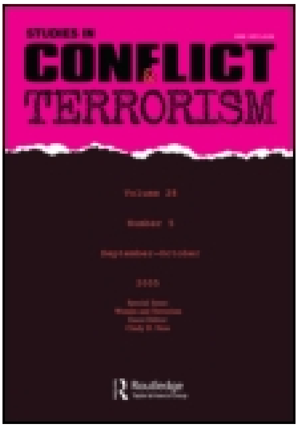

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Investing in the Market of Violence: Toward a Micro-Theory of Terrorist Financing

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Terrorist financing is the dedicated pursuit of adequate capitalization within a market of violence, wherein terrorist organizations seek to extract resources and funding from the social, political, and economic environment in which they operate. At the same time, the effectiveness of a terrorist group in this pursuit is highly dependent on their organizational type and design, its leadership capabilities, and its capacity for organizational learning—factors that shape the ability of terrorist groups to identify and exploit a limited set of investment and rent-seeking opportunities.

"Terrorist financing" is now well established as part of the counterterrorism lexicon. It is now a truism to say that all terrorist groups require money to sustain their organizations and to carry out their activities. The examination of terrorist financing has been strengthened by a variety of relatively recent contributions, including by Vittori, Wittig, Geltzer, Freeman, Berman, Flanigan, Grynkewich, and Levitt, among others. These contributions have provided much needed focus on terrorist group autonomy, typological considerations, and critical sociological and economic dimensions of terrorist financing. That being said, the field of study is still susceptible to analysis that relies heavily on the "anecdote," and discussions that leap prematurely into the appropriateness of particular policy responses without first establishing a coherent theoretical frame of reference.

More work is required to outline a theory of terrorist financing that brings together what is already known about terrorist financing, without simply being an amalgam of everything that has come before. At the same time, terrorist financing is sufficiently specific as a social science problem that attempts at a theoretical approach need to carefully consider the applicability of a "grand theory" to the problematique at hand. In this context, this article is intended to frame the parameters of a "micro-theory" of terrorist financing—that is to say, a robust theoretical conception that deals with a constrained set of relevant social/sociological, economic, political, and military issues. This article seeks to provide a theoretical understanding of terrorist financing that orbits around two central axes, demand for organized, political violence on the one hand (by states and/or sub-national actors), and, a supply of financial and material resources that turn the demand into actuality. In this micro-theory of terrorist financing, the terrorist organization is the catalytic agent. The organizational design and relative ability of a terrorist group to develop financing role specialization, and its ability to develop high levels of organizational learning, are central to its effectiveness as an opportunist actor within a "market of violence."

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As a starting point, one is struck by Timothy Wittig's question: "How do financial activities influence the behaviour of terrorist actors?"[1] A micro-theory of terrorist financing should absorb the reality that the financing strategies of terrorist groups are only partially "selected" by the group itself. More often, financing strategies emerge organically from a sort market of violence where "investment" into the terrorist group is shaped by opportunities within a specific social, economic, and political milieu. As Wittig describes it, terrorist groups interact with socially defined "value chains,"[2] extracting material support (and financing) "according to the particular political-economic dynamics in which terrorist actors operate."[3] Where the social/sociological, economic, and political environment are dependent terrorist financing variables, the organizational design, group type, and "capital structure" of a terrorist group (explored later in this article) are the independent variables in the terrorist financing equation. Terrorist financing strategies and the "investors" that are drawn into them are, therefore, the net result of the dependent and independent variable streams being understood and exploited by the terrorist group.

The Industrial Organization of Terrorist Investment: Role Specialization and Process

Outlining the importance of "organization," at the level of a micro-theory, is critical to understanding how a successful terrorist organization creates a confluence between the demand for political violence, and the financial and material resources necessary to support it. Terrorist financial decision making is therefore strongly rooted in the degree to which a terrorist group is organized to (a) understand the opportunities available to them in a variety of contexts; (b) efficiently extract funding/investment from those opportunities; and (c) make most efficient and strategic use of those resources in furtherance of the organizational enterprise. Rudner obliquely refers to this in terms of "terrorist economic management and the supply of funding to meet operational demands."[4]

While a great deal of counterterrorism analysis has focused on distinctions between "hierarchical" and "network" terrorist organizations,[5] a focus on terrorist financing theory highlights other important aspects of "organization." What is perhaps more important in terrorist financing is understanding how organizational learning and design come to bear on the group's planning, execution, and management of financing operations over time. As Adams puts it "It is always the case that (for) any terrorist organization to survive (it) needs to develop a more sophisticated financial apparatus than the common image,"[6] adding that "to survive, terrorist groups need to cross an economic divide that separates those who live a hand-to-mouth existence from those who can actually plan ahead. All those groups which have come and gone in the last twenty years have failed to cross that divide."[7]

The concept of the "organization" is not only critical to terrorist financing, but is also fundamental to the broader conception of "terrorist resourcing" that encompasses it. Terrorist resourcing is the acquisition and management of all the material needs of a terrorist organization, which includes "(1) money or other readily liquid assets; (2) tangible goods,[8] such as life's necessities and items needed to conduct attacks; and (3) intangible goods such as operational space, security, intelligence, and some level of training and expertise."[9]

The terrorist resourcing concept[10] captures a group's need to acquire, either through purchase or exchange, a variety of material goods, services, and human resources to carry out its administrative and military operations. These activities include inducing/forcing recruitment, communicating propaganda, and/or countering or replacing an adversary state's capacity to provide public goods in order to obtain and/or maintain political legitimacy.

