

**INTERNATIONAL FIGHT AGAINST  
THE FINANCING OF TERRORISM**

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**ÖZGÜR ÜTÜK**

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Prof. Dr. Sencer Ayata  
Director

I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Science.

---

Prof. Dr. Meliha Benli Altunışık  
Head of Department

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Science.

---

Prof. Dr. Hüseyin Bağcı  
Supervisor

**Examining Committee Members**

Prof. Dr. Hüseyin Bağcı	(METU, IR)	_____
Assoc. Prof. Dr. Oktay Tanrısever	(METU, IR)	_____
Assist. Prof. Dr. Mehmet Şahin	(Gazi University, IR)	_____

**I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.**

Name, Last name : Özgür Ütük

Signature :

## **ABSTRACT**

### **INTERNATIONAL FIGHT AGAINST THE FINANCING OF TERRORISM**

Ütük, Özgür

M.Sc., International Relations

Supervisor: Prof. Dr. Hüseyin Bağcı

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This thesis attempts to provide a critical perspective on international efforts to prevent the financing of terrorism. The thesis argues that the fight against the financing of terrorism is a vital component of counter terrorism strategies and underlines the significance of international organizations in combating terrorist financing. The thesis examines the fund raising and movement activities of terrorist groups. Moreover, it analyzes the efforts of international organizations to combat terrorist financing and discusses the adequacy of these efforts. By arguing that international community's efforts are not adequate, the thesis makes some recommendations. Finally, the thesis tests to what extent neo-liberal institutionalist approach, which mainly concentrates on cooperation and regime formation regarding the global problems faced by the states, can explain the international fight against the financing of terrorism.

Keywords: Terrorism, financing of terrorism, organized crime, international organizations, neo-liberal institutionalism

## ÖZ

### TERÖRİZMİN FİNANSMANI İLE ULUSLARARASI MÜCADELE

Ütük, Özgür

Yüksek Lisans, Uluslararası İlişkiler

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Bu tez terörizmin finansmanını önlemeye yönelik uluslararası çabalara ilişkin eleştirel bakış açısı sunmaktadır. Tez, terörizmin finansmanı ile mücadelenin terörle mücadele stratejilerinin hayati bir parçası olduğunu iddia etmekte ve terörizmin finansmanı ile mücadelede uluslararası örgütlerin önemini vurgulamaktadır. Tez, terör örgütlerinin fon elde etme ve transfer metotlarını incelemektedir. Ayrıca, tez uluslararası örgütlerin terörizmin finansmanı ile mücadele çalışmalarını analiz etmekte ve bu çalışmaların yeterliliğini tartışmaktadır. Tez, uluslararası çabaların yeterli olmadığını iddia ederek, çeşitli tavsiyelerde bulunmaktadır. Tez, devletlerin karşı karşıya kaldıkları küresel sorunlara ilişkin olarak işbirliği ve rejim oluşturulmasına yoğunlaşan neo-liberal kurumsalcı yaklaşımın terörizmin finansmanı ile uluslararası mücadeleyi ne derece açıklayabildiğini sınamaktadır.

Anahtar Sözcükler: Terörizm, terörizmin finansmanı, organize suç, uluslararası örgütler, neo-liberal kurumsalcılık

*To My Wife*

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## **LIST OF ABBREVIATIONS**

AIAI	Al Ittihad al Islami
ALN	Action for National Liberation
AUC	United Self Defense Groups
BMPE	Black Market Peso Exchange
DHKP-C	Revolutionary People's Liberation Front
ELN	National Liberation Army
ETA	Basque Fatherland and Liberty
EU	European Union
FARC	Revolutionary Armed Forces of Colombia
FATF	Financial Action Task Force
GAO	Government Accountability Office
GDP	Gross Domestic Product
IAIS	International Association of Insurance Supervisors
IIRO	Islamic International Relief Organization
IMF	International Monetary Fund
IMRO	Internal Macedonian Revolutionary Organization
IOSCO	International Association of Securities Commissioners
IPC	Intellectual Property Crime
IRA	Irish Republican Army
KARSAZ	Association of Kurdish Employers
LTTE	Liberation Tigers of Tamil Eelam
MASAK	Financial Crimes Investigation Board

NORAID	Northern Aid Committee
PKK	Kurdistan Worker's Party
PLO	Palestinian Liberation Organization
SAMED	Palestinians Martyrs' Sons Enterprises
THKP-C	Türkiye Halk Kurtuluş Partisi Cephesi
UN	United Nations
UNODC	United Nations Office on Drugs and Crime
US	United States

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## **CHAPTER 1**

### **INTRODUCTION**

In the 21<sup>st</sup> century, one of the major threats to the human kind is terrorism. To pursue their political objectives, terrorist organizations carry out violent attacks against both civilians and security forces and because of these terrorist attacks, thousands of people lose their lives in every year. Although fight against terrorism has been one of the priorities of national and international security policies, especially after the devastating September 11 attacks, it is also one of the most controversial issues in international politics. So far, thousands of articles, monographs, books and reports have been written on terrorism, various international conventions have been signed, and national criminal codes have addressed the issue. However, today, still there is not a common definition of terrorism, which the international community agreed upon. Despite the lack of consensus on its definition, the word terrorism reminds people similar concepts such as death, violence, fear, political objectives and planned actions.

The main strategy in the fight against terrorism is the use of force. However, the military power is not alone adequate for suppressing terrorism successfully. As well as military issues, political, economic, social and cultural aspects and international cooperation should be taken into account in the fight against terrorism. In other words, combating terrorism requires comprehensive and integrated strategies that are updated regularly. However, so far, the problem has been handled within the framework of the use of force against terrorist organizations.

