

# Terrorist Financing and State Response

## I. Instructor Contact Information

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## II. Introduction

*The questions we asked then [in 1995] of the CIA were never answered, and we asked them for six years: How much money does it cost to be Al Qaida? What's their annual operating budget? Where do they get their money? Where do they stash their money? Where do they move their money? How?*

*Those questions asked from the White House, at high levels, for five or six years were never answered, because, according to the intelligence community, it was too hard.*

*We've come a long way since then.*

Richard A. Clarke  
Former National Coordinator for Counterterrorism  
National Security Council  
Testimony before the Senate Banking, Housing and Urban Affairs  
Committee, Oct. 22, 2003

This course examines exactly how far we have come in understanding how terrorists raise, store, and transfer funds. It also evaluates challenges facing the U.S. government and international community in responding to this problem. In each module, we use a mix of official reports, academic papers, and other works to explore the subject and identify problems with the received wisdom about terrorist financing.

### A) Organization

The course will be taught as a graduate seminar. Each week we'll spend the majority of the time discussing the readings with about 45 minutes of lecture each week. The material is divided into four modules:

**Module 1 -- Historical Overview of Terrorist Funding** -- discusses the wide variety of methods of fund raising (including reliance on state sponsorship, diaspora donations, charitable contributions, extortion, and involvement in criminal activities) that have been used by terrorist groups historically, how these have changed over time, and the possible vulnerabilities of each method that might be exploited by counter-terrorist officials.

**Module 2 -- Al Qaeda Funding and General Methods of Transfer and Storage** -- brings the Module 1 discussion of fund raising squarely into the present by focusing on Al Qaeda sources of funds. It also discusses the ways in which terrorist groups store and move their funds, including the use of *hawala* and other informal remittance systems and

trade-based schemes (e.g., smuggling, false invoicing), and considers the extent to which these methods differ from other forms of financial crime (and hence cannot be addressed by existing policy tools).

**Module 3 -- Organizational Dynamics of Terrorist Financing --** provides a unique look at the organizational dimensions of terrorist fund raising and transfer, including the motives of members of the financial support network and other factors shaping the terrorist decision-making process. It also evaluates the extent to which changes in the structure of al Qaeda and other terrorist groups as a result of the war on terror require a change in government counter terrorist financing strategies.

**Module 4 -- State Response --** assesses the challenges facing the U.S. government and the international community in addressing this problem and the extent to which existing efforts have been successful or need to be modified.

We'll spend approximately 2 weeks on each module, with a little more time devoted to the challenges of state response.

### **B) Learning Objectives**

Our goal is to develop the tools and knowledge to critically assess claims about terrorist financing and the state's ability to defeat it. To this end, we will:

- (1) Examine the various ways terrorist organizations raise money.
- (2) Review terrorists' methods of storing and transferring funds.
- (3) Consider the internal challenges terrorist groups can face in efficiently using the funds they have raised.
- (4) Analyze how states have attacked the problem.
- (5) Assess the inherent challenges states face in dealing with terrorist financing.
- (6) Apply the knowledge we have developed to a series of important policy debates.

Developing an understanding of just how tenuous knowledge about this subject is will make us better consumers of policy recommendations and intelligence reports. More importantly, it will make us better producers of government policy.

### **III. Policy Memo**

*Proposal due:* May 1

*Optional rough draft:* May 29

*Final draft due:* June 12

The final course assignment will be a 20-30 page policy paper applying what we have learned during the course. Your paper should address the following elements:

### **1) Identify the problem.**

What particular aspect of terrorist financing do you argue remains a critical problem? You can use examples drawn from class experience and course materials. Describe the current state of play in the area you identify as a problem.

### **2) Evaluate the government response.**

Describe the government response to the problem. It may be useful here to distinguish between international and U.S. responses, as well as between federal and state/local responses. You should describe briefly the evolution of the government response and the logic behind the policy.

Given that you have already identified this issue area as a problem, there is likely some aspect of the government response that is not working. It is possible that there is simply no government policy addressing the problem you identified in part 1. 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. One caveat: if there is a problem, but you believe it is being addressed by a sound policy response that is well implemented, you may end up writing a not very useful policy memo.

### **3) Identify a proposed policy solution.**

What alternative response do you suggest should be adopted to this problem? Your response should be careful to engage both the problem you identify in part 1 and the shortcomings in government response that you identify in part 2. In other words, if there is no government response, then suggest one. If there is a poor policy choice currently in place, suggest an alternative. If implementation is the issue, suggest how this could be improved. Again, it would probably be useful to identify which levels (international, federal, local) should be involved in which part of the policy formulation and implementation process.

### **4) What obstacles do you foresee to your suggested policy alternative? Develop a strategy to overcome them.**

Here, you should identify key actors or institutions that would object to your proposed policy recommendation. Why do they object? On what grounds (technical, political, legal, bureaucratic)? How would you respond to these objections? Can you identify supporters for your policy? These are all important elements in crafting a proposed strategy for putting your policy into place.

## **IV. Modules**

### **Module 1 -- Sources of Funding: A Historical Overview**

Often, contemporary studies of terrorist financing either fail to provide an overview of historical methods of funding or they mischaracterize past terrorism as predominantly state funded. In contrast, we begin the course with an overview of the wide range of methods terrorist groups have used to fund their activities. We will examine how

reliance on different sources of funding varies between groups and has shifted over time within groups. Along the way, we will discuss the advantages and particular vulnerabilities of each source of funding. We will also consider arguments that groups' activities are constrained by their need to raise funds. Thus we are told that state-funded groups must meet the priorities of their sponsors, while ethnically-based group which raise money from a diaspora must be careful not to harm their co-ethnics during attacks. By extension, does this mean that today's self-funded groups face few constraints on their behavior, at least in the financial realm?