Seen in this context, "terrorist financing" is that part of a terrorist organization's resourcing activities that relate to the acquisition, handling, management, and disbursement

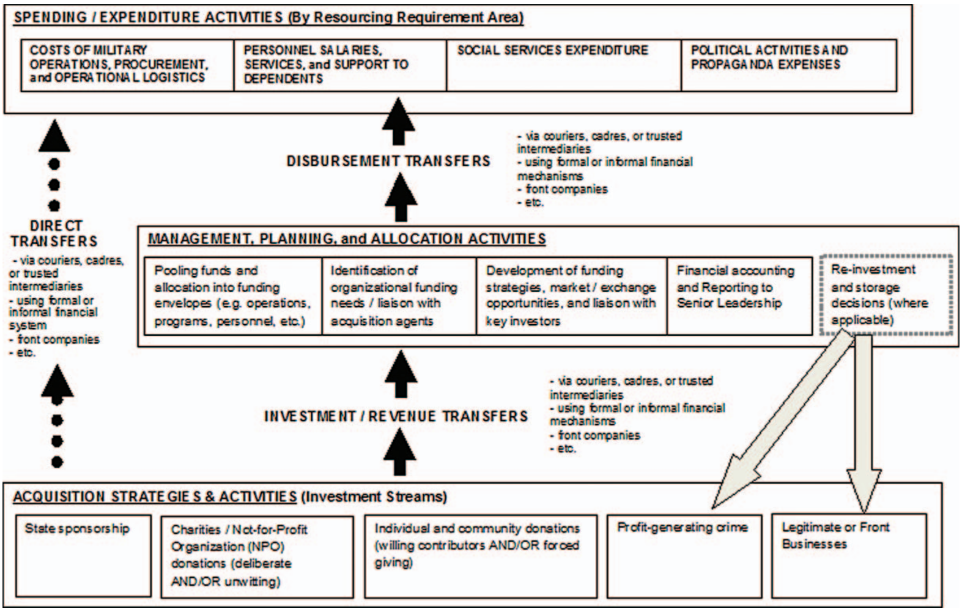

Figure 1. The processes of terrorist financing/resources. (Color figure available online).

of money or financial instruments for the benefit of a terrorist group, its members or leadership, or its proxies, agents, or allied organizations. By extension, terrorist financing also relates to the use or leveraging of financial purchasing power to further the group's operational, material, or sociopolitical aims.

It is in the context of the "process"[11] of terrorist financing, as described in Figure 1, that we can most clearly see the importance of finance-specialized roles as a design feature of the successful terrorist organization. While there is some overlap between various defined roles (e.g., soldier, cell leader, political representative, senior leadership, propagandist), terrorist groups that have sustained themselves over an extended period generally have devised a division of labor related to financing that is characterized by discreet tasks and differentiated levels of responsibility. Successful terrorist groups develop specialized financing roles because bureaucratic specialization facilitates effective responses to complex and multifaceted organizational activities, ultimately providing the group with flexibility and options. Not only must the organization consider how to raise (and spend) money in relation to the military operations,[12] but it also needs to pay members salaries (although many groups do not have permanently or regularly salaried members), support prisoners and the dependents of martyrs, support political affiliates, and (sometimes) finance social services which provide another avenue for political legitimacy.

Terrorist fund-raising and expenditure for weapon purchases and operations may in fact be a small proportion of a terrorist group's overall spending.[13,14] In the case of Hizballah, and to a lesser extent Hamas, fund-raising (and spending) in relation to military needs takes place while the group is also managing large social support programs—something that is complex, expensive, and labor intensive. The scale and discipline of Hizballah's organizational effort linked to the issuance of relief payments (in the order of $10,000–12,000) to families who had their homes destroyed or damaged during the 2006 Israeli invasion of Lebanon is an interesting case in point.[15] Without an advanced and disciplined organizational emphasis on the specialized financing role, a terrorist group would be unable to manage the parallel (sometimes competing) financial commitments of military and social support priorities. The absence of such a role also introduces opportunities for group corruption and nepotism, issues which threaten a terrorist group's ability to attain its goals. Successful terrorist groups with high levels of organizational learning (such as Hizballah and Hamas) have absorbed the lessons of Fatah/Palestine Liberation Organization (PLO)'s corruption in the Palestinian Authority (PA), and Amal's in Lebanon, and have made organizational design choices to prevent similar occurrences in their groups.

Hizballah and the Provisional Irish Republican Army (PIRA) provide interesting examples of the importance of role specialization and advanced organizational design in the realm of terrorist financing. Both are groups with capital structures supported by diverse streams of investment revenue, and both groups demonstrate organizational features that highlight why they have been successful in securing political gains.

Hizballah is both the recipient of large amounts of state investment from Iran (and material aid from Syria), voluntary donations from shi'ites in Lebanon and abroad, and is also alleged to be involved in a wide range of self-financing criminal activities.[16,17] Hizballah has been alleged to have benefited from local levies, the proceeds of drug trafficking/smuggling, currency counterfeiting, software/video piracy, extortion, the West African diamond trade, cigarette smuggling,[18] automobile theft,[19] and credit card fraud.[20] It is also claimed that Hizballah benefits from engagement in seemingly legitimate business which includes construction companies, real estate ventures, and even discount supermarkets.[21]

For its part, PIRA has been alleged to have benefited from a variety of voluntary investment and self-financing opportunities. Voluntary sources have included donations from U.S. NORAID sympathizers,[22] and from the "domestic" political activities of Sinn Fein. PIRA also allegedly benefited from the proceeds of various criminal activities,[23] including extortion, tax fraud, fuel rackets,[24] robbery, kidnap for ransom, building site extortion,[25] and welfare fraud. In relation to seemingly legitimate business,[26] PIRA is alleged to have used PIRA-owned/controlled pubs, real estate, and taxi companies. PIRA also developed important weapons procurement links with Libya, through the IRA Quartermaster Department, as part of its overall resourcing strategy.[27]

In looking at both the Hizballah and PIRA, it may appear as though the sheer number of possible sources of investment income is the key to the financing success of these groups. However, it can equally be argued that the diversity of investment sources is really the result of a deliberate organizational design and approach that allows for the maximization of investment opportunities which expand the terrorist group's capital structure (defined subsequently). Both groups have developed a dedicated, finance role specialization for selected personnel combined with a supporting governance structure and responsive operational elements.