There is a close relationship between money and terror. Terrorist groups are not economic profit seekers; rather they are politically motivated. However, for success, their members' enthusiasm and sacrifice are not sufficient, substantial financial

resources are required for launching attacks and organizational costs, such as training, making propaganda, recruiting new members, buying weapons and covering the living expenses of the militants. To cover operational and organizational costs, terrorist organizations involve in criminal activities such as drug trafficking, smuggling, counterfeiting and fraud and cooperate with organized crime networks operating in these fields. As well as illegal activities, terrorist organizations raise funds from legitimate sources. They exploit the humanitarian organizations and engage in commercial activities through their companies or companies owned by their sympathizers. Furthermore, donations made by wealthy individuals are also a significant source of income for terrorist groups. In addition to these, the support provided by states is another financial source for terrorist groups. Though in post Cold War period state sponsorship of terrorism has declined, it has not vanished. Currently, there are some states directly supporting terrorist groups, but the nature of state sponsorship has changed after the Cold War. Instead of direct support, states provide passive sponsorship, which means tolerating terrorist groups' activities and being inactive against these groups.

However, for terrorist organizations, raising funds does not mean solving financial issues. The funds raised through different sources should be transferred to different units and cells of terrorist groups. To this end, terrorist groups use various types of transfer mechanisms such as the financial institutions, alternative remittance systems, cash couriers and precious stones. This process, which is known as the movement of terrorist funds, is also very critical for counter terrorist strategies. By tracing the money, financial intelligence units can get vital information about the financial structure of a terrorist group. However, the flow of terrorist funds can be followed only when they are transferred within the formal financial system. In other cases, it is very difficult to detect and follow terrorist funds.

The process that include raising and moving terrorist funds is named as the financing of terrorism. Currently, terrorist groups are not bounded by national frontiers. They recruit members from different countries, carry out terrorist attacks in different regions and make propaganda at the international level through satellite channels and

internet. In recent years, terrorist groups have begun to involve in transnational organized crimes such as drug trafficking, migrant, arms and cigarette smuggling and transfer their funds even from one continent to another. In short, terrorist groups have become global. Therefore, the fight against the financing of terrorism requires a collective international action. In this respect, international organizations have a vital role in developing global measures to combat terrorist financing, coordinating individual states' efforts and providing a platform for cooperation and exchange of information among them.

As a discipline, international relations emerged in the 20<sup>th</sup> century, in the aftermath of the First World War. The driving forces behind the development of international relations discipline are to prevent the catastrophic effects of the First World War, to preserve peace and the need for a new perspective to understand and organize the relations between nation states.<sup>1</sup> The cooperation between states is one of the main issues of the international relations discipline. In the very beginning, the international relations discipline was shaped by the debate between realism and idealism, which are the products of a state centric approach. In time, some theories such as social constructivism and critical theory began to challenge the state centric theories of international relations. However, today, the neo-neo debate, which can be regarded as the continuation of realism versus idealism, is one of the main issues of international relations discipline. Neo-realism and neo-liberalism have some common assumptions, as the international system is anarchic and states are rational and unitary actors in the anarchic environment. Thus, the debate between these two theories is called an intra-paradigm debate. Although they have the same inputs, they have quite different outputs at the end of their analyses. For example, while neo-realists focus on relative gains and are cautious about the possibility of cooperation among states, neo-liberals claim that cooperation is an achievable objective. In this respect, neo-liberal institutionalism, which is a branch of neo-liberal approach, seems very critical in analyzing the cooperation between states in an anarchic system, the role of international institutions and the establishment of regimes.

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<sup>1</sup> A. Nuri Yurdusev, "Uluslararası İlişkiler Öncesi", in Atilla Eralp (ed.), *Devlet, Sistem ve Kimlik: Uluslararası İlişkilerde Temel Yaklaşımlar*, (İstanbul: İletişim Yayınları, 1996), pp.24-25

In this context, the thesis argues that the fight against the financing of terrorism is a vital component of counter terrorism strategies and underlines the significance of international organizations in combating terrorist financing. It provides detailed information about the financial resources of terrorist groups and the mechanisms adopted by these groups to transfer money. Moreover, it also examines the international efforts and the cooperation between states in the fight against the financing of terrorism. Furthermore, by arguing that international community's efforts are not adequate, the thesis makes some suggestions to overcome the deficiencies of the current efforts in countering the financing of terrorism. Finally, the thesis tests to what extent neo-liberal institutionalist approach, which mainly concentrates on cooperation and regime formation regarding the global problems faced by the main actors in international system, states, explain the financing of terrorism and the international cooperation against it.

For this aim, in the following part of the thesis, the theoretical and conceptual framework for the analysis will be drawn. In this study, one of the leading theories of international relations discipline, neo-liberal institutionalism, which mainly focuses on the possibility of cooperation in anarchic system, will be the starting point for the analysis. After having explained the basics of institutionalist perspective in terms of cooperation, the concepts of terrorism and the financing of terrorism will be discussed. The historical background of the issue will also be explained in this chapter. Finally, the link between terrorist and organized crime groups, which has a central role in this study, will be analyzed.

The third chapter of this thesis seeks an answer to the question of "where does the money come from to terrorist organizations?" This chapter will shed light on the involvement of terrorist organizations in drug trafficking, migrant smuggling, arms smuggling, cigarette smuggling, extortion, kidnapping and ransom, robbery and theft, counterfeiting, credit card fraud, the role of charities, legitimate business enterprises and donations from wealthy individuals in raising terrorist funds and state sponsorship of terrorism.

In the fourth chapter, the movement of terrorist funds, which is very critical both for terrorists and security forces will be handled. In this respect, the fund transfers of terrorist groups through the formal financial sector, alternative remittance systems, cash couriers, charities, legitimate businesses, precious stones and metals, mobile payment systems and commercial websites will be demonstrated.

As discussed above, the fight against the financing of terrorism requires a coordinated international action. Therefore, the international organizations play a crucial role in combating terrorist financing. In line with this argument, the fifth chapter will examine the strengths and weaknesses of international organizations in countering the financing of terrorism. The international organizations that will be analyzed concerning the financing of terrorism are as follows: the United Nations (UN), the Financial Action Task Force (FATF), the European Union (EU), the Council of Europe, the World Bank, the International Monetary Fund (IMF), the Egmont Group, the Wolfsberg Group and the Basel Committee on Banking Supervision.

