

Countering Terrorist Financing

Lessons From Europe

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Until recently, terrorist financing has been an underdeveloped subject of academic inquiry and media reporting. With a few notable exceptions, an overwhelming majority of writing in the field followed the 9/11 attacks and focused primarily on two related questions—how al-Qaeda is financed and what can be done to disrupt their financing. Yet terrorist financing is not a new phenomenon. In Europe, both the United Kingdom and Spain have been fighting it for more than three decades. One European terrorist organization, the Provisional Irish Republican Army (IRA), has been “credited” with pioneering the kind of sophisticated financial networks that many of the world’s large and longest-lived terrorist organizations today use to sustain themselves.¹ In spite of this, there has been little comparative research on terrorist financing. Such research is crucial to provide lessons on how best to combat terrorist organizations.

This article aims to review and compare Spanish and British experiences in countering terrorist financing. The first section describes the development of more diverse and sophisticated financing methods by the IRA and ETA. The second section analyzes the interaction between different financing strategies, violent operations, and the popularity of these organizations. Following this, the cost of counter-terrorism measures to Spain and the United Kingdom is contrasted with the economic damage that has been caused to the United States by

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al-Qaeda. The final section points out successes and limitations of countering terrorist financing. The conclusion discusses the applicability of such methods in devising policies to combat al-Qaeda.

Where the Money Came From.

During the 1970s many terrorist organizations financed their operations through fairly unsophisticated means, often relying primarily on violent crime, state funding, and diaspora support. The IRA traditionally financed itself through criminal activities, including robberies, kidnappings, extortion, and illegal drinking clubs. The organization also received substantial economic support from the Irish diaspora in the United States via organizations such as Noraid. According to some sources, diaspora funds accounted for up to half of its incomes during the late 1970s and early 1980s.² Between 1972–1975 and 1981–1987, the IRA received substantial support in money and weaponry from Muammar Qaddafi's Libya, which used the organization to target Britain. This cooperation ended after an informer from the IRA betrayed a large shipment of weapons in 1987, an act that delayed and diluted an operation intended to become the "Tet offensive" of the IRA.³

In Spain, the Basque independence movement Euskadi Ta Askatasuna (ETA) used similar criminal financing techniques. Although they did receive some logistical support from ethnic Basques living in southern France, ETA enjoyed neither major state sponsorship nor significant support from a diaspora. Instead, the organization's primary source of income was a "revolutionary tax" that they imposed in the Basque region.⁴ The proceeds amounted to roughly half of the organization's

income, with the remainder gained through kidnappings and robberies. The tax was levied on major businesses throughout the region and enforced through threats, kidnappings, and at times even murders. After Jose Maria Korta—a symbol for resisting the extortion—was murdered by ETA in 2000, incomes from the "tax" rose substantially.⁵ The resulting insecurity drew both businesses and professionals out of the region, making the tax and its collectors profoundly unpopular among large segments of Basque society.

Improving Business Strategies.

Over time, both the IRA and ETA dropped financing activities that were excessively unpopular or that involved excessive risk relative to average returns. In 1983 the IRA kidnapping of British businessman Don Tidey ended in an intensive shootout, during which Tidey was rescued but an Irish policeman and an Irish soldier were killed. This caused a major backlash in public opinion against the IRA and effectively forced the organization to give up kidnapping for ransom. Similarly, robberies were one of the IRA's major sources of income, with some IRA units even specializing in robberies to become self-sufficient.⁶ Over time, the IRA gave up robberies as a source of income as they yielded returns too low to justify the risk involved, especially as the organization often ended up supporting the families of IRA members jailed in conjunction with failed robberies.⁷ ETA, which often took its cues from the strategy developed by the IRA, followed a similar course. By 1985, ETA had stopped robbing banks as this was judged to be too risky for the meager returns it provided.⁸ The organization also made several million euros from

kidnappings over the years, but abandoned this tactic in 1997 because of popular backlash.⁹