### **Key Questions**

1. What are the main methods terrorist groups have used to raise funds?
2. How important is criminal activity in supporting terrorist groups?
3. How much do we know about the importance of these methods to different groups?
4. How flexible are groups in shifting between modes of funding?
5. What factors lead groups to change their mode of funding?

### **March 27: Introduction and Background**

- GAO. 2005. *Better Strategic Planning Needed....*". October. Summary. Full report available at <http://www.gao.gov/new.items/d0619.pdf>.
- David E. Kaplan. 2005. "Paying for Terror." *U.S. News and World Report*. 26 November.
- Mark Rice-Oxley. 2006. "Why terror financing is so tough to track down." *Christian Science Monitor*. 08 March.
- Peter Slevin. 2006. "Cash Flow to Hamas is More Restricted, Deeper Underground." *Washington Post*. 19 February; A23.

### **April 3: Sources of Funding**

#### **Overview, Including Discussion of State Funding**

- Jeanne Giraldo and Harold Trinkunas, 2006. "The Political Economy of Terrorist Financing." In Giraldo and Trinkunas, eds., *Terrorist Financing and State Response* (Stanford, C.A.: Stanford University Press) Ch. 1.
- Jeanne Giraldo and Harold Trinkunas, 2006. "Terrorist Financing: Explaining Government Responses." In Giraldo and Trinkunas, eds., *Terrorist Financing and State Response* (Stanford, C.A.: Stanford University Press) Ch. 16.
- Rensselaer Lee, "Terrorist Financing: The U.S. and International Response" *Congressional Research Service*, RL 31658, December 6, 2002.

#### **A Sample of Contradictions**

- Joshua Prober. 2005. "Accounting for Terror: Debunking the Paradigm of Inexpensive Terrorism." Washington Institute for Near East Policy. PolicyWatch #1041. [Nice summary on costs of attacks.]
- Faye Bowers, "Headway on the Al Qaeda money trail," *The Christian Science Monitor*, October 10. 2003.
- Douglas Farah, "Al Qaeda's Finances Ample, Say Probers; Worldwide Failure to Enforce Sanctions Cited," *Washington Post*, December 14, 2003. A 01.
- GAO. 2005. *Better Strategic Planning Needed....*". Available at <http://www.gao.gov/new.items/d0619.pdf>
- Kenneth W. Dam. 2002. "Terrorist Financing: A Progress Report on the Implementation of the USA PATRIOT Act." Testimony before the House Financial Service Committee.
- J. Cofer Black. 2004. "Al –Qaeda: The Threat to the United States and Its Allies." Hearing before the House Subcommittee on International Terrorism, Nonproliferation, and Human Rights. April 1. [Read only the section on terrorist financing and counter-terrorist financing.]

## Popular Funding

### *Who Are The Supporters*

- C. Christine Fair and Bryan Shepherd. "Who Supports Terrorism? Evidence from Fourteen Muslim Countries." *Studies in Conflict and Terrorism* 29:51-74.

### *Diasporas*

- James Adams. 1986. *The Financing of Terror*. New York, Simon & Schuster. Part Three: The IRA, pp. 131-155.
- John La. 2004. "Forced Remittances in Canada's Tamil Enclaves," *Peace Review* 16(3):379-385.
- Lia, Brynjar and Kjuk Ashild. 2001. ISLAMIST INSURGENCIES, DIASPORIC SUPPORT NETWORKS, AND THEIR HOST STATES: The Case of the Algerian GIA in Europe 1993-2000."FFI/Rapport 2001/03789.

### *Charitable Giving*

- *Combating the Abuse of Non-Profit Organisations: International Best Practices. 2002. Brussels: Financial Action Task Force.*
- David E. Kaplan, Monica Ekman, and Aamir Latif, "The Saudi Connection: How billions in oil money spawned a global terror network" *US News and World Report*, December 15, 2003.
- Jean-Charles Brisard. 2002. "Terrorism Financing: Roots and trends of Saudi terrorism financing." New York: JCB Consulting.
- Alfred B. Prados and Christopher M. Blanchard, "Saudi Arabia: Terrorist Financing Issues." Congressional Research Service, March 1, 2005.
- Testimony of Steven Emerson and Jonathan Levin, Hearing on "Terrorism Financing: Origination, Organization, and Prevention: Saudi Arabia, Terrorist Financing and the War on Terror", *United States Senate Committee on Governmental Affairs*, July 31, 2003.

- Madeline Gruen. 2003. “White Ethno-nationalist & Political Islamist Methods of Fundraising and Propaganda on the Internet” in *Terrorism and Counterterrorism*. Russel D. Howard and Reid L. Sawyer ed. New York: McGraw-Hill.

## **April 10: Sources of Funding Continued**

### **Self Funding**

#### ***Investing in Businesses***

- Adams, *The Financing of Terror*. Part Two: The PLO, pp. 83-130.

#### ***Coercive Fundraising***

- Adams, *The Financing of Terror*. Part Four: Kidnap and ransom, pp. 187-214.
- Stathis N. Kalyvas. 1999. “Wanton and Senseless?: The Logic of Massacres in Algeria.” *Rationality and Society*. 11(3):243-286.

