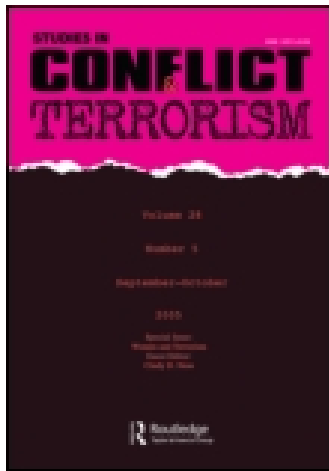


This article was downloaded by: [Selcuk Universitesi]

On: 24 January 2015, At: 01:08

Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



Studies in Conflict & Terrorism

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/uter20>

The Sources of Terrorist Financing: Theory and Typology

Michael Freeman ^a

^a Defense Analysis Department , Naval Postgraduate School ,
Monterey, CA, USA

Published online: 20 May 2011.

To cite this article: Michael Freeman (2011) The Sources of Terrorist Financing: Theory and Typology, Studies in Conflict & Terrorism, 34:6, 461-475, DOI: [10.1080/1057610X.2011.571193](https://doi.org/10.1080/1057610X.2011.571193)

To link to this article: <http://dx.doi.org/10.1080/1057610X.2011.571193>

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the "Content") contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden. Terms & Conditions of access and use can be found at <http://www.tandfonline.com/page/terms-and-conditions>

The Sources of Terrorist Financing: Theory and Typology

MICHAEL FREEMAN

Defense Analysis Department
Naval Postgraduate School
Monterey, CA, USA

Terrorism costs money. Although the costs of specific operations may be relatively inexpensive, terrorist organizations require much larger budgets in order to function. But how do terrorist groups acquire funding? What explains the variation in the particular sources used by different groups? This article develops a theory of terrorist financing that identifies criteria by which we can evaluate the different sources of terrorist funding, particularly in terms of their advantages and disadvantages to the terrorist group. These criteria are then applied across a typology of four primary types of terrorist financing: state sponsorship, illegal activity, legal activity, and popular support.

Terrorism costs money. In fact, some experts have described money as “the lifeblood” of terrorist organizations.¹ Without money, these groups could not conduct their operations or exist as organizations. But how do they raise money? What are the possible sources of terrorist financing? The sheer variety of sources is impressive, ranging from state sponsorship to petty theft, from the international smuggling of drugs to the extortion of local businesses, and from dispersed diaspora communities giving charitable donations to wealthy private individuals using their personal wealth to fund the organization. These, among many others, are just a few of the ways that terrorist groups acquire funds. But why would terrorist groups use one of these sources and not others, or why a particular combination of sources? Understanding this variation requires a theory that explores and explains the relative advantages and disadvantages of each source of terrorist financing. In other words, from the terrorist organizations’ perspectives, what are their goals when it comes to financing and how do they maximize these goals by picking the right combination of sources?²

While much has been written about terrorism financing, most of this literature addresses specific case studies of terrorist groups or addresses potential countermeasures that could be implemented to disrupt terrorist financing by targeting the movement of funding through charities, *hawalas*, or the official banking sector (by applying anti-money laundering regimes).³ These studies are clearly valuable but do not offer explanations that theorize why terrorist portfolios vary as much as they do.

To construct a theory of terrorist financing, this article proceeds in several steps. The first (brief) section addresses why terrorists need money and how much money they

Received 21 August 2010; accepted 31 October 2010.

Address correspondence to Michael Freeman, Defense Analysis Department, Naval Postgraduate School, 589 Dyer Road, Code DA, Room 210, Monterey, CA 93943, USA. E-mail: mfreema@nps.edu

actually need. The second section develops a theory of terrorist financing that identifies six key criteria by which we can evaluate the advantages and disadvantages of different sources of financing. These criteria are: quantity, legitimacy, security, reliability, control, and simplicity. The third section offers a typology of terrorist financing sources that identifies four broad sources: state sponsorship, illegal activities, legal activities, and popular support. This article will analyze the advantages and disadvantages of each type according to the criteria set out in the theory section. Finally, the fourth section will address the counterterrorism financing implications of understanding the rationale behind different sources of financing.

[Note, this article does *not* address the movement of money into, within, or out of a terrorist organization. Just as there are many possible sources of funding, terrorists exploit several methods of moving money including: formal banking, informal banking (e.g., *hawala*), trade-based money laundering, charities, cash-smuggling, and others. Understanding the movement of money is an important facet of terrorist financing, but one that is sufficiently different from the sources of money to warrant a different theory and a different typology.]

The Need for Money

The costs of individual terrorist operations can be relatively low, even for “strategic” level attacks. For example, the 1993 World Trade Center attack was estimated to have cost about \$19,000. The 2002 Bali bombings are thought to have cost \$20,000, and the 2004 Madrid attacks, somewhere between \$10,000 and \$50,000. In comparison, the 11 September attacks were relatively expensive, costing between \$350,000 and \$500,000, but they involved at least nineteen hijackers operating abroad, with several requiring expensive flight simulation training.⁴

Although the costs of specific *operations* may be relatively inexpensive (and even more so for low level attacks), terrorist *organizations* require much larger budgets to function. Organizations need to devote resources to recruiting new members. If they are operating in failed or sympathetic states, they need funds to build training camps, and sometimes must provide food and housing for their members. Organizations must acquire the equipment necessary for conducting acts of violence—guns, explosives, triggers, training simulators, as well as fake passports and other travel or identification documents—and communication devices such as phones and computers. They may need to bribe officials to turn a blind eye to their activities. Finally, many groups need funds to pay stipends to their “retired” veterans and the families of dead terrorists or suicide bombers.