Where the actual acquisition of funds is undertaken by street level members of the group, or mid-level agents, the aggregation, management, and disbursement of group funds is a much higher responsibility undertaken by a very limited number of experienced and trusted senior group figures with direct access to the group's senior leadership. The IRA's "Finance Department"[28] and Hizballah's "Finance Unit,"[29] Executive Council and subsidiary social and health units, the Bayt al-Mal,[30,31] and the Jihadic Committee for the Support of the Islamic Resistance[32] are accountable for identifying investment needs, moving the group towards investment targets, allocating and disbursing funds, and for managing these diverse streams of revenue. In the IRA's case, there are clear indications that the Finance Department also engaged independent/non-member accountants to supplement the value of the specialized finance role.[33] The establishment of dedicated higher order finance officers allows the terrorist group to focus its acquisition efforts in the most effective manner, and allows for a targeted development of allocation and disbursement plans that support operations, sustain the group and its programs and personnel, and that also align with senior leadership priorities.

It can be argued that terrorist organizations that do not develop an advanced, specialized financing role are more likely to lack the organizational resiliency that a group requires to survive concerted law enforcement or counterterrorist measures. The absence of a dedicated and specialized financing role within a terrorist organization also disadvantages that group against other political or insurgent groups which may be competing for the same pool of investment resources. Developing organizational resiliency takes time and dedication of purpose, particularly as this relates to securing sufficient and diversified investment in the group. In this context, the apparent short-term efficiencies of having fewer organizational layers so that group finances are managed through regular leadership figures will not, in the long term, create the conditions necessary to maximize the extraction of resources and investment from the environments in which the group operates. Terrorist group that do not develop a finance role specialization open themselves to increased risks of mission failure, either as a result of counterterrorism efforts or in relation to internal splintering.[34,35]

Investors, the "Terrorist Firm," and Market Dynamics

While it is interesting and important to enumerate the sources of funds that terrorist groups use to finance and resource their activities, the more pressing research question is why the financing strategies of terrorist groups differ from each other. Why, for example, did the Loyalist Volunteer Force (LVF) rely more heavily on drug trafficking than the PIRA? Why did the Revolutionary Armed Forces of Colombia (FARC) choose to become so heavily involved in the cocaine market, when the National Liberation Army (ELN) did not? How did the Liberation Tigers of Tamil Eelam (LTTE) turn into a diaspora-dependent organization? Why would Shi'a Iran provides funding to the Sunni Islamic Resistance Movement (Hamas) in Palestine? Why do organizations like Hamas, Hizballah, and Lashkar-e-Tayyiba (LeT)/Jamaat ud Dawa (JuD)[36] use a portion of their financial resources to provide significant social services when groups like Al Qaeda (AQ), and Tehrik-i-Taliban Pakistan (TTP) do not? Many of the answers to these questions relate back to decisions terrorist groups make in relation to limited investment opportunities within the sociopolitical environment that they operate in, and in relation to an ongoing tension between group autonomy and the achievement of group goals.

As has already been noted, terrorist financing needs to be understood as a set of activities that take place within the broader context of the economic and social resources available to a terrorist organization. The effectiveness of the group's financing operations are determined by the ordered and rational calculations of the group about how it can maximize investment into the organization, and how to make the most strategically valuable decisions related to disbursement of the group's funds. These considerations, coupled with the decision-making biases of senior leadership cadres, fundamentally shape the success (or failure) of the terrorist organization as an investment seeking entity in a "market of violence."[37]

A "market of terrorist violence" is defined in this article as a sociopolitical and economic space, wherein terrorist "firms"[38] produce "violence products and services" that are used to translate asymmetric violence into tactical, and sometimes strategic, political gains for investors, as well as the terrorist "firm" itself. The concept of the terrorist organization as a "firm" within a market of violence does not imply that the organization actually conceives of itself in this way. Rather, it is an analytic perspective that can facilitate a deeper understanding of the decision-making dynamics which underlie the terrorist group's approach to developing and maintaining solubility over time. Terrorist financing takes its place within this market as the dedicated pursuit of adequate capitalization for the development of the "political violence product." This approach also allows for a "supply side" analysis of terrorism inspired by the "opportunities framework" of analysis used by Weinstein,[39] Cornell,[40] Collier and Hoeffler,[41] Le Billon,[42] Rosenthal,[43] and Vellinga[44] in the study of civil wars.

The "violence "product" produced by terrorist groups is characterized by the use of organized violence against a set of targets for a general set of effects or sentiments (utility and satisfaction). Different "violence products" will have differing commercialization prospects, and (consequently) differing numbers of domestic and foreign investors interested in them. At the most basic level, and from an organizational design analysis perspective, a terrorist group's success in the market of violence is circularly defined by its continued operational existence. However, when we consider terrorist groups as actors within a "market of violence," the net success of a terrorist organization depends on the sustained ability of that group to reliably deliver political gains for the norm entrepreneurs that either inspire, lead, or act as apologists for the terrorist group, and for the group's principal investors which benefits from the group's productivity. The measure of how valuable a particular "violence product" is can be measured in a variety of ways, by the terrorist firm or by investors in the terrorist enterprise. As examples of how the value of terrorist investment can be viewed, Andrew Silke points to a ratio of 1:130 when comparing the amount of money raised and spent by Northern Ireland terrorist groups against the costs of operational damage, economic loss, and increases in security spending by the adversary state.[45] Similarly, analysis of the financial records of Al Qaeda in Iraq (AQI) highlights that, having first established a group operational and financial infrastructure, each additional AQI attack was relatively expensive in Iraqi terms (roughly $2,700 (U.S.)/40 percent of Iraqi average household income),[46] but that the value of the "violence product" (to Al Qaeda Core and AQI itself) warranted further investment and spending.

For its part, the terrorist organization has six principal considerations when developing and implementing investment acquisition strategies. According to Freeman,[47] these include (1) *quantity (of money)* that can be acquired; (2) the *legitimacy of the source of funds* (from the terrorist organization's perspective); (3) *operational security* considerations related to the acquisition and handling of funds and the sources from which they are derived; (4) *reliability* of the funding/investment source(s); (5) ability of the terrorist group to exercise *control or influence* over the funding source or mechanism; and (6) *simplicity* of acquisition and management, so as to avoid chances of loss, absconding, or error, and to reduce transaction costs (which increases the amount of funds which ultimately make its way to the group's treasury).

