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Don't Follow the Money

The Problem With the War on Terrorist Financing

By Peter R. Neumann

In the first days of the "war on terror," before the United States had launched air strikes against the Taliban or Special Forces raids on Osama bin Laden's compounds, President George W. Bush signed Executive Order 13224. The presidential decree, which dates from September 23, 2001, targeted al Qaeda's money by "prohibiting transactions" with suspected terrorists. "Money is the lifeblood of terrorist operations," Bush said at the time. "We're asking the world to stop payment." Five days later, the UN Security Council followed suit, calling on states to "prevent and suppress the financing" of terrorism in its first substantive resolution since the 9/11 attacks.

More than 15 years later, the war on terrorist financing has failed. Today, there are more terrorist organizations, with more money, than ever before. In 2015, for example, the self-proclaimed Islamic State (also known as ISIS) had a budget of up to $1.7 billion, according to a study by King's College London and the accounting company Ernst & Young, making it the world's richest terrorist group. That same year, the total amount of all frozen terrorist assets amounted to less than $60 million. Only three countries—Israel, Saudi Arabia, and the United States—had seized more than $1 million.

Driven by the assumption that terrorism costs money, governments have for years sought to cut off terrorists' access to the global financial system. They have introduced blacklists, frozen assets, and imposed countless regulations designed to prevent terrorist financing, costing the public and private sectors billions of dollars.

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This approach has probably deterred terrorists from using the international financial system. But there is no evidence that it has ever thwarted a terrorist campaign. Most attacks require very little money, and terrorists tend to use a wide range of money-transfer and fundraising methods, many of which avoid the international financial system. Instead of continuing to look for needles in a haystack, governments should overhaul their approach to countering terrorist funding, shifting their focus away from the financial sector and embracing a broader strategy that includes diplomatic, military, and law enforcement options. Otherwise, they will waste time and money on a strategy that cannot deliver security for many more years to come.

MONEY FOR NOTHING

One month after terrorists killed 130 people in Paris on November 13, 2015, the UN Security Council hosted a special session on combating the financing of terrorism. "In the face of such indiscriminate barbarism," the French finance minister, Michel Sapin, declared, "we all have a duty to act." He described ISIS' main sources of funding: "trading in oil, antiquities and works of art, kidnappings and ransoms, extortion, [and] human trafficking." Yet instead of explaining how the international community could stop oil smuggling or prevent kidnappings, he called for the freezing of financial assets, more screening by banks, better financial intelligence, and tougher regulation of digital currencies.

Sapin's speech was far from unusual. Even if governments understand the many and varied sources of terrorist funding, they almost always turn to the financial system to crack down on it. The obvious explanation is that in most countries, the responsibility for choking off terrorists' funds lies with finance ministries, which are disconnected from broader counterterrorism strategies. As a result, governments typically respond to attacks by tightening due diligence procedures, demanding that banks freeze more assets, and further empowering the Financial Action Task Force (FATF), an intergovernmental body that monitors international standards on money laundering and terrorist financing. In a telling statement, then U.S. Treasury Secretary Jacob Lew, speaking at the same Security Council session, said that the aim was not to deprive terrorists of their money but "to protect the international financial system."

This approach has failed for two reasons. First, terrorists' money is hard to find. Al Qaeda's leader, Ayman al-Zawahiri, and ISIS' self-declared caliph, Abu Bakr al-Baghdadi, surely do not have bank accounts in their own names, and lower-ranking members and middlemen tend not to be officially designated as terrorists by governments or international institutions such as the UN. Without the names or identities of terrorists or their financers, banks struggle to single out suspicious transactions. If banks were to investigate every movement of money for which they could not immediately see a legitimate economic rationale, they would have to scrutinize tens of millions of transactions every day. Given that terrorist operations are cheap—none of the recent attacks in Europe cost more than $30,000—they would have to carry out in-depth investigations of the circumstances behind millions of transactions of less than $1,000. As long as governments are unwilling to share more intelligence about suspects and suspicious entities with banks, calls for the financial sector to crack down on terrorist financing serve as little more than political rhetoric.

Second, large amounts of terrorist funds never enter the global financial system. In such countries as Afghanistan, Iraq, Somalia, Syria, and Yemen, where al Qaeda and ISIS have their strongholds, only a tiny percentage of the population holds bank accounts. Even large and legitimate transactions are carried out in cash, which means that most people never interact with the international financial system at all. As a result, few of the financial transactions of terrorist groups appear on bank statements.