As a result of these expenses, terrorist groups have budgets that can range up to hundreds of millions of dollars per year, especially for the larger and more active groups. Although the following numbers are just estimates, they are indicative of the overall phenomenon: Al Qaeda’s annual budget was estimated to be \$30 million;⁵ until the 1990s, the Provisional Irish Republican Army (IRA) had a budget of up to \$15 million per year;⁶ at its peak in the 1990s, the Kurdish Workers Party (PKK) was thought to have an annual budget of \$86 million;⁷ Hezbollah’s budget is between \$100 million and \$200 million per year, and may range as high as \$400 million;⁸ the *Fuerzas Armadas Revolucionarias de Colombia* (Revolutionary Armed Forces of Colombia—FARC) in Colombia has an annual budget of somewhere between around \$100 million and \$1 billion;⁹ the Afghan Taliban raises somewhere between \$240 million and \$360 million per year;¹⁰ and all the different insurgent groups in Iraq collectively raised between \$70 million and \$200 million per year.¹¹ As these figures demonstrate, the organizations that are responsible for terrorist attacks are much more expensive to operate than is indicated by the cost of any individual attack. Acquiring

tens or even hundreds of millions of dollars requires that the organization must pay a certain degree of attention to its own financial portfolio.

A Theory of Terrorist Financing—Six Criteria

What do terrorist organizations look for when they consider various sources of financing? What makes one source more attractive than others? Overall, terrorist groups might be concerned with the following six criteria: quantity, legitimacy, security, reliability, control, and simplicity. From a terrorist group's perspective, there is no perfect source; each has advantages and disadvantages across the following criteria.

Quantity

Terrorist organizations want as much money as possible. Sources that offer the largest amount of money are clearly the most desirable. With more money, terrorist groups can conduct more frequent and more violent attacks, be more likely to be able to offer social services to a constituent population, can better protect themselves from the state's security forces, can offer more incentives to potential recruits, and so on. Put simply, more money allows terrorist groups to be stronger and more effective; sources of financing that provide larger quantities are better than those that do not.

Legitimacy

Terrorist groups need legitimacy if they are to sustain themselves. If the ideology of a terrorist group is seen as illegitimate, they will have little popular support and few recruits (which is often the case). Likewise, if their strategies or tactics are seen as illegitimate (e.g., attacking targets that even their supporters see as innocent), then they will also lose support. Particular financing sources, as one type of tactical decision, can also impact the legitimacy of a group in several ways. First, they can be an indicator of legitimacy, especially if groups get large sums of money from a broad support base (e.g., diasporas, religious contributions). Second, certain fund-raising methods are often seen as illegitimate and might be avoided by a terrorist group or, when used, prove counterproductive. Involvement in the drug trade, for example, is often avoided or reluctantly embraced by terrorist groups for this reason. Finally, the legitimacy of a terrorist group can be undermined if members use their fundraising methods to acquire personal wealth (e.g., Abu Sayyaf and kidnapping for ransom).¹² Not only does this distract members of the organization from their mission, it also may lead to perceptions, perhaps justified, of corruption within the organization. Both these distraction and corruption dynamics can undermine the legitimacy of the group. Everything else being equal, then, terrorist groups will look for sources of funds that demonstrate their legitimacy, that are themselves seen as legitimate, and that keep members focused on their mission rather than leading to distraction or corruption.

Security

Terrorist groups generally operate clandestinely, hiding from the security forces of the state to organize, plan, recruit, and train. Meanwhile, the state is looking for avenues to infiltrate the organization or gain intelligence on them. As a result, terrorist groups will often employ specific sources of funding that allow them to stay off the state's intelligence "radar screen." Some sources of financing, like criminal activities for example, may draw

unwanted attention from the police and others. They may also make it easier for the security forces to infiltrate someone into the terrorist organization, especially because the terrorist group may have more interactions with organized crime organizations, members of which may be easier to turn.¹³

Reliability

Sources of financing that are predictable and consistent are better for terrorist groups than those that fluctuate inconsistently. Whether or not a particular source of financing is reliable often depends on factors of geography and demographics. For example, a terrorist group that wants a reliable revenue stream that is tied to the drug trade needs to be near the source of the drug (e.g., FARC and cocaine, Taliban and heroin), located along a trafficking route (PKK and heroin), or have access to a domestic population with sufficient numbers of drug users (especially Western Europe, but to some degree everywhere). Likewise, demographics matter because a group relying on a diaspora community for funding, for example (like the Liberation Tigers of Tamil Eelam (LTTE)), must have access to and control of the diaspora community in order to extort contributions or be able to receive voluntary assistance.

Control

Money is often associated with influence and power. Different sources of financing can threaten or strengthen a terrorist group's control over its members and operations. Terrorists do not want to be beholden to external sponsors because these sponsors (states, private donors) will often use their funding to influence the nature of the terrorist campaign. The sponsor could encourage the terrorist group to commit acts it otherwise would not do, or might discourage them from committing acts they might otherwise do. Another concern for terrorist groups is the possible lack of command and control within the organization itself, especially if small units or local commanders are responsible for their own financing. When this is the case, the decentralization of funding may mean that the central command has less control over its subsidiary units. A different issue is that often funding sources can create competition from rival organizations operating within the same political space. For example, if charities are supporting a broad cause (Palestinian independence, for example), there may be multiple actors all vying for funding, thereby creating competition and threatening any one actor's control over the political space. Lastly, terrorists will also want to control the timing and speed of their financing, especially if they need to raise funds quickly for a future attack.

Simplicity

Terrorists groups, like any organization, want their methods of financing to be as simple as possible. Methods that require fewer specialized skills, that require as little effort as possible, that have simpler processes, and that have fewer inherent costs will be more desirable than other methods. For example, petty theft and extortion require fewer skills than cybercrimes and are simpler processes than elaborate, multi-stage, and multi-actor drug smuggling operations. Also, for example, terrorist groups that receive external support will have to exert less effort than those groups that have to actively acquire funding.

With all of these criteria for evaluating the sources of terrorist financing, clearly terrorist groups will face tradeoffs. One source, for example state sponsorship, might be advantageous for bringing in large sums of funding, but may be disadvantageous because

the terrorist group may be beholden to the state sponsor's agenda and so lose some control over how their organization functions. These types of tradeoffs will be explored in more detail in the following section.