In the conclusion part of this thesis, a critical analysis of the international efforts addressing the fund raising and transfer activities of terrorist groups will be made and some policy suggestions will be presented with a view to promoting cooperation among states and enhancing the international fight against the financing of terrorism.

## CHAPTER 2

### THEORETICAL AND CONCEPTUAL FRAMEWORK

#### 2.1. Theoretical Framework for Analysis

The debate between neo-realism and neo-liberalism has been at the centre of international relations studies, especially in the United States (US), since the mid 1980s.<sup>2</sup> Although these two mainstream international relations theories have different outcomes, they have common assumptions. In both theories, states are the dominant, rational and unitary actors and they operate in an anarchic environment. However, the main difference between two theories is their perceptions about the possibilities of cooperation between states in an anarchic system. For neo-realism, since states are self-interest oriented, the possibility of cooperation between states is very low. On the other hand, neo-liberals focus on cooperation rather than conflict and discuss the establishment and maintenance of cooperation between states.

Neo-liberal theory, which is derived from the classical liberalism, can be categorized into three: neo-liberal internationalism, neo-idealism and neo-liberal institutionalism.<sup>3</sup> For the purpose of the thesis, neo-liberal institutionalism, which focuses on cooperation in an anarchic system, will be the starting point of the theoretical analysis.

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<sup>2</sup> Steven L. Lamy, "Contemporary Mainstream Approaches: Neo-realism and Neo-liberalism", John Baylis and Steve Smith (eds.), *The Globalization of World Politics: An Introduction to International Relations*, (Oxford: Oxford University Press, 2001), p.183

<sup>3</sup> Tim Dunne, "Liberalism", in John Baylis and Steve Smith (eds.), *The Globalization of World Politics: An Introduction to International Relations*, (Oxford: Oxford University Press, 2001), pp.173-177

Neo-liberal institutionalists have pluralistic views on the actors in international system; they include non-state actors, such as transnational companies, non-governmental organizations and international institutions in their analyses. However, they regard states as the principal actors.

On the other hand, unlike neo-realism, neo-liberal institutionalism claims that, cooperation is an achievable objective, especially in areas where states have mutual interests such as environmental problems and trade barriers. Furthermore, while neo-realism believes that states are concerned with their relative gains, neo-liberal institutionalism asserts that states care about their absolute gains in cooperative arrangements. That is to say, from the perspective of institutionalists, states do not try to prevent other states' gaining more.<sup>4</sup>

Moreover, neo-liberal institutionalists emphasize the growing linkages between states and non-state actors and argue that the agenda of the international relations studies has become pluralistic. In the 1950s and 1960s, main research areas of international relations scholarship were security and military issues, which were regarded as high-politics. However, from the 1970s onwards, the distinction between high and low politics has begun to fade away and especially transnational economic issues, which were regarded as low-politics by realist perspective, gained importance.<sup>5</sup>

As mentioned above, institutionalists mainly focus on the prospects for cooperation in the anarchic system and claim that conflicts can be prevented through international regimes.

In international relations, the concept of "regime" refers to a field governed by a set of rules. According to Little, regime is "a delineated area of rule-governed activity in

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<sup>4</sup> Lamy (2001), *op.cit.*, p.190

<sup>5</sup> Atila Eralp, "Hegemony", in Atila Eralp (ed.), *Devlet ve Ötesi: Uluslararası İlişkilerde Temel Kavramlar*, (İstanbul: İletişim Yayınları, 2005), p.164

the international system.”<sup>6</sup> For Keohane and Nye, regime means the presence of “a set of governing arrangements, which include networks of rules, norms and procedures that regularize behavior and control its effects”<sup>7</sup>. The most comprehensive and most widely used definition of regime was made by Krasner. He defines regime as<sup>8</sup>;

sets of implicit or explicit principles, norms, rules and decision making procedures around which actors’ expectations converge in a given area of international relations”

However, regimes are more than temporary arrangements that can be subject to change in every shift in interests or power. In other words, arrangements are *ad hoc* and the content and scope can be very limited. On the contrary, regimes are not temporary and limited arrangements on a very specific issue. Furthermore, regimes draw the general framework and facilitate cooperation among the parties.<sup>9</sup>

For Young, international regimes are social institutions or structures governing the actions of states on specific issues. According to him, these issues refer to activities that are not in the realm of national jurisdictional systems, for example, deep seabed mining, or cutting across international jurisdictional boundaries, for instance high seas, space, or that have direct impact on the interests of more than two members of the international system, for example, international trade or exchange rates. Furthermore, he argues that although the members of the international regimes are nation states, the activities governed by these regimes are carried out by non-state actors.<sup>10</sup>

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<sup>6</sup> Richard Little, “International Regimes”, in John Baylis and Steve Smith (eds), *The Globalization of World Politics: An introduction to international relations*, (Oxford: Oxford University Press, 2001), p.299

<sup>7</sup> Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, (Boston: Little, Brown, 1977), p.19

<sup>8</sup> Stephen D. Krasner, “Structural causes and regime consequences: regimes as intervening variables”, in Stephen D. Krasner (ed.), *International Regimes*, (Ithaca: Cornell University Press, 1983), p.2

<sup>9</sup> *Ibid.* , pp.2-3

<sup>10</sup> Oran R. Young, “Regime dynamics: the rise and fall of international regimes”, Stephen D. Krasner (ed), *International Regimes*, (Ithaca: Cornell University Press, 1983), p.93

For instance, nation states are members of World Trade Organization (WTO), which governs the international trade system, but international trade transactions are carried out between private entities from different countries.

