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**To the Task Force to Investigate Terrorism Financing *Could America Do More? An Examination of U.S. Efforts to Stop the Financing of Terrorism,*
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EXECUTIVE SUMMARY:

- I) We need to discuss the concept of *the business of terrorism* and move **away from the concept of terrorist financing** for the following reasons:
- a) *Terrorist financing* looks at what has been done and is being done to fund a terrorist organization, it is reactive rather than proactive.
 - b) The *Business of Terrorism* examines more broadly the way terrorists generate funds and solicit personnel for future activity.
 - c) The *Business of Terrorism* looks at terrorists' marketing strategies, targets of opportunity and other business strategies.
 - d) *Terrorist financing* fails to address the fact that terrorists are acting like business people and need to be countered as business competitors.
- II) **Almost all terrorism these days is funded by crime**, although much of transnational crime remains independent of terrorism. Therefore we need to:
- a) Stop stovepiping the separate responses to crime and terrorism. Instead, we need to integrate our analyses and countermeasures. This is being done successfully by the Los Angeles and New York Police Departments.
 - b) We need to focus on more than the drug trade and concentrate on the **smaller scale illicit trade that supports so much terrorism** in the US, Europe, and North Africa (i.e. one of the Kouachi brothers responsible for the Charlie Hebdo massacre in Paris traded in counterfeit Nikes and cigarettes, similar crimes are found as crucial support to terrorists by NYPD).
 - c) Terrorists use corruption to execute their business activities, just as organized crime always has. **We need to integrate analyses of corruption into crime and terror analyses.**
- III) **Private-public partnerships are key in addressing the business of Terrorism:**
- a) Businesses have insights on how to combat business competitors, these insights need to be shared with governmental personnel who have less experience with business.
 - b) They collect intelligence on terrorist financing derived from diverted and counterfeit examples of their commodities. This information has been used successfully by Interpol and American law enforcement to combat terrorist funding.

IV What needs to be done?

- a) **Focus on Terrorist business, rather than financing**, by taking an integrated view of terrorist trade in products, capitalizing on targets of opportunity, use of technology, and recruitment of personnel.
- b) We need to **establish working and advisory groups with sectors of the business community whose products are likely targets of terrorists**. Many of these companies have well-established investigative units to discover illicit trade in their products. Target sectors include manufacturers of consumer goods, pharmaceuticals and cigarettes. Established mechanisms for information sharing need to be better developed.
- c) **Use counter-crime and terror policing models based on LAPD and NYPD models in other major urban centers in the US**. Develop police systems in other major urban centers similar to NYPD and LAPD that allow information sharing on terrorist financing through crime. Federal agencies work closely with local government in these locales. These mechanisms need to be expanded to other cities and regions of the US.
- d) **Develop more controls over cryptocurrencies such as Bitcoin and many other emerging web-based currencies** that are hard to trace and are key to the financing and trade of terrorists.

THE BUSINESS OF TERRORISM

How do terrorists function as business people?

Terrorists seek a product mix, professional services, conduct cost-benefit analyses, employ tax strategies, and exploit supply chains.ⁱ They seek market dominance, strategic alliances, competitive advantage, targets of opportunity, and try to employ innovation and technology effectively. They seek ways to obtain access to the best human capital through their global networks. ISIS illustrates all these concepts but it is only one of many terrorist groups that share these attributes. It is just the most successful of these.

Terrorists are always looking for new ways to fund themselves. In this way, they resemble multinational businesses that need to diversify to survive in the global economy. To survive, they are proactive and are fluid and flexible, like the most nimble of businesses. We must appreciate their capacity as business people and not just explore their past streams of funding.

EXPLOITING COMPARATIVE ADVANTAGE

Terrorists exploit their comparative advantage. Terrorists near natural resources use these commodities to fund their activities, those near weapons stockpiles become weapons traders, and terrorists in border areas tax the cross-border flow of goods. They take advantage of their critical location. For example, Al-Qaeda, was involved in the diamond trade, particularly in Sierra Leone, Liberia, and Tanzania.ⁱⁱ The FARC and the Ejército de Liberación Nacional (National Liberation Army, or ELN) use their territorial control in different regions of Colombia to extort money and to lead attacks against energy infrastructure,ⁱⁱⁱ such as has also been seen in Algeria and in territory controlled by ISIS and Boko Haram.

Terrorist and insurgent groups, located near populations of elephants and rhinoceroses sought for their horns and tusks are leading to the mass slaughter of these animals and irreversible damage

in ecosystems. This month's issue of National Geographic confirms earlier published research on the involvement of the Lord's Resistance Army in the illicit ivory trade, along with members of the Sudanese government,^{iv} pointing to the role of both terrorists and corrupt officials in this trade. The US is the second largest importer of ivory after China. Therefore, our consumer culture is helping to fund terrorism. Only recently have some states passed laws trying to counter this illicit trade.