In fact, not only has the focus on the financial sector proved ineffective; it has also harmed innocent people and businesses. To address policymakers' demands, financial institutions have "de-risked" their portfolios, shedding investments and clients that might be linked to terrorist financing. Without intelligence on specific individuals and entities, banks have relied on open-source databases for their due diligence. But these databases contain inaccurate and outdated entries. De-risking, moreover, has resulted in the de facto exclusion of entire countries, mostly poor ones such as Afghanistan and Somalia, from the global financial system. The bank accounts of refugees, charities that operate in regions torn apart by civil war, and even Western citizens with family links to so-called risk countries have been closed. Practically no Western bank now offers cash transfers to Somalia, for example, although 40 percent of the population depends on remittances from abroad. When the last U.S. bank to offer such payments shut down its service in early 2015, Somali Americans started a Twitter campaign using the hashtag #IFundFoodNotTerror.

In addition to disrupting countless lives and undermining the work of legitimate charities, de-risking has fueled a boom in informal—and unregulated—financial services. Rather than use Western banks, immigrants to the West increasingly rely on informal money-transfer systems, known as hawala networks in the Muslim world, to send remittances home. In contrast to banks, these networks depend on trust, require little identification, maintain no systematic or centralized records, and lie outside the remit of government regulators. In other words, driving terrorists away from the international financial system has inadvertently made it easier for them to move money around the world undetected.

Phillipe Wojazer / Reuters

The aftermath of the Bataclan attack, Paris, France, November 2015.

MONEYMAKERS

But the problems with the current strategy run deeper: the very idea of terrorist financing is misguided. It implies that there is a set of financial methods that all terrorist groups employ. Nothing could be further from the truth. The concept of terrorist financing is defined by its purpose, and this makes it difficult to generalize about its sources and methods. Different groups fund their operations in different ways, and for transnational networks such as al Qaeda, the methods may even differ from place to place. Consider the alleged involvement of the East African jihadist group al Shabab in the ivory trade. When this first became public in 2013, journalists and experts were quick to add wildlife poaching to their list of terrorist-financing methods, and politicians, such as former U.S. Secretary of State Hillary Clinton, started calling for action against the ivory trade as part of the global war on terrorism. In reality, there was no risk that ISIS would start poaching elephants in Iraq and Syria, and it should have been clear that combating the ivory trade outside al Shabab's areas of influence would do little to combat terrorism.

Three factors determine how terrorist groups finance their operations. The first is the groups' level of support. Although few disagree that al Qaeda and ISIS are terrorist organizations, most other groups are labeled as terrorists by some governments but not by others—as the saying goes, one man's terrorist is another man's freedom fighter. Hamas and Hezbollah, for example, are viewed as terrorist organizations by the West but operate more or less openly in many Arab countries. And when groups are involved in civil wars in which all sides are accused of committing atrocities, they can often count on voluntary contributions from the people they claim to represent, financial support from sympathetic charities and diasporas, and even state sponsorship. Financial regulation can't eliminate any of these funding sources—only sustained political pressure, sanctions, or negotiated solutions can.

A second factor determining terrorist groups' fundraising methods is the extent to which they can tap into illicit economies. Terrorists often profit from the smuggling of antiquities, oil, cigarettes, counterfeit goods, diamonds, or, indeed, ivory. They usually exploit existing networks and often collaborate with criminals. Heroin production in Afghanistan dates back to the 1970s, long before the Taliban arrived on the scene. Wildlife poaching in East Africa did not begin with the birth of al Shabab, nor will it end with the group's collapse. And the smuggling routes in Iraq and Syria, which have existed for decades, are certain to outlive ISIS. As a result, the goods from which terrorist groups have profited—oil in Iraq, cigarettes in the Sahel, or diamonds in West Africa—simply reflect one or another region's illicit economy. To counter terrorist financing, therefore, governments need to tackle the underlying economic structures of these regions or, at the very least, break those structures' connections to terrorism. Promoting development, improving governance, and cracking down on corruption will play a far more important role than preventing terrorists from using the international financial system.