Because there are tradeoffs, terrorist groups must prioritize among the different criteria. Is getting more money worth the loss of control? Or is some loss of legitimacy worth the gains in acquiring more reliable funds (for example, through extortion)? How, then, would these six criteria be ranked? At a general level we might be able to hypothesize a prioritization list for the criteria, perhaps with quantity and legitimacy at the top. However, in practice, terrorist groups prioritize their needs according to their own situational context. Any particular ordering of the criteria would probably only explain a handful of cases. Overall, though, groups that are "better" will manage these tradeoffs more efficiently while less capable groups might make more mistakes, mistakes that the state can encourage and exploit (more on this in the final section).

Sources of Financing—Four Types

The range of terrorist financing sources is broad, ranging from state sponsorship to petty theft. To make some sense of this phenomenon, the different sources are divided into four general categories: state sponsorship, illegal activities, legal activities, and popular support.

State Sponsorship

One of the primary sources of funding for terrorist organizations is state sponsorship. With a few notable exceptions, state sponsorship has decreased significantly in recent years.¹⁴ It was much more common during the Cold War years, when Marxist groups around the world were allegedly supported by the Soviet Union, Cuba, and North Korea.¹⁵ The United States also supported its own collection of groups; a number of these, such as the Mujahedin in Afghanistan and the Contras in Nicaragua, could be considered terrorist organizations. Many Arab states financed the Palestine Liberation Organization (PLO), providing at least \$100 million per year during its early years, and possibly upwards of \$250 million a year in the 1970s and 1980s.¹⁶ In the 1980s, Libya gave aid and financial support to many groups, including Abu Nidal, the Red Brigades, the IRA, the PLO, the Euskadi Ta Askatasuna (ETA), the Japanese Red Army, and Baader-Meinhof.¹⁷

Today, Iran is perhaps the most active state sponsor of terrorism, providing Hezbollah with an estimated \$100 million per year—approximately half of the organization's annual budget.¹⁸ Syria is also an important sponsor of terrorism. It provides weapons, safe havens, and financial support to Hezbollah and seven other groups on the U.S. State Department's list who have headquarters in Syria, including Hamas and Palestinian Islamic Jihad. Pakistan's Inter-Services Intelligence agency (ISI) sponsors the Afghan Taliban¹⁹ as well as groups that are fighting for Pakistani control of Kashmir, including the Lashkar-e-Taiba, Harakat ul-Mujahidin, and the Hizbul Mujahideen.²⁰

From the perspective of a terrorist organization, state sponsorship is advantageous because of the quantity of funds it can provide and the simplicity by which the terrorists can get them. The budgets of nation-states dwarf that of a terrorist group, making it an incredibly inexpensive proposition for a state like Iran to fund Hezbollah, and with a quantity of funds that Hezbollah would have a hard time replacing with other methods. From the terrorist perspective, state sponsorship is also relatively simple because it provides high returns for almost no effort.

State sponsorship has disadvantages for terrorist groups in terms of control and reliability. First, a state can use its financial support to control the group's activity, compelling the group to act as a proxy for the state's interests. The state may attempt to constrain the terrorist group, or force it to escalate its efforts, or require it to change its tactics. As a result, the group may be compelled to engage in activities that it would not otherwise undertake. The second disadvantage of state sponsorship is that states and their policies change. In some cases, states disappear, which is why many Marxist groups lost much of their funding when the Soviet Union dissolved in the early 1990s. In other cases, states may change their policies and stop funding terrorist groups, which Libya has done in response to international pressure.

Illegal Activities

Because state sponsorship can be unreliable and constrain terrorist behavior, terrorist groups have increasingly sought funding through illegal activities. These include extortion or "revolutionary taxes," kidnapping and ransom, theft, smuggling, petty crime, and pirating and counterfeiting goods.

Terrorist groups often impose what they call "revolutionary taxes" on a population, forcing the population to provide funds for the group. Some notable groups that have used this method include the Shining Path in Peru, the FARC and ELN in Colombia, the Tupamaros of Uruguay, and the ETA in Spain, among many others. The Pakistani Taliban, as a specific example, publishes a "tax schedule" that lists various fees for different activities.²¹ Extortion, although similar to "revolutionary taxes," is usually directed at particularly vulnerable targets who are threatened with violence unless some sum of cash is paid. For example, the PLO extorted \$5 to \$10 million a year from airlines in the 1970s and allegedly extorted \$100 to \$220 million from Organization of the Petroleum Exporting Countries (OPEC).²² The Protestant Loyalists in Northern Ireland were also quite adept at extortion. They would simply approach local business owners and offer to protect them from violence for a fee. Of course, they were the ones who would be committing the violence. The business owner could even claim 40 percent of these expenses as a tax deduction, until the British government realized that it was essentially funding the terrorists and changed the laws. Before the laws were changed, extortion was the primary source of funding for the Loyalist groups.²³

Kidnapping powerful officials or wealthy businessmen and holding them for ransom not only provides publicity for terrorist organizations, but it is also one of their most profitable sources of financing.²⁴ Groups that are or were heavily engaged in kidnappings include the Abu Sayyaf Group in the Philippines, the FARC in Colombia, the Italian Red Brigade, the Tupamaros of Uruguay, and insurgent groups in Iraq, the Pakistani Taliban, among many others. The ransoms paid for the safe return of kidnapped individuals may run in the millions of dollars; the record seems to belong to the Monteneros of Argentina, who received \$60 million for the release of Juan and Jorge Born.²⁵

Sometimes terrorist groups simply steal cash or valuables to finance their operations. The more notorious of these thefts include: the PLO/Christian Phalange robbery of the British Bank of the Middle East, which netted somewhere between \$20 and \$600 million in 1976;²⁶ the Jemaah Islamiyah bank robberies, which yielded five pounds of gold that were used to finance the Bali bombings;²⁷ the 1963 Tupamaros raid on a rifle club, yielding twenty-eight guns that were used to jumpstart the organization's campaign of terrorism;²⁸ the ongoing theft of oil from pipelines in Iraq by insurgent groups;²⁹ numerous bank

robberies conducted by the Pakistani Taliban;³⁰ and bank robberies carried out by the Symbionese Liberation Army.³¹