SECURING SUPPLY CHAINS

Terrorists share a major concern of legitimate businesses—supply chains—as they need to ensure the safe and timely delivery of goods without disruption. Terrorists are concerned with supply chains for illicit goods, such as narcotic drugs, counterfeit pharmaceuticals, and cigarettes (which are the lifeblood of many terrorist organizations), or high-value diverted goods, such as oil.

Terrorists make substantial money by controlling supply chains for delivery of their products, such as drugs, as well as by taxing the smuggling of others that pass through borders or territory that they control. The ability to tax the transit of commodities is one key to their financing.

Organized crime groups' extortion of trade has been known for a significant period, which is why they are so deeply involved in ports and the trucking industry. Yet terrorist groups on many different continents also profit from exploiting supply chains and taxing trade. This insight has not merited sufficient attention from the counter-terrorism community.

Terrorists often generate revenues by taxing the supply chains that move legitimate and illegitimate products across territory they control. Through corruption of officials and application of violence, terrorist groups undermine the state presence and bolster their own in key border areas, ports, and other transport hubs. Therefore, they have learned from organized crime the

importance of controlling territory and have capitalized on the corporate world's need to move commodities long distances in the increasingly globalized economy.

SECURING PERSONNEL

ISIS has developed an effective model of international recruitment of personnel. It uses new technology such as twitter to identify potential recruits. Then it deploys geographically distinct messaging to recruit personnel to fight for it, or for women to join and provide support functions. Its well developed communications and marketing strategy in some respects mirrors that of legitimate multi-national companies.

HETEROGENEITY OF TERRORIST BUSINESSES

All terrorist groups do not function the same way in business. Cultural, historical and geographic conditions shape their approach to terrorist financing. For example, in the Middle East where trade has been at the heart of the economy since the first recorded language, trade or taxing trade is the major funding source of ISIS and other groups such as the PKK operating in the region. The long-standing growth of drugs in Afghanistan and in the Andes has contributed to a reliance on crop production and drugs in terrorist financing. In Africa, where man's dominance over animals has been a hallmark of rulers, trade in animal parts becomes an important funding source for terrorism.

Terrorists choose the crimes they will commit not only by profitability and ease of entry into this business sector, but also by the extent of competition in this sphere of criminal activity and the costs of corruption.^v Yet determinations of risk of detection and asset loss are also associated with the calculations of the more sophisticated criminal-terrorists. Terrorists exploit their

strategic advantages, just as do legitimate business people. Understanding the comparative advantage of a terrorist group within this financing framework is key to determining their sustainability and deriving strategies to deprive them of revenues.

TERRORISTS USE CRIME TO FUND THEIR ACTIVITIES

Terrorists use crime as a means to generate needed revenues, to obtain logistical support, and use criminal channels to transfer funds. Criminals provide operational tools, such as falsified documents, new identities, and transit across borders to terrorists in need.^{vi} Criminals can pay off officials, thereby providing terrorists and their commodities safe passage across borders. The criminal support structures can include either petty criminals or developed crime groups, such as the Camorra in Naples,^{vii} complemented by the services of facilitators from the legitimate world, such as bankers, lawyers, and corporations that intentionally or inadvertently assist in the perpetration of terrorism.^{viii} Corrupt military personnel can serve as suppliers of weapons to criminal and terrorist groups.^{ix} There are also facilitators that serve the criminal world, especially drug traffickers and those moving dual-use materials.

PRODUCT MIX

Almost every known form of criminal activity has been used to fund terrorism. The choice of criminal activity reflects the geographic location of the group, its human capacity, and the profitability of the crime. Crimes are selected based on the ability to evade detection or prosecution, access corrupt officials, and obtain profits. Terrorists prey on ordinary citizens, as well as smaller and larger businesses through extortion and kidnapping. They commit fraud against legitimate financial institutions through credit card abuse and other financial

manipulation of markets.^x Many of these illicit activities converge in supply chains and are handled by the same transport facilitators.

Apart from these high-profit and large-scale sources of criminal activity, terrorists and insurgents participate in a diverse range of criminal actions, including ones used by earlier generations of terrorists and guerillas, such as kidnapping, extortion, and bank robbery.^{xi} But they also are at the forefront of technology, relying on credit crime and Internet fraud. They also use new technologies such as cryptocurrencies (such as bitcoin) to move money. The dark web is used to communicate undetected and to sell commodities.