The third factor shaping the ways in which terrorists finance their activities is their capacity to access legitimate sources of money. U.S. authorities first knew bin Laden as a financer of terrorism, yet the sources of his wealth—his family money and the construction and farming businesses he owned—were entirely legal. Likewise, the Irish Republican Army set up numerous businesses, including taxi services and hotels, that were properly registered and paid their taxes, but the group channeled the proceeds toward its armed struggle. Because terrorists can draw on legitimate sources of income, cutting off the spigot is harder than fighting money laundering or organized crime.

Ismail Taxta / Reuters

An al-Shabab fighter stands at a public execution site where a man was executed by the group in Bula Marer town, Somalia, December 2008.

MO MONEY MO PROBLEMS

However significant terrorists' fundraising methods may be, however, only one thing can truly revolutionize a terrorist group's finances: the seizure of territory. Until 2013, ISIS made most of its money from protection rackets, Iraq's illicit economy, and, to a much lesser extent, foreign donations. But in 2013 and 2014, the group captured vast swaths of territory in eastern Syria and northern Iraq. By mid-2014, when ISIS declared its caliphate, some six million to eight million people lived under its rule.

The group's finances skyrocketed. In 2014, its budget, according to the study by King's College London and Ernst & Young, soared to $1.9 billion, up from less than $500 million the previous year, 90 percent of which stemmed from its newly acquired territory. As it seized land, ISIS looted banks and shops and confiscated the property of minorities and the people who had fled. The capture of Mosul alone, the caliphate's commercial capital, probably generated $500 million to $1 billion—making looting the group's most significant source of income.

Like the Iraqi and Syrian governments, ISIS collects taxes, charges fees, and levies tariffs on trade; the group's 2014 revenues from such measures exceeded $300 million. It also imposes fines, typically for what it considers "un-Islamic" behavior, and exploits natural resources, especially oil fields in the eastern Syrian province of Deir ez-Zor and in territories in northern Iraq that had been controlled by the Kurds. Although ISIS uses most of the oil it acquires for domestic consumption, it also smuggles some of it into neighboring territories for sale. At its peak in late 2014 and early 2015, the group earned between $1 million and $3 million per day from oil revenues.

But ISIS' territorial conquests have come at a price. The group has transformed into a quasi state—with all the costs that entails. Now that it holds so much territory and controls so many people, the group has to maintain a bureaucracy. And it has to create the utopia it has promised. No longer able to limit its expenses to funding fighters and buying weapons, the group must pay for schools, hospitals, and infrastructure and employ judges, teachers, and street cleaners. As ISIS has become more like the state it claimed to be, its additional revenue has been matched by new expenses.

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For international regulators, the rise of ISIS has presented a challenge, because none of the group's major sources of income can easily be intercepted with financial tools, such as blacklisting individuals or seizing bank accounts. In a major policy document released in early 2016, the FATF recognized that ISIS' "strategy has been to rely on funds generated within the territory it controls." Yet all of the document's proposals focused on preventing the group "from exploiting the formal financial sector." Given that ISIS has had little need to use the international financial system, these recommendations made no sense.

That ISIS' finances have nonetheless declined—from an estimated $1.9 billion in 2014 to less than $1 billion in 2016—is due more to military action than to actions by the FATF. Since October 2015, the U.S.-led coalition has targeted the group's oil infrastructure, transportation systems, and cash depots. According to the coalition's figures, by November 2016, ISIS had lost 62 percent of its territory in Iraq and 30 percent of its territory in Syria. At the same time as its tax base has shrunk, ISIS has lost control over an estimated 90 percent of its oil wells. By thwarting the group's territorial expansion, the coalition has also eliminated ISIS' ability to profit from looting. The resulting cash shortage has not only weakened ISIS' military power but also blunted its ideological appeal.

CHEAP THRILLS

Yet these efforts have not impeded the ability of groups such as ISIS or al Qaeda to launch or inspire terrorist attacks in the West. Terrorist operations are cheap, and according to a 2015 study by the Norwegian Defense Research Establishment, over 90 percent of the jihadist cells in Europe between 1994 and 2013 were "self-funded," typically through savings, welfare payments, personal loans, or the proceeds of petty crime. For example, the terrorists who carried out the January 2015 attack on the French magazine *Charlie Hebdo* were low-level criminals who had met in prison and shared a dozen convictions between them. One of them, Chérif Kouachi, had reportedly received

$20,000 from a radical preacher in Yemen seven years earlier, but Kouachi had probably spent the money by the time he and his collaborators started planning the operation. Instead, the men financed the attack by taking out fraudulent loans, selling counterfeit sneakers, and dealing drugs. These crimes generated far more money than they needed—the loans alone were worth nearly $40,000.

