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Status Report on the Countering Terrorist Financing

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Today, the wars in Syria and Iraq—an increasingly interconnected conflict—have given rise to new terrorist networks, including both al Qaeda’s al-Nusra Front and Khorasan Group, and ISIS. The conflict has become a humanitarian and strategic catastrophe. It threatens to tear the region apart along sectarian lines. It has injected new oxygen into groups and movements driven by violent Islamist ideologies, including but by no means limited to groups formally associated with al-Qaeda. The more horrific the actions the Assad regime takes against primarily Sunni Syrian civilians—from chemical weapons to barrel bombings to using starvation as a tactic of war—the greater the regime’s magnetic appeal drawing fellow Sunnis from around the world to defend their co-religionists and engage in an increasingly sectarian battle against the Alawite regime and its Shiite allies, Iran and Hezbollah.

And as events in Syria and Iraq convulse the region, the humanitarian disaster and security nightmare that now defines the Middle East have contributed to a reshaping of the terror finance environment. Some things remain the same, such as the destabilizing role played by Iran in providing state sponsorship—cash, arms, material support—to terrorist groups, radical militias, and totalitarian regimes like that of Bashar al-Assad. In other areas, like terrorist abuse of the charitable sector, issues that had petered out have now become prominent once more. And still other, new means of raising, moving, and storing funds for illicit purposes have been developed to adapt to the needs of today’s terrorist groups and operatives. Indeed, one of these is the financing trends of homegrown violent extremists, who may not officially belong to any established group, as such. And the financing trends of different groups, like al Qaeda and the Islamic State, for example, can vary significantly.

As I was asked to offer a short, five-page briefing, I’ve focused on just three examples of these broader trends.

SELF FINANCE

As large, complex terror operations become increasingly difficult to carry out, many jihadis are setting their sights lower. The 9/11 attacks cost somewhere between \$400,000 and \$500,000, took years to plan, and involved at least dozens of people.¹ Now, however, funds for a successful and highly visible terror operation can be raised through inherently innocent and innocuous means. Ahmedy Coulibaly, one of the three extremists in the Paris attacks in January,

¹Lee Hamilton and Thomas H. Kean, *The 9/11 Commission report: final report of the National Commission on Terrorist Attacks upon the United States*, 2004, http://www.9-11commission.gov/report/911Report_Exec.htm

funded his mission by taking out a 6,000 euro loan.² The two Kouachi brothers reportedly received \$20,000 from al-Qaeda in the Arabian Peninsula, but the rocket-propelled grenade launcher and the Kalashnikov automatic assault rifles used by the Kouachis cost less than \$6,000.³

Similarly, travel to and from Syria is relatively cheap and easy. According to reports from the Canadian press, some would-be foreign fighters sought to raise money through part-time, seasonal work in Alberta's oil fields. Even better, for those individuals, "if you're someone that wants to be left alone or works well in isolation, there is certainly the opportunity to do that," said the Edmonton police chief, adding that they "can make a whole bunch of money in a very short period of time." Michael Zehaf-Bibeau, who murdered a Canadian soldier before attacking Parliament buildings in October 2014, worked at one of the Alberta oil fields to raise money for his attempted travel to Syria.⁴

Petty crime has the potential to bring in sufficient funds for a homegrown attack or transportation to a combat zone as well. Also in October, a 15-year-old boy in Montreal held up a convenience store with a knife, stealing some \$2,200 to pay for his plane ticket out of Canada. The teen's father turned him in to the police after finding the money in his son's bag.⁵ Meanwhile, four men were recently arrested in Brooklyn, New York, for attempting to join the Islamic State. Many funds were supplied by Abror Habibov, who operated mall kiosks for kitchenware and cellphones. According to the indictment, a round-trip ticket to Istanbul cost a mere \$598. One of the defendants expected that "he would not need to bring more than \$400 to travel to Syria because he would not have any concerns in the land of the Islamic State." The biggest obstacle for a third defendant was the fact that his mother had confiscated his passport.⁶

As shown in the cases of the two Canadians in October who turned to deadly attacks when their intended travel to Syria was thwarted, such individuals may readily redirect transportation funds toward homegrown violent extremism. A FATF report identified several potential revenue streams for would-be foreign terrorist fighters, including robbery and drug trafficking, various social service payments, and unpaid loans.⁷

² Rukmini Callimachi and Jim Yardley, "From Amateur to Ruthless Jihadist in France: Chérif and Saïd Kouachi's Path to Paris Attack at Charlie Hebdo," *The New York Times*, January 17, 2015, <http://www.nytimes.com/2015/01/18/world/europe/paris-terrorism-brothers-said-cherif-kouachi-charlie-hebdo.html>.

³ Shlomo Papirblat, "Belgian Arms Dealer Confesses to Supplying Paris Attackers," *Haaretz*, January 14, 2015, <http://www.haaretz.com/news/world/1.637034>.