Smuggling is a profitable activity for anyone engaged in it. Terrorists smuggle almost anything, including drugs, diamonds, cigarettes, cash, people, and even animals, in order to finance their organizations and operations. The link between drugs and terrorism has garnered a lot of attention in recent years, and has spawned the term, "narco-terrorists." Some of the more notable organizations involved in the drug trade include the FARC in Colombia, the PKK in Turkey, and the Shining Path in Peru.³² The Afghan Taliban profits from the opium trade, making between \$70 million and \$400 million per year.³³ While terrorist groups may be involved in the growing and selling of drugs, they are more commonly involved in their distribution and transit through or out of a country. For example, the PKK is heavily involved in the heroin traffic from Southwest Asia into Europe, with some estimating that 80 percent of the drugs in Europe have some connection to the PKK.³⁴ The profits are large; a kilogram of heroin that costs \$1,000 to \$2,000 in Thailand is worth \$6,000 to \$8,000 in Turkey, and has a street value of \$200,000 in Germany.³⁵ Additionally, terrorists often provide drug dealers with protection from security forces in exchange for a cut of their profits.

Terrorist groups also are reportedly heavily involved in the smuggling of commodities. For example, there are some reports that Al Qaeda engaged in the smuggling of diamonds from West Africa and Tanzanite from Tanzania.³⁶ Likewise, Hezbollah has also been implicated in gold and diamond smuggling. For terrorist groups, the appeal of these commodities is that they are small, yet highly valuable, secure in their value, and hard to trace. Smuggling is often common in places with differential tax rates. For example, a Hezbollah bought cigarettes in North Carolina, where the taxes were low, then sold them at a discount in Michigan, where taxes were higher. It has been estimated that they raised approximately \$3.7 million dollars over the course of several years, and sent at least a portion of their profits back to Lebanon.³⁷

Terrorists also engage in human smuggling. For example, the PKK is reportedly heavily involved in the smuggling of people from Iraq and elsewhere in Asia into Europe, usually through Italy. Interpol estimates that the PKK receives between 2,000 and 3,000 Euros per individual. The exact number of people smuggled per year is unknown, but there was a single operation connected to the PKK in which 9,000 Kurds were smuggled into Europe.³⁸

In one of the more odd cases of smuggling, the IRA raised \$2 million in one year by smuggling pigs across the border between Northern Ireland and the Irish Republic border. The IRA would openly export the pigs to the British side of the border, collect the export subsidy (eight pounds per pig), then smuggle the pigs back into Ireland and repeat the whole operation with the same pigs. As one scholar notes, this produced "a considerable amount of cash and some very tired pigs."³⁹ Besides cigarettes and pigs, almost any good could be and has been smuggled across borders to take advantage of the differences in taxes or subsidies.⁴⁰

Petty crime is also an important source of terrorist financing. This category can include almost any criminal activity that might be used by terrorists to raise funds. For example, Ahmed Ressam, the Millennium bomber, stated during his interrogation that while living in Montreal, he stole from tourists, sold passports for cash, robbed a currency exchange, and engaged in credit card fraud.⁴¹

Last (although this is far from an exhaustive list), terrorists have been known to deal in pirated and counterfeit goods and currencies. For example, the Tri-Border area between Paraguay, Brazil, and Argentina is well known as a market for pirated goods, and Hezbollah

is believed to be heavily involved there.⁴² The Provisional IRA and Loyalist groups in Northern Ireland are known to deal in counterfeit clothing, compact disks, perfume, videos, currency, and so on and have raised around a million pounds for both sides combined.⁴³ The PKK is known to deal in counterfeit stamps and bank notes.⁴⁴

For the terrorist group, there are several advantages to illegal activities as a source of funding.⁴⁵ First, illegal activities provide a reliable source of income because, as Picarelli and Shelly put it, “crime provides cash on a rapid and repeatable basis.”⁴⁶ Extortion, for example, can be used repeatedly and expanded as needed. The diversity and availability of illegal activities means that they can take place anywhere. Commercial activities that can be exploited, or scarce resources that can be smuggled, traded, or stolen, can be found all over the world, and terrorists of all kinds take advantage of these opportunities to finance their organizations.

Another benefit of illegal activities is that they can enhance the legitimacy of the terrorist group, or at least undermine the legitimacy of the state. When groups engage in extortion and the population does not report the activity to the authorities, the terrorists have achieved at least the passive support of the population. Ideally, they would want strong, active support, but their ability to engage in extortion to the extent that they do indicates that either the population does not feel loyalty to the state or lacks confidence in the state’s ability to exert control. In other words, extortion shows that the terrorists may not have fully won over the population, but at least they have taken them out of the state’s area of control. This also undermines the legitimacy of the state. By engaging in these practices, the terrorists show that the state cannot control its own territory. In a world that is “zero-sum,” a loss for the state can be seen as a win for the terrorists.

Illegal activities are also often relatively easy. Depending on the type, illegal activities may require only minimal levels of skill in order to be carried out successfully. For example, robbing a bank or store requires a weapon and nerve, but not much else. Likewise, extortion is a relatively simple process, especially compared to many other methods of raising money.

A final advantage to the terrorist group in engaging in illegal activities is that they can maintain more control, especially if these activities allow them to be independent of state sponsors. The collapse of the Soviet Union was what led many terrorist organizations to shift their funding from state sponsorship to illegal activities.

Engaging in illegal activities also has some disadvantages for the terrorist groups. For some activities (like extortion, for example), there are limits to how much they can take from a population, thereby impacting the total quantity available from this source. The terrorists are essentially in a parasitic relationship; they want to feed off their host, but they cannot kill it without dying themselves. If they force a business to pay more than it makes in profits (at least for some extended period of time), that business will have to close down, and the terrorists will lose it as a source of income.

