

# *Funding of Terrorism: Challenges in its Detection*

Daniel Castillo  
Financial Analyst

Anti-Money Laundering & Funding of Terrorism Seminar  
Mediterranean Conference Centre  
Friday 26<sup>th</sup> February, 2010

*"We've got to go after the guts of this. This could be like a planaria. If you just cut off its head and it regenerated another head, that's not going to be very helpful. So, while, of course, Osama bin Laden and his lieutenants are part of the story, the real part of the story is to choke off the bloodline of this network."*

Condoleezza Rice, Fox News Sunday, September 23, 2001

## INTRODUCTION

- Definition of Terrorist Financing – International Convention for the Suppression of the Financing of Terrorism
- Reaction of the International community after 11<sup>th</sup> September 2001:
  - The need for GLOBAL cooperation on countering funding of terrorism
  - FATF 40 Recommendations
  - FATF IX Special Recommendations
  - Egmont Group of FIUs
- Changes that have taken place in Malta:
  - Change in reporting obligations
  - Amendments to the Criminal Code
  - Remit of the FIAU

## ESTIMATED FUNDING REQUIREMENTS OF TERRORIST ATTACKS AND TERRORIST GROUPS

*What are we looking for? What are we trying to locate?*

- Funding a terrorist act VS funding a terrorist group
  - Funding a terrorist act:
    - Individual suicide attacks are likely to cost as little as \$150 per attack
    - Current observed trends: Likelihood of attacks becoming increasingly lethal and destructive with no large increase in expenses as technology becomes more accessible and cheaper.

*“Small amounts of money and manpower can inflict large amounts of damage on target societies.”*

### Estimated costs of single terrorist attacks:

- Madrid Subway Bombings - \$10,000
- London Subway Bombings – less than \$14,000
- Bali Nightclub Bombings – less than \$50,000
- USS Cole Bombing – less than \$10,000
- Kenya and Tanzania US Embassy Bombings – less than \$50,000
- 11<sup>th</sup> September 2001 – highest estimate is \$500,000 spread across 19 operatives i.e. \$26,316 per operative

Detection of funding destined to finance a single terrorist attack is therefore a big challenge.

## *Funding a terrorist group:*

- STRUCTURAL FUNDING REQUIREMENTS of a terrorist group can be substantial
- Funds are needed for a variety of purposes:
  - Ordinary: food, lodging and communications
  - Sinister: acquisition of explosives and weaponry, security costs and training
  - Other: support for families and old members of terrorist group affiliates
- Non-operational expenditures represent a large proportion of terrorist groups' funding requirements
  - These increase as terrorist groups become more organised: permanent bases, training camp centres, bribes and payoffs.
- The larger scale of funding requirements may possibly make funding of terrorism more detectable

## Estimated Terrorist Groups' Funding Requirement and Size

TERRORIST GROUP	ESTIMATED ANNUAL FUNDING REQUIREMENT	APPROXIMATE GROUP SIZE
Tamil Tigers	\$50,000,000	8,000
Hamas	\$70,000,000	1,000
Hezbollah	\$400,000,000	8,000
Al-Qaeda (Pre-9/11)	\$36,000,000	50,000
Al-Qaeda (Post-9/11)	\$12,000,000	Unknown
FARC	\$500,000,000	12,000
AUC	\$100,000,000	20,000

## *SIMILARITIES BETWEEN MONEY LAUNDERING AND FUNDING OF TERRORISM*

- FIUs have traditionally been associated with cases of money laundering
- Money laundering techniques can be applied to cases of funding of terrorism:
  - to conceal SOURCES of terrorist funds
  - to conceal USES of terrorist funds
  - to DISENGAGE terrorists from their financiers
  - to launder illicit funds to SUPPORT terrorist groups
- It is possible, therefore, to apply the same analytical techniques and procedures used for cases of money laundering to analyse and detect cases of funding of terrorism

## *DIFFERENCE BETWEEN MONEY LAUNDERING AND FUNDING OF TERRORISM*

- Money destined to support terrorist groups or to fund terrorist acts can originate from a LEGITIMATE SOURCE

## TERRORIST GROUPS' SOURCES OF FUNDS

- Funds from **ILLEGAL SOURCES**: kidnapping, extortion, armed robbery, drug trafficking and others.
- Funds from **LEGITIMATE BUSINESS**: private-security firms, taxi companies, construction firms, restaurants, guest houses, courier services and others.
- Funds from **CHARITABLE CONTRIBUTIONS** or **DONATIONS**: respectable cover, relatively easy to set up, ability to generate cash, relatively large deposits are processed without raising immediate suspicions and have bona fide reasons to send funds to conflict zones.
- Funds from **GOVERNMENT** or **STATE SPONSORS**: governments have access to large sources of funds, availability of unused weaponry possibly passed to terrorist groups.

