

**VULNERABILITIES AND RESPONSES TO
TERRORIST FINANCING:
AN EXPLORATION OF INFORMAL VALUE
TRANSFER SYSTEMS (IVTS), ISLAMIC
CHARITIES, AND BUSINESSES AND FINANCIERS.**

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Abstract

Since the events of September 11th 2001 the international community has explored various measures of tackling terrorism, one of these measures and one which has been explored less is the tackling of terrorism financing. President Bush announced the first stage of the War on Terrorism with an attack against the terrorist financial infrastructure, but since then there has been relatively little focus on this tactic.

Due to the activities of al-Qaeda being mainly under the radar, this study only offers an exploration and insight into the vulnerabilities and effectiveness of the measures targeted at terrorist financing. Therefore it was not possible to offer a full conclusion on the findings and the effectiveness of the measures targeted at them. The findings on Informal Value Transfer Systems (IVTS) suggested that the system could be as clean and only as vulnerable to terrorist financing as the formal banking system for example. However as it has been stressed in this study, as there is no effective measure to confirm what effect any tactic deployed against al-Qaeda is having it cannot be said for certain. The findings on Islamic charities suggested that this source of terrorist financing is much more vulnerable to terrorist financing than the other two areas discussed. The reasons found for this were that the humanitarian consequences that these measures can cause make it difficult for governments and bodies to apply strict measures to this source. The final source discussed was businesses and financiers and the findings on this area were found to be the most inconclusive, as there were many conflicting opinions from authors present. However the evidence which highlighted the role financiers had in funding the 9/11 attack underlined the threat and vulnerability this source has in terrorist financing.

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1. Table showing the date and cost of terrorist attacks (Page 16).

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List of Acronyms:

| | |
|------|--------------------------------------|
| BIF | Benevolence International Foundation |
| FATF | Financial Action Task Force |
| IMF | International Monetary Fund |
| IVTS | Informal Value Transfer System |
| MWL | Muslim World League |
| SAR | Suspicious Activity Report |
| UK | United Kingdom |
| UN | United Nations |
| USA | United States of America |

Chapter One: **Introduction**

Since 9/11 the international community has explored various measures of tackling terrorism, one of the less explored measures is that of tackling terrorist financing. Therefore an exploration of three areas known to be vulnerable to terrorist financing by al-Qaeda will take place which are: Informal Value Transfer Systems (IVTS), Islamic Charities and Illegitimate and Legitimate Businesses and Financers. Unlike many of the other aspects of the 'war on terror', the suppression of financing of terrorism measures have been subject to relatively little scrutiny. This may be because issues related to financing of terrorism are considered relatively benign compared to, for example, interrogation and detention regimes that have become relatively commonplace and intense in advanced democracies post-9/11, and less spectacular and deadly than the military invasions of Afghanistan and Iraq (McCulloch & Pickering, 2005). Therefore there is still a considerable gap in the work focusing on the effects and sources of terrorism financing. Therefore this paper will attempt to extend on the limited work that already exists in this area and look to highlight why this gap exists, is it because targeting sources of terrorism financing such as IVTS are ineffective in the war on terror? Or is it instead because this type of counter measure does not satisfy the public interest? And finally why is it important to fill this gap? It should be noted that due to the intense secrecy of terrorist activity, it will not be possible to come to a full conclusion at the end of this study and therefore the findings and the measures and responses deployed can only ever be limited.

This study will set out the nature of some of the combating of financing measures post 9/11 and the impact of these measures, paying particular attention to their impact on civil society. As responses and measures aimed at combating the financing of terrorism have the potential to have a negative impact on civilians they warrant close critical attention. Assessing whether they have enough of an effect on the war on terror to sacrifice the liberty and safety of some members of society. As the United States of America (USA) are considered by most to lead the way in the fight against terrorism and terrorist finance there will be a considerable amount of material and literature presented which originates from the USA. However there will still be a significant amount of material analysed that originates from the United Kingdom (UK) and other countries. Although there is an assumption by some that terrorism does not need money to terrorize which would therefore make the combating of terrorism regime pointless, this is most certainly a myth and the importance of this regime cannot be exaggerated enough. Brisard (2002) notes that while the operational cost of the USS Cole bombing in 2000 is estimated between \$5,000 and \$10,000, and the cost of the Djerba suicide attack in 2002 is estimated to \$20,000, other actions around the world have turned to be much expensive. It is recognisable that the costs of attacks vary, increasing and decreasing per attack with no pattern. Therefore this study considers it important to study the link between the cost and lethality of attacks, which consequently assists in providing an answer or insight into the overall title of this study.

Specific research questions:

- What is the current level of research knowledge about areas of vulnerability to terrorist financing (Informal Value Transfer Systems (IVTS) such as hawala, Islamic Charities and Businesses and Financers)?

- What are the existing responses to the three above areas of vulnerability to TF?
- What is the known or potential effectiveness of these responses and how can existing or future research help to improve the responses to these areas of vulnerability?

This introduction will be followed by a literature review where firstly a discussion of the definitions of terrorism will take place. The various different definitions that exist will be discussed, as for example the ones published by the United Nations (UN) Convention of terrorism and relevant UK legislation. In addition to this also looking at the implications and importance of setting a correct definition and addressing the question ‘is a definition actually required?’ Following this in a continuation of chapter two a review of the literature existing on Informal Value Transfer Systems, Islamic Charities and Businesses and Financers will take place highlighting the level of research that currently exists in the areas presently. In a continuation of chapter two there will be an examination of what the existing responses to these three areas of vulnerability to terrorist financing are. Chapter three will provide a discussion of the methodology and ethics of the research conducted, as secondary research was conducted there is more of a focus on the methodology rather than ethics. However the ethical limitations of the chosen subject will be discussed and the reasons why secondary research was conducted rather than primary will be explained. The analysis and findings from chapter two will be discussed in chapter four by addressing the question: what is the known or potential effectiveness of these responses and how can existing or future research help to improve the responses to these areas of vulnerability? Finally the conclusion will highlight the core and essential points drawn from the findings of this research and discuss relevant recommendations.

Chapter 2: Literature Review

This chapter will begin by examining the definitions of ‘terrorism’ then progressing onto providing a comprehensive review of the existing literature of Informal Value Transfer Systems (IVTS), Islamic Charities and Businesses and Financers in relation to their links with terrorist financing.

2.0 Definitions

To provide context and a comprehensive analysis of terrorism and terrorist financing these concepts first need to be defined.

2.2: Definition of Terrorism

This chapter does not aspire to positively answer the question what is terrorism? Instead, it aims to provide a review of existing academic definitions and point to some potential avenues for establishing a deeper contextual understanding of the phenomenon. It is important to have this discussion because it will help provide a basic understanding of terrorism and the complexities that exist within the subject even at the very basic level of simply defining what it is. Firstly there is no one universally accepted definition of terrorism; it remains the subject of continuing debate in international bodies. A useful starting point is the definition included in the United Kingdom (UK) prevention of terrorism (temporary provisions) act 1989: “.... the use of violence for political ends, and

includes any use of violence for the purpose of putting the public or any section of the public in fear.” Notably, it did not require a serious level of violence or serious damage or risk to health and safety or electronic disruption. Conversely, it was restricted in terms of intention/design, in that it excluded violence for a religious end, or for a non-political ideological end (Berriew, 2007).

The present definition of terrorism used in UK legal systems is to be found in section 1, Terrorism Act 2000, as amended:

- (1) In this Act "terrorism" means the use or threat of action where-
- (a) The action falls within subsection (2),
- (b) The use or threat is designed to influence the government [or an international governmental organisation] or to intimidate the public or a section of the public, and
- (c) The use or threat is made for the purpose of advancing a political, religious [, racial] or ideological cause.