There are many other forms of illicit activity that have become the lifeblood for terrorism, including art and antiquities smuggling, cross-border smuggling of goods, trade in counterfeit and diverted goods. Many of these crimes intersect with the legitimate economy and information from the business world can be used effectively to counter terrorism. Illicit trade in natural resources, oil, gold, and other commodities also provides funding.^{xii} Commodities such as gold and diamonds are particularly sought because they have great inherent value and limited weight. Some activities, such as people smuggling and trafficking, are “dual use:” they both generate money and provide terrorist groups the ability to move operatives. Terrorists have developed a full product line that ranges from the most basic to the most sophisticated crimes.

PRIME ROLE OF SMALL-SCALE ILLICIT TRADE IN FUNDING TERRORISTS

The concept of narco-terrorism had meant that we have focused on such large financial generators as the drug trade. But increasingly smaller-scale illicit trade in commodities such as counterfeit goods, fuel, cigarettes, food, medicine, textiles and clothing are used by terrorists to fund themselves in the United States, Europe, North Africa and the Middle East. Weapons trade,

another dual-use crime is particularly prevalent in North Africa, particularly flowing out of Libya.^{xiii} In aggregate, the funding from such activities is substantial, and rivals that of drugs, but has much lower risk of prosecution.

Money generated by illicit trade within the US from the illicit cigarette trade is sent out of the United States to fund terrorist groups in the Middle East. ISIS recruits from Europe can fund their voyages to join ISIS through the revenues generated from illicit trade. Recent terrorist attacks in Europe such as the recent train attack between Brussels and Paris have been perpetrated by terrorists with backgrounds in small-scale illicit trade. One of the Kouachi Brothers who killed the cartoonists of Charlie Hebdo had traded in counterfeit Nike sports shoes and smuggled cigarettes. This phenomenon is not confined to Europe. The New York Police Department (NYPD) is focusing on many smaller scale crimes, including cigarette smuggling, that are used by many diverse terrorist groups to fund themselves.

PROFESSIONAL SERVICES

Terrorists, when functioning as criminal entrepreneurs, require a variety of services.^{xiv} They need accountants, bankers, and lawyers. But they also need corrupt officials and often witting and unwitting facilitators from the corporate world. Therefore, they have multiple forms of interaction with the legitimate economy. They also require professional services from the criminal world as they retain the services of human smugglers and specialists in “non-traceable communications, forgers, and money launderers.”^{xv} Without hiring this expertise, they cannot make their business function.^{xvi}

As terrorist entrepreneurs, they are always looking for new product lines and seek to learn from regional successes in one area that can be transferred elsewhere. Therefore, the FARC, known as narco-terrorists, are really a much more diversified business that even generated income from the

exploitation of hydrocarbons. Diversification is as much a key to survival as it has been to the legitimate business world.

Terrorist businessmen share a key concern of their legitimate counterparts—the retention of professional services. These service providers allow them to move their money, corrupt needed officials, and obtain falsified documents.

WHAT CAN WE DO?

1) DEVELOP PUBLIC-PRIVATE PARTNERSHIPS, USE INSIGHTS FROM THE LEGITIMATE BUSINESS COMMUNITY

Insights from the corporate world have been valuable in understanding terrorist financing and the business of terrorism. Illustrative of this are:

Nike warned the French government that one of the Kouachi brothers who later killed the cartoonists of Charlie Hebdo was engaged in the sale of counterfeit Nikes and was transferring payment to China. This information was ignored.

Insights obtained from one multi-national cigarette company led to the tracing and freezing of money that could contribute to North Korea's WMD program. In another more recent case, American authorities were alerted that cigarettes sold en masse out of American military commissaries were being sent abroad to fund Middle Eastern terrorist groups.

Insights from a multi-national pharmaceutical company on Hezbollah funding through counterfeits of their products have raised awareness of the centrality of counterfeit prescription drugs to terrorist financing.

While the United States government has successfully used information from corporations, we have no institutionalized means to promote this cooperation. This is an underutilized approach that must be expanded.