#### ***Criminal Links***

- Chris Dishman. 2001. “Terrorism, Crime, and Transformation.” *Studies in Conflict and Terrorism*. 24 (1): 43-58.
- Chris Dishman. 2005. “The Leaderless Nexus: When Crime and Terror Converge,” *Studies in Conflict and Terrorism*. 28: 237-252.
- Rex A. Hudson. 2002. “A Global Overview of Narcotics-Funded Terrorist and Other Extremist Groups”. Library of Congress Report.
- Barry R. McCaffrey and John A. Basso . 2003. “Narcotics, Terrorism, and International Crime: The Convergence Phenomenon” in *Terrorism and Counterterrorism*. Russel D. Howard and Reid L. Sawyer ed. New York: McGraw-Hill

### **Supplemental Readings:**

**On diaspora funding**, see O’Callaghan, *The Informer* (1998).

**On how insurgencies fund**, see , Jeremy Weinstein. 2006. “Resources and the Information Problem in Rebel Recruitment.” *Journal of Conflict Resolution*; and Humphreys, M. and Weinstein, Jeremy. 2004. “What the Fighters Say: A Survey of Ex-Combatants in Sierra Leone.” (Manuscript).

**On non-terrorist Islamist groups**, see International Crisis Group. 2003. *Radical Islam in Central Asia: Responding to Hizb Ut-Tahrir*. Brussels: ICG Asia Report. No. 58.

**On state sponsorship and constraints they impose**, see Daniel Byman. 2005. “Passive Sponsors of Terrorism.” *Survival* 47(4):117-144; Hovil, Lucy and Eric Werker. 2005. “Portrait of a Failed Rebellion: An account of rational, sub-optimal violence in western Uganda.” *Rationality and Society* 17(1): 5-34; Todd Sandler and Kevin Siqueira. “Terrorists Versus the Government: Strategic Interaction, Support, and Sponsorship.” *Paper presented at the 2006 Meeting of the International Studies Association*.

## **Module 2 -- Al Qaeda Funding and General Methods of Transfer and Storage of Funds**

Much of what governments know about combating criminal finance stems from efforts to fight money laundering. These efforts were originally motivated by a desire to prevent individuals and corporations from avoiding taxes and restrictions on foreign exchange. In the last 20 years, counter-money laundering efforts have increasingly focused on interdicting the large volume of funds generated through criminal activity. It is not clear the extent to which the regulations devised to counter these problems will be useful in the fight against terrorist financing. To start answering this question, we will examine, to the extent possible, the specific methods by which terrorist groups store and transfer funds.

Like an organization, terrorist groups have myriad options for these activities. Beyond the formal international financial systems, terrorist groups have relied on cash smuggling, informal value transfer systems, valuable goods smuggling, and (perhaps) trading in precious gems. If all these methods are equally feasible and can be used with equal ease and efficiency, then government efforts to interdict or seize terrorist funds face a potentially insurmountable barrier. In this module, we will critically explore the advantages and disadvantages of each of these mechanisms.

### **Key Questions**

1. What are the specific methods by which terrorists store and transfer funds?
2. How important are alternative remittance systems in terrorist financing?
3. What are the advantages and disadvantages of each method from the terrorists' perspective?
4. How is terrorist financing different from other forms of financial crime, such as money laundering or tax evasion?
5. What are the costs and benefits of laws and regulations that push terrorist organizations out of the traditional financial system?

### **April 10: Methods of Storage and Transfer, Overview and AQ**

#### **General Overview**

- Matthew A. Levitt. 2002. "The Political Economy of Middle East Terrorism." *Middle East Review of International Affairs (MERIA) Journal* 6 (4).
- Zachary Abuza. 2003. "Funding Terrorism in Southeast Asia: The Financial Network of Al Qaeda and Jemaah Islamiyah." *National Bureau of Asian Research* 14(5).
- Steve Kiser. 2005. *Financing Terror: An Analysis and Simulation for Affecting Al Qaeda's Financial Structure*. Doctoral Dissertation: Pardee RAND Graduate

School. Introduction and Chapter 1. [Good case studies of PIRA, PLO, and LTTE.]

### **Al Qaeda Fund Raising, Transfer and Storage Methods**

- *Terrorist Financing*. 2002. New York: Council on Foreign Relations.
- Victor Comras, "Al Qaeda Finances," in Giraldo and Trinkunas, eds., *Terrorist Financing and State Response*.
- Rohan Gunaratna, 2002. *Inside Al Qaeda*. New York: Columbia University Press. Ch. 2 "Al Qaeda's Organization, Ideology, and Strategy."
- National Commission on Terrorist Attacks Upon the United States. 2004. *Monograph on Terrorist Financing*. Ch. 2 "Al Qaeda's Means and Methods to Raise, Move, and Use Money."
- National Commission on Terrorist Attacks Upon the United States. *Monograph on Terrorist Financing*. Appendix A, "The Financing of the 9/11 Plot."
- Kiser. 2005. Chapter 2

### **April 17: Methods of Storage and Transfer and Relationship to Money Laundering**

#### **Overview of Mechanisms for Storing and Transferring Funds**

- Nikos Passas, "Terrorist Fund Raising, Transfer, and Storage," in Giraldo and Trinkunas, eds., *Terrorist Financing and State Response*.
- Patrick M. Jost and Harjit Singh Sandhu, *The Hawala Alternative Remittance System and its Role in Money Laundering*, Interpol, 2000.
- General Accounting Office, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms*, November 2003. GAO-04-163.
- Matthias Schramm and Markus Taube. 2003. "Evolution and Institutional Foundation of the Hawala Financial System." *International Review of Financial Analysis* 12 (4):405-420.
- United States Department of the Treasury, Financial Crimes Enforcement Network. 2003. "Informal Value Transfer Systems," FinCEN Advisory, Issue 33, March.