The above current UK definition it seems is reasonably practical and one which could be considered for global implementation, however it is questionable if it is possible to have one universally accepted definition of terrorism. Having a single definition of terrorism which all countries implement could be beneficial as it would almost certainly assist in making the measures for combating terrorism and terrorist financing less complex and more efficient whilst also improving co-operation and relations between countries. However the difficult issue for some countries is defining terrorism as not all agree on what actions constitute terrorism. The meaning of terrorism is not universally accepted due to significant political, religious and national implications that differ from country to country. The effect in which the definition of terrorism can have on individuals is highlighted by Liberty Human Rights (2006 p.3) who note “It is vital that the definition of ‘terrorism’ is drawn as tightly as possible. A number of important consequences result from the question of whether or not a particular action falls within the definition of terrorism: Actions which would normally fall within the realm of criminality will constitute a more serious offence, with graver punishment, if they fall within the definition of ‘terrorism’. The fact that this paper is a ‘response’ highlights the controversial, complex and opinionated subject in which the definition of terrorism is. The paper progresses onto arguing that “it is beyond the scope of this review, to provide a detailed international analysis. These difficulties would not, however, excuse retention of the current definition which, as we discussed below is too broad, covering actions which fall short of the public’s perception of terrorism. It is unclear how this paper can claim to know what the public’s perception of terrorism is; they could have conducted a survey but is highly unlikely that it was of a sufficient enough size to be able to represent the majority of individual’s perceptions. However the general argument that is being put forward in the paper does make a valid point, that a too broad or even a too narrow definition can carry serious consequences.

The Financial Action Task Force, which is recognized as the international standard setter for efforts to combat the financing of terrorism (CFT) does not specifically define the term financing of terrorism in its eight Special Recommendations on Terrorist Financing (Special Recommendations) developed following the events of September 11, 2001. Nonetheless, FATF urges countries to ratify and implement the 1999 United Nations International Convention for Suppression of the Financing of Terrorism. Thus, the above

UK definition is the one most countries have adopted for purposes of defining terrorist financing (World Bank, 2003).

2.3 What is the current level of research Knowledge about Informal Value Transfer Systems vulnerability to terrorist financing?

Numerous terminologies for the Informal Value Transfer Systems (IVTS) exist; one example is the Alternative Remittance Services (ARS), a term used by the Financial Action Task Force (FATF) on Money Laundering to describe financial services that transfer value or funds from one geographical location to another, usually outside the formal financial sector (Keene, 2007). “Although FATF standards call for significantly strengthened controls over such service providers, the level of anonymity and the rapidity that such systems offer have served to make them a favoured mechanism for terrorists. For some networks there are also cultural and pragmatic reasons for using these services: many have their origins or control structures in areas where the banking infrastructure is weak or practically non-existent” (FATF, 2008 p.24). To understand the hawala system, first we need to understand the term Informal Value Transfer Systems (IVTS). It was coined by Passas in 1999. He defined IVTS as any system or network of people facilitating, on a full-time or part-time basis, the transfer of value domestically or internationally outside the conventional, regulated financial institutional systems’. ‘Value’ refers to something of monetary or material worth’ (Passas, 1999).

Greenberg et al. (2002) state “al-Qaeda moves its funds through the global financial system, the Islamic banking system, and the underground hawala system, among other money transfer mechanisms” and al-Qaeda “makes good use of the ancient hawala (or hundi) underground banking system, which allows money transfer without actual money involvement, or any wire transfer” (Greenberg et al., 2002, p. 7/15). This statement is unclear on many levels, how much is actually being transferred through the system by al-Qaeda? And what is classed as ‘good use’? It is also not known how much of the transferred funds go towards funding frequent and lethal attacks. The arguments and evidence put forward by Greenberg et al. (2002) are too simplistic to conclude that IVTS and specifically hawala is a major source of terrorist financing. It appears that it is becoming a reoccurring theme that because al-Qaeda have been discovered on occasions to be making some use of hawala, that some assume that it is a major tool in terrorist financing.

The Economist (2001) reported that in November 2001 President Bush announced the freezing of assets belonging to Barakat, a financial, telecoms and construction group based in Dubai. American officials say that Barakat, a “hawala conglomerate”, is a money mover for al-Qaeda, what was once Osama bin Laden's loose terrorist network. There is however little evidence that bin Laden or core al-Qaeda members used banks while in Afghanistan which further highlights the secrecy and difficulty of detecting certain transactions (Economist, 2001). This literature strongly supports the theory that hawala is not a major money mover for al-Qaeda and also suggests therefore that measures targeted at regulating the system would be less ineffective in the war on terror. There should be consideration for the argument that the reason for the lack of evidence concerning al-Qaeda activity within hawala maybe because no or limited transactions have been made by al-Qaeda. Articles such as the one by the Economist (2001) tend to assume or report in a style which presents the impression that these transactions and usage of banks have taken place however their secrecy and detection difficulties encountered has prevented evidence being

uncovered. Therefore the question for law-enforcement agencies is whether IVTS such as hawala should be shut down permanently simply because there have been rare instances where they have been permeated by terrorist activity? Often commentators naively look at how dirty or infiltrated with criminality the system is rather than looking at how clean it could possibly be. There is a basis to argue that by freezing or closing down hawala that it would have some of an impact on terrorist activity. This could theoretically occur by for example seriously restricting or disrupting resources available to terrorists which could be used for purchasing material for carrying out attacks. This is however unlikely to be both an occurrence and have sufficient enough impact to support the closing down of hawala and possibly other IVTS fully. There is a lack of evidence showing that a substantial enough amount of money is being transacted to be able to label hawala dangerously vulnerable to terrorist financing.

In further support of IVTS remaining in operation, when President Bush froze assets in 2001 it had considerable collateral damage, the Economist (2001) reported that freezing Barakat has deprived one dirt-poor country, Somalia, of pretty much its only efficient payments. The al-Barakaat network of money remitters was set up to address this need. Founded by Ahmed Nur Ali Jumale in 1985, al-Barakaat at the time of 9/11 had more than 180 offices in 40 countries, all existing primarily to transfer money to Somalia (The Terrorist financing Monograph, n.d.) In addition Naylor (2001), an expert in economic crime at McGill University in Montreal, says it is nonsense to think that informal remittance houses could handle shady money on the scale of the big, reputable banks (Economist, 2001). This literature therefore supports the theory that the closing down of hawala would be unwarranted and would have little impact on terrorist activity.

It is relevant therefore to ask the question ‘Is it a valuable remittance tool or is it a national security threat?’ The answer although one which could be considered as frustrating by some, is that it is both and this maybe one of the reasons why the system is still active today (Bowers, 2009). It is almost certain that hawala will continue to operate due either to the consequences and difficulties in closing it down or the simple fact that the level of its vulnerability to terrorist financing is not significant enough to warrant closing it down. Therefore some authors look at how it can remain open but operate with full legitimacy and whether this is possible. Faith (2011) argues counter-terrorism experts in the United States and in other countries must learn to deal with the hawala system. Arguing also that one of the best ways in which to combat this problem is to continue to allow the hawala system to flourish, but for the United States to encourage countries to tax the system. Taxation of the system would enable counterterrorism officials to regulate terrorist funding patterns. The implementation of a financial transitional tax (FTT) is an alternative to stiffer regulations or an outright ban, if effectively applied; a hawala tax could yield millions in revenues for the government. However Faith (2011) does not address the matter that hawaladars (hawala broker) would self-report their taxes therefore relying upon honesty and posing a significant compliance problem and consequently diminishing the value of his argument.