While bearing these considerations in mind, the aggressiveness with which a terrorist group pursues a mix of financing strategies will ultimately be determined by the state of its capital structure. In financial economics, a firm's "capital structure" is generally understood to be the "amount and type of permanent capital invested in a business concern," which takes into account a firm's capital stock and surplus, as well as creditor capital.[48] A terrorist group's "capital structure" is, therefore, the structure and value of all capital it holds, as well as all capital it can realistically acquire or secure after also accounting for debts and liabilities which the group will be reasonably be expected to cover.

The positive capital investment portion of a terrorist capital structure is comprised of two potential investment streams. First is *voluntarily invested capital*, from states, sub-state organizations, and individuals. This is the preferred investment stream for most terrorist organizations insofar as it can be a more predictable source of funds, and generally obviates the need for "peripheral (financing) activities," and can sometimes be accompanied by state protection.[49]

The second possible investment stream which expands a terrorist group's capital structure is *appropriated* or *stimulated investment*—which is shorthand for the generation of investment funds through profit-generating criminal and/or legitimate activities or predatory/opportunistic rent-seeking. This stream of investment will be pursued where a terrorist organization cannot attract sufficient voluntary investment from a state(s), or members of an identity community (whether defined along national, ethnic, or ideological lines), or where there are significant counterterrorist obstacles to such investment.[50] Where the terrorist group finds itself with a weak capital structure, lacking sufficient positive voluntary investment, the group will assess whether there are accessible criminal or legitimate markets in proximity to its principal territory of operations, or that is within the reach of its members. The group will then make an assessment of its own capabilities to operate within a particular criminal or legitimate market of opportunity, bearing in mind the attendant risks of failure, loss of seed money, and/or discovery and disruption by the authorities.

Investor Types

The question remains, however, who are these investors that terrorist groups are trying to connect with? Clearly, different types of investors can be discerned in different conflicts, and different types of terrorist groups have particular target investor types. That being noted, if a universal taxonomy of investor type is sought, the concept of "investor risk" can be a useful means of understanding who invests in the terrorist enterprise. On the one hand, investors in the terrorist enterprise are defined by the scale of their expectations, and the aggressiveness with which they want investment objectives pursued by the terrorist group. On the other hand, investors are defined by their risk tolerance as this relates to their own safety, security, and reputation. Investor risk breaks down into (a) *investment risk* and (b) the *risk to the investors* themselves. *Investment risk* is equated with a probabilistic calculation about whether or not invested funds will yield the desired political result through the actions of the terrorist group. *Risk to the investor* is associated with the extent to which the investor is willing to accept personal risks which are inherent in being associated with a terrorist organization, risks that include arrest, detention, sanction, loss of assets, or even assassination.

Investors in the terrorist market of violence can also be separated into investors seeking either high or low yield from their capital injection. "High yield" investments can be conceptualized as significant outlays of capital to the terrorist organization, which is expected to produce high impact results. The high yield investment is also accompanied by a (relatively) higher expectation, on the part of the investor, that they may be able to exercise a higher degree of influence over the timing and direction of the group's operations and programs.

Under the rubric of high yield investments, we can also discern a difference between short-run and long-run investors. A terrorist group's ability to increase operational tempo within a short period of time will be attractive to certain investors, while for other investors their interest is in a longer time horizon. Muammar Qaddafi's investment in the operations of terrorist outfits led by Abu Nidal[51] and Carlos the Jackal[52] demonstrate an expectation for quick and dramatic results in a relatively short period of time, whereas the Government of Iran's support for Hizballah and Hamas, or the Government of Pakistan's support for Lashkar-e-Tayyiba (LeT) and other anti-Indian groups,[53,54] demonstrates what a long-run resourcing commitment looks like.

"Low yield" investments are small outlays of funds that must be aggregated within a terrorist group's capital structure in order for the investment to afford the group real purchasing or operating flexibility. As a result, low yield investments connote less influence for the individual investor in relation to the timing and direction of the terrorist group's operations and programs.

In this context, voluntary investor types can be seen along a continuum. At one end of this spectrum are autonomous/independent individual investors who have low expectations of their investment having a significant impact, and low expectations for immediate results, and/or low expectations of having control over the terrorist organization's direction. These autonomous/independent investors would generally be individuals who are not members of the terrorist organization, and who would have little or no knowledge of the overall functioning of the terrorist group, but who sympathize with the cause of the group. Autonomous/independent investors are unlikely to accept serious personal risks of arrest or harm by going beyond providing low levels of intermittent investment support, which may be direct, but which is more likely to be channelled through a more committed (and better connected) intermediary. Diaspora-based individual donors would fall into this category of investor, such as those that supported the LTTE (and its affiliated organizations) or U.S.-based donors to the NORAID/PIRA.

Toward the middle of the investor type spectrum are project-committed investors, including "deep pocket" and frequent investors, who are ideologically committed to the terrorist organization, and are part of the social network or identity community which surrounds the group or its leadership. Common examples of this investor type would include individuals, certain charitable societies, and parts of the religious establishment in Persian Gulf states that have supported terrorist groups such as AQ, Hamas, and LeT. These investors are unlikely to be combatants, but do accept a much higher level of personal risk than autonomous/independent investors insofar as their social connectedness and scale of financial involvement exposes these individuals to similar counterterrorism risks as full group members/operatives (e.g., surveillance, arrest, detention, asset forfeiture, sanctions).

At the extreme end of the investor type spectrum are high risk/high yield investors. These investors are generally states (e.g., Iran, Syria, Pakistan) and/or other political or terrorist organizations (e.g., Afghan Taliban prior to 9/11), and are entities that likely understand the serious political, military, and elevated personal risks that are associated with their comparatively larger scale (and often well known) resourcing linkages to terrorist actors. These investors make a strategic decision to use the investment in terrorism to advance political interests in accordance with a particular timeframe. A high yield investor must accept the possibility that, while it may exercise more influence over the terrorist enterprise through its more significant investment (over a shorter time period), it also accepts that it may shoulder a significant amount of burden for reaction against the terrorist enterprise. Where a low-yield investment by an individual raises the possibility of individual criminal sanctions (as a limited number of LTTE fund-raisers have found), a high-yield-seeking state investor may face international financial sanctions (as Iran and Syria have from the United States), or even potential military action (as the Taliban did after 9/11).