Although ETA and the IRA lost support when their activities became increasingly violent, they gained support when government responses utilized excessive violence. For example, the

In order to professionally manage its finances, the IRA created a finance department in 1981 consisting of a finance director assisted by a few colleagues. Two senior members of Sinn Féin, the IRA's political branch, earlier served in the IRA's finance department, illustrating the artificial division between

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British government's indiscriminate 1971 internment campaign galvanized support for the IRA among the Irish diaspora in the United States, laying the groundwork for an essential source of income.¹⁰ More drastically, a paramilitary organization called Grupos Antiterroristas de Liberación (GAL) appeared in Spain in 1983 and started kidnapping and killing suspected members of ETA. Officially, GAL was financed by ordinary citizens fed up with paying the revolutionary tax. In reality GAL was funded and backed by the Spanish government. Ultimately, the organization killed twenty-seven people (nine of whom were not even members of ETA), weakened trust in Spain's fledgling democracy among moderate Basque nationalists, and vitally strengthened ETA.¹¹

The Terrorist Financing Evolution. One indication of the importance of terrorist financing is the creation of units focusing exclusively on economic issues. Likewise, significant influence often accrues to individuals who prove talented at obtaining financial resources.

the two wings of the organizations.¹²

ETA has a similar specialized department for managing its finances. The Basque organization also relied extensively on "middlemen" through which extorted businessmen could transfer money to the organization. For a long time, these important "logistical cells" were not effectively targeted by the police, but in June 2006 Spanish and French law enforcement arrested twelve people involved in the collection of the "revolutionary tax." This operation was seen as a serious blow to the financial network of ETA and its success was largely due to cross-border cooperation between France and Spain. Even though the investigation was initiated almost a decade prior, at the time of the arrests the investigators still had not identified the relevant bank accounts being used. This strongly suggests that the financial regulations that have been extended rapidly over the last few years were not essential to the success of this investigation.¹³

Over time, the strategy of both the IRA and ETA aimed to secure several separate

sources of income, generating high revenues at a low risk without causing excessive loss of legitimacy. Targeting wealthy countries that presented alternative sources of income, their financial strategies gradually departed from serious organized crime. The IRA moved to *internalize* and *diversify* its sources of income, thereby reducing its dependence on capricious external financing. Over time, the IRA came to rely more on "victimless crimes," such as oil smuggling, tax and value-added tax (VAT) fraud, and money laundering. The latter decreased after the organization promised to quit organized crime in 2005.¹⁴

Allegedly, the IRA owns several businesses in Belfast and Derry and makes nearly \$20 million from illegal activities and half as much from legitimate businesses and property development, sometimes facilitated by threats or actual use of violence. Some analysts believe that the

tions, cultural associations, and legal businesses associated with the organization's political wing, Herri Batasuna. According to a criminal investigation initiated after the Herri Batasuna was sued for supporting ETA, the organization received over 50 percent of its annual budget from grants. Between 1993 and 2002 the Spanish state and the EU sponsored these grants with the intention of furthering Basque cultural and language activities.¹⁶ For nearly a decade, the Spanish state inadvertently became the primary financier of its most dangerous enemy. This provided ETA with a substantial source of income and caused less resentment than the "revolutionary tax," which the organization continued to collect but at lower levels.¹⁷ The drawback of this financing strategy was its vulnerability to exposure. When Herri Batasuna's financing activities were revealed and the party banned, the ETA

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money generated by the IRA is used to shore up Sinn Fein's political influence. Meanwhile, the police and security forces seem reluctant to target these activities for fear of upsetting the fragile peace agreement.¹⁵

In Spain, ETA sought a form of financing which would cause less public resentment than kidnappings, robberies, or the "revolutionary tax." After a significant portion of the organization's leadership was arrested in 1992, ETA began to develop a complex web of organiza-

once again reverted to dependence on the "revolutionary tax." Senior analysts believe that one reason this scheme was not uncovered earlier was that state agencies hoped that participation in normal politics would moderate ETA over time and were thus slow to target Herri Batasuna.