Ballard (2003) aims to set out the logic of contemporary hawala transactions as well as the institutional framework within which it is currently organised. He was given the opportunity to prepare an expert report on hawala after customs and exports had charged several hawala operators in Bradford, Halifax and Leeds who were only too willing to discuss the details of their procedures as they were facing serious charges and who were in addition willing to show all the records which they had kept of their hawala transactions.

Field work is a significant absence that has been recognised in many of the authors work concerning IVTS, if conducted field work adds considerable value and depth to an authors work. It is not for certain that some authors did not undertake field work but in most literature there is no mention of it occurring. Ballard notes that although other academic's working in South, Central, East and South East Asia come across similarly structured Informal Value Transfer Systems in the course of their own fieldwork, no-one had any greater knowledge of the precise details of their internal dynamics than he did. Although this may be true it should be noted that this is a personal and therefore bias opinion. Ballard argues that "although I initially found Professor Passas pioneering report immensely helpful, not least because it was a pioneering attempt to make a systematic study of hawala transactions, I soon became acutely aware of its limitations. Under the terms of his contract Professor Passas was operating under extremely tight time constraints, with the result (as he himself emphasises) that he had not been able to carry out nearly as much fieldwork as he would have wished"(Ballard, 2003, p.2). The frequent criticisms of the system are addressed in the paper, the main one being its link with terrorist financing. The link between Hawala and terrorist finance is sometimes falsely linked by formal bankers who are alarmed to find their business being undercut by competition from IVTS (Ballard, 2003). He progresses to arguing that hawala is a remarkably safe mode of money transmission: "despite handling many millions – and possibly hundreds of millions – of dollars every day, there is very little sign of customer dissatisfaction or of huge sums of money going missing on the way" (Ballard, 2003). However it is common knowledge that large sums of money do not need to go missing in order to fund frequent and lethal attacks, therefore this is a possible important gap missed by Ballard (2003).

Delacruz et al. (2005) note that when the mode of hawala for transporting money is not available al –Qaeda can resort to the use of transferring money physically, the Middle East provides a perfect environment for this type of money transfer due to its weak border controls and its cash-based culture. The argument presented in this paper is important as it really emphasises the point that al-Qaeda need not necessarily rely on hawala for transferring funds. Because if al-Qaeda does have the option of moving money physically it is a possibility that closing down hawala would be relatively ineffective in having any significant impact on restricting terrorist financing, as they would simply resort to a physical mode of transfer instead. However the limitations and added difficulties of moving money physically would have in comparison to IVTS and whether it would be as efficient are not highlighted and need to be addressed.

2.4 What is the current level of research knowledge about Islamic Charities and their vulnerability to terrorist financing?

The financial abuse of charities by terrorists may take different potential forms: raising funds in public collections in the name of charity generally, or for a names charity for charity causes such as a humanitarian relief campaign or following a natural disaster. These funds are then diverted away from the charity and used for criminal and terrorist purposes. This may happen without the knowledge of the charity (Charity-Commission, n.d). Hardister (2003) maintains that 'al-Qaeda's current financial backing is no longer predominantly from the personal funds of bin Laden; instead, this backing comes from wealthy supporters who donate funds to Islamic charities and relief organisations, which are then passed through to the terrorists (McCulloch and Pickering, 2005). This evidence

is a particular concern in the fight against terrorism because if measures cannot succeed in disrupting al-Qaeda's funds, unlike a personal fortune the sources coming from donations etc. are a much more lasting and reliable source. Basile (2010) supports and extends upon this argument by noting that although his (bin-Laden) personal fortune was estimated to be between \$30 and \$200 million and it is quite clear that his once organization, al-Qaeda, does not rest the value of his estate.

Since September 11, the U.S. arms of a number of Islamic charities that funded al-Qaeda have been shut down and their assets have been frozen. Many of these charities were run by al-Qaeda operatives, such as Ennam Arnaout, who was sentenced to eleven years in prison for money-laundering rather than terrorism. Of course, while charities on U.S. soil are governed by American regulations, Middle East-based charities are not constrained by U.S. law. However it should be noted if charities interact with banking or finance networks then it is quite likely that they will interact with U.S. jurisdiction, physically or de facto, given the widespread connection between international finance and American institutions. These charities not only represent a seemingly uncontrollable source of funding, they are also a stable source of funding. The problem with Muslim World League (MWL), Benevolence International Foundation (BIF), and any Islamic charity that supports al-Qaeda is twofold. First, because their objectives are noble and most of their activities justifiable; shutting them down may create serious problems for local beneficiaries and have negative impacts on humanitarian needs that the charity is funding. Second, there are typically other illegitimate charities that will accept the cash when charities like MWL and BIF are closed down. While religious Muslims are called to give to charities, with the belief that their money is being used toward an ethical cause, the cash flow out of charities is very loosely regulated and easy to move to terrorist organizations, often without donor knowledge or consent (Basile, 2004).

Basile (2004) proposes the theory that the war on the financing of terrorism is one that cannot be won; al-Qaeda's flexibility will help it to withstand and adjust to the tactics deployed against them. This journal article is particularly relevant to this study as it highlights many areas that are vulnerable to terrorist financing. And although Basile argues that there is no complete solution to these areas of vulnerability he provides a basis and insight into which can be extended on in this paper. It is recognised that this paper was published in 2004 only three years post 9/11, therefore the fight against the financing of terrorism was only just beginning to gain momentum, consequently Basile's theory maybe less relevant or different today.

McCulloch and Pickering (2005, p.470) make a bold statement that is not sufficiently backed up with evidence in their work, they note "Combating the financing of terrorism is a key tool in the 'war against terror', with some suggesting that the war will be 'fought in the halls of our financial institutions' and 'may be won by the destruction of check books instead of on a battlefield'" It is not clear how they can argue this and also back it up with sufficient evidence, there is no clear measure on the effects that the combating of terrorism financing is having on the war on terror. If anything the literature examined thus far suggests quite the opposite, however as it has it was stated in the introduction it will be virtually impossible in the restraints of this study to come to a conclusion on this question. If a specific measure was highlighted and its effect on the on terrorism demonstrated then it could be considered as a valid statement, but there is not one. The closest measure of the progress and effect is most probably the list of charities that have been caught funding terrorist activity and subsequently closed down, but terrorists could simply switch to a

different charity. This also works for the opposite side of the opinion which Basile (2004) upholds, as much as McCulloch and Pickering (2005) cannot reliably argue that the combating of terrorist financing is a key tool in the 'war against terror', it cannot also be said that it will have no effect at all or withstand this fight as once again there is no reliable measure. McCulloch and Pickering (2005) focus closely on what the consequences of measures targeted at charities are, but they do not look at how often charities are abused for terrorist financing. Once again the literature does not provide any statistical evidence on the true extent of their vulnerability to terrorist financing, which can help us come to a full conclusion. The Charity Commission (2012) does attempt a more precise estimate in regards to the UK and how often charities are abused by terrorists but again offering no statistic. They note "that although proven instances of charities being abused for terrorist financing are rare, they do happen, as charities can be attractive vehicles to criminals" (Charity Commission, 2012).

2.5 What is the current level of research knowledge about Businesses and financiers and their link to terrorist financing.

