



Newsletter Article

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A FINANCIAL BUSINESS MODEL FOR A TERRORIST ORGANIZATION

By Dennis Lormel

ABOUT THE AUTHOR

Dennis Lormel is President of DML Associates and a recognized subject matter expert in the anti-money laundering, terrorist financing, and fraud communities. He spent 30+ years in Government Service, Law Enforcement and the FBI. After the tragedy of 9/11, Mr. Lormel realized that the terrorists needed a financial infrastructure to accomplish the attacks. He immediately established an investigative organization within the FBI that, within days, identified the funding stream that supported these attacks.

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It has been said many times that the lifeblood of a terrorist organization is finance. If we liken a terrorist organization to a corporation, business planning would be an essential ingredient for obtaining support and measuring success. In one sense, a terrorist organization is a business. In that vein, who are the potential stakeholders? Jihadist stakeholders would include: Group members, wealthy donors, business fronts and/or facilitators, recruits, like-minded jihadist organizations, financial institutions, etc.

Overview

A successful business would have a business plan. In order to succeed, a business must have adequate funding to sustain its operations. Since a jihadist organization, as a business, must have the ability to raise, move, store and spend money, it must have access to the formal and/or informal financial system. Therefore, establishing a customer relationship with financial institutions is critically important. From a business perspective, financial institutions should look at terrorist organizations and terrorist operatives as possible customers. As part of the due diligence process, it would be prudent for financial institutions to obtain the business plan of their professional clients.

As a global society, we are at a point in time where the threat of terrorism is constant. Consequently, because of the demand that jihadist groups sustain the flow of funds in and out of their organizations, financial institutions are on the front line for detecting terrorist financing. Taking a step back and adopting a proactive mindset, financial institution anti-money laundering (AML) compliance departments should compile a list of known terrorist organizations, especially groups who could be using that financial institution to facilitate the movement of funds. The list should be prioritized by the level of threat the group presents to national security and the potential risk the institution has facilitating transactional activity for the terrorist group. To the extent practicable, financial institutions should then build a generalized organizational business model for terrorist groups. This exercise would result in identifying red flags for financial institutions to focus on to monitor for terrorist financing.

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Business Model Defined

The business model should contain five components:

Mission statement

- What is the mission of the jihadist group? Is it to establish a caliphate; does it want to operate as a transnational, regional, or national organization; where is the group's base of operations; what is its organizational structure; and what are its sources of funds?

Desired infrastructure

- To accomplish its mission a terrorist organization must build an infrastructure to support its operations. If it wants to establish a state like Hizballah or Hamas, does it require a military wing, a political wing, and/or a social wing? if it wants to be like the Islamic State of Iraq and the Levant (ISIL) and form a caliphate, does it require funds for governance and funds to support its fighters?

Funding requirements

- In order to build the desired infrastructure and establish its capacity, a terrorist organization must identify its funding requirements. How much money will it take to support the infrastructure? How steady will the flow of funds have to be to sustain operations? The jihadist group must have the ability to raise, move, store and access money as needed.

Funding sources

- Once the funding requirements are identified, the terrorist organization must develop funding sources. The more robust and diverse the funding sources, the more likely operations will be sustained and the group will succeed. The source of funds would likely be derived from licit and illicit fronts and must be sufficient to support infrastructure and capacity.

Funding mechanisms

- The bases of operations for most jihadist groups are in countries or regions of great instability. Many of these locations have cash based economies. Numerous groups have established global funding streams. Therefore, terrorist organizations rely on both the formal and informal financial systems to move funds in and out. These funding streams would be designed to avoid detection.

Goals of Jihadists

It's important to understand the goals of jihadist groups. Their mission statements will be built upon their goals. According to a Stratfor intelligence report entitled Gauging the Jihadist Movement, Part 1: The Goals of the Jihadists, dated December 19, 2013, "The jihadists' plan is to first establish an emirate that they can rule under jihadist principles, and then, use that state as a launching pad for further conquests, creating a large empire they refer to as the caliphate. Many jihadist ideologues believe that the caliphate should be a transnational entity that includes all Muslim lands, stretching from Spain in the west to the Philippines in the east. The caliphate would then be extended globally, bringing the entire world into submission."

In reality, jihadist groups have differing philosophies. Some strive to be transnational and share the above goals. Some are more nationalistic in philosophy. Although some may aspire to be transnational, they are limited because their business model cannot build the capacity required to reach transnational goals.