The Norwegian study also found that more than 40 percent of the jihadist terrorist plots in Europe between 1994 and 2013 were funded at least partly through crime. This figure has likely risen, as more and more criminals have joined groups such as ISIS. And according to the German Federal Police, two-thirds of the 669 German foreign fighters for whom it possessed information in late 2015 had police records, and one-third had criminal convictions. Alain Grignard, a commissioner in the Belgian Federal Police in Brussels, has described ISIS as "a sort of super gang."

Toby Melville / Reuters

A passerby assists an injured woman after the attack on Westminster Bridge, London, March 2017.

Personal funds are another important source for foreign fighters traveling to conflict zones such as Iraq and Syria. Reaching Syria via Turkey, a popular holiday destination for many Europeans, is cheap—in most cases, it costs less than $1,000 for a budget airline ticket and the trip to the airport. To pay for their travel, many jihadists have used their own savings and welfare payments or taken out small loans; others have borrowed money from their friends or family. In one case, a young man in the United Kingdom who hoped to make it to Syria convinced his mother that he needed a new laptop; in another, in Germany, the excuse was a school trip. Even the most sophisticated methods of following the money through the global financial system would not catch these transactions.

What's more, unlike al Qaeda, which tried to convince its supporters to build homemade bombs, ISIS, more than any other jihadist group, appears to understand that sowing terror requires neither explosives nor sophisticated skills nor money. "If you can kill a disbelieving American or European," the group's spokesperson, Abu Muhammad al-Adnani (who has since been killed), declared in a 2014 speech to Western supporters, "then rely upon Allah, and kill him in any manner or way however it may be: smash his head with a rock, or slaughter him with a knife, or run him over with your car, or throw him down from a high place, or choke him, or poison him."

These instructions have inspired many of the most devastating attacks in recent years. In the summer of 2016, a 16-year-old boy attacked passengers on a commuter train in southern Germany with an ax, and in France, two men who entered a Catholic church beheaded an 85-year-old priest with knives. Terrorists have also used vehicles, attempting on two occasions in 2014 to drive cars into crowds at French Christmas markets. In July 2016, a truck killed 86 people during the Bastille Day celebrations in Nice, and later that same year, a jihadist drove a truck into a Christmas market in Berlin, killing 12. And in March 2017, near the Houses of Parliament in London, an attacker drove his car into a crowd and then stabbed a policeman. None of these attacks cost more than $300—the price of renting the truck in Nice. The majority of them cost nothing at all.

DON'T TAKE IT TO THE BANK

More than a decade and a half into the war on terrorist funding, policymakers must recognize the drawbacks of their current approach. Financial tools cannot stop lone attackers from driving cars into crowds, nor can they do much when groups such as ISIS hold territory and earn most of their income from within it. Policymakers need to acknowledge that the war on terrorist financing, as it has been conducted since 2001, has often been costly and counterproductive, harming innocent people and companies without significantly constraining terrorist groups' ability to operate. Unless governments find ways to revolutionize how they share information with the financial sector, most of the current procedures for identifying suspicious transactions will continue to be little more than costly box-ticking exercises.

Instead, governments should integrate their efforts to restrict terrorist financing into their wider counterterrorism strategies. Instead of delegating this mission to finance ministries, which perpetuate the excessive focus on the banking sector, governments should include it in broader political, diplomatic, and military decisions. At times, actions aimed at countering terrorist funding may involve the financial system, but on other occasions, governments should use the military and law enforcement instead. In January 2016, for example, the U.S. military bombed ISIS' cash depots, destroying tens of millions of dollars in a single day—more than the entire international financial system had seized since the rise of the caliphate.

Finally, methods for countering terrorist financing should be tailored to the group and the theater being targeted. Terrorist groups raise money in myriad different ways, but governments tend to respond with the same narrow set of counterterrorism tools. Choking off terrorist financing in Brussels should look very different from doing the same in Raqqa. In Brussels, it may involve cracking down on gangs and petty crime; in Syria, it requires bombing oil facilities and cash depots. Instead of lobbying for Security Council resolutions, governments should pursue a more pragmatic and targeted approach to deprive terrorists of their money. After spending over 15 years and billions of dollars on a strategy that has had little discernible impact, it's past time for a new approach.