Al-Qaeda's financial strength is also based on its ability to raise funds from legitimate and illegitimate business and from its network of financiers. In the time since September 11, many al-Qaeda legitimate businesses and financiers have been exposed. However, al-Qaeda still operate businesses in failing states around the world such as diamond trafficking in Africa and honey trading out of Yemen, and many financiers still exist that have not been exposed. Al-Qaeda has been alleged to have used a variety of illegitimate means, particularly drug trafficking and conflict diamonds to finance itself (Basile, 2004). A conflict in opinions on this subject became apparent when certain items of literature were compared, for example Basile (2004) above noted that al-Qaeda are 'alleged' to have used drug trafficking to finance itself. However oppositely in the *9/11 commission report* (2004) it is noted that "while the drug trade was a source of income for the Taliban, it did not serve the same purpose for al-Qaeda, and there is no reliable evidence that bin Laden was involved in or made his money through drug trafficking" (9/11 commission, 2004 p.171). Neither author commits to arguing that their point is definitely correct, as the first author uses the word 'alleged' when arguing their point and the second stresses the point that there is no reliable evidence to confirm their theory.

Comras (2005) believes there is good reason to also look at the international drug trade operating in Afghanistan and Pakistan, though how much of drug money reaches al-Qaeda is uncertain—but some experts think al-Qaeda's reliance on drug money has increased. There is it seems more evidence, although it is not known how valid this evidence is, suggesting that the drug trade is a major source of funding for al-Qaeda than there is not. Comas (2005) referred to Mirwais Yasini, who heads Afghanistan's Counter Narcotics Directorate, who believes the Taliban and its allies generated over \$150 million from drugs in 2003 and who saw a central linkage between the drug traffickers, Mullah Omar and Osama bin Laden (Giraldo et al. 2004). Therefore it is clear that to a point it is a matter of opinion and from the last three items of literature reviewed there is no way of assessing the true extent of the vulnerability of businesses (illegitimate and legitimate) and financiers to terrorist financing. Schneider (2010) notes that in the case of bin Laden and al-Qaeda, their economic and financial empire constituted a transnational financial engine, a considerable section of which is composed of legitimate businesses as already stated by Schneider (2002a, 2002b, 2004); Napoleoni (2005) and Comras (2005, 2007). The proceeds of legitimate businesses can be used as a source of funds to support terrorist

activities. This is a particular risk in sectors which do not require formal qualifications (such as a master craftsman certificate) and where starting a business does not require substantial investments. The risk that a business will divert funds to support terrorist activity is greater where the relation between sales reported and actual sales is difficult to verify, as is the case with cash-intensive businesses. Although this literature suggests that legitimate businesses can pose a risk to terrorist financing as they are vulnerable and where there is a greater risk. It does not however give a clear insight into the extent businesses and financiers are being exploited.

The issue of terrorist financing first appeared in FATF reports on the methods and techniques used to launder money in 1999. The question that needed to be answered by the FATF at that time was 'whether the distinction between legal and illegal sources of funding has an effect on the ability of countries to use anti-money laundering measures to detect, investigate and prosecute potential terrorist related money laundering. This is an important point, because money laundering involves money that comes from a criminal act, e.g. bank robbery or drug trafficking. The financing of terrorism on the other hand does not necessarily come from an illegal source, but just as easily might come from a charity or something as simple as passing around a collection cup at the pub to help the freedom fighters. In other words, money laundering involves money that was already considered illegal, because of some past activity, whereas terrorist financing may involve money that is legal up until it has been used to commit an act of terrorism.

The United States shut down a number of al-Qaeda's businesses in the war in Afghanistan, but al-Qaeda continues to run businesses in developing parts of the world. One such business is the diamond business, which al-Qaeda runs in Liberia and Burkina Faso, two countries involved in the illicit diamond trade. Al-Qaeda diamond trafficking, which has gone undisturbed since 1998 when it was established in the \$20 million industry in West Africa, represents an illegitimate business that Al Qaeda has significantly profited from working with a number of local companies (Farrah, 2002). Here we have the use of an adjective 'significantly' which gives us an indication of how al-Qaeda have profited from this source. But no statistic has been provided which explains what 'significantly profited' constitutes, therefore little value can be attached to this statement. It cannot be argued for definite that al-Qaeda's diamond trade has gone undisturbed as there is no way of knowing this, al-Qaeda's transactions occur under secrecy therefore we cannot know what impact measures are having on their use of the diamond trade.

The 19 hijackers on 11 September 2001 used less than \$500,000 from 20 key financiers to fund the hijacking of 4 American commercial jetliners. This \$500,000 was transferred to the hijackers in a large number of small instalments over time, through different financial channels, indirectly passed to the terrorists from the Middle East, through Germany, the United Arab Emirates (UAE), and Malaysia. The source of these funds was unclear to U.S. authorities until a recent document, recovered from the Arlington, Texas headquarters of Benevolence International Foundation (BIF), listed 20 top al-Qaeda financiers, known as the Golden Chain. In the United States Court case against the President of BIF, Ennam Arnaout, it was suggested that this list of 20 financiers helped provide the funding for the 9/11 cell. More importantly, if true, these individuals highlight the deep pockets of Al Qaeda financiers. This literature although not dealing with solid evidence, if it does have some truth within it highlights the vulnerability of financiers to terrorist activity.

2.6: What are the existing responses to these three above areas of vulnerability to TF?

“There is likely some aspect of the government responses to terrorist financing that are not working. It is possible that there is simply no government policy addressing the problem that has been identified in this paper. It may be that the policy in place provides the wrong answer. Or it may be that there is a good policy available, but it is poorly implemented.” (Shapiro, 2003 p.3).

This chapter will examine the existing responses that exist for the three areas of vulnerability to terrorist financing that have been discussed in the previous chapter. Recognising the vital importance of taking action to combat the financing of terrorism, the Financial Action Task Force (FATF) has agreed these recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts. Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism. Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373 (Pieth, 2003). It is important to look closely at the significance of the word ‘should’ in the recommendations put forward by the FATF council. The terminology used by the FATF, who use phrases such as ‘countries should do this’ and ‘countries are urged to do this’ highlights that there is no guarantee that countries will implement the recommendations and that they have a choice whether to implement them or not. What happens if a country does not follow these recommendations? If they are implemented by all UN members the FATF believe although it is not guaranteed, it will have a positive impact on suppressing terrorist financing, which is supposedly an effective method of tackling the war on terror. However if one country within the UN decides against implementing these recommendations are they then useless and ineffective? Therefore if this is the case then ‘co-ordination’ can be considered as a key aspect in the fight against terrorist financing.

| 1. Table showing the date and cost of terrorist attacks. | | |
|--|-----------------------|----------------|
| Attack | Date | Estimated cost |
| London transport system | 17 July 2005 | GBP 8000 |
| Madrid train bombings | 11 March 2004 | USD 10 000 |
| Istanbul truck bomb attacks | 15 & 20 November 2003 | USD 40 000 |
| Jakarta JW Marriot Hotel bombing | 5 August 2003 | USD 30 000 |
| Bali bombings | 12 October 2002 | USD 50 000 |
| USS Cole attack | 12 October 2000 | USD 10 000 |
| East African Embassy bombings | 7 August 1998 | USD 50 000 |

(FATF, 2008)

Recommendation 20 encourages the application of the FATF recommendations to businesses and professions “that pose a money laundering or terrorist financing risk.” At the same time, the sheer magnitude of the task expected of these firms must be recognized. Every significant financial transaction (one that is either suspicious or in excess of US\$10,000 is subject to review and analysis (Vlcek, 2008). However the fact that the transaction has to be in excess of USD 10 000 to be subject to review and analysis is a problem, as attacks can be carried out on a lesser budget with the funds coming from a legitimate source which would raise no suspicion. As we can see from the table above the Jakarta JW Marriot Hotel bombing cost approximately USD 30 000 whilst the USS Cole attack cost USD 10 000. The first having a death toll of 9 and the later 17. Therefore this indicates that there is not a direct link between the cost and number of deaths, an attack costing more than another is not certain to have more casualties. By setting the USD 10 000 transaction fee before it is subject to review can be argued as subconsciously assuming or entering a mind-set that assumes that the lower the cost of the attack the less lethal it is. It is recognised that by lowering the fee would create an almost impossible task for businesses and professionals, which would involve them reviewing many more millions of transactions.