#### **Typology Reports.**

- *Report on Money Laundering Typologies, 2000-2001*. 2001. Paris: Financial Action Tack Force.
- *Report on Money Laundering Typologies, 2001-2002*. 2002. Paris: Financial Action Tack Force.
- *Report on Money Laundering Typologies, 2002-2003*. 2003. Paris: Financial Action Tack Force.
- *Report on Money Laundering Typologies, 2003-2004*. 2004. Paris: Financial Action Tack Force. [Good examples of TF methods.]

- *Report on Money Laundering Typologies, 2004-2005*. 2004. Paris: Financial Action Tack Force. [Especially good an alternative remittance systems.]

### **Tax evasion, money laundering, and terrorist financing: Similarities and differences**

- Donald Masciandaro. 2004. *Global Financial Crime: Terrorism, Money Laundering and off Shore Centres*.
- State Department Bureau of International Narcotics and Law Enforcement, International Narcotics Control Strategy Report, March 2005, “Money Laundering and Terrorist Financing: Differences and Similarities.” [Addresses the similarities and difference from an LE perspective.]
- See Passas chapter, above.
- Daniel J. Mitchell, “U.S. Government Agencies Confirm that Low-Tax Jurisdictions are not Money-Laudering Havens,” *Prosperitas*, January 2002. Volume II, Issue 1.
- U.S. Department of Treasury, *National Money Laundering Strategy*, 2002 and 2003.
- *FIU’s in Action: 100 Cases from the Egmont Group*. 2003. The Egmont Group.
- Cuellar, M. 2003. “The Tenuous Relationship Between the Fight Against Money Laundering and the Disruption of Criminal Finance,” *Journal of Criminal Law & Criminology* 311. [Long but worth skimming. Shows how AML regulations are actually used.]

### **Supplemental Readings**

**For more typologies**, see *APG Annual Typologies Report*. 2004. Sydney: Asia/Pacific Group on Money Laundering.

**On hawala and alternative remittance systems**, see also Nikos Passas, 2003 “Hawala and Other Informal Value Transfer Systems: How to Regulate Them?” U.S. Department of State, International Information Programs. Nikos Passas, 2005, “Informal Value Transfer Systems, Terrorism and Money Laundering,” U.S. Department of Justice. Schramm & Taube, “The Institutional Foundations of Al Qaeda’s Global Financial System” (2002).

**On cash, valuable good smuggling, and false invoicing**, see Cassara, John, “Afghan Transit Trade: Example of a Trade-Based Money Laundering System With Ties to Terrorist Finance,” *unpublished manuscript*, 2004.

**On diamond smuggling**, see Douglas Farah. 2004. *Blood From Stones*. New York: Broadway Books. Ch. 2-4.

### **Module 3 -- The Organizational Dynamics of Terrorist Financing**

This module addresses the ways in which terrorist groups organize, how this has changed over time, and the implications of this for the efficiency with which terrorists operate and the ability of governments to counter them. Many analysts argue that the hierarchical organization of groups typical of the “old terrorism” of the 1970s and 1980s gave way to more decentralized, networked forms of organization in the 1990s and following, which made the new terrorist organizations particularly efficient and evasive. The war on terror in the aftermath of the September 11, 2001, have purportedly led to an even greater decentralization of terrorist organizations, whose efficiency and lethality is still a matter of some debate. This module reviews the evolution of terrorist organizational forms and engages debates over their effectiveness. While many of these debates do not focus squarely on the question of finances, we will attempt to consider the implications of the way terrorists organize for terrorist fund-raising and distribution efforts, as well as government efforts to counter this.

In particular, the module focuses on the internal problems terrorist organizations might face during fund raising and transfer. Standard accounts of terrorist networks, which stress the bonds of trust, personal ties, and a unifying commitment to a radical ideology, tend to assume that terrorist financial and logistical systems operate efficiently through a variety of covert channels. Yet upon closer examination, this picture begins to break apart.

A variety of non-ideological motivations play prominent roles in motivating participation in many groups. While trust and personal ties are important, they are important exactly because terrorists suffer from many of the same organizational dilemmas as business firms, political parties, and insurgent movements. All such groups face the problem of how to establish trust, how to supervise, and how to control those who work for the organization. Within legal businesses or government agencies, this can be handled through formal procedures for supervising employees and overseeing implementation. In the worst of cases, they can resort to the legal system to enforce contracts or discipline employees. Terrorist organizations rarely have access to such mechanisms, and the need for secrecy, geographic dispersion, and the risk generated by communication among group members make the problem of control exponentially more difficult. Groups such as Al Qaeda, Jemaah Islamiyah, the IRA, and Palestinian Islamic Jihad sometimes suffer from corruption, a lack of trust within their own communities, and difficulties controlling those they hire. In this section, we will take a more nuanced view of terrorist groups, one that explicitly takes into account the internal problems groups must overcome. Along the way, we will see that the picture for government may not be so bleak after all and will identify potential points of government action that have not received sufficient attention in the literature.

#### **Key Questions**

1. According to the network view, what are the weaknesses and strengths of terrorist organizations? Which organizations are especially capable and which are not? Do terrorist organizations suffer from any of the same internal challenges faced by government bureaucracies?
2. How has al Qaeda evolved since September 11, 2001? What are the implications for fighting terrorist finances?
3. How much of our knowledge from the study of criminal organizations is applicable to terrorist financing?
4. To what extent is financing the “right string to pull” in dismantling terrorist organizations?
5. Does the internal makeup of a group push it towards certain types of funding or do different methods of raising funds influence groups’ structures? Or both?