According to Keohane, the main functions of an international regime are to facilitate the making of specific arrangements on matters within the issue-area of the regime and help to make states' expectations consistent with one another.<sup>11</sup>

Neo-liberal institutionalists argue that global problems such as pollution, climate change, arms races and trade barriers are the outcomes of competitive behaviors of nation states within the anarchic international system. Thus, there is a need for international regimes to overcome the negative outcomes of the lack of collaborative behaviors. In this respect, states, as rational actors, through voluntary agreements, establish international regimes. Neo-liberal institutionalists claim that hegemonic power plays an important role in the formation of regimes with a view to eliminating the problems stemming from the anarchic environment and gives the example of the creation of economic regimes by the efforts of the US as a hegemonic power after the Second World War. However, as Keohane puts forward, the establishment and maintenance of international regimes does not solely depend on the hegemonic power. Contrary, after the decline of a hegemonic power, regimes do not cease to exist.<sup>12</sup> The continuation of economic regimes when the hegemonic power of the US declined in the 1970s can be given as an example of this argument.

For neo-liberal institutionalists the main driving force behind the regimes is the principle of reciprocity.<sup>13</sup> Once a regime is established, it will be very unlikely to violate the rules because, if one state violates, others also will follow and at the end, they all will be in a worse position. In this respect, institutionalists underline the mechanisms, such as inspection and surveillance that enhance reciprocity. Through

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<sup>11</sup> Robert O. Keohane, "The Demand for International Regimes", in *International Organization*, Vol: 36, No: 2, Spring 1982, (The Massachusetts Institute of Technology, 1982), p.334

<sup>12</sup> Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, (Princeton, N.J. : Princeton University Press, 1984), pp.49-51

<sup>13</sup> Little (2001), *op.cit.* , p.310

these mechanisms, states will become more transparent, they will have information about each other, and as a result, regimes will be more strengthened.<sup>14</sup> In this context, another important aspect of the effectiveness of international regimes is their output. That is to say, the success of international regimes in developing regularized procedures and rules that provide more information to participants, norms that are internalized by participants and covering transnational relations determine their effectiveness and future.<sup>15</sup>

The rise of interdependency between states has required the collective actions against common problems. In this context, international regimes are seen as instruments that enable states to collaborate and take action against the common problematic issues and promoter of common good by liberal institutionalists.

However, there are some strong challenges against the neo-liberal understanding of cooperation and regimes. Realists put forward that the role of power in shaping regimes is neglected by neo-liberal institutionalists. Realists claim that regimes are established by powerful states in order to serve their long-term interests. Furthermore, they assert that regimes will not be the same when there is a change in the balance of power. In other words, when the hegemonic state will lose its power, the regime established in line with its interests will be challenged by other states that want a new regime, which will be based on different norms and rules.<sup>16</sup>

In addition, realists argue that, states, which are rational selfish actors in the anarchic system, are seriously concerned with other states' relative gains and criticize neo-liberal perspective for ignoring relative gains in explaining regime formation.

Furthermore, although neo-liberal institutionalism does not see state as the only actor in international relations, it is not very different from state centric realist tradition. It does not pay much attention to non-state actors and make analyses within the

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<sup>14</sup> *Ibid.* , p.310

<sup>15</sup> Keohane (1982), *op.cit.* , pp.349-350

<sup>16</sup> *Ibid.* , p.310

framework of states' interests. Moreover, like realism, neo-liberal institutionalism also regards states as rational, unitary actors. It does not take into account the political, economic and social forces within a state. Despite being criticized for narrowing the agenda of international relations together with neo-realism<sup>17</sup> and some of its deficiencies, which are discussed above, neo-liberal institutionalism draws a significant and useful framework for understanding the cooperation within the anarchic environment.

## **2.2. Conceptual Framework for Analysis**

### **2.2.1. Defining Terrorism**

Terrorism comes from the Latin word *terrere*, meaning, “to frighten”. Terrorism was first used during the French Revolution referring to the period between 5 September 1793 and 27 July 1794. This period is also known as “reign of terror” and means the systemic use of harsh policies by the Jacobins against those opposed or suspected to be opposed to the French Revolution.<sup>18</sup>

Although as a concept “terrorism” is a product of the French Revolution, it dates back to the *sicarii* movement of the first century. This group consisted of Jewish men who were fighting against the Roman occupation in Palestine between 66-73. The *sicarii* movement used unorthodox tactics such as attacking the Romans or those who collaborated with them in daylight with a short sword called *sica*, burning granaries and sabotaging Jerusalem's water supplies.<sup>19</sup>

As explained above, terrorism is a political phenomenon, which is at least two thousand years old. So far, various researches have been conducted over the issue of terrorism and many definitions of terrorism have been made.

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<sup>17</sup> Lamy (2001), *op.cit.* , pp.196-197

<sup>18</sup> <http://www.britannica.com/EBchecked/topic/588360/Reign-of-Terror>, Accessed on 17 October 2008

<sup>19</sup> Walter Laqueur, *A History of Terrorism*, (New Jersey: Transaction Publishers, 2001), pp.7-8

According to Laqueur, “terrorism is the illegitimate use of force to achieve political objectives.”<sup>20</sup> Another definition of terrorism is made by Wurth. According to his definition, “terrorism is a method of action by which the agent tends to produce terror to impose his domination on the state in order to transform or destroy it.”<sup>21</sup> For Jenkins, “terrorism is a strategy whereby violence is used to produce certain effects in a group of people so as to attain some political end or ends.”<sup>22</sup> In Dedeoğlu’s article terrorism is defined as<sup>23</sup>;

violence acts carried out by civilians against civil or non civil persons or institutions in order to change, transform or reinforce the type, basic principles or some policies of a political authority.

The explanation made by Lutz and Lutz, which combines the works of some scholars, namely, Crenshaw, Hoffman and Claridge, can be regarded as one of the most comprehensive explanations of terrorism<sup>24</sup>:

Terrorism involves political aims and motives. It is violent or threatens violence. It is designed to generate fear in a target audience that extends beyond the immediate victims of the violence. The violence is conducted by an identifiable organization. The violence involves a non-state actor or actors as either the perpetrator, the victim of the violence, or both. Finally, the acts of violence are designed to create power in situations in which power previously had been lacking (i.e., the violence attempts to enhance the power base of the organization undertaking the actions.