⁴ Stewart Bell, "Radicalized Youth Making Pit-Stops to Earn Cash in Oil-Sands before Joining Extremist Groups Such as ISIS: Chief," *The National Post*, January 13, 2015, <http://news.nationalpost.com/news/canada/radicalized-youth-making-pit-stops-to-earn-cash-in-oil-sands-before-joining-extremist-groups-such-as-isis-chief>.

⁵ "Accused Quebec Teen Jihadist Charged with Terrorism Offences," *CBC News*, December 4, 2014, <http://www.cbc.ca/news/canada/montreal/accused-quebec-teen-jihadist-charged-with-terrorism-offences-1.2860054>.

⁶ *United States v. Juraboev et al*, No. 2014R01413, US District Court, Eastern District of New York, February 25, 2015, http://www.justice.gov/sites/default/files/opa/press-releases/attachments/2015/02/25/edny_complaint.pdf.

⁷ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 22, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

CHARITY ABUSE

Much attention has so far been devoted to the massive amounts of revenue that ISIS brought in through oil sales. But with the catastrophic humanitarian crisis in Syria and Iraq, another significant potential source of funds is emerging in the renewed abuse of charities. This is not a new vulnerability. The Holy Land Foundation, a Hamas charity based in Texas, was designated by the US government as far back as December 2001. Now, a February report from the Financial Action Task Force warns that “the possibility of abusing charities by ISIL or its affiliates directly or indirectly for fundraising or funding activities needs to be recognized.”⁸

In the past half year, Western European countries have taken action against several outfits. The UK stripped the Muslim Charities Forum of state funding in January, following an investigation into “links to a group alleged to fund Hamas and the Muslim Brotherhood.”⁹ French authorities shut down Pearl of Hope, a charity that claimed to “promote the health and education of sick Syrian and Palestinian toddlers,” in November 2014. Two senior leaders were also arrested on charges of financing terrorism. According to investigators, while Pearl of Hope did deliver food and medical supplies, “the group was also using such deliveries as a front to funnel covert funds to jihadist groups and had links to the Nusra Front.” About a dozen other charities were under surveillance at the same time.¹⁰

Even more concerning, innovations in social media and other communication technologies have made it easier than ever for individuals to donate money to their cause of choice. As the recent FATF report noted, “ISIL has manipulated social media, physical and virtual social networks, encouraged donations, and conducted a marketing campaign in a manner that is consistent with industry standards established by major crowdfunding companies.” A case study from Saudi Arabia highlights a group of individuals associated with ISIL who solicited donations via Twitter, asking donors to contact them via Skype. Once contact was made, the donors were asked to purchase an international prepaid card and to send the number to the financiers via Skype. The card number would then be sold for cash at a lower price by ISIL members in close proximity to Syria so that the cash could be given to ISIL.¹¹

The extent of complicity in terror financing by any given non-profit organization varies. In some cases, the organization may simply not realize that the recipient of their aid is in fact linked to or involved in terrorism. For others, a few bad apples within the outfit may be

⁸ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 38, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

⁹ Tim Ross, “Muslim Charity Stripped of State Funding over Extremism Fears,” *Telegraph*, January 11, 2015, <http://www.telegraph.co.uk/news/politics/conservative/11337846/Muslim-charity-stripped-of-state-funding-over-extremism-fears.html>.

¹⁰ Dan Bilefsky and Maia de la Baume, “Charity in France is Accused of Being a Front for Financing Terrorism in Syria,” *New York Times*, December 4, 2014, <http://www.nytimes.com/2014/12/05/world/charity-in-france-is-accused-of-being-a-front-for-financing-terrorism-in-syria.html>.

¹¹ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 24-25, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

redirecting funds, while in the most extreme examples, the group itself is set up as a front for extremists' fundraising efforts. "In some cases, public appeals for donations have not correlated with the organisations' stated purpose," the FATF authors write. They cite one charity set up in Italy, which received donations from individuals in Europe. While most donations went to legitimate uses, mainly adoptions, investigations turned up a donor who was a member of an extremist group located in Italy. "Financial analysis eventually showed that this individual, who subsequently died fighting in Syria, used the organization as [an] unwitting conduit for fund transfers possibly connected to his terrorist activity."¹²

Another case study described an individual who "established a charitable foundation under the pretext of collecting donations for Syrian refugees, people in need of medical and financial aid, and construction of mosques, schools and kindergartens." However, the entire scheme had been set up to raise funds that "were sent as an aid for terrorists and their families and meant to be used as a financial support for terrorist activities."¹³

Despite the clear and desperate need, the challenge of monitoring charity abuse has been intensified by United Nations Security Council resolutions calling for immediate humanitarian aid in Syria and Iraq. Many organizations engaged in charitable work in the Middle East are genuine, but the proliferation of groups makes it easier for illegitimate "charities" to operate. Illustrating the difficulties in this matter, intense criticism was directed at several international banks in March, after they froze the accounts of numerous UK-based charities and international NGOs operating in Syria, Gaza, and Iraq.¹⁴

Still, it is early going as yet for ISIS and illicit fundraising through charities. The FATF report assessed that "the overall quantitative value of external donations to ISIL is minimal relative to its other revenue sources." But as those other revenue sources are increasingly squeezed, ISIS will begin looking to alternatives. Charities are a tried and tested method of terror finance, and governments will need to be alert to the possibility of a rising level of abuse.