For terrorist groups concerned with legitimacy, several types of illegal activity may alienate the terrorist group’s constituent population. Groups engaging in kidnappings, extortion, or drug smuggling may antagonize the community, costing a terrorist group some of its popular support. Many organizations stay away from these types of activities in order to avoid a public-relations disaster. The Provisional IRA, for example, has refused to become involved in Northern Ireland’s drug trade for precisely this reason. Also, having access to large amounts of money from criminal enterprises may result in corruption among members of the organization, who may be tempted to take some of the profits for themselves.⁴⁷ Illegal activities will often be kept a secret even within the organization, and the funds generated by such activities are not easily tracked or accounted for. For example, Yasser

Arafat is believed to have skimmed off between \$900 million and \$1.3 billion from the PLO's coffers.⁴⁸

In terms of security, illegal activities are risky. The state and its police force are already looking for and trying to stop these activities, so the danger of capture is high. A cost/benefit analysis may lead an organization to conclude that illegal activities carry too high a risk when compared to other avenues for acquiring funds. Additionally, when the state does become aware of illegal activity conducted by terrorist groups, government security forces may use that information to track and disrupt the group. A small, clandestine organization is more likely to "fly under the radar" if it does as little as possible to challenge the state.⁴⁹

Finally, terrorist groups may lose control when they engage in illegal activities. When a group is profitably engaged in criminal activity, it may grow more interested in pursuing profits than in attacking the state. This can be a particular problem when the illegal activities are carried out by peripheral cells of the organization. Self-sufficient cells that are capable of financing themselves may feel free to act independently of the leadership if they disagree with the organization's strategy.

Legal Activities

Terrorist groups do not just engage in criminal activity; they often operate totally legal businesses for a profit. For example, while Al Qaeda was in the Sudan between 1992 and 1996, the organization operated many legitimate businesses, including farms where peanuts were grown and honey was produced, several trading companies, a tannery, a furniture-making company, a bakery, and an investment company.⁵⁰ Elsewhere, Al Qaeda cells ran a construction and plumbing company, a company that fixed and sold used cars, a fishing business, and a manufacturing company.⁵¹ The Aum Shinrikyo group in Japan operated a similarly large host of legitimate businesses, running a copy shop, a noodle shop, a computer software company, and a real estate business, among others.⁵²

The Provisional IRA and Loyalist groups in Northern Ireland have also used legitimate businesses to finance their organizations. Both have operated drinking clubs or pubs; although these did begin as illegal operations, the groups then went on to obtain the proper licenses, and reported their income to the government (but usually not all of it). They also operated gaming machines—only some of which were legal—in the drinking clubs. Some scholars contend that these clubs were the single greatest source of income for these groups in the 1980s.⁵³ Both groups also operated taxi services, with the IRA owning two companies of up to 600 taxis and the Loyalists operating over ninety cabs.⁵⁴ Because of their cash-based operations, both the pubs and the taxi services provided channels through which the groups could launder money that had been obtained from other illegal sources. As a last example, both sides in Northern Ireland also ran security firms that guaranteed the safety of companies and their workers, although these security firms often crossed the line into outright extortion.

For the terrorist group, engaging in legal activities to raise money is especially advantageous in terms of security. Because the activity is entirely legal, there is little the state can do to target the activity or those engaged in it. To do so would require the state to rewrite its laws in a way that might be seen as discriminatory or illegitimate.

Nevertheless, there may be some disadvantages to engaging in legal activities for the terrorist group. In terms of security, even legal activities may draw unwanted attention from the authorities. This would be particularly problematic if the terrorist group is trying to remain secret or clandestine while still in the planning stages. The use of legal businesses

may give the authorities greater insight into the terrorist network or organization. A legal business may act as a beacon that offers the authorities a door into the terrorist group, and might allow them to trace back communication or flows of money into the “dark” side of the organization. Legal businesses are also required to keep records and can be audited, both of which provide the state with possible avenues to gather intelligence on the terrorist group.

Second, legal activities are not necessarily simple; they require that terrorist groups have good business skills if they are to make a profit. They will be competing in the market with all the other businesses who are also trying to make a profit. For terrorist groups that lack business skills illegal activities would become more attractive.

Lastly, in terms of quantity, legal activities may yield lower profits than other funding sources. Legal businesses have to compete in the marketplace, and doing so drives down profits. Illegal activities, in contrast, may yield higher profits, in part because of the risk premium attached to them.

Popular Support

Many terrorist groups rely on the support of a sympathetic population or constituency as a source of funding. Charitable donations comprise a large portion of the revenue for many Islamic groups in particular. Terrorists might also tap into sympathetic diaspora communities living overseas, or rely on membership dues to fill their coffers.

Many groups receive money in the form of charitable donations. This is a well-known and well-documented phenomenon for many Islamic groups. As examples, the Global Relief Foundation and the al-Wafa organization have been associated with Al Qaeda; the Holy Land Foundation for Relief and Development and the Quranic Literacy Institute have given money to Hamas; Benevolence International has been tied to Chechen groups; and the Islamic Concern Project and the World and Islam Studies Enterprises have sent funds to Palestinian Islamic Jihad.⁵⁵ Much of the money collected comes from Saudi Arabia and other Gulf states, where there are many wealthy donors sympathetic to these causes. Iraqi insurgents also received some funds from wealthy donors from the Gulf region; some Iraqi insurgent leaders had arrangements with the imams in the mosques where the money was collected.⁵⁶ The Afghan Taliban also receive money from charities located in the Gulf countries estimated at between \$150 million and \$200 million per year.⁵⁷

Some groups also receive financial support from their diaspora communities. (The difference between this support and charitable donations is that support from the diaspora is based more on ethnic or racial connections and less so on religious ones.) For example, 50 percent of the IRA's revenue in the 1970s came from donations collected by NORaid from Irish-Americans. Likewise, many Palestinians living abroad would send five to seven percent of their salaries back to the PLO. Similarly, the LTTE raises \$7 to \$22 million a year from the Tamil diaspora in Canada, while many Lebanese expatriates around the world send money back to Hezbollah.⁵⁸