Although al-Qaeda and ISIL are now bitter rivals, at one time, when ISIL was al-Qaeda in Iraq (AQI), the two groups were closely aligned. According to the above referenced Stratfor report, in a letter released in 2005, by the United States (U.S.) government, al-Qaeda's leader Ayman al-Zawahiri sent a letter to former AQI leader Abu Musab al-Zarqawi. He wrote: "It has always been my belief that the victory of Islam will never take place until a Muslim state is established in the manner of the prophet in the heart of the Islamic world." The Stratfor report went on to note al-Zawahiri stating that "the first step in such a plan was to expel the Americans from Iraq. The second stage was to establish an emirate and expand it into a larger caliphate. The third stage was then to attack the secular countries surrounding Iraq (Saudi Arabia, Kuwait, Syria and Jordan) and bring them into the caliphate. The fourth step was to use the power of the combined caliphates to attack Israel."

Despite their rift, al-Qaeda and ISIL share the common goal of establishing a global caliphate. The difference between them is that al-Qaeda, the core organization, has been decimated and does not have the capacity to establish a caliphate. ISIL controls large portions of Syria and Iraq. It announced in 2014 the establishment of a caliphate extending between Syria and Iraq. ISIL called for all Muslims to declare allegiance to them. Their membership and wealth afford them the capacity to have formed the caliphate. However, even though they are skilled fighters, they have not demonstrated the ability to provide governance to the territory they control. This is developing into a significant problem for ISIL. If we were to assess other terrorist organizations, we would identify their aspirations. For example, al-Qaeda in the Arabian Peninsula (AQAP) has demonstrated that they can be transnational, primarily because of their sophisticated propaganda. However, although they have a strong presence and foothold in Yemen, they have no desire to form a caliphate because of the challenge of governance and cost. Boko Haram is a jihadist group that mirrors ISIL. They control much of northeastern Nigeria. They operate as if they do have a caliphate, but aside from occasional raids into Cameroon, they have not shown interest in becoming transnational.

Comparing and Contrasting Terrorist Organizations

If we were to prepare a matrix listing terrorist organizations and assess them in accordance with the five components listed above: Mission statement, desired infrastructure, funding requirements, funding sources and funding mechanisms; we would develop a snapshot of their aspirations, capabilities, sectarian nature, capacity in terms of potential membership and finance, strengths, weaknesses, and geographic reach. We would also be able to determine which groups were aligned together and the nature of the threat each organization poses on a national, regional and/or transnational level.

By comparing and contrasting terrorist organizations, we would be able to identify a series of red flags at the organizational and individual member levels. This type of assessment would inform us regarding the vulnerabilities of terrorist groups and assist development of proactive strategies to disrupt and dismantle terrorist operations and organizations.

The better we can compare and contrast terrorist organizations, the better our ability to identify and exploit their vulnerabilities. Terrorists are very adaptable and resilient; thus the more focused we can be at identifying and exploiting their vulnerabilities, particularly finance, the more disruptive we can be.

Reliance on Finance

There is one constant all jihadist groups share. All terrorist organizations are reliant on finance. Without finance, these groups cannot sustain their organizations and operations. A number of factors have contributed to the explosive growth of ISIL and their ability to rapidly gain so much territory in Syria and Iraq. As they took over territory, they seized on chaos and instability to amass enormous wealth. They control oil production, levy taxes, rely on extortion, theft, kidnapping, other criminal activity, and wealthy donors as funding mechanisms. ISIL has evolved into the wealthiest terrorist organization. Their substantial wealth has enabled them to grow the number of fighters they have and to afford them the confidence and support to establish a caliphate.

An important funding source for terrorist groups that warrants discussion is kidnapping for ransom. According to a New York Times article published on July 29, 2014, European countries have paid at least \$125 million in ransom since 2008, to al-Qaeda and al-Qaeda affiliates such as AQAP. AQAP leader Nasser al-Wuhayshi was quoted writing "Kidnapping hostages is an easy spoil, which I may describe as a profitable trade and a precious treasure." Kidnapping and ransom have been AQAP's most important funding source. In a speech in 2012, David Cohen, then under secretary of the U.S. Treasury for Terrorism and Financial Crimes, stated "Kidnapping for ransom has become today's most significant source of terrorist financing."

Conclusion: Identifying Financial Chokepoints

Since all terrorist organizations are reliant on finance, it is incumbent that we identify financial chokepoints. We must apply pressure to those chokepoints to constrict the flow of funds as much as possible. In so doing, terrorist organizations will not be able to sustain their organizations and operations. By taking the proactive step to build business models for terrorist organizations, we can visualize funding streams, identify red flags, and develop detective, disruptive and preventive measures to deny terrorists of their lifeblood, finance.

Finance is one of the biggest vulnerabilities confronting terrorists. Terrorist organizations rely on both the formal and informal financial systems to move funds in and out. That places financial institutions on the front line of the fight against terrorism. In using the financial system, terrorists are confronted with a distinct contrast. On one hand, the financial system serves as a facilitation tool for terrorist organizations by providing continuous access to funds. On the other hand, the financial system serves as a detection mechanism because funds can be identified through monitoring and/or investigation. Developing proactive strategies like building business models for terrorist organizations can tip the scale from facilitation tool to detection mechanism.

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