It is important to note that whereas the Herri Batasuna political wing was channelling money to the militant ETA, in Northern Ireland the money flow went in the the other direction, from the IRA

to Sinn Fein. This reflects the gradual shift of power from the IRA to its political wing. Today, the apparent unwillingness of ETA to stop collecting the "revolutionary tax" casts doubt on the organization's sincerity to move from the current cease-fire toward serious peace negotiations.¹⁸

Drug Trafficking: Not a Major Source of Income. The best evidence suggests that neither the IRA nor ETA have primarily relied on drug trafficking as a source of income. There have been very few allegations against ETA in this regard, even though some members may have dabbled in the trade at some point. For the IRA, the record is more ambiguous, but still points away from drug financing. By contrast, organizations based in less-developed countries, such as the Kosovo Liberation Army and the Kurdistan Workers Party, have been heavily dependent on drug trafficking to obtain funding.¹⁹

The IRA did engage in the drug trade in Northern Ireland in the 1970s, but this involvement led to such a devastating loss of credibility that the organization withdrew from the business. The group has since embraced a zero-tolerance policy against drug abuse and went so far as to fight drug traders in Northern Ireland through a campaign of knee-cappings and even killings. Altogether, this significantly improved the legitimacy of the group; renewing involvement in the drug trade at this point would likely devastate its credibility.²⁰ There are, however, recurring claims that the IRA receives a share of drug profits indirectly and may be involved in the drug trade in other parts of the United Kingdom.²¹ Nonetheless, drug trafficking has not provided the kind of income for these

organizations that might be expected. The IRA's avoidance of significant drug financing is in striking contrast to the Ulster Volunteer Force, a loyalist terrorist group which split into two factions when one part of the organization refused to give up drug trafficking or declare a cease-fire.²² These cases indicate that lucrative criminal operations can undermine the original political motivations of terrorist organizations.

The Cost Efficiency of Terrorism: Moving into the 21st Century. Even small terrorist organizations have the capacity to inflict substantial damage upon their state opponents if they are well organized and well trained. This is apparent in the rise of al-Qaeda, as the organization has been particularly apt at maximizing the damage caused by attacks that are relatively inexpensive to organize. Before 9/11 al-Qaeda had an annual budget estimated at \$30 million per year, mainly derived from non-state donations from Saudi Arabia and the United Arab Emirates. Despite being based in Afghanistan, al-Qaeda is not believed to have obtained any significant funding from the drug trade and was actually financing the Taliban with \$10-20 million a year. Contrary to popular belief, the contributions from leader Osama bin Laden's personal wealth were also comparatively negligible.²³ The financial network constructed by al-Qaeda has been described as "the most complex, robust and resilient money generating and money moving network yet seen."²⁴ But of equal importance is the fact that, while operating at a budget that was roughly comparable to that of the IRA and ETA, al-Qaeda managed to cause significantly greater damage.²⁵

Allowing for the inherent difficulties

in estimating the annual budgets of terrorist organizations, some calculations indicate that the IRA inflicted costs on the United Kingdom that were 130 times as high as its own budget.²⁶ A similar calculation for ETA estimates that the direct and indirect costs inflicted by ETA were some 370 times higher than the costs incurred by the organization itself, lowering the Basque regional GDP by some 21.3 percent.²⁷ The results are even more striking in the United States. The U.S. Government Accountability Office estimates that the 9/11 attacks cost \$105 billion in New York alone.²⁸ Given that the attacks cost the terrorists \$500,000 to carry out, every dollar "invested" by al-Qaeda caused \$210,000 of damage to the United States. Even when compared to al-Qaeda's total estimated budget of \$30 million, projected damages remain 3,500 times al-Qaeda's investment. Similarly, the London bombings in

land, and ETA targeted the tourism industry in Spain. Neither of them, however, utilized this strategy to the fullest extent possible, often restrained by their own unwillingness to cause large-scale casualties. Though the IRA did bomb the financial center of London in 1993, this was not a typical target selection for the organization.²⁹