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<sup>20</sup> Walter Laqueur, *The Age of Terrorism*, (Little & Brown: Boston, 1987), in James M. Lutz and Brenda J. Lutz, *Global Terrorism*, 2<sup>nd</sup> ed. (Routledge: London, 2008), p.9

<sup>21</sup> Don E. Wurth, “The Proper Function and Use of the Private Sector Body Guard”, in Brian M. Jenkins (Ed), *Terrorism and Personal Protection*, (Stoneham, Massachusettes: Butterworth Publishers, 1985), in Ufuk Sözübir, “Conceptualizing the Definition of Terrorism in Light of the Developments in the Fields of Academics, History and Legislation”, (Master Thesis, Bilkent University, 2005), p.28

<sup>22</sup> Brian M. Jenkins, *International Terrorism: A New Mode of Conflict*, Research Paper 48, California Seminar on Arms Control and Foreign Policy, (Los Angeles: Crescent Publications, 1975), in Ufuk Sözübir, “Conceptualizing the Definition of Terrorism in Light of the Developments in the Fields of Academics, History and Legislation”, (Master Thesis, Bilkent University, 2005), p.35

<sup>23</sup> Beril Dedeoğlu, “Terörizm ve Terörizmle Mücadelenin Paradoksal Olguları”, in *Avrasya Dosyası*, Cilt:12, Sayı:3, (Ankara: Avrasya Stratejik Araştırmalar Merkezi, 2006), pp.11-12

<sup>24</sup> Lutz and Lutz, (2008), p.9

This explanation consists of six major components: political aim; violence or threat of violence; masses; identifiable organization; targets and perpetrators of violence and finally the quest for improving power.

According to this explanation, terrorist acts are carried out for political reasons. Furthermore, to define an act as terrorist act, it should involve violence or threat of violence. In this respect, peaceful demonstrations cannot be regarded as terrorist acts. Moreover, any act of violence cannot be seen as terrorism, unless its targets extend beyond the immediate victims of a terrorist act. In addition to these, the violent act should be carried out by an identifiable organization. The explanation also suggests that either the perpetrator or the victim or both should be a non-state actor. In this context, the wars between states cannot be seen as terrorist acts. Finally, terrorist organizations conduct attacks “to increase their influence on political decisions.”<sup>25</sup>

As previously mentioned there have been enormous numbers of academic studies but there is no consensus on the definition of terrorism. The research conducted by Schmidt and Youngman demonstrates this lack of consensus. In this study they analyzed 109 different definitions of terrorism and found that violence, the political motivations, fear and threat are the elements that are mostly used in these definitions.<sup>26</sup> Table-1 shows the frequencies of the definitional elements in 109 definitions.

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<sup>25</sup> *Ibid.* , p.13

<sup>26</sup> Alex P. Schmid, Albert J. Jongman, *Political Terrorism: A New Guide to Actors, Authors, Concepts, Data Bases, Theories, and Literature*, (New Brunswick , N.J. :Transaction Publishers, 1988), p.5

Table-1: Frequencies of the definitional elements in 109 definitions of terrorism

<b>Element</b>	<b>Frequency (%)</b>
Violence, Force	83.5
Political	65
Fear, Terror Emphasized	51
Threat	47
(Psychological) effects and (anticipated) reactions	41.5
Victim-Target Differentiation	37.5
Purposive, Planned, Systematic, Organized Action	32
Method of Combat, Strategy, Tactic	30.5
Extranormality, in Breach of Accepted Rules, without Humanitarian Constraints	30
Coercion, Extortion, Induction of Compliance	28
Publicity Aspect	21.5
Arbitrariness; Impersonal, Random Character; Indiscrimination	21
Civilians, Non-Combatants, Neutrals, Outsiders as Victims	17.5
Intimidation	17
Innocence of the Victims Emphasized	15.5
Group, Movement, Organization as Perpetrator	14
Symbolic Aspect, Demonstration to Others	13.5
Incalculability, Unpredictability, Unexpectedness of Occurrence of Violence	9
Clandestine, Covert Nature	9
Repetitiveness; Serial or Campaign Character of Violence	7
Criminal	6
Demands Made on Third Parties	4

Source: Alex P. Schmid, Albert J. Jongman, *Political Terrorism: A New Guide to Actors, Authors, Concepts, Data Bases, Theories, and Literature*, (New Brunswick, N.J. :Transaction Publishers, 1988), p.5

The international community's efforts to prevent and suppress terrorism date back to 1934, when the League of Nations took some steps towards a convention on terrorism. Although the Convention was adopted in 1937, it never came into force.<sup>27</sup>

After the creation of the UN, in post World War II period, terrorism has begun to be taken more seriously. However, like the academicians, the international community also has not reached a common definition of terrorism so far. Instead of a common definition, the UN's efforts concentrated on specific acts such as airplane hijacking, crimes against internationally protected persons, taking of hostages, bombings and unlawful possession, use and transfer of nuclear materials. In this respect, 13 international conventions have been adopted since 1963 to prevent the specific terrorist acts.

However, in recent years, some steps have been taken with a view to formulating a common and comprehensive definition of terrorism. In this respect, in 1996, with the UN General Assembly Resolution 51/210, an Ad Hoc Committee was established to elaborate a comprehensive convention on international terrorism.<sup>28</sup> During the past 13 years, member states have not come to an agreement on the definition of international terrorism and the convention concerning the issue has not been adopted yet.

The lack of a common definition of terrorism undermines the international initiatives to combat terrorism. Although national legislations regarding terrorism include definition of terrorism, since they are designed for national needs and interests, they cannot be expected to tackle international terrorism. As a result of this, while a group is accepted by one state as a terrorist, another state sees it as a freedom fighter and this situation gives path to the problems in extradition of terrorists. However, if a consensus on the definition of terrorism is achieved, these problems can be overcome. Moreover, an internationally agreed definition of terrorism can also be helpful in imposing sanctions efficiently on the states that sponsor terrorism.