Of course there are investor types which are outside of the spectrum analogy. These exceptions to the spectrum include the terrorist group itself—a phenomenon that is discussed in the section that follows on self-financing. Also outside the investor spectrum are "captive investors," that is to say individuals/entities that feel compelled to invest in the terrorist enterprise, or its associated entities (including a terrorist group's social or political organizations), by virtue of a fear for their personal safety, or for fear of alienation from a particular identity community to which they belong. Tamil expatriates are an often-cited example of this dynamic, though parallels could be drawn to a number of other communities, including people living within territory controlled by Al-Shabaab in Somalia, citizens living in areas of Hizballah control in Lebanon, or villagers within the operational pockets of the Afghan Taliban. These captive investors are essentially ambivalent about the uses to which their (often small and sporadic) investment is put, particularly if the investor is the victim of extortion. Captive investors will continue to "invest," as required, in order to maintain their personal safety and/or community standing. It's important to also note that captive investors live alongside other citizens who may well voluntarily support the terrorist enterprise.

Investor Considerations

While terrorist group preferences vis-à-vis investor types should largely be influenced by the relative importance that the group places on its autonomy and its freedom of action,[55,56] investors themselves have a set of related, but different considerations. To begin with, an investor in the terrorist enterprise has three principal investment objectives. Extrapolating from Byman[57] these include: (1) using the terrorist group to meet geostrategic goals against an adversary state; (2) promoting a particular ideological perspective or advance the vision of norm entrepreneurs at the expense of an "other"; and/or (3) assisting members of a common identity group or "kin" who are perceived as suffering oppression vis-à-vis other groups. With regard to state sponsorship in particular, additional state investor objectives can include increasing regional influence, destabilizing neighbors, affecting regime change, exacting revenge, ensuring influence within a particular opposition movement, or pursuing internal security threats, prestige, and irredentist claims.[58]

Within this framework, investors in the terrorist enterprise make a cost–benefit analysis of the degree to which its investment objectives are likely to be met by examining a set of suitability indicators. Establishing or maintaining control over a terrorist group may or may not be a condition of investment in the group, and "control" may take a variety of forms, including a desire to have influence over targeting or timing of operations, or the ideological orientation of the group, or over the strategic direction and political positions of the group. Among other investor considerations, the terrorist investor takes particular note of the ideological brand of the terrorist group(s), the market share of the prospective recipient organization (compared with all possible terrorist/insurgent groups), the success prospects of the recipient group vis-à-vis the capabilities and legitimacy of the state against which the group is/will be fighting, and whether or not negative blowback repercussions on the investor outweigh the gains that may be actualized through investment in the terrorist enterprise.

Considering what investors are looking for in a terrorist group partially explains the need of terrorist groups to be associated with their actions in order for investors to recognize the value of their investment, and to demonstrate forward progress toward the goals of the group. Acts of organized violence facilitate the commercialization and branding of the terrorist group, and this type of violence has to occur on a systemic and regular basis, over time, in order to continue to serve the longer-term political and investment needs of the terrorist group. Even where a terrorist group cannot claim full responsibility for a particularly controversial attack, the terrorist group will ensure that those that need to know understand the importance of the act, either through fronts, or by maintaining deliberately vague position on their direct involvement, while providing political justifications. This has been the case with Hizballah in many of the most well-known terrorist attacks attributed to it.

This is also a contributing factor to the reticence of terrorist groups to forego violence in favor of nonviolent politicization through extended cease-fires. Not only do cease-fires weaken military discipline, they also threaten to atrophy the group's infrastructure for the acquisition of investment capital—something that every group worries may become permanent losses. Extended breaks in operations diminish the urgency of appeals for voluntary investment from ideological sympathizers and diasporan communities, make state investors leery of group abandonment of the struggle, and also increase the risks of having the group's criminal self-financing turn into private endeavors benefitting only the agents engaged in these activities. Terrorist groups make calculations about gains that will accrue through the temporary cessation of their "productivity." In the case of the FARC, LTTE, and the Moro Islamic Liberation Front (MILF), cease-fires were only seriously considered after significant territorial or political gains seemed attainable through a halt in military operations, or where a mutual pause in hostilities would create opportunities for tactical re-positioning, re-supply, recuperation, and/or consolidation of previous gains. In the case of the PIRA, cease-fires were useful only to the extent that they allowed PIRA's political wing (Sinn Fein) to secure significant political gains, including the re-establishment of the Northern Ireland Legislative Assembly, the phased removal of British troops from Northern Ireland, and the complete transformation of the Royal Ulster Constabulary (RUC) into the Police Service of Northern Ireland (PSNI).

While it may appear anathema to the milieu of terrorism, terrorist group "ethics" can also be an important consideration for some investors, and can also be an important branding consideration for the terrorist group. For example, the massacre of Algerian civilians by the Groupe Islamique Armé (GIA) clearly alienated a range of actual and potential investors in the GIA's campaign—individuals who were broadly supportive of armed *jihadi* violence, but who opposed the ethics of targeting civilians.[59] Similarly, Osama bin Laden and the AQ Core leadership outlined concerns over the impact of AQI's seemingly indiscriminate attacks on civilians, so much so that he considered changing the name of Al Qaeda so that sympathizers (and investors) would not abandon the group over the ethics of causing thousands of muslim casualties.[60]

Impact of Terrorist Organizational Type

In addition to other factors influencing terrorist financial decision making is the group's organizational type—defined in terms of the group's approach to "members" and their relative importance to the structure and orientation of the group, and their sense of agency within the group. In this vein, Geltzer[61] and Vittori's observations on the interplay between a group's financial support base (as an indicator of organizational type) and the group's conception of its own freedom to pursue its agenda is instructive: "the more investors there are (be they states, private donors, other terrorist groups, or charities), the less control any one donor has over the group, and the more autonomy it will retain . . . a group with one or very few resourcing avenues will find itself beholden to them."[62]

"Elitist" terrorist organizations are often groups defined by extant social networks or kinship connections available to group entrepreneurs. "Populist" terrorist groups are more likely to be armed groups that emerge organically from a particular identity culture and whose members are from that community. Elitist groups are more concerned with narrow military or ideological concerns than broad political issues, and are therefore able to be more selective in recruitment, and to be less concerned (although not ambivalent) with the impact of their targeting preferences and operations on their claimed constituency, as the operational decisions of AQI have demonstrated. Populist terrorist or insurgent group are more likely to be part of the fabric of an established political and identity culture, they are also more likely to be susceptible to political criticism and pressure from its constituents. These dynamics have clear impacts on group considerations in the development of financing strategies.