This financial aspect of al-Qaeda's strategy, coupled with its lack of inhibitions toward causing large-scale civilian casualties, arguably make the organization significantly more dangerous than either the IRA or ETA. Bin Laden has several times referred to his strategy of "bleeding" the U.S. economy through the war in Iraq and attacks on American soil.³¹ The 9/11 attacks specifically targeted the World Trade Center, and a thwarted 2004 plot proposed simultaneously attacking New York City's financial district, a business center in Newark, and

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2005, thought to have cost approximately \$15,000 to plan and carry out, are estimated to have cost Britain around \$3.7 billion.²⁹

While these numbers should not necessarily be taken at face value, they indicate that al-Qaeda may be following a different, more efficient financial strategy than the IRA and ETA. Both ETA and the IRA pursued an economic agenda in their terrorist campaigns. The IRA killed several British businessmen to deter foreign direct investments in Northern Ire-

the offices of the World Bank and the IMF in Washington DC.³² This analysis mirrors a broader distinction between ethno-nationalist terrorist groups claiming to represent a defined and permanent population and transnational, ideological groups such as al-Qaeda. As one expert observes, al-Qaeda "fight[s] for a millenarian ideology rather than a discrete community."³³ This may be one reason for its lack of inhibitions against wide-scale civilian casualties, even within its own nominal community.

Security Policy Implications. The frustrating challenges of countering terrorist financing may—much like counterterrorism at large—tempt policymakers to adopt excessive measures that turn out to be inefficient or even counterproductive in the long run. Inspired by laws to combat money laundering, attempts

Arab enterprises.”³⁴ Similarly, the reduced standard of proof and the general sense of urgency may result in unfortunate mistakes such as the U.S. closure of the Somali money-remitting organization al-Barakaat. Freezing the organization’s resources is estimated to have cut remittances to Somalia by half

Financial regulations in and of themselves are not enough to cut off terrorist financing.

have been made to target terrorist financing through extensive financial regulations. But such policies involve considerable tradeoffs. Excessive regulations and many-fold increases in the filing of suspicious activity reports by financial institutions can create large backlogs, divert scarce intelligence resources away from more efficient methods, and impose major costs on the financial industry. Moreover, they may hinder much-needed remittances from reaching developing countries and infringe on individual rights and liberties.

Some of these trends are already in evidence in the U.S. campaign against terrorist financing. Banks and other financial institutions have strong incentives to increase their filing of suspicious activity reports but lack the classified intelligence needed to target these reports. They have increased their reporting more than four-fold, leading to lapses in quality and an excessive focus on Islamic and Arab enterprises and foundations. A number of prominent banks are even said to have adopted “internal policies that require employees to refuse interaction with Islamic and

but ultimately did not lead to criminal charges against any al-Barakaat participants.”³⁵

There have also been dramatic raids against respected Muslim leaders, creating discontent and fear amongst the Muslim minority in the United States.³⁶ Taken together, these tendencies feed into a general feeling that Muslims are being mistreated by the United States at home and abroad. Meanwhile, radical Islamist cells that operate on very small budgets, often obtained through legal means, generate very few financial clues to distinguish their transfers from ordinary economic transactions. This finding was underlined in reports on both 9/11 and the 2005 bombings in London. A forceful state reaction to counter terrorist organizations, although understandable given popular pressures, does not always result in effective policy.