#### **April 24: The Network Analogy and Two Informative Case Studies**

##### **The Efficiency and Evolution of Networks**

- John Arquilla and David Ronfeldt, “The Underside of Netwar,” *Review – Institute of Public Affairs*, 54:4, December 2002.
- Phil Williams, “The Nature of Drug-Trafficking Networks,” *Current History*, April 1998, pp. 154-59.
- John Arquilla and David Ronfeldt, *Networks and Netwar: The Future of Terror, Crime and Militancy*. RAND, 2001.
- Bruce Hoffman, “The Leadership Secrets of Osama bin Laden: The terrorist as CEO,” *The Atlantic Monthly*, April 2003.
- Douglas Farah and Peter Finn, “Terrorism, Inc; Al Qaeda Franchises Brand of Violence to Groups Across the World,” *The Washington Post*, November 21, 2003.
- Jessica Stern, “The Protean Enemy,” *Foreign Affairs*, July/August 2003.
- Joel Garreau, “Disconnect the Dots: Maybe We Can’t Cut Off Terror’s Head, But We Can Take Out Its Nodes,” *The Washington Post*, September 17, 2001.
- Jacob N. Shapiro. “Organizing Terror: Hierarchy and Networks in Covert Organizations.” Manuscript, Stanford University.

##### **An Informative Case Study: Funding the PIRA and Protestant Paramilitaries.**

- John Horgan and Max Taylor. 1999. “Playing the Green Card: Financing the Provisional IRA Part 1.” *Terrorism and Political Violence*, 11(1): 1-38.
- John Horgan and Max Taylor. 2003. Playing the Green Card: Financing the Provisional IRA - Part 2. *Terrorism and Political Violence*, 15 (2): 1-60.
- Andrew Silke. 1998. “In Defense of the Realm: Financing Loyalist Terrorism in Northern Ireland – Part One: Extortion and Blackmail.” *Studies in Conflict and Terrorism* 21:331-361.
- Andrew Silke. 2000. “Drink, Drugs, and Rock’n’Roll: Financing Loyalist Terrorism in Northern Ireland – Part Two.” *Studies in Conflict and Terrorism* 23:107-127.

## **May 1: The Terrorist's Organizational Challenge**

### **Internal Problems Groups Face**

#### ***Examples from the Salafi Jihad***

- Marc Sageman, "Understanding Terror Networks," *Foreign Policy Research Institute E-notes*. November 1, 2004.
- Jessica A. Stern. 2003. *Terror in the Name of God: Why Religious Militants Kill*. New York: Ecco Publishers, 2003. Introduction to Part II: Holy War Organizations, pp. 141-145, and Chapter 8, Commanders and Their Cadres, pp. 188-236.
- Cullison-Higgins *Wall Street Journal* series
  - Alan Cullison and Andrew Higgins (2001, December 31). "Files Found: A Computer in Kabul Yields a Chilling Array Of al Qaeda Memos --- Talk of 'Hitting Americans' And Making Nerve Gas; Spats Over Salaries, Rent --- A Guide to 'The Company'." *Wall Street Journal* (Eastern Edition), p. A1.
  - Alan Cullison and Andrew Higgins (2002, August 2). "Strained Alliance: Al Qaeda's Sour Days in Afghanistan --- Fighters Mocked the Place; Taliban, in Turn, Nearly Booted Out bin Laden --- A Fateful U.S. Missile Strike." *Wall Street Journal* (Eastern Edition), p. A.1.
  - Alan Cullison and Andrew Higgins (2002, December 30). "Suicide Watch: Al Qaeda Acolyte, One of Many, Vows To Die for the Cause --- Elusive Agents Like Mr. Yusuf Confound Efforts to Judge Progress in War on Terror --- Macabre Poems for bin Laden." *Wall Street Journal* (Eastern Edition), p. A.1.
  - Alan Cullison and Andrew Higgins (2002, January 16). "Terror Tour: How al Qaeda Agent Scouted Attack Sites In Israel and Egypt --- Account on Kabul Computer Matches Travels of Reid, The Alleged 'Shoe-Bomber' --- Photographing Tall Buildings." *Wall Street Journal* (Eastern Edition), p. A1.
  - Andrew Higgins and Alan Cullison (2002, December 20). "Friend or Foe: The Story of a Traitor to al Qaeda --- Murky Loyalties in Yemen Undo the Betrayer, Who Finds Himself Betrayed --- Ominous Words Before 9/11." *Wall Street Journal* (Eastern Edition), p. A.1.
  - Andrew Higgins and Alan Cullison (2002, July 2). "Terrorist's Odyssey: Saga of Dr. Zawahri Illuminates Roots Of al Qaeda Terror --- Secret, Failed Trip to Chechnya Turned Key Plotter's Focus To America and bin Laden --- Sojourn in a Russian Prison." *Wall Street Journal* (Eastern Edition), p. A.1.

#### ***The Challenge of Organizing Terror***

- Jacob N. Shapiro. 2004. "Terrorist Organizations' Vulnerabilities and Inefficiencies: A Rational Choice Perspective." Chapter 3 from Giraldo and Trinkunas, eds, *Terrorist Financing and State Response*.