## FUNDING OF TERRORISM TYPOLOGIES: ARE THERE ANY?

*“How do terrorists raise and move funds?  
In any way they can”*

- Typology: pattern or a series of similar types of transactions
- Funding of terrorism typologies: not very conclusive due to the ADAPTABILITY and OPPORTUNISTIC nature of terrorist groups
- However, research identified a number of methods and sectors which are known from previous investigations to have been used by terrorist groups to fund their operations

### 1) Formal Financial Sector

- Services and products are used for funding of terrorism purposes when such activity goes undetected
- Licensed money remittance services

## 2) Trade Sector

- Over-invoicing and under-invoicing as a means to transfer money and value

## 3) Cash Couriers

- To avoid funding of terrorism safeguards established in financial institutions
- Cash couriers are prevalent in cash-based societies but also common in European countries with well functioning financial systems
- Cash couriers leave no audit trail when funds are transferred
- Even if detected, the origin and the end use of cash involved in a cross border cash transfer can be highly unclear.

## 4) Alternative Remittance Systems (ARS)

- Also described as parallel, underground or hawala banking
- Used to transfer money or value outside the formal financial system

- The largest use of ARS is legitimate – emigrant workers remitting their earnings to financially isolated areas
- Advantages of ARS are:
  - Safer and cheaper than cash couriers
  - Avoidance of charges on cash transfers in places of strict exchange controls
  - Quicker and cheaper than bank based alternatives
  - Money is readily available – cash
  - Based on trust with minimal use of documentation – providing anonymity
- Anonymity makes ARS vulnerable to abuse for funding of terrorism purposes

### 5) Use of Charities and Non-Profit Organisations

- Raising funds by false appeals
- Money destined for terrorist funding disguised as donations
- Reform of the Maltese legal structure for non-profit organisations

## PRIMARY ATTEMPTS AT DETECTION OF POSSIBLE FUNDING OF TERRORISM

- Screening of customer details against name lists from sanctions databases and watch lists
- Regulations issued under the National Interest (Enabling Powers) Act 1993 – Chapter 365 of the Laws of Malta
- Official Lists: derived from the United Nations Security Council Resolutions and European Regulations
- Unofficial Lists: also known as ‘watch lists’ which not have the force of the law
- Challenges in the use of lists:
  - Missing information
  - Name match criteria
  - Multiplicity and consistency of lists
  - Real-time payment screening

## FUNDING OF TERRORISM: NUMBER OF RED FLAGS TO AID IN ITS DETECTION

- Very few hard patterns of funding of terrorism exist
- FATF reports that in a number of investigations it emerged that individual transactions were not unusual or suspicious
- But a number of elements about the customer, the transaction or the external circumstances of the transaction could be found to correlate with transactions related to funding of terrorism

### 1) Red Flags about the nature or activity of the customer

- False/multiple identification
- Apparent collaboration between seemingly unrelated customers
- Location of transaction vis-à-vis location of financial institution
- Companies with insufficient address information
- Unusual volume of activity
- Matches with names appearing in sanctions lists and watch lists

## 2) Red Flags about the nature of the transaction

- Structuring or smurfing
- Atypical currency transactions
- Missing details
- Transactions to or from Non-Cooperative Countries and Territories
- The use of intermediaries, such as lawyers holding power of attorney, to make deposits or withdraw cash
- Deposits followed by immediate wire transfers or withdrawals
- Use of charities for international transactions to areas of conflict, especially when the transaction is to an individual

## 3) Red Flags about the external circumstances of the transaction

- Strange signs or notations appearing on the back of cheques
- Improper/missing endorsements
- Cheques dated months before or after the date of deposit
- Cheques being suspected of being forged or stolen
- Requests to exchange cash or cheques with cheques from a financial institution

## CONCLUDING ON RED FLAGS AND DETECTION:

- The most frequently used indicators, as experienced by other countries are:
  - Sending or receiving funds by international transfers from and/or to locations of specific concern
  - Atypical business/account behaviour
  - Charity/relief organisation linked to transactions and same individual/s
  - Large scale cash transactions
  - Media coverage of account holder's activities
- Subject persons are in a position to detect suspicious transactions or unusual behaviour indicative of criminal or terrorist activity.
- Information contained in STRs submitted to the FIAU is an invaluable source of information to determine whether enough grounds exist to suspect funding of terrorism activities.

## CONCLUSION

*“What’s the sense of sending \$2 million missiles to hit a \$10 tent that’s empty?”*

George W. Bush, private Oval Office meeting, September 13, 2001

- This quote captures an important point: fighting terrorist financing may be more effective than launching military attacks
- Terrorism is here to stay
- Large amount of resources have been dedicated to anti-terrorist financing systems
- Concrete results still difficult to identify
- Detecting possible funding of terrorism activities remains very difficult
- Terrorist groups have the ability to adapt and are becoming increasingly decentralised
- Despite all this, information from STRs linked to other intelligence is essential in the fight to protect society from the activities of terrorist groups.

[daniel.castillo@fiumalta.org](mailto:daniel.castillo@fiumalta.org)

[www.fiumalta.org](http://www.fiumalta.org)