In this regard, populist terrorist groups (e.g., LTTE, Hizballah, Kurdistan Workers Party [PKK], Hamas, etc.) are very much akin to publicly traded companies, which are subject to shareholder whims and preferences. A truly populist terrorist group is far more likely to rely on low-yield and autonomous/independent investors. Examples also emerge of populist groups that have become hybrid organizations, such as Hizballah, which has combined a populist approach while also embracing complementary (and substantial) high-yield state investment from Iran. Hizballah's differentiated investor base is one of the principal reasons that Hizballah continues to move in slightly awkward, highly calculated steps toward full political normalization within the Lebanese polity.

On the other hand, elitist groupings (e.g., Al Qaeda Core, Popular Front for the Liberation of Palestine–General Command [PFLP–GC)], are more interested in provoking a mass reaction, rather than leading a formal political movement themselves, and are better able to favor security over efficiency. Elitist groups are also able to survive on (relatively) less investment given that the organizational infrastructure and disbursement obligations for such groups are much less than with populist groups. That being said, elitist groups rely on a relatively closed system for investment, meaning they rely on a relatively circumscribed and static pool of investment possibilities, and also rely on project-committed or high-yield investors. In such a context, a smaller pool of investment may mean that concerted counterterrorism efforts that meaningfully impact the investment decisions of investors (be they states or individuals), will be more acutely felt by elitist terrorist groups, and may have greater success in degrading the group's capital structure than with populist organizations. Where an elitist group is also a state-sponsored group, such as As-Saiqa or PFLP–GC for example, it means that such a group is essentially a captive organization, and will exist only as long as its (state) investor(s) wish it to.

Dimensions of "Self-Financing" Investment: Terrorist Approaches to Criminal, Grey, and Legitimate Markets

Terrorist groups assess voluntary and non-voluntary investment opportunities that can reasonably be secured in the near term, and develop acquisition strategies accordingly. When other sources of investment income diminish, are unavailable, or are exhausted, a terrorist group will turn to the systematic exploitation of criminal markets, rent-seeking activity within the grey economy, or to legitimate business where opportunities arise.

Makarenko's[63] conception of a continuum of interaction between organized criminality and terrorist groups usefully underscores the existence of dynamic and adaptable terrorist group decision making related to financing in this regard. Where a group determines that it can secure reasonable access to a particular criminal market or can successfully undertake a niche criminal activity, the group will devise strategies to stimulate the production of investment through the exploitation of these criminal opportunities. Pursuing the stimulated investment stream is less preferred to voluntary investment stream because it involves greater security risks for members, or agents associated with the group. While criminal enterprise can sometimes offer lucrative returns, it is also less stable and predictable, and requires the allocation of human resources and organizational focus to successfully extract new investment funds. And while all terrorist financing has a dimension of risk, engaging in criminal enterprise necessitates a far more serious trade off between efficiency and security[64] that does not accompany many voluntary investments. The criminal milieu is fraught with ancillary challenges such as the need to liaise with (obviously) criminal organizations or criminal intermediaries or agents—all of which have less commitment to the success of the terrorist group, and that are subject to higher risks of law enforcement penetration/disruption, or to heightened risks of funds being absconded by intermediaries.[65] All of that being noted, the decision to enter and operate within a criminal milieu for the purpose of acquiring self-financing is made much easier where a group is elitist in nature (lacking an easily accessible constituency), or where the geographic area within which the terrorist group lives and operates is a non-regulated environment (such as a failed state). In a geographic area where criminality is an integral part of normal economic life, the risks to the terrorist organization are considerably reduced, and so there are fewer barriers to entry into criminal markets. The relationship between Chechen *jihadi* groups and Chechen organized crime is a particularly useful example of this dynamic.[66]

"Stimulated" investment most often includes rent-seeking activities, usually derived from the control of territory used to produce and/or trans-ship illegal drugs, or other commodities that are stores of value in a local or regional context, or which can be exchanged for required organizational resources (equipment, safe haven, etc.). The propensity for involvement in drug trafficking is likely only reflective of the pre-eminence of this activity among the various profit-generating crime opportunities that exist globally, combined with geographic accessibility for the terrorist group. However, the involvement of a terrorist group in criminality is in no way restricted to drugs. It could also be linked to the ability of group members to facilitate or benefit from a range of other criminal activities which are circumscribed by unique control or access to strategic trading hubs, permissive regulatory environments, and/or areas with weak state capacity to ensure law enforcement. Beyond the drug trade, stimulated investment activities can include intellectual property theft, money/currency counterfeiting (e.g., Kashmiri-oriented Pakistani groups), customs fraud on the trade of legitimate goods, smuggling illicit goods and/or people (e.g., PKK), or manipulated control of a commodity or local/regional (legitimate) trade (e.g., al-Shabaab in Somalia) among other possibilities.

"Appropriated" investment relates to, among other possibilities, the acquisition of investment funds through extortion, fraud, theft, kidnapping for ransom, and bank robbery—activities commonly undertaken by Marxist terrorists such as the Rote Armee Fraktion/Red Army Faction (RAF) in the 1970s. Appropriated investment funds are the proceeds of crimes which involve the actual or threatened use of violence or intimidation to extract money that would not otherwise be voluntarily invested in the group.