As a final category, popular support can also come from membership dues or donations by members directly to the organization. Osama bin Laden has probably donated much of his personal wealth, for example, to Al Qaeda, although the estimates of the size of his fortune have probably been exaggerated. As another example, members of Aum Shinrikyo would usually give the organization all of their wealth upon joining the group.⁵⁹

For terrorist groups, acquiring funds through popular support can be tremendously advantageous. First of all, it can be a clear signal of their legitimacy. By providing a clear and concrete demonstration that people support the cause, widespread financial backing is

both a boon for the organization and a blow to the state. Moreover, some terror groups use the contributions they receive to conduct social welfare activities, thereby further undermining the legitimacy of the state and gaining supporters for their own cause.

In terms of simplicity, popular support is relatively easy. Terrorist groups do not have to devote a lot of resources to acquiring funds; instead, they can simply “sit back” and wait for the money to come in. This is similar to the advantage coming from state sponsorship.

Popular support can offer a terrorist group a reliable source of income because charities, specifically, give the terrorist group more geographical flexibility. Not only can groups solicit donations from anywhere—for example, Hamas collected \$13 million from the United States through the Holy Land Foundation—but they can also operate anywhere. Charities can go to remote parts of Indonesia, Iran, or Lebanon and, by providing aid on behalf of opposition movements, gain the trust and support of those populations.

Although receiving financial resources from donations and charities is generally advantageous, there are several disadvantages for the terrorist group. One possible disadvantage is a loss of control. Popular support can affect the terrorists’ behavior, much like state support does. It could lead terrorists to moderate their behavior if they fear that their actions could undermine their popular support. Conversely, popular support could force them to escalate their behavior if their constituent population is more “hawkish” than they are. It could also cause them to escalate their operations if they are in a competitive environment for funding. For example, Hamas and Palestinian Islamic Jihad rely on more or less the same population base for support; if one of them is seen as less active, it may lose some of its financial revenue. Additionally, popular support may create a competitive environment in which new groups form in order to take advantage of the widespread sympathy and support available to organizations that espouse a particular cause. As in the business world, new companies form and move into areas where there are large profits to be made.

Popular support may also be disadvantageous in terms of the quantity of funds raised because popular support depends on the overall health of the economy. If people are struggling to meet their own needs, they will be less likely to donate money to a charitable cause.

Countering the Sources of Terrorist Financing

Different sources of financing have different vulnerabilities that can be exploited. This is good news for a state that is trying to cut the financial resources of terrorist groups; it is also a warning that countermeasures must be specifically tailored not only to the particular group being targeted, but also to the way in which that group acquires financial resources. For example, the countermeasures most likely to be successful against the Iraqi insurgents would vary depending on whether they are receiving state sponsorship from Saudi Arabia and Iran, or whether they rely on kidnappings and extortion. This is made more complicated by the fact that terrorists often use a wide portfolio of sources and that no two terrorist groups will have the same profile of funding. As a result, there can be no single strategy for addressing the sources of terrorist financing; instead, strategies must be tailored to different groups and their different portfolios of fundraising.

In addition, terrorists adapt. Although the categories discussed in this chapter are meant to capture the best known sources of funding, terrorist groups have proven themselves adept at finding new and creative ways of financing their organizations, and it is therefore possible that there are other categories of funding not known at this time. When the state cracks down on particular paths of support, terrorist groups are sometimes able to respond by financing their operations through less risky or more lucrative arenas.⁶⁰ For example, the

funding sources of Iraqi insurgents have shifted over time; they were originally financed by regime loyalists, and then got the bulk of their money from foreign fighters who smuggled cash into Iraq; and then were self-financing through crime, extortion, and donations.⁶¹ As a result, there cannot be a fixed strategy; instead, strategies for countering terrorist financing must be as flexible and adaptable as the terrorists' strategies.

One should also recognize that there is no easy strategy to disrupt the sources of terrorist financing. Typically, states are reasonably well organized to counter the movement of money (through anti-money laundering measures, financial oversight and regulation, etc.), but are less capable of going after the sources of funds. While almost all recommendations require a more intensive dedication of resources, resources are always scarce. Many states are already attempting to improve their intelligence gathering, enhance their police forces, improve their governance, or provide more social welfare goods.

Despite these difficulties, the theory of terrorist financing articulated above offers an important way of thinking about how better countermeasures can be developed. Ultimately, states need to reverse the logic behind the six criteria. If terrorists want to acquire money in large quantities, legitimately, securely, reliably, simply, and in a way that they can control, then states must reduce the quantity of funds and make their acquisition illegitimate, dangerous, unreliable, distracting, and complicated. The following suggestions are just some ways this might be done. [These options focus on the first three criteria (reducing quantity, legitimacy, and security) as these are more open to manipulation by the state. The reliability, simplicity, and control aspects of various sources may vary, but are harder to impact externally.]

To reduce the large quantities of money terrorists receive from state sponsors, states can impose economic sanctions or embargos; they can offer incentives to induce sponsor states to change their behavior, essentially "bribing" them to stop supporting terrorism; they can apply diplomatic pressure in an attempt to convince the sponsor states to behave; or they can attack and invade the countries that support terrorism. Although international pressure can work—it has been effective in convincing Libya to change its ways—sanctions, diplomacy, and military action can sometimes have little impact. U.S. attacks on Libya in 1986 and Afghanistan in 1998 failed to deter those countries' support for terrorism, and Iran continues to support Hezbollah. Charities, too, provide large quantities of funds to terrorists and countering this source requires that states can do a better job of monitoring where and how charities raise money. In Saudi Arabia, for example, the government has recognized the role that charities play in financing terrorism, and has responded by creating more oversight and legal constraints on how charities operate within the kingdom.⁶²

Addressing the terrorists' desire for legitimacy is sometimes hard, especially if they rely on charities for funds. Charities are rarely entirely devoted to financing terrorist organizations; rather, they may distribute most of their money to other, legal causes, including other charities. Additionally, even the money that does go to terrorist groups is often spent on social welfare programs and not on violent activities. Both Hamas and Hezbollah are well known examples of groups that engage in robust social welfare activities where the government is incapable or unwilling to do so.⁶³ If the government provided better governance—and this might require more international aid—it would undermine popular support for the terrorist organizations. Additionally, the state could, for example, use information operations to publicize the connections between charities and terrorist groups. Oftentimes, donors are unaware of how their donations are distributed, and may be less likely to support a charity if they know that its funds are used to support terrorism.