Informal Value Transfer Systems

Faulkner (2005) discusses in depth and more narrowly how the United Kingdom regulates its money services businesses and how, in doing so, it fulfils the requirements of the Financial Action Task Forces (FATF) special recommendations VI. Recommendation VI calls on countries to take measures to ensure that informal money or value transfer systems are licenced or registered and subject to all the FATF recommendations that apply to banks and non-bank financial institutions (Faulkner, 2005). The UK have taken the recommended measures, however the fact that the recommendation uses the phrase ‘calls upon’ highlights again that it is not for certain that all will implement these measures. Continuing with the UK approach to regulation of money service businesses which has evolved considerably over the last decade and has included the introduction of a formal regulatory regime. The United Kingdom has adopted a two pronged approach to the regulation of such businesses depending on whether they operate in the formal or informal realms. Businesses that are in the informal section which are stand- alone and independent, are regulated and supervised by H.M. Customs (Faulkner, 2005). Even measures imposed in accordance with FATF standards have proven insufficient in regulating this financial system. Earlier it was highlighted that in order for FATF recommendations to have a chance of having a positive impact on terrorist financing globally then it is most likely that all UN nations will have to comply with FATF standards. Here we can begin to see the ineffectiveness of these standards even on a single nations fight against a considerably small area of terrorist financing. Here we are only considering the United Kingdom and their attempt at regulating IVTS and who have followed FATF standards and recommendations and it has still had no impact.

Delacruz, et al. (2005) recommends improvements in inter-agency coordination through cleaner chains of command, improvements in data collection and an on-going focus on multilateral efforts to achieve international standards for monitoring terrorist financial activities. The fact there is no single chain of command to evaluate issues concerning terrorist financing is a concern. Further, each agency is likely to reflexively operate according to its core competency. For example, intelligence agencies are likely to trace money and law enforcement agencies are likely to freeze assets and attempt to bring

criminal charges. This contradiction and opposing methods between agencies is most likely hindering progression. As it was discussed earlier in chapter three on IVTS, there are many positives to come from tracing money and if another agency is freezing assets this is preventing positive information being uncovered. The suggested recommendations put forward by Delacruz et al. (2005) in relation to terrorist financing responses appear to be practical. They recognise that coordination and communication problems between agencies is hindering progression and argue the lack of a single chain of command is concerning.

Lauren-Chatain et al. (2009) argues that avoidance of duplication and wasted resources is an added benefit of coordination. The Department of Treasury collects large amounts of data in the form of Suspicious Activity Reports (SARs), intelligence and law enforcement agencies do not automatically gain access to this data, and instead they have to request it. The fact that the data has to be requested consequently means that it could either be delayed or even denied which if maximum efficiency is to be achieved in this area neither can occur. However a possible weakness is the suggested claim of a single chain of command which would suggest a possible move towards centralised power. With terrorism being such a broad complex subject branching out into numerous areas and concerning various departments could mean centralised power could be problematic.

On the one hand, terrorist activities require money, creating an imperative to freeze assets and dry out funding. On the other hand, the long term prevention of terrorist attacks will be achieved through better intelligence (Delacruz et al. 2005). Many argue that such intelligence can be obtained by tracing the flows of money that has been identified as terrorist money. Clearly, this logic dictates that assets are not frozen. Current stated policy favours tracing money but that policy has not been pursued consistently. Assets have been frozen on several occasions. It is not clear what metric, if any, is used to decide when to freeze money and when to trace. Pathak (2003) argues it is important to understand that hawala networks are too amorphous to control with traditional banking laws, too insular to easily infiltrate, and too enmeshed with other services to abolish outright. The Financial Action Task Force (FATF) recommends regulation in order to increase transparency. Transparency is important, but since one of the key attractions of IVTS is its low cost, there is concern that the additional systems and personnel costs required to improve transparency would not make this a viable option for most providers of IVTS (Keene, 2007).

2.7 Islamic Charities

In developing the key financial standards to combat terrorism, the Financial Action Task Force (FATF) has found that “the misuse of non-profit organisations for the financing of terrorism is coming to be recognised as a crucial weak point in the global struggle to stop such funding at its source” (ICNL, 2002). However Ehrenfeld (2002) plays down the role of charities in the financing of terrorism, noting that “We have heard quite frequently about the use of charitable organisations to collect and transfer illegal funds and about alternative payment systems. However, those funds are hardly enough to pay for the training camps, recruitment, conventional and unconventional weapons, travel, safe houses, propaganda, and all that is needed to carry out international terrorist activities” (Ehrenfeld, 2002 p. 392). This is one of the clearest and direct answers found in the literature researched.

When discussing and researching the subject of responses to Islamic charities and their vulnerability to Terrorist financing the consequences and effects of these responses inherently arise. The measures targeted at charities can dramatically expand the discretionary power of law enforcement to respond to political activity as crime. In addition, they provide a mechanism through which governments can financially cripple individuals, charities, welfare and social justice organizations, and reduce the ability of individuals and organizations to engage in advocacy on behalf of marginalized groups and to critique government policy (McCulloch and Pickering, 2005). This subject has to be treated with high sensitivity, as it is highlighted here there are many consequences and complexities that arise from terrorist financing measures that target Islamic charities. Therefore it is sensible to argue that they be treated less rigorously than other terrorist financing sources such as IVTS, however it has to be recognised that it could be harmful for governments to treat charities more carefully than other sources as there is a chance that al-Qaeda will take advantage of this relaxed approach. These complexities highlighted therefore make it clear why charities are considered by some as vulnerable and a valuable financing source for terrorists.

On 31 October 2001, the FATF issued a set of eight special recommendations related to the financing of terrorism. One of these recommendations states that non-profit organisations are particularly vulnerable to exploitation by terrorists. According to the FATF:

.....[c]ommunity solicitation and fundraising appeals are very effective means of raising funds to support terrorism. (Financial Action Task Force 2002, 4-5)

In order to assess the international CFT initiatives, some indicators should be taken into account: legal compliance, the number of states that have signed the UN convention, financial intelligence units (FIUs) created, increased reporting, or international bodies joined, the amount of national and global asset freezes, technical assistance programs run and more importantly the degree to which states have changed domestic policies to be in compliance with the new international standards (Clunan 2006-7: 578; Biersteker 2007b:16). According to Dalyan (2008) "In terms of legal compliance, most countries have shown important progress on criminalizing the wilful provision of funds for terrorism and providing a legal basis for the expeditious freezing of the funds of terrorist organizations and individuals. Only three UN Member States had a legal basis to freeze funds quickly by 2004. However by late 2005, the act of financing of terrorism was criminalized in 123 UN Member States. Most states have reported changes in their administration to deal with terrorist financing; FIUs or other intra-governmental mechanisms to address the issue have been established for the first time in many countries. The total number of global member FIUs, informal trans-governmental networks to share information regarding money laundering and terrorist financing reached 102 in 2006.