Apart from the intelligence corporations collect, many have strong analytical teams that allow them to see trends and patterns in terrorist financing. We have an office of private partnerships in Homeland Security but we do not have strong corporate advisory bodies working with DHS or with the other agencies responsible for countering terrorist financing. Some are already working

with Interpol on joint programs that help the global fight, but we need programs tailored to promote corporate partnerships in the US. This gap must be closed. **Public-private partnerships are key in creating a counter-terrorism approach.**

2) REPLICATE LAPD AND NYPD MODELS THAT FOLLOW THE CRIME AND MONEY OF TERRORISTS

Replicate successful law enforcement models to other American locales

Both New York City and Los Angeles because of their size, economic strength and diversified economies and populations are important funding sources for terrorism. Los Angeles was targeted by the Millennium bomber and New York suffered the devastating consequences of 9/11. Both have set up highly successful programs, combining their resources against crime and terrorism to follow the money connected to terrorism. In my book, *Dirty Entanglements: Corruption, Crime and Terrorism*, I discuss the major criminal case initiated by LAPD that targeted a car theft ring in Los Angeles that helped fund Basayev who was responsible for one of the world's most deadly terrorist attacks in Beslan, Russia. Discussions with leading personnel in the departments reveal that this approach is still successfully being used to target terrorist financing and business. This approach needs to be expanded to other major US cities and used on a regional perspective rather than in just select urban areas.

3) TARGET ILLICIT TRADE IN CONSUMER GOODS

The limited penalties attached to trade in consumer goods such as counterfeit pharmaceuticals, food, alcohol, cell phones, cigarettes have made these important growth areas for terrorist

revenues. We need to prioritize these areas in counter-threat finance. We also need to focus on the convergence of these forms of illicit trade with other sources of terrorist financing—drugs, wildlife, human smuggling and trafficking. By focusing on network analysis and convergence of different forms of crime, we can make efficient use of existing resources.

4) TARGET TERRORIST FACILITATORS

Targeting these facilitators should be a much more central focus on US counter-terrorism efforts—accountants, money launderers, transport specialists. Some are even able to travel to the US and buy property here because we do not effectively coordinate our counter-measures against identified terrorist facilitators.

5) REGULATE CRYPTOCURRENCIES

The rise of Bitcoin and other unregulated currencies in the virtual world facilitates this trade. Cryptocurrencies are increasingly being used for payment on the web and on the dark web, making traceability of transactions more difficult. These currencies will facilitate the illicit activities of non-state actors as well as some corporate actors who choose to evade regulation. The possibility of so much international financial activity outside of state regulation is a force in favor of the expansion of illicit trade. **Therefore, legislation must be developed rapidly to enhance regulation of cryptocurrencies.**

6) SUPPORT RESEARCH TO IDENTIFY NEW TRENDS IN TERRORIST FINANCE AND BUSINESS

We presently have too limited independent research on the trends in terrorist financing and the development of terrorist business. Much of it is focused on a specific region or commodity, whereas the financing spans continents and the trade converges with many different products. A basic understanding of these phenomena is a necessary prerequisite for formulating effective policies to counter them. **There needs to be governmental support of independent broad fundamental basic research and the training of researchers from different disciplines to support this complex problem. This could be done through the NSF or other government agencies. Other mission agencies should fund basic research directly related to their targeted efforts.**

ⁱ For more in depth analysis of this see Louise I. Shelley, *Dirty Entanglements: Corruption, Crime and Terrorism* (Cambridge: Cambridge University Press, 2014), 173-217.

ⁱⁱ Global Witness, “For a Few Dollars More: How al Qaeda Moved into the Diamond Trade,” April 2003, <http://www.globalwitness.org/library/few-dollars-more>; Greg Campbell, *Blood Diamonds: Tracing the Deadly Path of the World’s Most Precious Stones* (Boulder, CO: Westview Press, 2002); Douglas Farah, *Blood from Stones: The Secret Financial Network of Terror* (New York: Broadway Books, 2004).

ⁱⁱⁱ Frédéric Massé and Johanna Camargo, “Actores Armados Ilegales y Sector Extractivo en Colombia,” V informe del Centro Internacional de Toledo para la Paz (CITpax) Observatorio Internacional, 2012,49

http://www.toledopax.org%2Fuploads%2FActores_armados_ilegales_sector_extractivo.pdf.http://www.askonline.ch/fileadmin/user_upload/documents/Thema_Wirtschaft_und_Menschenrechte/Bergbau_Rohstoff/Gold/Actores_armados_ilegales_sector_extractivo.pdf.

^{iv} Bryan Christy, “Tracking Ivory,” *National Geographic*, September 2015, 30-59; Kasper Agger and Johnathan Hutson, “Kony's Ivory: How Elephant Poaching in Congo Helps Support the Lord's Resistance Army,” June 3, 2013, <http://enoughproject.org/reports/konys-ivory-how-elephant-poaching-congo-helps-support-lords-resistance-army>.

^v *Fondeo del terrorismo, Infolaft*, 1, no.4, 2009, 10–15, reveals that FARC’s financial records calculated their expenditures for corruption as a cost of business.