- Joseph Felter et. al. 2006. *Harmony and Disharmony: Exploiting Al Qaeda's Organizational Vulnerabilities*. West Point, N.Y.: Combating Terrorism Center.
- Jarret Brachman and Will McCants. 2006. "Stealing Al-Qa'ida's Playbook." *Studies in Conflict and Terrorism*.
- Jacob N. Shapiro. 2005. "Underfunding in Terrorist Organizations." Manuscript: Stanford University.
- Ethan Bueno de Mesquita. 2005, "The Quality of Terror", *American Journal of Political Science*.
- Martha Crenshaw. 1991. How Terrorism Declines. *Terrorism and Political Violence* 3 (1):69-87
- Ethan Bueno de Mesquita. 2005. The Terrorist Endgame: A Model with Moral Hazard and Learning. *Journal of Conflict Resolution* 49 (2).

## **May 8: Competition, Recruitment, and Conflict**

### **The Competitive Environment:**

- Mia M. Bloom. 2004. Palestinian Suicide Bombing: Public Support, Market Share, and Outbidding. *Political Science Quarterly* 119 (1):61-88
- Mia M. Bloom. 2005. *Dying to Win*. Ch. 4, "Suicide Terror."
- Adams, *The Financing of Terror*. Part Two: The PLO.

### **Demographics of participants (and their motivation for participation)**

- Marc Sageman. 2004. *Understanding Terror Networks*. Philadelphia: University of Pennsylvania Press
- Alan B. Krueger and Jitka Maleckova. 2003. Education, Poverty, and Terrorism: Is There a Causal Connection? *Journal of Economic Perspectives* 17 (4):119-144.
- Claude Berrebi. 2003. Evidence About the Link Between Education, Poverty, and Terrorism Among Palestinians. *Princeton University Industrial Relations Sections Working Paper #477*.

### **Conflicts within al Qaeda**

- Excerpts from trial transcripts from Embassy Bombing Trials, testimony of Al-Fadl and Kherchtou.
  - Jamal Ahmed Al-Fadl testimony: Direct examination, US v. Usama Bin Laden et. al., S(7) 98 Cr. 1023, pp. 382 – 394; 397 – 403.
  - L'Hussein Kherchtou testimony: Direct examination, US v. Usama Bin Laden et. al., S(7) 98 Cr. 1023, pp. 1280 – 1284; 1307 – 1316; 1383-1385; 1492-1494; 1536.
- Harmony document: "Al Qaida By-laws." AFGP-2002-600048.
- Harmony document: "Lessons Learned from the Armed Jihadi Ordeal in Syria." AFGP-2002-600080

- Brachman and McCants. 2006. "Stealing Al-Qa'ida's Playbook." *Studies in Conflict and Terrorism*.

### Supplemental Readings

**On terrorist decision making**, see McCormick, Gordon. 2003. "Terrorist Decision Making." *Annual Review of Political Science* 6.

**For the economists' view**, see Frey, Bruno S., and Simon Luechinger. 2004. Decentralization as a disincentive for terror. *European Journal of Political Economy* 20:509-515; Todd Sandler and Daniel G. Arce M., "Terrorism and Game Theory", *Simulation and Gaming*, 34(3): 319-337 (2003).

**On logic of participation**, see Berman & Laitin, (Forthcoming) "Rational Martyrs vs. Hard Targets: Evidence on the Tactical Use of Suicide Attacks" in *Suicide Bombing from an Interdisciplinary Perspective*.

**On the role of trust**, see "Al-Qaeda in Southeast Asia: The case of the Ngruki Network in Indonesia." 2003. *Indonesia Briefing*: International Crisis Group.

**On conflicts over settlement** see Ethan Bueno de Mesquita. 2005. "Conciliation, Commitment, and Counterterrorism" *International Organization* 59(1):145-176.

**On network analysis**, see Krebs, V.E. 2001. "Mapping Networks of Terrorist Cells," *Connections* 24 (3): 43-52.

**On order theory as an alternative to network analysis**, see Jonathan Farley, "Breaking Al Qaeda Cells: A Mathematical Analysis of Counterterrorism Operations (A Guide for Risk Assessment and Decision Making)," *Studies in Conflict and Terrorism*. 2003. 26: 399-411.

### Module 4 -- State Response

Much of the writing on countering terrorist financing focuses on what government can do, but leaves out the question of **what** government **will** do given the political and bureaucratic environment. Some policy responses that may appear to be technically feasible may not be politically viable. For example, the desire among intelligence and law enforcement agencies for greater transparency in financial transaction often runs into opposition from corporate banking lobbies and civil rights organizations concerned over privacy. Other policy responses that are both technically feasible and have political backing may run into major bureaucratic obstacles. One of the central issues examined in the 9/11 commission report is the tendency for U.S. intelligence agencies to build 'stovepipes' that prevent sharing of information that can be used to target terrorist financing. In some international cases, even where technical, political and bureaucratic obstacles are not present, governments may simply lack the capacity to successfully

implement a response to terrorist financing. This lack of resources may also affect U.S. state and local government.

Equally problematic is that much of the writing leaves out the question of what government **should** do given that counter-terrorist financing efforts can have significant externalities. Some existing measures have threatened treasured civil liberties in Western democracies, hindering the provision of financial services in the world's most benighted regions, and placed costly new mandates on developing countries struggling to reform their governments. Few of the measures suggested in policy documents have been subjected to the kinds of rigorous cost-benefit analysis demanded of most regulatory regimes.

In this module we will examine the challenges facing state efforts to deal with terrorist financing. We'll begin by examining current efforts and asking how successful the fight has been to date and why. We examine a number of debates about the effectiveness of different policies and the possibility that some may be too costly in other areas, or even counterproductive against terrorism. Finally, we examine the challenges of securing cooperation in the fight against terrorist financing from other governments, entities being regulated, and other agencies within the U.S. government. Throughout this module, the focus will be on thinking through the institutional and organizational challenges government faces in tackling this problem.

