied some of their methods. There are two main reasons for this. First terrorist groups are drawn to poorly governed or ungoverned areas where many criminals also operate, and second because terrorist groups are driven to adopt criminal fund raising techniques which bring them into contact, or even competition, with others operating in the same space. It is also relevant that licit forms of fund raising have become more difficult as Countering the Financing of Terrorism measures have become more sophisticated and better implemented, and more people have become aware of the dangers and possibilities of terrorist financing.

The principal areas of overlap between terrorist financing and conventional criminal activity appear to be the following:

Kidnapping for Ransom: Kidnapping for ransom is an old and well-established form of fund raising that persists in areas of West Asia, South Asia and South East Asia where terrorist groups have now become rooted. In Yemen for example, kidnapping for ransom is commonplace, as it is in the Pakistan-Afghanistan border area and in areas of The Philippines. Initially, terrorist groups did not indulge in this form of fund raising, either directly or indirectly, but its success and ease, combined with the necessity of raising money, has made it a standard method in areas of the Middle East, South and South East Asia and West Africa, if not more widely.

Much of the money comes from the families of the victims, but increasingly Western nationals have been targeted on the assumption that their governments will pay for their release. A study by the New York Times in the middle of 2014 estimated that al Qaeda and its direct affiliates alone had collected \$125 million since 2008, a figure corroborated by the US Treasury which estimated that the total in ransoms paid to terrorist groups topped \$165 million during the same period. Well over \$100 million of this amount is reported to have come indirectly or directly from

governments. It is highly likely that the massive payments made, running as high as \$10 million per captive, has increased both the frequency and attraction of kidnapping for ransom.

As an early example, it is believed that a ransom of \$1 million was paid to Mokhtar Belmokhtar, then a member of al Qaeda in the Islamic Maghreb (AQIM), in December 2008 for the release of a Canadian diplomat Robert Fowler and his colleague, Louis Guay. Although not confirmed, it is believed that the original kidnap may have been inspired by an AQIM offer to buy westerners from independent groups who merely sought a reward. Similarly, the kidnap of Warren Weinstein in Pakistan in August 2011, who died in a drone strike in January 2015, was held by al Qaeda at the time of his death, having, it is believed, been passed through the hands of other groups whose motivation may have been more purely mercenary.

Over time, many other groups have seen the value of human life, and even the more ideologically driven among them have not been shy to try to cash in on this relatively risk-free source of income. Although not taken as a serious negotiation, the Islamic State endorsed the principal of ransom when it demanded \$200 million from the Japanese Government for the release of Haruna Yukawa and Kenji Goto, both subsequently murdered by the group in January 2015.

Bank raids: The Islamic State has also raised money through bank raids, having taken over major urban centers in its rampage across Iraq and Syria. It is said that there was about \$430 million stored in banks in Mosul when the Islamic State took over the city in mid 2014. Whether or not it stole this money, it will have nonetheless underpinned the economy of the area under Islamic State control, so allowing taxation, extortion and other forms of revenue-raising to keep the organization going. Al Qaeda in the Arabian Peninsular is also said to have stolen money from banks in cities like al Mukalla, which it took over in April 2015.

Taxation: As terrorist groups take over territory and operate as the local authority, they also turn to traditional forms of revenue such as taxation. The Islamic State, for example, has set tariffs for government services of all kinds, such as the issuing of license plates or provision of utilities, even when it does not actually produce the commodity. It also levies taxes on sales and other services, and on the passage of vehicles through its territory. The Islamic State also taxes income, including that of state employees who continue to collect their salaries. It even issues parking tickets.

Extortion: The borderline between taxation and extortion is finely drawn, with non-Muslims for example paying a special protection tax (*jizya*) in order to be able to stay in their homes. Similarly fines are levied for the infringement of rules set by the Islamic State. Protection money has proved an easy source of income from all violent groups, and terrorists are no exception. Boko Haram is well known for this, but so too are many smaller groups, particularly those operating in urban areas where the rule of law is weak and the authorities are easily intimidated.

Confiscation: Associated with this conventional fund raising, groups that have gained control of territory routinely confiscate/steal the property and possessions of people who have fled their advance. This may extend to their houses and fields, or in the case of businesses, to their plant and machinery. Sometimes the group will attempt to justify its actions by offering to return the property if the owner returns within a set period; an offer of limited attraction to most victims.