The links between terrorism and charities in the United Kingdom (UK) were highlighted by the National Terrorist Financial Investigation Unit after the terrorist attacks on 7 July 2005 in London. It concluded that eight different charities had either direct or indirect links to the attacks. Furthermore, six other charities have been linked to the networks suspected of being behind two subsequent foiled attacks. Charities in the UK have to comply with a plethora of legislation aimed at preventing the funding of terrorism, including: the Terrorism Act 2000; the Anti-terrorism, Crime and Security Act 2001; and

the Terrorism (United Nations Measures) Order 2006 (SI 2006/2657) (New Law Journal, 2006). It was reported in the Guardian (2007) that Forty-eight "suspicious activity" reports about links between charities and terrorist financing were filed last year by banks and other financial institutions, according to a Home Office review. It says that Serious Organised Crime Agency reports show that while terrorist exploitation of charities has proved rare, it remains a risk.

2.8 Businesses and Financiers

Indeed drug trafficking has provided funding for insurgency and those who use terrorist violence in various regions throughout the world, including in transit regions. In some cases, drugs have even been the currency used in the commission of terrorist attacks, as was the case in the Madrid bombings. Effective tools do however, exist which can chip away at - and eventually contribute to breaking - the links. For example, at the international level there is a common legal framework consisting of 16 universal anti-terrorist instruments, as well as relevant UN Security Council resolutions. Included in the latter is a series of UN resolutions imposing sanctions - such as the freezing of assets, a travel ban and an arms embargo, on members of the Taliban, al-Qaeda and their associates. There are currently 124 entities and 226 individuals on this list. (UNODC, 2013). Farah (2003) argues that "Because of the lack of understanding of the terrorists' use of commodities, the U.S. government, in the immediate aftermath of 9/11, did not look for terrorist funds where they were hidden. The initial hunt for al Qaeda funds focused almost exclusively on trying to freeze the few assets that remained in Western banks and were traceable to terrorist funding". In America and Britain, it is require of lawyers, accountants, insurance companies to file a suspicious activity report (SAR). Las Vegas casinos are screening high rollers. Even yacht brokers and jewellers have been told to report buyers who try to pay with big rolls of cash (Economist, 2005). In a quote that really stresses the ineffectiveness of these measures The Economist (2005) states "Such cases are rare, though. Many experts, both in government and the private sector, admit that the chances of detecting terrorists' funds in a bank sufficiently far in advance of a planned attack that it can be prevented are incredibly small. "In my view, it's hardly worth the effort," says one banking industry official in Europe".

Chapter 3: Methodology

In order to address the aims of this year three undergraduate dissertation project secondary sources have been utilised within a library and internet based approach. The decision to conduct secondary research was made because of the ethical issues and limitations that exist in this subject area if wanting to conduct primary research. There is a possibility that it would have been beneficial to my study if I could have conducted primary research by interviewing terrorist detainees or officers working at a terrorist detention centre. However gaining accesses from officials would have been extremely difficult for an undergraduate student like myself to get and would have also been time consuming. Aside from the seemingly impossible-access to terrorist organizations, it should be noted first that researchers are actually afforded relatively little information by legitimate, "overt" sources. Most governments do not permit access to records and information regarding individuals whose activities have landed them in legally punishable circumstances (Horgan, 2005). Therefore the most efficient and appropriate research method was a library based documentary review and analysis, although no new raw data

will be produced the process of examining and evaluating existing literature through sources such as journals, online articles, books and any other significant resources can provide a valuable objective. To gain the evidence required to corroborate these inductive and pioneering lines of criminological exploration secondary analysis was utilised, this is because secondary analysis allows 'readily accessible data set [that] can enable students to carry out their own analysis in an area of substantive importance' (Dale et al, 1988, 3).

The use of secondary research does not come without its issues; Law (2005) stated that "while the questions surrounding the secondary use of research data have always existed, they have become more pressing with the use of new technologies. New capabilities include easier data sharing, faster and more complex analysis, and the development of large scale data banks. Previously, the ability of researchers to communicate was limited by time and distance; now data can be shared globally at the click of a mouse".

The secrecy and deceitfulness of terrorist cells are notorious, therefore even if access was granted to interview a convicted terrorist the results produced could not be certain to be valuable or reliable. The fact that secondary research was less time consuming than primary research was very important, as it allowed more time for interpreting the vast amounts of information retrieved. Noaks and Wincup (2004) state that using documents for research can help to recognise changes and similarities over time, with books in particular providing historical background as well as current issues and debates.

In addition to library based documents, internet recourses were also valuable and were instrumental within the study. The use of the internet allowed access to up to date articles which would have otherwise been unobtainable or extremely difficult in obtaining. Resources such as Google scholar and University of Derby's Ebsco online were also extremely helpful enabling to browse and study various journals and articles offering contrasting opinions and details. The use of the internet for searching for literature such as journal articles in comparison to doing it without it was so much more efficient, leaving more time for interpreting the literature found. The subject of terrorism dates back to the 19th century however only very recently has it become a highly debatable subject, therefore there are far more journals published on the subject of terrorist financing online in opposed books. The use of cases studies in my study was vital as it enabled me to compare and contrast numerous aspects and details of each case, which resulted in rich and detailed information being retrieved.

The research conducted on the subject in question as for example Informal Value Transfer Systems began by looking broadly, studying numerous journal articles and books which discussed any aspect of the subject. This enabled a solid understanding of the subject to be attained which then more specific research could be conducted. Literature that was found to be irrelevant I ensured that I made a note that it was so; this was helpful as later on when I began writing up my study and was therefore referring back to the vast amounts of literature, I did not waste my time examining irrelevant literature again. The research was then narrowed down, when using search tools for journals and other literature only specific key words were entered into the search engines. For example as I was not doing a comprehensive review of al-Qaeda it was not efficient to be examining literature on the background and history of al-Qaeda, therefore key words or terms such as 'al-Qaeda and Islamic charities' or al-Qaeda and terrorist financing were entered instead.

Chapter 4: Analysis and Findings

4.1 What the known or potential effectiveness of these responses and how can existing or future research help to improve the responses to these areas of vulnerability?

This chapter will discuss the analysis and findings from the literature reviewed on the subjects: definitions of terrorism and terrorism financing, Informal Value Transfer Systems, Islamic Charities and Businesses and Financiers, which a number of themes have emerged. The chapter will analyse what the known or potential effectiveness of the responses discussed in chapter three are and discussing how existing or future research can help to improve the responses to these areas of vulnerability?

It is relevant to begin this chapter by discussing the Financial Action Task Forces response and importance in this area. The FATF (2008) also offered the most direct answer to the question of this study, their stance in relation to this question is that the disruption of specific attacks through the interdiction of specific transactions appears highly challenging. Recent attacks demonstrate that they can be orchestrated at low cost using legitimate funds and often without suspicious financial behaviour. Nevertheless, direct attack costs are only a fraction of terrorist organisations' demand for funds. Disrupting financial flows to terrorist organisations limits the resources available for propaganda, recruitment, facilitation, et cetera, in ways that frustrate terrorist capabilities to promote and execute attacks over time (FATF, 2008). This statement is one of the most clear and relevant found in the literature reviewed; it almost directly answers the question of this paper. The quote "Nevertheless, direct attack costs are only a fraction of terrorist organisations' demand for funds" is vitally important in regards to the question of this study.

Disrupting funding flows creates a hostile environment for terrorism, constraining overall capabilities of terrorists and helping frustrate their ability to execute attacks. Disrupting terrorist financing involves both systemic safeguards, which protect the financial system from criminal abuse, and targeted economic sanctions informed by counter-terrorism intelligence. Looking ahead the study identifies four areas which could be the focus of efforts to further strengthen counter-terrorist financing efforts: (1) action to address jurisdictional issues including safe havens and failed states, (2) outreach to the private sector to ensure the availability of information to detect terrorist financing, (3) building a better understanding across public and private sectors and (4) enhanced financial intelligence to exploit the value of financial investigation as a tool in fighting terrorism (FATF, 2008).