To make terrorists less secure in the methods used to acquire funds, the state can also improve its police, domestic intelligence agencies, and legal prosecution organizations to

put more pressure on terrorist organization.⁶⁴ For example, the state could focus more of its resources on prosecuting criminals, especially those who might be tied to terrorist groups. Additionally, the state could increase the punishments for terrorists who are convicted of engaging in such illegal activities. For example, if the punishment for smuggling drugs is five years, it could be increased to ten years if the person is also affiliated with a terrorist group. Also, devoting more resources to the police should have the effect of lowering crime overall, which should lower the rate of terrorist related crime as well. Lastly, there needs to be greater information sharing between police and intelligence agencies. Better information sharing would allow authorities to tie together disparate pieces of information in order to identify and counter terrorist organizations.

These recommendations are not an exhaustive list; rather they are meant to be illustrative suggestions for how we might think about addressing the sources of terrorist financing. There are no easy solutions to disrupt the sources of terrorist financing; nevertheless, more can be done. Since money *is* the lifeblood of terrorist organizations, attacking it in better and smarter ways will result in a more effective fight against terrorism overall.

Notes

1. Dipak Gupta, "Exploring Roots of Terrorism," in Tore Bjorgo, ed., *Root Causes of Terrorism: Myths, Reality and Ways Forward* (New York: Routledge, 2005), p. 28.

2. For the purposes of theory building, it is assumed terrorist organizations maximize their utility. In practice, however, they frequently make mistakes and miss opportunities.

3. For example, see Jeanne Giraldo and Harold Trinkunas, eds., *Terrorist Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007); Thomas Biersteker and Sue Eckert, eds., *Countering the Financing of Terrorism* (New York: Routledge, 2008); Sean Costigan and David Gold, eds., *Terrornomics* (Burlington, VT: Ashgate, 2007).

4. Nikos Passas, "Terrorism Financing Mechanisms and Policy Dilemmas," in Jeanne Giraldo and Harold Trinkunas, eds., *Terrorist Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007), p. 31.

5. Passas, "Terrorism Financing Mechanisms and Policy Dilemmas," p. 32.

6. John Horgan and Max Taylor, "Playing the 'Green Card'—Financing the Provisional IRA: Part 1," *Terrorism and Political Violence* 11(2) (Summer 1999), p. 10.

7. Mitchel Roth and Murat Sever, "The Kurdish Workers Party (PKK) as Criminal Syndicate: Funding Terrorism through Organized Crime, A Case Study," *Studies in Conflict and Terrorism* 30 (10 October 2007), p. 906.

8. Matthew Levitt, "Hezbollah: Financing Terror through Criminal Enterprise," Testimony before the Hearing of the Committee on Homeland Security and Governmental Affairs, United States Senate, 25 May 2005. Available at <http://www.washingtoninstitute.org/html/pdf/hezbollah-testimony-05252005.pdf>

9. Marc Cherrick, "FARC-EP," in Marianne Heiberg, Brendan O'Leary, and John Tirman, eds., *Terror, Insurgency, and the State: Ending Protracted Conflicts* (Philadelphia: University of Pennsylvania Press, 2007), p. 71.

10. Peter Kenyon, "Exploring the Taliban's Complex, Shadowy Finances," 19 March 2010, <http://www.npr.org/templates/story/story.php?storyId=124821049>

11. John Burns and Kirk Semple, "U.S. Finds Iraq Insurgency Has Funds to Sustain Itself," *New York Times*, 26 November 2006.

12. Robert Trager and Dessislava Zagorcheva, "Deterring Terrorism: It Can Be Done," *International Security* 30(3) (Winter 2005/2006), p. 118.

13. Phil Williams, "Terrorist Financing and Organized Crime: Nexus, Appropriation, or Transformation?" in Thomas Biersteker and Sue Eckert, eds., *Countering the Financing of Terrorism* (New York: Routledge, 2008).