Permits and licenses: Where terrorist groups control territory but have less aspiration to establishing a proto-State, they have both a greater opportunity and a greater inclination to cooperate with organized criminals who wish to take advantage of the general lawlessness of the area. In areas such as Somalia, where the al Qaeda affiliate al Shabaab managed to control areas of the coast, a symbiosis emerged between organized crime and the terrorist group. For example, although, so far as is known, al Shabaab had no direct involvement in piracy, which became a major industry in Somalia following the fall of the government in 1991, it nonetheless managed after some time and effort to levy payments from major pirate groups as a form of license for them to operate unmolested. A similar arrangement pertained in West Africa, where terrorist groups that operate across smuggling routes take payments from drug traffickers and others without necessarily joining the business as partners or competitors. In Syria, the Islamic State has licensed or taxed the excavation of ancient sites and export of antiquities.

Drugs: The attitude towards drug production by terrorists has been ambivalent and often contradictory. Groups that claim religious justification for their actions have often regarded drug production and sale as against their beliefs, even going so far in some cases as punishing smugglers that they caught. But as financial pressures have increased, these groups have tolerated the trade, especially where they can argue that the end consumer will be in an enemy country. Both FARC and Hezbollah have a long history of direct involvement in the drug trade or in the money laundering that spins off from this multi billion dollar sector, but more recently terrorist groups in South Asia have cashed in on the heroin and hashish production in Afghanistan. On the other hand, there are reports that Al Qaeda in the Arabian Peninsular has banned the sale and use of *Qat*, the pervasive and popular stimulant used by Yemenis.

Smuggling: Although there has been a tendency for terrorist groups to embrace the techniques and synergies offered by criminals as the financial advantages have come to outweigh any moral qualms they might have, some groups defy categorization in one camp or the other. The Haqqani network that operates on the Afghan-Pakistani border is of concern to the United States Government as a terrorist organization, but its traditional activity is smuggling, and it still makes its money from the import and sale of white goods, second hand cars and other commodities that can be sold on one side of the border or the other at a profit.

Smuggling is prevalent in many areas of the world, particularly in areas where ethnic or tribal groups span a border or where government control is limited

through the lack of capacity or by topographical challenges. In West and North Africa, people smuggling has become big business, as it is in areas of Asia. This has provided terrorist groups a new source of income in areas where smugglers have to pass through areas where they are present. Arms smuggling is similarly a source of both income and materiel for terrorist groups and the collapse of government authority in Mali and Libya has boosted this trade in West Africa.

Illegal extraction and forestry: Similarly in the Afghanistan-Pakistan border area and other areas where there are natural resources, terrorist groups have indulged in illegal mining and forestry. Al Shabaab for example continues to make money from the charcoal trade, which is a mainstay of the Somali economy, although it no longer controls the port of Kismayo through which vast amounts of charcoal are still exported illegally to customers in the Gulf and elsewhere. In Iraq and Syria, the Islamic State has benefitted from its control of oil fields and refineries to steal and then sell oil products to middle men who then smuggle it across borders. In some cases, the Islamic State has been able to sell oil itself, including to the Syrian government.

Corruption: Corruption is a curse that impacts many countries and on a global scale is a more pervasive threat to the rule of law and the development of a peaceful society than terrorism is ever likely to be. In fact corruption, along with other forms of poor governance, particularly in the delivery of justice, is possibly the most significant driver of terrorism in the world today. There is not much evidence to suggest that corruption finances terrorism in a more direct sense, but in terms of encouraging people to support terrorism whether through financial or other means, it is of extreme significance.

Legal fund raising: Despite the great variety of criminal means for raising money and the increasing opportunity to do so as terrorist groups morph into insurgencies and then into quasi States, groups still raise money through 'legal' means. These are most often through the collection of money from witting or unwitting donors through established charities or by direct donation. There is no reason to believe that organized terrorist groups like al Qaeda have given up approaching long-standing donors in Gulf countries who provided the mainstay of their finances in the years immediately preceding and following the attacks of 9/11. Witting donors may now be more careful because of the financial and reputational risks of being caught, but their motivation to help is unlikely to have eroded.

The international effort to ensure the adequate supervision of charities has undoubtedly reduced the exploitation of this avenue of funding by terrorists, but however well regulated charities may be, they remain vulnerable to the diversion of their funds if only because they aim to deliver aid to areas that are not generally well policed.

Internet: The Internet is becoming more and more popular as a way to transfer funds, and no doubt terrorists use it just as anyone else might. But more

importantly, the Internet is proving a rich resource for criminals to make money. While there have been no reported examples of terrorist groups using the Internet to raise money, except in eliciting donations, it is only a matter of time before they do so routinely. Just as with any other area of criminal activity, terrorists will exploit the vulnerabilities of the Internet to fund their operations.

Final observation: This leads me to my final observation: although terrorists may appear to favor one form of financing over another, ultimately they do what any other criminal might do – they seek the easiest way available to make money, combining minimum effort and maximum return with minimum risk.