The FATF recommendations are a leading force in orchestrating the response to terrorist financing and have been focused on intensely in this paper, however their effectiveness in responding to terrorist financing and therefore the war on terror has been found to be questionable and unclear. The recommendations put forward to countries may be the best way forward in restricting terrorist financing, however it was found that the fact that they are guidelines and it is not mandatory for countries to implement them is a weakness. As it has been highlighted in this paper the recommendations therefore depend on many factors in order to achieve their goal, the consequences if countries do not implement the

recommendations are not addressed by the FATF. The start of the compliance problem with countries implementing recommendations was found to be countries accepting the FATF definition of terrorism. However from the research it is difficult to see how a definition can be implemented that satisfies all member states, the FATF recommendations cannot surely work effectively if different countries have different opinions of what constitutes terrorism. Therefore although a united fight against terrorism is ideal, it is more likely from what has been highlighted in this research the countries will act on a more individual level and the FATF recommendations will not achieve full effectiveness.

It is difficult to see how the FATF's recommendations for combating terrorist financing can be improved, especially without co-ordination and acceptance from all members. Co-ordination is definitely an area which requires improvement and further research, the consequences of this lack of coordination are highlighted by Delacruz et al. (2005) particularly in regards to the freezing of assets. As regards to sharing information between competent authorities, there is a need to implement cooperation and exchange structures encompassing fiscal authorities, financial oversight bodies, the Justice Department, the intelligence community, law enforcement authorities and authorities in charge of administrative freezing (European Union, 2006). However as it has been stressed numerous times in this essay we cannot tell for sure whether these recommendations are failing or not as there is no effective measure on how terrorist financing is being suppressed. They could for all we know be having a significant impact on suppressing terrorist financing as we speak.

The adaptability and opportunism shown by terrorist organisations suggests that all the methods that exist to move money around the globe are to some extent at risk (FATF, 2008). If this is the case there are grounds to argue that Informal Value Transfer Systems are not vulnerable to terrorist financing any more than formal methods such as the formal banking system. A theme occurring in the literature concerning IVTS is that the consequences for closing the system down far outweigh the positives. Analysis of the literature shows that al-Qaeda has certainly made use of the IVTS in some way or another in the past and most probably continue to do so. However the majority of the literature fails to answer how much is being transferred and what specifically it is being used for. As it was noted in the literature review hawala which was the IVTS focused on in this study is a remarkably safe mode of money transmission: "despite handling many millions – and possibly hundreds of millions – of dollars every day, there is very little sign of customer dissatisfaction or of huge sums of money going missing on the way" (Ballard, 2003). Yet it is important that literature like that of Ballard (2003) do not deceive us into believing that IVTS is a perfectly safe mode of money transfer which are not vulnerable to terrorist financing. What was found was not that Informal Value Transfer Systems like hawala are free from al-Qaeda activity. But instead that their levels of vulnerability are sometimes exaggerated and is instead could be closer to levels of the formal banking system.

A contrasting theory was presented by Greenberg et al. (2002) who stated that "al-Qaeda moves its funds through the global financial system, the Islamic banking system, and the underground hawala system, among other money transfer mechanisms" and al-Qaeda "makes good use of the ancient hawala (or hundi) underground banking system, which allows money transfer without actual money involvement, or any wire transfer" (Greenberg et al., 2002, p. 7/15). However Greenberg et al. (2005) did not make it clear

what constitutes ‘good use’ and consequently offered a vague and simple insight into IVTS, one much simpler than Ballard (2004).

It is hard to make total sense and come to a conclusion of the findings on Informal value transfer systems and the effectiveness of the measures targeted at them have had in regards to terrorist financing, due to the secret and discreet nature of the system. The findings from this paper strongly suggest that IVTS and in particularly Hawala is not significantly vulnerable to terrorist financing as once thought at the beginning of this study, there is a strong possibility that it is no more of a threat in relation to terrorist financing than other modes of money transfer including the formal sector. However the problem with analysing the findings from this study is that as it has been highlighted by Passas (2003) even if some IVTS activity is reported to be which this may not necessarily be good news, that is, former hawala dealers maybe switching to alternatives (Passas, 2003).

Islamic charities.

Chapter 2 discussed measures and responses targeted Islamic charities which involved the freezing assets which proved to be a particularly controversial subject. It therefore raised the question have freezing orders and related measures significantly impacted al-Qaeda’s ability to raise, accumulate and transfer funds? Which if it has, would potentially have the possibility to reduce the lethality and frequency of attacks?

Rensselaer (2002, p.20) states “there are signs that cooperation is sometimes halting and incomplete, again the theme of co-operation arising. Major donors in the Middle East still reportedly are funnelling millions of dollars annually to al- Qaeda. According to some observers, large international charities based in Saudi Arabia with histories of alleged links to Islamic terrorism have not been significantly affected by the freeze campaign”. However it has to be recognised that this report was published in 2002, only a short while after 9/11. Only after then did the war on terrorist financing only really start to gather pace. Therefore the measures implemented would not have had much time to have a real effect. Therefore the publication date of this report should be taken into consideration when examining its reliability value in regards to answering the question how effective are these measures?

Earlier in chapter two it was explained how Dalyan (2008) noted that in terms of legal compliance, most countries have shown important progress on criminalizing the wilful provision of funds for terrorism and providing a legal basis for the expeditious freezing of the funds of terrorist organizations and individuals. It was also discussed in the section the importance of cooperation by member states which has been a major focus of this essay; therefore the relevance of this paper cannot be understated. Biersteker (2007) evaluates the effectiveness of these International Initiatives which this chapter is also discussing. He notes that “many countries have introduced new reporting procedures for banks and financial institutions, particularly “know-your-customer” provisions and reports on suspicious transactions. But few states have introduced measures to regulate charities, other than registration. (Biersteker, 2007b: 16-18). This reoccurring theme in the literature of co-operation and lack of implementation/introduction of the recommendations from countries has highlighted a significant weakness in the measures and initiatives for combating terrorist financing. Which are put forward by bodies such as the FATF, World Bank and International Monetary Foundation (IMF) which the latter two provide technical assistance to ensure compliance with the FATF’s recommendations and inclusion of anti-

money laundering considerations in their country evaluations (Clunan 2006-7:579). In order to strengthen multilateral coordination and cooperation between international and regional organizations dealing with countering terrorism, including among the UN committees involving terrorism-related issues, some steps should be taken. (Biersteker 2007c:20) Most cooperation in the field of CFT takes place on a bilateral basis. There is a need for an international forum to provide international support and to exchange information and intelligence relating to the financing of terrorism.

Regarding the enforcement, as it is declared by Wayne, approximately \$147.4 million had been frozen internationally and \$65 million seized in assets internationally as of 13 July 2005. Most of this money belonged to the Taliban regime and some \$59 million seemed to be associated directly with al-Qaeda. (Comras 2005 p.8). According to the UN High-level Panel Report, “attempts to address the problem of terrorist financing have been inadequate. While in the three months after 11 September 2001 \$112 million in alleged terrorist funds were frozen, only \$4 million were frozen in the two years that followed. Seized funds represent only a small fraction of the total funds available to terrorist organizations. While many states have insufficient anti-money laundering laws and technical capacity, the evasion techniques of terrorists are highly developed and many terrorist funds have a legal origin and are hard to regulate.” (Dalyan, 2008). Not only do these measures seem inadequate in what they are trying to achieve, they also seem to have minimal impact on disrupting al-Qaeda’s terrorist financing

Businesses and Financiers.