BACKDOOR BANKING

While relatively little action can be taken against ISIS through the formal financial system, due to the nature of its fundraising (for example, the reliance on crime and "taxes" on the local population), the Iraqi government and international community have done what they can. Banks on the lookout for ISIS financing have filed suspicious activity reports, which have provided "valuable insight into financial activity in areas where ISIS operates," according to US authorities. For its part, the Central Bank of Iraq instructed financial institutions to prevent wire

¹² *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 19, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

¹³ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 20, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

¹⁴ Randeep Ramesh and Anna Isaac, "Banks Block Charity Donations over Terrorism Funding Fears," *Guardian*, March 4, 2015, <http://www.theguardian.com/society/2015/mar/05/banks-block-charity-donations-over-terrorism-funding-fears>.

transfers to and from banks located in ISIS-held areas, and international banks with regional branches in these areas have relocated their staff.

Nevertheless, ISIS continues to find workarounds even in the financial system. The Assad regime in Syria has not placed any restrictions on the banks in ISIS-held areas. Indeed, on March 7 the European Union sanctioned a Syrian businessman with close ties to Damascus for serving as a middleman in regime deals to purchase oil from ISIS.¹⁵ Additionally, according to the recent FATF report on ISIS financing, some of the bank branches in ISIS areas “may maintain links to the international financial system.” Although many international institutions likely cut ties to these banks, the latter are still able to liaise with certain, unnamed jurisdictions.¹⁶

And even when access to local banking services is blocked, the wartime conditions and the underdeveloped state of Syria’s banking sector “are forcing funds into financial institutions in the immediate surrounding region.”¹⁷ A parallel situation in Iraq, where the central government has not ceased paying salaries to civil servants, means that it is only a short drive out of the ISIS-held city of Mosul to Kirkuk. Employees can pick up their earnings and take them back to Mosul, where ISIS takes a cut off the top. In that city alone, Baghdad may still be paying up to \$130 million every month to government workers, meaning that ISIS “could potentially profit hundreds of millions of USD annually from taxing these salary payments.”¹⁸

Other individuals can also bring back money from outside ISIS territory. The FATF report made note of instances when “excessive cash deposits” were placed into US accounts and then sent via bank wire transfers to recipients near areas where ISIS operates.¹⁹ Unknown persons have also made foreign cash withdrawals via ATMs in such areas, obtaining money from U.S.-based bank accounts using check cards. In some cases these transactions were closely coordinated, with large deposits to the accounts followed by immediate withdrawals from ATMs near ISIS territory. The Netherlands reportedly found similar indications that foreign terrorist fighters were using debit cards “linked to their national bank accounts when withdrawing money from ATMs alongside those areas where ISIS operates.”

Beyond the formal banking system, ISIS can also send and receive funds through nearby foreign money remitters. Finnish authorities reported to FATF that a common method of getting

¹⁵ Sam Jones, “New EU Sanctions Reveal Regime Collusion with ISIS,” *Financial Times*, March 7, 2015, <http://www.ft.com/intl/cms/s/0/324b07f6-c42a-11e4-9019-00144feab7de.html#axzz3ZB6J8F3>.

¹⁶ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 28, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

¹⁷ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 27, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

¹⁸ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 18, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

¹⁹ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 27, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

funds to foreign fighters is to send it via “money remitters who have agents operating in border areas close to ISIS-held territory. This is to finance them once they are in Syria/Iraq.” Dutch authorities have noted similar activity and “regard it highly likely that . . . intermediaries transport cash to areas near territory occupied by ISIS.”²⁰

ISIS operatives have come up with other schemes as well. For example, Saudi authorities reported to FATF that individuals associated with the group had solicited donors via Twitter and told them to establish contact via Skype. The operatives then asked these donors to purchase international prepaid cards (e.g., mobile phone credit, store credit) and send them the card numbers via Skype. The information would eventually reach a follower near ISIS-held territory in Syria, who could then sell it and take the resulting cash to the group.²¹

CONCLUSION

As the above examples illustrate, terrorists—both individual operatives and organized groups—are adapting to efforts to disrupt their financing plans, with some success. It is always important to periodically review policies and procedures, and to make sure these are appropriately aligned against the ever-changing nature of the terrorist threat at any given time. But it is especially important to do so now, given the tectonic changes that are convulsing the Middle East and their very real, very immediate effects and aftershocks in the Western world, including the United States and Canada.

It is an honor to provide the House of Commons Standing Committee on Finance this briefing, and I look forward to answering any questions you may have.

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²⁰ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 22, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.

²¹ *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)*, Financial Action Task Force, February 2015, 24-25, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf>.