Rent-seeking activity within criminal markets is most often the result of a functional calculation about probable returns in the context of an otherwise constrained operating environment. However, nothing precludes the possibility of a disciplined effort by terrorist members/supporters to extract value from a local/legitimate or "grey" economy by simply acting as the "fixers," who act as the deal makers or custodial figures to a series of otherwise legal transactions or business dealings (e.g., commissions or a legal "cut," a portion of which may go to an illegal organization).

Following this logic provides a reasonable theoretical explanation for why terrorist groups that rely heavily of criminal or rent-seeking activities enter very specific criminal markets, rather than all of the criminal markets that are theoretically possible in a given area. The PKK, for example, appears to have focused its efforts and capabilities on profiting from criminal markets which are close, and easily exploitable by its in-place infrastructure and distribution of personnel. For the PKK, this means exploiting well established maritime and land-based trading routes that pivot on Turkey's geostrategic location between Europe and the Middle East, to facilitate Western-bound heroin distribution, illicit goods smuggling and customs fraud, as well as smuggling people into the European Union.[67,68]

In looking at the Taliban, we see a group that has had to adjust to the loss of a significant amount of the state investment support it received from Pakistan after 9/11, and that has sought to adjust to exploit other available opportunities. It is clear that Afghanistan's position as the global leader in poppy cultivation and heroin production provides a valuable and easily accessible criminal market opportunity for self-financing that compensates for the inadequacy of other fund-raising efforts.[69] This combined with the Taliban's ability to control or extort fees from transporters along strategic overland trading routes makes involvement in this particular criminal market an obvious choice.[70,71]

FARC is another case where the failure to secure significant voluntary investments[72] forced the group to examine opportunities stemming from Colombia's status as the global leader in coca cultivation and cocaine production. FARC's ability to operate in non-hospitable geographic environments which can support coca cultivation provided FARC with a logical criminal self-financing mechanism that aligns with its capability to control and regulate these areas.[73] The remainder of FARC's self-financing is derived from other criminal methods that take advantage of geography and the lack of state control, including "extortion, kidnapping, cattle theft, and assault and theft against businesses."[74]

In looking at the LTTE, which once received aid from India,[75] two things appear to be clear. One, the Tigers enjoyed a long period of control over significant parts of Sri Lanka, and two, large Tamil diasporan communities are spread across the world, principally in advanced capitalist societies. Taking these issues into consideration, the LTTE was able to assess that a criminal "self-financing" investment opportunity could be created by taking advantage of these two conditions. LTTE's control over territory facilitated LTTE's criminal extortion efforts of diasporan communities,[76] through veiled threats against relatives in LTTE territory. Although the LTTE appears to have relied on voluntary donations more than extorted ones, some estimates suggest that aggressive solicitation activities secured the LTTE between \$12 million and \$22 million annually.[77] In conjunction with voluntary and extorted donations, the LTTE is widely alleged to have owned or controlled a wide range of legitimate businesses, including commercial maritime shipping, jewellery stores, and restaurants, among other enterprises.[78] Additionally, the LTTE has been widely accused of using group members in diaspora communities outside of Sri Lanka to undertake debit and credit card fraud, as well as auto theft, and counterfeiting,[79] something that would appear logical given that these are among the easier types of profit-generating crimes to perpetrate. It also makes sense considering that the LTTE was unlikely to have been able to penetrate and control competitive criminal markets, such as the drug market, in Western countries.

Spend to Earn: A Rationale for Terrorist Social Service Provision

The question of why terrorist groups provide social services warrants special attention within a theory of terrorist financing. Terrorist groups that provide social services, such as Hizballah, Hamas, and LeT, are more likely to have a larger funds acquisition requirement (and disbursement function) than those that do not. At the same time, these groups are more likely to spend a relatively smaller proportion of their budgets on military procurement and operations than organizations that do not provide social services.[80] In this context, it is immediately clear that quantitatively comparing the annual "budgets" of a group like Hizballah, which does provide social services, against Al Qaeda Core, which does not, will only ever have limited analytic utility in understanding terrorist financing. The absence of a theoretical framework that explains the importance of social service provision to terrorist financing in a market of violence is a critical gap in much of the existing literature on terrorist financing. Flanigan highlights that the involvement of a terrorist group in social service provision is a useful means of helping to "shift the position of the local population along a 'continuum of community acceptance,'"[81] whether those services are provided by the terrorists/insurgents or an entity associated with it.

As a related issue, terrorists that provide social services also have a greater requirement for specialized finance roles, and are more likely to have multiple finance-related sub-units each with distinct (and usually non-military) responsibilities. Some of these sub-units may operate in a deliberately compartmented fashion. Ultimately, the use of terrorist group funds, facilities, and human resources for social service provision is undertaken for very real political reasons, to: "assist terrorist and insurgent organizations in gaining various levels of acceptance in the community . . . in some cases service provision may result in passive, if not enthusiastic, community acceptance of the violent activities of terrorists and political insurgents."[82]

At the same time, service provision also creates logistical, recruitment, and investment opportunities that serve to sustain the terrorist group's military campaign and overall resourcing needs.[83] As Grynkewich puts it:

> Groups reap three main benefits from providing public goods through their social welfare arms. First, the creation of a social welfare infrastructure highlights the failure of the state to fulfil its side of the social contract, thereby challenging the legitimacy of the state. Second, non-state welfare organizations offer the population an alternative entity in which to place their loyalty. Third, a group that gains the loyalty of the populace commands a steady stream of resources with which it can wage battle against the regime.[84]

Popular acceptance of the terrorist group's social services is even greater where there is economic underdevelopment and a general lack of state capability to meet social needs.[85] Furthermore, it can be seen as part of the process of resource mobilization that is fundamental to social movement organizations (including terrorist/insurgent groups), which have populist origins, and lack other sources of financial capitalization.[86]

Social service provision by terrorists is not just limited to the type of norm creation that Flanigan discusses as part of establishing community acceptance of the terrorist group. As Della Porta puts it, "exploiting environmental conditions conducive to militancy"[87] is an essential feature of successful terrorist organizations. These groups are able to create "new resources and opportunities for violence" and "themselves became agents, or entrepreneurs, for the propagation of violence"[88] through their interaction with the society in which they operate by providing public goods that would be otherwise unavailable. In this context, social service provision by terrorists can be a fundamentally important part of a process of socioeconomic infiltration of a society in conflict. The final aim of this socioeconomic infiltration is to undermine the adversary state's control, and divert economic resources from the normal economy into a parallel "grey" or "club economy" that is centered around the needs of the armed struggle.[89,90] Providing social services can also be a useful means of establishing a firm basis for a transition into the normalized political sphere, something which has occurred with both Hizballah and Hamas.