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<sup>27</sup> <http://www.un.org/terrorism/instruments.shtml>, Accessed on 19 November 2008

<sup>28</sup> <http://www.un.org/law/terrorism/index.html>, Accessed on 19 November 2008

Idealistically, such definition will contribute to the international peace and security very much, but considering the clash of interests between states, prevalence of *realpolitik*, the use of terrorist groups, or tolerance to them as a foreign policy tool and states that sponsor terrorism, it can be presumed that the likelihood of a common international definition of terrorism is quite low.

### **2.2.2. The Concept of Terrorist Financing**

As stated above, terrorism is based on political objectives and to achieve their political objectives, terrorist organizations conduct violent acts. Although carrying out terrorist activities depends on limited financial resources compared to its damages, they are not free. Funds are needed for terrorist operations and for organizational expenditures to develop and maintain an infrastructure of organizational support and to promote the ideology of a terrorist organization.<sup>29</sup>

Operational costs of a terrorist activity include buying weapons or bomb making components, transportation and living expenses of terrorists. According to the 9/11 Commission, the requirements for a terrorist attack inflicting catastrophic harm are as follows<sup>30</sup>:

- Leaders able to evaluate, approve, and supervise the planning and direction of the operation;
- Communications sufficient to enable planning and direction of the operatives and those who would be helping them;
- A personnel system that recruit candidates, vet them, indoctrinate them, and give them necessary training;
- An intelligence effort to gather required information and form assessments of enemy strengths and weaknesses;
- The ability to move people and;
- The ability to raise and move the necessary money.

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<sup>29</sup> FATF, *Terrorist Financing*, ( Paris, 2008), p. 7

<sup>30</sup> National Commission on Terrorist Attacks Upon the United States, *The 9/11 Commission Report*, (2004), pp.172-173, Available at: <http://www.9-11commission.gov/report/9/11Report.pdf>

In 2001, Al-Qaeda, by spending about \$400.000- \$500.000, had fulfilled these requirements and launched attacks upon the US.<sup>31</sup> Some of the other recent terrorist attacks' costs can be found below:

Table-2: The direct attack costs of a terrorist conspiracy

<b>Attack</b>	<b>Date</b>	<b>Estimated Cost</b>
London transport system	7 July 2005	8.000 Pounds
Madrid bombings	11 March 2004	10.000 US dollars
Istanbul truck bomb attacks	15 & 20 November 2003	40.000 US dollars
Jakarta JW Hotel bombing	5 August 2003	30.000 US dollars
Bali bombings	12 October 2002	50.000 US dollars
USS Cole attack	12 October 2000	10.000 US dollars
East Africa embassy bombings	7 August 1998	50.000 US dollars

Source: FATF, *Terrorist Financing*, ( Paris, 2008), p. 7

In addition to operational costs, terrorist organizations also need funds for organizational requirements. The living costs of terrorists, payments made to the families of terrorists, costs of recruit, training, indoctrination and travel, bribing, and providing funds for the legal, political side of the terrorist organization bring an additional financial burden to the terrorist organization.<sup>32</sup> To finance both operational costs and organizational spending, terrorist organizations engage in criminal activities such as drug trafficking, robbery and various types of smuggling, make use of the legitimate businesses, their wealthy sympathizers and humanitarian organizations and get financial support from states; and all of these acts refer to the concept of the financing of terrorism.

<sup>31</sup> National Commission on Terrorist Attacks Upon the United States, *Monograph on Terrorist Financing*, (2004), p.3, Available at: [http://govinfo.library.unt.edu/911/staff\\_statements/911\\_TerrFin\\_Monograph.pdf](http://govinfo.library.unt.edu/911/staff_statements/911_TerrFin_Monograph.pdf)

<sup>32</sup> Hasan Aykın and Kevser H. Sözmen, *Terörün Finansmanı* (Ankara: T.C. Maliye Bakanlığı Mali Suçları Araştırma Kurulu Başkanlığı, 2008), pp. 14-18

Broadly, the financing of terrorism can be defined as the acquisition of funds that are needed for the operational and organizational costs by terrorist groups by any means. For Breinholt, the financing of terrorism is “the act of knowingly providing something of value to persons and groups engaged in terrorist activity”.<sup>33</sup> According to the IMF, “terrorist financing involves the solicitation, collection or provision of funds with the intention that they may be used to support terrorist acts or organizations”.<sup>34</sup>

Although the UN has not yet been able to form an internationally accepted definition of terrorism, it can be claimed that there is a consensus over the concept of the financing of terrorism. According to the 1999 International Convention for the Suppression of the Financing of Terrorism, which will be discussed in detail in chapter 4, terrorist financing means<sup>35</sup>:

...directly or indirectly, unlawfully and willfully, providing or collecting funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out:

- (a) An act which constitutes an offence within the scope of and as defined in one of the treaties listed in the annex<sup>36</sup>; or
- (b) Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or

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<sup>33</sup> Jeff Breinholt, “Terrorist Financing”, in *United States Attorneys’ Bulletin*, Vol:51, No:4, (Washington, July 2003), p.7, Available at: [http://www.usdoj.gov/usao/eousa/foia\\_reading\\_room/usab5104.pdf](http://www.usdoj.gov/usao/eousa/foia_reading_room/usab5104.pdf)

<sup>34</sup> <http://www.imf.org/external/np/leg/amlcft/eng/aml1.htm>, Accessed on 21 February 2009

<sup>35</sup> United Nations, *International Convention for the Suppression of the Financing of Terrorism*, (New York, 1999), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N00/251/28/PDF/N0025128.pdf?OpenElement>

<sup>36</sup> These treaties are as follow: “Convention for the Suppression of Unlawful Seizure of Aircraft”, “Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation”, “Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents”, International Convention against the Taking of Hostages”, “Convention on the Physical protection of Nuclear Material”, “Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation”, “Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation”, “Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf” and “International Convention for the Suppression of Terrorist Bombings”

to compel a government or an international organization to do or to abstain from doing any act.