14. Passas, "Terrorism Financing Mechanisms and Policy Dilemmas," p. 24.
15. Claire Sterling, *The Terror Network: The Secret War of International Terrorism* (New York: Holt, Rinehart, and Winston, 1981).
16. James Adams, *The Financing of Terror* (London: New English Library, 1986), pp. 42, 73–75.
17. Adams, *The Financing of Terror*, p. 81.
18. Jeanne Giraldo and Harold Trinkunas, "The Political Economy of Terrorism Financing," in Jeanne Giraldo and Harold Trinkunas, eds., *Terrorist Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007), p. 10.
19. Ron Moreau, "With Friends Like These. . ." *Newsweek*, 9 August 2010, p. 24.
20. MIPT database entry for each group. Available at www.tkb.org
21. Arabinda Acharya, Syed Adnan Ali Shah Bukhari, and Sadia Sulaiman, "Making Money in the Mayhem, Funding Taliban Insurrection in the Tribal Areas of Pakistan," *Studies in Conflict and Terrorism* 32(2) (2009), p. 98.
22. Napoleoni, *Modern Jihad*, p. 34.
23. Andrew Silke, "In Defense of the Realm: Financing Loyalist Terrorism in Northern Ireland—Part One: Extortion and Blackmail," *Studies in Conflict and Terrorism* 21 (1998), p. 336.
24. John Picarelli and Louise Shelley, "Organized Crime and Terrorism," in Jeanne Giraldo and Harold Trinkunas, eds., *Terrorist Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007), p. 44.
25. Paul Lewis, *Guerrillas and Generals: The "Dirty War" in Argentina* (Westport, CT: Praeger, 2001), p. 57.
26. "Top Ten Brazen Heists." Available at http://www.time.com/time/specials/packages/article/0,28804,1865132_1865133_1865218,00.html; "Historical Fact: Arafat's Bank Robbery." Available at <http://www.lebaneseforces.com/blastfromthepast001.asp>
27. "Jemaah Islamiyah In South East Asia: Damaged But Still Dangerous," International Crisis Group Asia Report No. 63, 26 August 2003. Available at <http://www.seasite.niu.edu/indonesian/islam/ICG-JI%20Damaged%20but%20Dangerous.pdf>
28. Michael Freeman, *Freedoms or Security* (Westport, CT: Praeger, 2003), p. 88.
29. Robert Worth and James Glanz, "Oil Dollars Fund the Insurgency, Iraq and U.S. Say," *New York Times*, 5 February 2006; Burns and Semple, "U.S. Finds Insurgency Has Funds to Sustain Itself"; Richard Opiel, Jr., "Iraq's Insurgency Runs on Stolen Oil Profits," *New York Times*, 16 March 2008.
30. Acharya et al., "Making Money in the Mayhem," p. 100.
31. "The Rise and Fall of the Symbionese Liberation Army." Available at http://www.pbs.org/wgbh/amex/guerrilla/peoplevents/e_kidnapping.html
32. Picarelli and Shelley, "Organized Crime and Terrorism," p. 42.
33. Eric Schmitt, "Many Sources Feed the Taliban's War," *The New York Times*, 19 October 2009. Kenyon, "Exploring the Taliban's Complex, Shadowy Finances," cites an estimate that the Taliban earns between \$90 million and \$160 million from opium.
34. Roth and Sever, "The Kurdish Workers Party (PKK) as Criminal Syndicate," 908.
35. *Ibid.*, p. 907.
36. Picarelli and Shelley, "Organized Crime and Terrorism," p. 42.
37. Tom Diaz and Barbara Newman, *Lightning out of Lebanon* (New York: Ballantine Books, 2005), p. 87.
38. Roth and Sever, "The Kurdish Workers Party (PKK) as Criminal Syndicate," p. 909.
39. Loretta Napoleoni, *Modern Jihad: Tracing the Dollars Behind the Terror Networks* (London: Pluto Press, 2003), p. 31.
40. For example, in Roth and Sever, "The Kurdish Workers Party (PKK) as Criminal Syndicate," p. 912, the authors talk about the PKK smuggling blood.
41. Marc Sageman, *Understanding Terror Networks* (Philadelphia: University of Pennsylvania Press, 2004), p. 100; Picarelli and Shelley, "Organized Crime and Terrorism," pp. 44–45.
42. Picarelli and Shelley, "Organized Crime and Terrorism," p. 44.

43. Andrew Silke, "Drink, Drugs, and Rock'n'Roll: Financing Loyalist Terrorism in Northern Ireland—Part Two," *Studies in Conflict and Terrorism* 23 (2000), p. 120.
44. Roth and Sever, "The Kurdish Workers Party (PKK) as Criminal Syndicate," p. 912.
45. See Picarelli and Shelley, "Organized Crime and Terrorism," pp. 46–47, for a chart on the costs and opportunities of various methods.
46. *Ibid.*, p. 40.
47. *Ibid.*, p. 50.
48. Gideon Alon and Amira Hass "MI Chief: Terror Groups Trying Hard to Pull off Mega-Attack," *Haaretz*, 14 August 2002.
49. Picarelli and Shelley, "Organized Crime and Terrorism," p. 51.
50. Jason Burke, *Al-Qaeda: The True Story of Radical Islam* (London: I.B. Tauris, 2003), p. 145.
51. Paul Smith, "Terrorism Finance: Global Responses to the Terrorism Money Trail," in James Forest, ed., *Countering Terrorism and Insurgency in the 21st Century*, Vol. 2 (Westport, CT: Praeger, 2007), p. 146.
52. Daniel Mettraux, *Aum Shinrikyo's Impact on Japanese Society* (Lewiston, NY: Edwin Mellen Press, 2000).
53. Andrew Silke, "In Defense of the Realm: Financing Loyalist Terrorism in Northern Ireland—Part One: Extortion and Blackmail," *Studies in Conflict and Terrorism* 21 (1998), p. 108.
54. James Adams, *The Financing of Terror* (London: New English Library, 1986), pp. 214–216.
55. Passas, "Terrorism Financing Mechanisms and Policy Dilemmas," p. 25.
56. Caleb Temple, "Financing of Insurgency Operations in Iraq," testimony before the House Armed Services Committee, 28 July 2005. Available at <http://financialservices.house.gov/media/pdf/072805ct.pdf>
57. Kenyon, "Exploring the Taliban's Complex, Shadowy Finances."
58. Smith, "Terrorism Finance," p. 144.
59. David Kaplan and Andrew Marshall, *The Cult at the End of the World* (New York: Crown Publishers, 1996).
60. Note that shifts in terrorist fundraising can also be seen as insights into the terrorists organization. When Al Qaeda in Iraq began robbing merchants, that might have been a sign that they had lost legitimacy and popular support and so were no longer able to rely as much on private donations and charities
61. Burns and Semple, "U.S. Finds Iraq Insurgency Has Funds to Sustain Itself."
62. Christopher Blanchard, "Saudi Arabia: Terrorist Financing Issues," *Congressional Research Service*, 14 September 2007.
63. Alexis Grynkeiwich, "Welfare as Warfare: How Violent Non-State Groups Use Social Services to Attack the State," *Studies in Conflict and Terrorism* 31 (2008), 350–370.
64. Picarelli and Shelley, "Organized Crime and Terrorism," p. 54.