In seeking applications to a theory of terrorist financing, examining terrorist groups that provide social services also emphasizes the importance of organizational type. Populist terrorist groups (such as Hizballah, Hamas, LTTE) would appear to be far more likely to provide social services, than elitist terrorist groups such as Al Qaeda Core. Also, available evidence suggests that a terrorist group can only really develop a significant social service delivery infrastructure when it operates within a safe haven or permissive political environment. Hizballah in Lebanon is considered a legitimate political movement, and the fractious Lebanese state neither has the desire, interest, or capability to confront them. Hamas is effectively the government within the Gaza Strip, and can use the mantle of government to shelter its social and political activities. "Relief" organizations such as the Idara Khidmat-e-Khalq (IKK) and the Falah-i-Insaniyat Foundation (FIF), affiliated with Lashkar-e-Tayyiba/Jamaat-ud-Dawa, could only provide disaster assistance after the 2005 Kashmir earthquake, or the 2009 flooding in Pakistan, with the acquiescence (and support) of the Pakistani military. Before the defeat of the LTTE, its social service coordination body, the Tamil Rehabilitation Organization (TRO), was able to function effectively because of LTTE military control of territory,[91] combined with wide diasporan support and a lack of Indian desire to control sympathies in Indian Tamil Nadu. For many years, these challenges proved too great for the Sri Lankan state, and resulted in relatively safe areas of operations for the LTTE.

Conclusion

Terrorist violence, as its own subject, is often seen as a more immediate subject of social science research than the financing and resourcing that sustains it. As a result, theoretical research into terrorist financing is something of a poor cousin. Terrorist financing and resourcing brings together a whole range of social, political, and economic factors into a market context that have generally been overlooked from a theoretical perspective.

Having sketched the broad parameters of a process of investment into the terrorist enterprise, and the mechanics of its management, there are indications that a dedicated micro-theory of terrorist finance could provide useful tools for the general field of terrorism research. We know that different terrorist groups employ different resourcing and financing strategies. We also know that "organization" matters to terrorist financing—both in terms of role specialization and in terms of whether a terrorist group has a populist or elitist organizational type. We also know that structure matters, and so does a group's level of organizational learning. All of these things shape the financing strategies that terrorist groups will ultimately use to succeed in the sociopolitical environments in which they operate, and which also help shape the patterns of violence that terrorist groups undertake.

But while we are learning more about terrorist financing, more research is required. We need to better understand how the supply of investment resources for a terrorist group is affected by parallel grey/black economies. Researchers need to better articulate how the state that cannot collect tax revenue or deliver social services to its citizens is likely to be creating an important terrorist financing opportunity. More needs to be done to outline a market theory for how terrorist groups approach financing within lax regulatory environments, particularly in developing economies. Further exploration of the potential for natural resources to be useful to a terrorist group's capital holdings needs to be undertaken. Borrowing from theories of civil wars and other conflict studies, more terrorism-oriented research is required to understand how the decision making of terrorist groups evolves depending on where the group finds itself within the "conflict cycle."[92] Researchers need to understand the movement of money, the amounts and the givers and receivers, and there is increasing focus on these issues. However, in the interests of developing a theory of terrorist finance, a great deal of theoretical and applied research is still needed to develop more powerful predictive and explanatory models for the financial decision making of terrorist organizations.

Notes

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5. For an interesting description of the impact of organizational configuration on financing strategies see: Aaron Zelinsky and Martin Shubik, "Research Note: Terrorist Groups as Business Firms: A New Typological Framework," *Terrorism and Political Violence* 21(2) (2009), pp. 327–336.

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9. Jodi Vittori, *Terrorist Financing and Resourcing* (New York: Palgrave MacMillan, 2011), p. 1.

10. Integrated Terrorism Assessment Centre (ITAC), *Study: A Terrorist Financing/Resourcing Model (2007 08 28)* (Ottawa: ITAC/Canada, 2007). ITAC is a functional component of the Canadian Security Intelligence Service (CSIS), and has developed a framework that seeks to describe terrorist financing within a terrorist resourcing framework in the document noted. The document is unclassified, but not a public document. The document is used with the express permission of ITAC. Essential elements of the document are accessible through testimony provided to the *Commission of Inquiry into the Bombing of Air India Flight 182*, and described as the "Schmidt Model."

11. The most commonly used description of the processes of terrorist financing are probably the U.S. government's three-stage conception of terrorist finance, in which a terrorist group (1) "raises/stores," (2) "moves," and (3) "uses" funds. The Financial Action Task Force (FATF) uses a very similar approach, again based on a re-ordered three-stage model where groups: (1) "use," (2) "raise," and (3) "move" money. The five stages of the ITAC Terrorist Resourcing Model (TRM) includes (1) *acquisition*—the initial acquiring of funds; (2) *aggregation*—the pooling of funds; (3) *transmission to the terrorist organization*—the transfer of funds to a person subject to the group's direction; (4) *transmission to the terrorist cell*—the transfer to the operational elements of the group; and, (5) *conversion*—the final use of funds (or the exchange of other goods/services) to secure materials or services that the terrorist group need to sustain itself and/or advance its interests. Separately, Jodi Vittori has articulated a similar process model for terrorist financing/resourcing that also uses five stages, which includes: (1) acquisition, (2) movement, (3) storage, (4) "internal" use, and (5) "external" use.

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25. Silke, "In Defence of the Realm . . . Part One," p. 342.

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27. Moloney, *A Secret History of the IRA*.

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29. Michael P. Arena, "Hizballah's Global Criminal Operations," *Global Crime* 7(3) (2006), p. 458.

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