The definitions given above, focus on the fund raising activities of terrorist organizations, but these funds raised by legal or illegal means or provided by states or wealthy individuals have to be transferred to other operatives or cells to carry out attacks or to cover their expenses. In this respect, the movement of terrorist funds becomes a critical issue for terrorist organizations and the law enforcement and intelligence units that gather information through tracing terrorist funds. Thus, in this study, the concept of the financing of terrorism will cover both fund raising and fund movement activities of terrorist organizations.

#### **2.2.2.1. Historical Background of the Financing of Terrorism**

The diversification of the economic resources that terrorist organizations rely on is a new phenomenon. When the 19<sup>th</sup> century terrorist groups' sources of income are analyzed, it is clearly seen that these groups were heavily dependent on voluntary contributions from their sympathizers and criminal activities such as expropriations and robberies. For example, Russian terrorist organization *Narodnaya Volya* (meaning "People's Will"), which was established in 1879 by members of the revolutionary Populist Party to overthrow the tsarist regime<sup>37</sup>, was covering its expenses through the donations made by wealthy sympathizers.<sup>38</sup> In 19<sup>th</sup> century, anarchist groups in France, Italy and Spain also followed the same pattern. For instance, "Francisco Ferrer, the Spanish Anarchist, received a million francs from a French lady he had befriended."<sup>39</sup> The contributions from sympathizers were also a significant source of income for the Irish Revolutionary Brotherhood. This group was founded in Dublin in 1858 with only 400 US dollars sent from the US<sup>40</sup>.

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<sup>37</sup> <http://www.britannica.com/EBchecked/topic/403550/Narodnaya-Volya>, Accessed on 12 March 2009

<sup>38</sup> Laqueur (2001), *op.cit.* , p.87

<sup>39</sup> *Ibid.* , p.87

<sup>40</sup> *Ibid.* , p.87

In the early 1900s, one of the examples of state support to terrorist groups was the case of “Black Hand”. Black Hand was a terrorist group directly supported by Serbia to weaken Austro-Hungarian Empire and unite the areas populated by Serbs within the Austro-Hungarian Empire. The most striking act of this group was the assassination of Archduke Franz Ferdinand, heir to the Austro-Hungarian throne, in 1914 in Sarajevo, which triggered the outbreak of World War I.<sup>41</sup>

After World War I, state support to terrorist organizations intensified. Mussolini regime in Italy and Hungarian government with a view to weakening and destabilizing Yugoslavia gave financial support and arms and provided safe havens to Croat groups, especially Ustashe, which were using terror tactics and seeking independence.<sup>42</sup> On the other hand, Italy and Bulgaria also used Macedonian groups in destabilizing Yugoslavia.<sup>43</sup>

State sponsorship of terrorism peaked during the Cold War period, especially in the 1970s and 1980s. In the Cold War, the Soviet Union, its satellites, Iran, Libya and North Korea supported terrorist groups in different parts of the world to pursue their political interests.<sup>44</sup>

Until the beginning of the 1980s, the financial resources of terrorist groups were limited to state sponsorship, donations from sympathizers and criminal activities like robbery. Table-3 demonstrates the financial limitedness of terrorist groups between 1880-1975. However, in the late 1970s, terrorist organizations began to diversify their fund raising activities. Since then, in addition to state support and donations made by wealthy sympathizers, by involving in organized crimes such as drug trafficking, arms and migrant smuggling and counterfeiting and by dealing with

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<sup>41</sup> Lutz and Lutz (2008), *op.cit.* , p.52

<sup>42</sup> *Ibid.* , p.56

<sup>43</sup> Laqueur (2001), *op.cit.* , p.90

<sup>44</sup> Richard Whelan, *Al-Qaedaism: The Threat to Islam, The Threat to the World*, (Dublin: Ashfield Press, 2005), p.20

commercial activities and making use of the charities, terrorist organizations have developed sophisticated financial structures with enormous annual income.

Table-3: The Financial resources of terrorist groups between 1880-1975

<b>Year</b>	<b>Terrorist Group</b>	<b>Country</b>	<b>Income (in 1976 dollars)</b>	<b>Source</b>
1880	Narodnaya Volya	Russia	Insignificant	Donations
1880	Irish dynamiters	Ireland	50.000	Irish sympathizers in U.S.
1896	Anarchists	France, Italy	Insignificant	Donations
1906	Social Revolutionaries and other groups	Russia	5-10 million	Robberies, some voluntary donations
1932	IMRO	Bulgaria	2-3 million	Extortion, Bulgaria, Italy
1933	Ustasha	Yugoslavia	1-2 million	Italy, Hungary
1947	IZL-Stern Gang	Palestine	1-2 million	Donations, robbery
1970	Tupamaros	Uruguay	5-10 million	Abductions, robbery
1970	ALN	Brazil	5-10 million	Abductions, bank robbery
1974	ERP-Montoneros	Argentina	50-100 million	Abductions, robbery
1975	Fatah	Middle East	150-200 million	Mainly donations from Arab-oil producing countries
1975	PFLP, PDFLP, Saiqa	Middle East	20-30 million	Donations from Libya, Iraq and Syria
1975	IRA	Ireland, Ulster	1-3 million	Donations, robberies, protection rackets and income from legitimate business
1975	UDA, UVF	Ulster	?	Same as IRA

Source: Walter Laqueur, *A History of Terrorism*, (New Jersey: Transaction Publishers, 2001), p.90

### **2.2.3. The Link between Terrorist and Organized Crime Groups**

When analyzing the financing of terrorism, one of the most important issues that should also be taken into consideration is the concept of organized crime group. From the beginning of the 1970s, terrorist groups have diversified their economic resources and established sophisticated financial structures. Today most of these groups do not depend on the financial support provided by some states and instead raise funds from a variety of both legitimate and illegitimate resources; in other words, terrorist groups are self-sufficient. The criminal activities, such as drug trafficking, arms, migrant and cigarette smuggling and counterfeiting, on which organized crime groups have expertise, provide a reasonable amount of fund to terrorist organizations. Thus, the relationship between terrorist groups and organized crime networks is an important research area.