Some U.S. intelligence agencies remain reluctant to acknowledge even the possibility that al-Qaeda moved significant assets into commodities, especially gem stones, despite the growing evidence, beyond anecdotal evidence and eyewitness testimony to support the veracity of the reporting. Given the dearth of assets on the ground and the fact that so little of the illicit trade is detectable through electronic intercepts or other high-tech tools, it seems to me highly probable that similar transactions, by al-Qaeda and other terrorist groups have transpired in other countries (Farah, 2003).

Earlier in chapter 2.7 and at other points in this study it has been discussed how in America and Britain when lawyers, accountants and insurance companies try to transfer large sums of money the filing of a suspicious activity report is required. However the Economist (2005) states that “yet all this effort has yielded depressingly few tangible results. America’s Treasury says more than 1,000 grand-jury subpoenas (equivalent to a summons in the United Kingdom) and more than 150 indictments have been handed down, although there has been nothing like that many convictions”. SARs do not seem to represent an effective measure of detecting terrorist transactions; the first flaw was pointed out by Delacruz et al. (2005) in chapter 2.6. It was argued that even when SARS are collected by The Department of Treasury in the United States, intelligence and law enforcement agencies do not automatically gain access to this data, and instead they have to request it. Clearly this co-operation problem and failure to deploy SARs properly is preventing them having the best possible effect on addressing businesses vulnerability to terrorist financing. In addition it was stated earlier that in the United Kingdom Forty-eight "suspicious activity" reports about links between charities and terrorist financing were filed last year by banks and other financial institutions, according to a Home Office review (Guardian, 2007). This considering the amount of businesses and transactions that would

have been made is a very low number, it is almost certain from this evidence that some businesses are failing to submit SARs when required.

Chapter 5: Conclusion

This research has examined the vulnerabilities and Responses to Terrorist Financing, by an exploration of Informal Value Transfer Systems (IVTS), Islamic Charities, and Businesses and Financiers. Therefore this chapter will conclude on the data and findings that have been uncovered on the topics discussed within these areas. The three areas of vulnerability will be discussed separately in this chapter, bringing together all of the subjects discussed that relates to them in a final conclusion.

The discussion on the definitions of terrorism was the first topic discussed in the literature review; there are numerous reasons why it was important to start with this topic. Firstly in order to provide context and a comprehensive analysis of terrorism and terrorist financing these concepts firstly needed to be defined. It was also of value to discuss this topic first because it helped to provide a basis in which could be built upon in the following sections. A good example of this was when discussing the measures targeted at the three areas of vulnerability. One of the first areas of weakness was to be found in the definition of terrorism, this could quite possibly not have been discovered otherwise. The section mainly focused on the various definitions put forward by different bodies and the question was asked if one definition could be accepted by all countries? From the research it is possible to conclude that it would be almost impossible to do so as some countries disagree on what actions constitute terrorism. As it was highlighted above this discussion also assisted in highlighting one of the key weaknesses in the recommendations put forward by the Financial Action Task Force (FATF) which was co-operation.

Next in the literature review there was a discussion on what the current level of research Knowledge about IVTS vulnerability to terrorist financing was? The data collected from this section can lead us to the conclusion that the freezing or closing down of hawala which was the ITVS focused on would be unwarranted. In addition its vulnerability to terrorist financing was found to be more in line with that of formal methods such as the formal banking system than originally thought. The literature examined generally failed to address what the money transferred by al-Qaeda went towards funding. There was nothing for example suggesting that the money transferred through hawala is going directly to purchasing the material for making explosives to execute terrorist attacks. Therefore we cannot make an assumption that by freezing hawala it would reduce the lethality and frequency of attacks. Therefore future research conducted is suggested to focus on what the funds transferred by al-Qaeda are used for, be that training camps, propaganda or materials for executing terrorist attacks.

The data on Islamic charities found that bodies such as the FATF were particularly concerned with charities vulnerability to terrorist financing, possibly more than with IVTS and Businesses and Financiers. The FATF quote “that the misuse of non-profit organisations for the financing of terrorism is coming to be recognised as a crucial weak point in the global struggle to stop such funding at its source” (ICNL, 2002). The reason for this high level of vulnerability was found to be because of the consequences and controversy that inherently arises when measures are targeted at charities, therefore they tend to be more leniently regulated which al-Qaeda can take advantage of. The measure

that was most controversial was found to be the freezing of charitable assets, as this prevents money that is not intended for terrorist use getting to civilians who require it for legitimate reasons. This is a large sacrifice to make to stop which evidence suggests is most likely to be a small amount of funds getting to terrorist organisations such as al-Qaeda. It was also found to be a possible unnecessary sacrifice when the data on the effectiveness of these measures was examined. The measures do appear to be rather ineffective, although the effectiveness cannot be measured completely as most of the dealings of al-Qaeda occur under a veil of secrecy therefore we cannot tell what effect they are having. In theory it is almost certain that less people die from terrorist attacks per year than they do from humanitarian problems. Therefore relaxing measures on charities such as the freezing of assets to prevent the failure of funds getting to those who need them could be argued as being the priority. However would this reason or excuse satisfy some of the public in countries that do not suffer from widespread humanitarian problems? It is highly unlikely.

The third area of vulnerability to terrorist financing discussed was businesses (legitimate and illegitimate) and financiers. The literature reviewed on businesses and financiers was the most inconclusive out of the three areas of vulnerability. For example most of the literature conflicted with one another, for example the 9/11 commission noted that “while the drug trade was a source of income for the Taliban, it did not serve the same purpose for al-Qaeda, and there is no reliable evidence that bin Laden was involved in or made his money through drug trafficking” (9/11 commission, 2004). However contradictory to this Basile (2004) above noted that al-Qaeda is ‘alleged’ to have used drug trafficking to finance itself. Therefore from this evidence it is impossible come to a final conclusion on the true extent of the vulnerability to terrorist financing a business such as the drug trade carries. Although it cannot be concluded what types business are funding al-Qaeda and the true extent of its vulnerability it is clear from theory’s presented by authors such as Basile (2004), Schneider (2010) and Giraldo et al. (2004) it does present a significant enough threat to warrant attention and further research. The literature reviewed on financiers was particularly insightful into its threat and vulnerability to terrorist financing, data showed that financiers most likely played a vital role in funding the 9/11 attacks. A particular problem found with the measures targeted at businesses such as the diamond trade is that it simply it is not known how to apply the measures effectively to a trade which is so hard to detect. Therefore this study considers businesses and financiers to be a significant threat and consequently highly vulnerable to terrorist financing.

In a final conclusion of the measures targeted at IVTS, Islamic charities and Businesses and Financiers a major theme and weakness with the measures was co-operation, this was particularly evident in the recommendations put forward by the FATF. Without improvements in co-operation not only between countries but governmental departments it is likely that these measures will continue to have little or no effect on terrorist financing. A significant obstacle in the way of achieving co-operation between countries was discovered to be agreement on the definition of terrorism. There was no direct or sufficient evidence found that suggests the reason for the lack of material published on the measures targeted at terrorist financing is because it does not satisfy public interest. However the controversy that was found to surround measures targeted at Islamic charities could be a reason why there is a lack of material published on these measures. Although the analysis and findings lead us to the more likely conclusion that it is because the measures are relatively ineffective in the war on terror. While the activities of al-Qaeda remain under the radar, which while terrorism exists it always will do. There measures targeted at

terrorist financing will always be limited whilst also will the findings. However what this study has highlighted is that although full proof measure can be implemented the measures that are introduced need to work to maximum efficiency and currently they are not. As this study found co-operation is a major factor for this failure, therefore this is an area in which further research is required, into where and how it needs to be improved.

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