### **Key Questions**

1. Challenges of identifying terrorist financing: How do we know when terrorists are raising or moving funds?
2. What policy options are available and what are the pros and cons of each?
3. Is it better to freeze funds or follow them?
4. Should we seek better regulation in lax jurisdictions, or take advantage of them for intelligence
5. Should regulations and laws be optimized to support post attack investigations or prevention through combating financing?
6. What are the inherent challenges to implementing counter-terrorist financing measures?
7. What are the potential unintended consequences of various measures with respect to terrorist groups' behaviors?
8. What are the potential consequences of the fight on terrorist financing for civil liberties?
9. What are the potential consequences of this fight for development and social welfare in less developed regions?
10. How should decision makers go about evaluating counter-terrorist financing policies? Is cost-benefit analysis appropriate and is it feasible?

### **May 15: Some Basic Issues of State Response**

## Overview

- Anne Clunan, “U.S. and International Responses to Terrorist Financing,” in Giraldo and Trinkunas, eds., *Terrorist Financing and State Response*.
- National Commission on Terrorist Attacks Upon the United States, *Monograph on Terrorist Financing*, ch. 3 “Government Efforts.”
- United States General Accounting Office, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Financing Mechanisms*, November 2003. GAO-04-163. [Especially the section on competing priorities.]
- Jeanne Giraldo and Harold Trinkunas, 2006. “Terrorist Financing: Explaining Government Responses.” In Giraldo and Trinkunas, eds., *Terrorist Financing and State Response* (Stanford, C.A.: Stanford University Press) Ch. 16.
- *Terrorist Financing*. 2002. New York: Council on Foreign Relations.
- *9 Special Recommendations on Terrorist Financing*. 2004. Brussels: Financial Action Task Force
- *Third Report of the Monitoring Group* established pursuant to Security Council resolution 1363 (2001) and extended by resolution 1390 (2002). S/2002/1338. 17 December 2002.
- Kiser. 2005. Chapter 3. [Nice summary of efforts vs. Al Qaeda.]
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## Can Counter Terrorist Financing Work?

- John Pickering. 2003. “Money Laundering and Terrorism: A Failed Past and a Bleak Future,” *The Federalist Society for Law and Public Policy Studies*.
- Basile, M. 2004 “Going to the Source: Why Al Qaeda's Financial Network Is Likely to Withstand the Current War on Terrorist Financing.” *Studies in Conflict and Terrorism* 27(3): 169-185.
- “A Technical Assessment of Certain Saudi Arabia Laws, Regulations, and Institutions.” Targeting Terrorist Finances Project. Watson Institute. Brown University. June 2004.
- Department of Treasury. 2002. *Terrorist Assets Report*.
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## Setting Standards and International Efforts

- *9 Special Recommendations on Terrorist Financing*. 2004. Brussels: Financial Action Task Force.
- *Interpretive Note to the Nine Special Recommendations on Terrorist Financing*. 2004. Brussels: Financial Action Task Force.

- *Combating the Abuse of Non-Profit Organisations: International Best Practices*. 2002. Brussels: Financial Action Task Force.
- *Guidance for Financial Institutions in Detecting Terrorist Financing*. 2002. Brussels: Financial Action Task Force.
- *Combating the Abuse of Alternative Remittance Systems*. 2003. Brussels: Financial Action Task Force.
- *The Fourty [sic] Recommendations*. 2004. Brussels: Financial Action Task Force.

## **May 22: ‘Seize or Freeze?’ and Unintended Consequences of CTF**

### **Policy Debates and Challenges**

#### ***Seizing and Freezing of Assets***

- CDI Terrorism Project, “The Financial War Against Terrorism,” March 5, 2002.
- Peter L. Fitzgerald, “Tightening the Screws: The Economic War Against Terrorism” 66 *The National Interest* 76 (Winter 2001/2002).
- Thomas J. Biersteker, “Challenges Facing Multilateral Responses to Transnational Terrorist Threats: Lessons from the Effort to Target Terrorist Finances,” paper presented at the Workshop on Terrorism and Armed Conflict, PRIO and SIPRI, December 2002.
- John Solomon, “Freeze on Terror Cash Not Working,” *Washington Times*, January 2, 2004.
- National Commission on Terrorist Attacks Upon the United States, *Monograph on Terrorist Financing*, ch. 5 “Al-Barakaat Case Study.”
- National Commission on Terrorist Attacks Upon the United States, *Monograph on Terrorist Financing*, ch 6 “The Illinois Charities Case Study.”

#### **Externalities**

- Laura K. Donohue. *Anti-terrorist Finance in the United Kingdom and United States Part II: How Effective? Michigan Journal of International Law*. [Long law article, provides the best analysis of the efficacy of current policy.]
- J.C. Sharman. 2006. “The Global Anti-Money Laundering Regime and Developing Countries: Damned if they Do, Damned if they Don’t?” Paper presented at 2006 Meeting of the International Studies Association. [Working paper, good on impact of AML/CTF standards on developing countries.
- Khalid Medani. 2002. “Financing Terrorism or Survival? Informal Finance and State Collapse in Somalia and the US War on Terrorism.” *Middle East Report* 223:2-9.
- William P. Fuller and Barnett F. Baron, “How war on terror hits charity,” *The Christian Science Monitor*, July 29, 2003.
- “Financing Terrorism: Looking in the Wrong Places.” *The Economist*. 20 October 2005.