^{vi} C. J. de Poot and A. Sonnenschein, *Jihadi Terrorism in the Netherlands* (The Hague: WODC, 2011), 109–10.

^{vii} Roberto Saviano, *Gomorra*, trans. from the Italian by Virginia Jewiss (New York: Farrar, Straus, and Giroux), 2007, 181–86.

^{viii} Mark Pieth, ed., *Financing of Terrorism* (Dordrecht, Netherlands: Kluwer Academic, 2003); Nikos Passas, “Terrorism Financing Mechanisms and Policy Dilemmas,” in *Terrorism Finance and State Responses: A Comparative Perspective*, ed. Jeanne Giraldo and Harold Trinkunas

(Stanford, CA: Stanford University Press, 2007), 30, which discusses how the 9/11 hijackers used the established banking system. The nuclear proliferation of the A. Q. Khan network was facilitated by businessmen in Europe. Rebekah K. Dietz, *Illicit Networks: Targeting the Nexus between Terrorists, Proliferators and Narcotraffickers*, (Monterey, CA: U.S. Naval Post Graduate School, 2010), <http://www.dtic.mil/dtic/tr/fulltext/u2/a536899.pdf>; *IISS Nuclear Black Market Dossier: A Net Assessment* (London, 2007), 43–64, <http://www.iiss.org/publications/strategic-dossiers/nbm/nuclear-black-market-dossier-a-net-assesment/>.

^{ix} Illustrative of this is the Cambodian military. See David Capie, “Trading the Tools of Terror: Armed Groups and Light Weapons Proliferation in Southeast Asia,” in *Terrorism and Violence in Southeast Asia: Transnational Challenges to States and Regional Stability*, ed. Paul J. Smith (Armonk, NY: M. E. Sharpe, 2005), 191.

^x Matthew Levitt and Michael Jacobsen, *The Money Trail: Finding, Following and Freezing Terrorist Finances*, Policy Focus 89 (Washington, DC: Washington Institute, November 2008), 50–51, <http://www.washingtoninstitute.org/policy-analysis/view/the-money-trail-finding-following-and-freezing-terrorist-finances>, and Rohan Gunaratna, *Inside Al Qaeda: Global Network of Terror* (New York: Columbia University Press, 2002), 63–65; de Poot and Sonnenschein, *Jihadi Terrorism in the Netherlands*, 111.

^{xi} R. T. Naylor, “The Insurgent Economy: Black Market Operations of Guerrilla Organizations,” *Crime, Law and Social Change* 20, no. 1 (1993): 13, 20.

^{xii} For a discussion of the underworld of gold, see R. T. Naylor, *Wages of Crime: Black Markets, Illegal Finance, and the Underworld Economy*, rev. ed. (Ithaca, NY: Cornell University Press, 2004), 196–246; for extractive industries, such as oil, see Massé and Camargo, “Actores Armados Ilegales y Sector Extractivo en Colombia.”

^{xiii} Global Initiative on Transnational Crime, “Libya: Criminal Economies and Terrorist Financing in the Trans Sahara,” May 2015, <http://www.globalinitiative.net/libya-criminal-economies-and-terrorist-financing-in-the-trans-sahara/>; International Crisis Group, “Tunisia’s borders: Jihadism and Contraband”, Middle East/North Africa Report, N° 148, (2013) 31 [http://www.crisisgroup.org/~media/Files/Middle%20East%20North%20Africa/North%20Africa/Tunisia/148-tuniasborders-jihadism-and-contraband-english.pdf](http://www.crisisgroup.org/~/media/Files/Middle%20East%20North%20Africa/North%20Africa/Tunisia/148-tuniasborders-jihadism-and-contraband-english.pdf)

^{xiv} Sherzod Abdukadirov, “Terrorism: The Dark Side of Social Entrepreneurship,” *Studies in Conflict and Terrorism* 33, no. 7 (2010): 603–17; Douglas Farah, “Fixers, Super Fixers, and Shadow Facilitators: How Networks Connect,” 2012, http://www.strategycenter.net/docLib/20120423_Farah_FixersSuperFixersShadow.pdf.

^{xv} *Organised Crime in Australia Key Trends 2008*, 2, <http://www.crimecommission.gov.au/publications/organised-crime-australia/organised-crime-australia-2008-report>; Farah, “Fixers, Super Fixers, and Shadow Facilitators.”

^{xvi} For an analysis of an Auckland, New Zealand, facilitator for organized criminals and terrorists, see “Offshore Registration Business Halts Operations,” June 28, 2011, <http://www.reportingproject.net/occrp/index.php/en/ccwatch/cc-watch-indepth/930-offshore-registration-business-forced-to-halt-operations>.