Fortunately, financial regulations are only one policy option for countering terrorist financing. Spain and the United Kingdom have scored some of their major successes using other methods. First, targeting passive state sponsorship (in which a state allows a terrorist organization to raise funds and conduct logisti-

cal tasks in its territory without interference) through diplomatic channels was of great importance in both cases. Crack-downs on IRA fundraising by the United States and on ETA operatives in southern France inflicted serious damage on these organizations, comparable to the loss incurred by the IRA when Libya cut its funding.³⁷ Similarly, a majority of the money raised for al-Qaeda came from Saudi Arabia, where significant changes finally seem to be taking place—though this seems primarily due to repeated al-Qaeda attacks on Riyadh, rather than pressure from the United States or other governments.³⁸

Second, despite having sophisticated financial networks that have eluded blanket regulations, both the IRA and ETA have proven vulnerable to targeted counter-terrorist attacks on their financing. In 1987 the United Kingdom managed to end Libya's funding of the IRA by having two infiltrators betray a major shipment of arms from Tripoli. Similarly, a change in the Spanish law governing political parties led to the ban on Herri Batasuna in 2003 and significantly lowered the operational capacities of ETA at the time.³⁹ None of these measures depended primarily on financial warfare techniques, but rather on "human intelligence" and a changed political approach.

Third, organizations that rely on external financiers are also dependent on the financier's approval of their operational activities; both the IRA and ETA lost significant support after misguided operations. In this regard, al-Qaeda seems to have suffered some setbacks due to the attacks in Riyadh in November 2003 and April 2004.⁴⁰ Other unpopular attacks—such as the Istanbul bombings that mainly killed Muslims in November

2003, attacks against wedding parties in Jordan, and other attacks against co-religionists in Iraq—may possibly be used to drive a wedge between al-Qaeda and its financiers. The potential of this tactic is exemplified by the behaviour of Louia Sakka, the suspected brain behind the Istanbul bombings, who felt obliged to shout during his trial that a subsequent attack (thwarted by Turkish security services) had been intended to target an Israeli cruise ship, not Turks.⁴¹

Fourth, issues surrounding financing have sown conflict within terrorist organizations, particularly if elements within the group are suspected of misappropriating funds. Promoting this type of internal strife, however difficult a proposition, might be a potential instrument that counter-terrorist entities could use to undermine the unity and cohesion within terrorist groups.

To conclude, countering terrorist financing has not been and likely will not be the silver bullet that some senior U.S. policymakers seem to have hoped. Insurgencies, such as the neo-Taliban movement in Afghanistan, require significant funding. In that specific instance, the rampant drug trade is especially influential, and there is much that the United States and its allies could do to target the insurgency through curbing the drug trade. Terrorism, especially transnational terrorism, requires relatively insignificant resources. Regarding non-territorial terrorist groups such as al-Qaeda, one leading expert states accurately that "attacking their funding may slow down these organizations, but it will not kill them."⁴²

The United States has scored some successes against al-Qaeda's financial network. Several members of the original financial committee have been captured

or killed, and al-Qaeda funding seems to have decreased substantially. Potential donors are having trouble connecting with operative cells, and Saudi Arabia—the origin of much of al-Qaeda's earlier funding—is cracking down on terrorist financing.⁴³ Unfortunately, the fact that both the Madrid and London bombings were essentially self-financed by the independent cells (through drug dealing and legitimate employment respectively) illustrates that it will be extremely difficult to eliminate funding to al-Qaeda and affiliated groups any time soon.⁴⁴ Whereas countering terrorist financing may be an efficient tactic to limit al-Qaeda's operative ability in the short run, undercutting the legitimacy of the organization and its affiliates remains the only feasible long-term strategy.

The *modus operandi* of radical

Islamist groups, characterized by small budgets, a decentralized network structure, local self-financing and alternative money transmittal systems or cash couriers, implies that financial regulations alone are not enough to cut off terrorist financing. The experiences of Spain and the United Kingdom indicate that a range of policies, including international intelligence cooperation, diplomatic pressure, human intelligence gathering, and public relations campaigns, can be as useful in countering terrorist financing as the currently favored financial regulations.

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NOTES

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