- Steve Gunderson. 2006. "Comments on the revised 'Anti-Terrorist Financing Guidelines, Voluntary Best Practices for U.S.-based Charities.'"
- Abdusalam Omer. 2003. *Supporting Systems and Procedures to the Effective Regulation and Monitoring of Somali Remittance Companies (Hawala)*. United Nations Development Programme, Somalia.
- Marieke de Goede . 2005. "Risk and the war on terrorist finance." *Operational Risk*. March.

## **June 5: The Challenges of Enacting CTF Policies**

### ***Challenges of Regulation***

- National Commission on Terrorist Attacks Upon the United States, *Monograph on Terrorist Financing*, ch. 4 "Role of Financial Institutions in the United States."
- Martin A. Weiss, "Terrorist Financing: Current Efforts and Policy Issues for Congress," Congressional Research Service, RL32539, August 20, 2004
- Eric Lichtblau, "U.S. Seeks Access to Bank Records to Deter Terror," *The New York Times*, April 10, 2005.
- Cuellar, M. 2004. "The Mismatch Between State Power and State Capacity in Transnational Law Enforcement," *Berkeley Journal of International Law* 15. [Provides the big picture on why AML/CTF is so hard to do right.]
- United States Department of the Treasury, Financial Crimes Enforcement Network, *SAR Bulletin: Information drawn from the Suspicious Activity Reporting System*. Issue 4 (January 2002).
- U.S. General Accounting Office, "Investigating Money Laundering and Terrorist Financing: Federal Law Enforcement Agencies Face Continuing Challenges," Testimony before the Subcommittee on Criminal Justice, Drug Policy, and Human Resources. Committee on Government Reform, House of Representatives. May 11, 2004.
- *Report on Money Laundering Typologies, 2003-2004*. 2004. Paris: Financial Action Tack Force, pp. 11-14 on detecting abuse of NPOs.

### ***An Intelligence-Based Approach***

- Phil Williams, "Warning Indicators and Terrorist Finances," in Giraldo and Trinkunas, eds., *Terrorist Financing and State Response*.

### ***Challenges of Securing International Cooperation: Case Studies***

- Moyara de Moraes Ruehsen, "Arab Government Responses to the Threat of Terrorist Financing," in Giraldo and Trinkunas, eds., *Terrorist Financing and State Response*.
- Prados and Blanchard, "Saudi Arabia: Terrorist Financing Issues." Congressional Research Service, March 1, 2005.
- "A Comparative Assessment of Saudi Arabia With Other Countries of the Islamic World." Targeting Terrorist Finances Project. Watson Institute. Brown University. June 2004.

- National Commission on Terrorist Attacks Upon the United States, *Monograph on Terrorist Financing*, ch. 7 “Al Haramain Case Study.”
- Aurel Croissant, “Terrorist Finances and Government Response in Southeast Asia,” in Giraldo and Trinkunas, eds., *Terrorist Financing and State Response*.
- Council on Foreign Relations, *Update on the Global Campaign Against Terrorist Financing*, June 2004.
- Jessica Piombo. 2006. "Caught in the Crosshairs? The Effect of Diverging Priorities on the War on Terror in Africa" *Paper presented at the annual meeting of the International Studies Association*.

### Supplemental Readings

**On how CTF law developed in US and UK**, see Laura K. Donohue. 2006. “Anti-terrorist Finance in the United Kingdom and United States Part I: Development of the Law,” *Michigan Journal of International Law*.

**For an overarching critique of AML/CTF policies**, see R.T. Naylor, *Wages of Crime: Black Markets, Illegal Finance, and the Underworld Economy*, NY: Cornell University, 2004. Chapter 7, “Satanic Purses: Osama bin Laden and the Numismatic Jihad.”

**On the challenges of regulation**, see Clement, Gary, *Money Laundering Enforcement: The Reality*, Conference Proceedings, Miami: Alert Global Media, February 2004. *Guidance for Financial Institutions in Detecting Terrorist Financing*. 2002. Brussels: Financial Action Task Force. Peter L. Fitzgerald, *Managing "Smart Sanctions" Against Terrorism Wisely*, 36 *New England L. R.* 957 (2002).

**For more assessments of the potential for successful CTF**, see Joseph M. Myers, 2005, “The Silent Struggle Against Terrorist Financing,” *Georgetown Journal of International Affairs*. Winter/Spring: 33-41.

### VI. Web Resources

Terrorism and Financial Intelligence, The U.S. Department of the Treasury:  
<http://www.treas.gov/offices/enforcement/>

Financial Action Task Force:  
<http://www1.oecd.org/fatf/>

The Egmont Group:  
<http://www.egmontgroup.org/>

DOS International Narcotics Control Strategy Report (INCSR), issued each March (volume II covers money laundering and financial crimes):  
<http://www.state.gov/g/inl/rls/nrcrpt/2003/vol2/html/index.htm>

International Money Laundering Network:

<http://www.imolin.org/imolin/index.html>

Inter-American Drug Abuse Control Commission:

[http://www.cicad.oas.org/Lavado\\_Activos/eng/Main.htm](http://www.cicad.oas.org/Lavado_Activos/eng/Main.htm)

Asia-Pacific Group on Money Laundering:

<http://www.apgml.org/content/index.jsp>

Transparency International:

<http://www.transparency.org/>

Terrorist Financing Bibliography, The Watson Institute, Brown University:

[http://www.watsoninstitute.org/TTF/Terrorist\\_Financing\\_Bibliography-September\\_2004.doc](http://www.watsoninstitute.org/TTF/Terrorist_Financing_Bibliography-September_2004.doc)

The Countering Terrorist Financing Network

<http://www.terroristfinancing.com/>