#### **2.2.3.1. Organized Crime Groups**

In broad terms, organized crime group refers to a profit seeking entity engaging in criminal activities. Similarly, Williams define organized crime group as “an organization, whether networked or hierarchical, that systematically adopts criminal activities in pursuit of profit as its ultimate objective”.<sup>45</sup>

According to the 2000 UN Convention against Transnational Organized Crime, organized crime group is<sup>46</sup>;

...a structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offences established in accordance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit.

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<sup>45</sup> Phil Williams, “Terrorist financing and organized crime: Nexus, appropriation or transformation?” in Thomas J. Biersteker and Sue E. Eckert (eds), *Countering the Financing of Terrorism*, (London: Routledge, 2008), p. 129

<sup>46</sup> United Nations Office on Drugs and Crime, *United Nations Convention against Transnational Organized Crime and the Protocols Thereto*, (New York, 2004), Available at: <http://www.unodc.org/documents/treaties/UNTOC/Publications/TOC%20Convention/TOCebook-e.pdf>

In the Convention, the term “serious crime” refers to the offences punishable by a maximum deprivation of liberty at least four years or a more serious penalty.<sup>47</sup>

Similarly, the EU, which regards organized crime as a serious threat to the freedom, security and justice, defines organized crime group as<sup>48</sup>;

... a structured association, established over a period of time, of more than two persons acting in concert with a view to committing offences which are punishable by deprivation of liberty or a detention order of a maximum of at least four years or more serious penalty, to obtain, directly or indirectly, a financial or other material benefit.

The end of the Cold War and the globalization process in the 1990s resulted in the rise of new organized crime groups that operate at transnational level. However, these groups are quite different from traditional organized crime networks.

Traditional organized crime groups have always been nationalistic and in close relationship with state. For example, during the World War II, Japanese Yakuza and Sicily mafia served their countries since their long term interests coincided with national interests and as a result, these groups were rewarded by these states through public construction contracts. As Shelley claims that “the economic development of the state is therefore paramount importance to traditional organized crime groups because they are parasites on the states’ economy.”<sup>49</sup> On the other hand, there is no correlation between new type of organized crime groups and nation states. Contrary, new organized crime groups benefit from destabilization and chaos and do not hesitate to cooperate with terrorist groups.

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<sup>47</sup> *Ibid.*

<sup>48</sup> The Council of the European Union, *Council Framework Decision 2008/841/JHA of 24 October 2008 on the fight against organized crime*, (Brussels: Official Journal of the European Union L300/42, 2008), Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:300:0042:0045:EN:PDF>

<sup>49</sup> Louise Shelley, “The Unholy Trinity: Transnational Crime, Corruption, and Terrorism”, in *Brown Journal of World Affairs*, Volume XI, Issue 2, Winter/Spring 2005, (Brown University Press, 2005), p.104

The following table illustrates the main differences between old and new types of organized crime group.

Table 4: Comparison of traditional and new organized groups

	<b>Traditional Organized Crime Groups</b>	<b>New Organized Crime Groups</b>
<b>Attitude to the State</b>	Often nationalistic.	Interests do not coincide with the state.
<b>Relationship to the Nation-State</b>	Grows with the state. Parasitic on nation-state. Depends on state for contracts and services.	Thrives on the absence of effective governance. Grows with the weakened state.
<b>Relation to Corruption</b>	A tool used to influence state officials-operative tool.	Depends on high levels of systemic and institutionalized corruption.
<b>Relation to Terrorism</b>	Usually rejects association with terrorists.	May seek links with terrorists.

Source: Louise Shelley, “The Unholy Trinity: Transnational Crime, Corruption, and Terrorism”, in *Brown Journal of World Affairs*, Volume XI, Issue 2, Winter/Spring 2005, (Brown University Press, 2005), p.106

Today, organized crime networks have become global and their criminal activities are not limited to one country; furthermore, these networks operate in a variety of areas. Some of the activities that these groups involve in are as follows: drug production and trafficking, nuclear material, arms and cigarette smuggling, trafficking of endangered species, human trafficking and migrant smuggling, organ trafficking, trafficking of cultural property, kidnapping and ransom and money

laundering. Organized crime networks do not limit themselves to one field; within the limits of their capabilities, they enter into every profitable area.<sup>50</sup>

In this context, another thing that should also be noted about the issue is the volume of revenue generated by organized crime networks. For example, Colombian Cali cartel dealing with illicit drug production and trafficking is said to be controlling about 206 billion US dollars. Furthermore, it is estimated that Chinese Triads, operating in every major centre of the world with at least 20.000 members, have a turnover of approximately 200 billion US dollars annually. Japanese Yakuza are also a significant actor in organized crime sector with a turnover of 90 billion US dollars per year.<sup>51</sup>

The huge number of areas that organized crime networks operate and the figures about some of the organized crime groups' annual turnover given above reveal the seriousness of the issue and give clues about why terrorist organizations involve in criminal activities and cooperate with organized crime networks. Before analyzing the relationship between terrorist groups and organized crime networks, it will be useful to explain the differences and similarities between these groups.

### **2.2.3.2. Differences between Terrorist and Organized Crime Groups**

The main difference between terrorist and organized crime groups is about their objectives. As explained above, terrorist groups' primary goals are political and money is needed by these groups to conduct terrorist attacks with a view to pursuing their political objectives. On the other hand, organized crime groups are driven by financial motives and they focus on profit maximization.

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<sup>50</sup> M. Ruhan Erdem, *Gizli Soruşturma Teknikleri*, (Ankara: Seçkin Yayınları, 2001), p.46 in Ömer Ersoy, "Terörizm ve Diğer Örgütlü Suçlarda Yakınlaşma ve İşbirliğinin İncelenmesi", in *Avrasya Dosyası*, (Ankara: ASAM, Cilt 10, Sayı 4, 2004), p.245

<sup>51</sup> Peter Lilley, *Dirty Dealing: The Untold Truth about Global Money Laundering, International Crime and Terrorism*, 2<sup>nd</sup> ed. (London: Koagan Page, 2003), pp.19-27

Terrorist organizations also differ from organized crime networks in terms of financial resources. While terrorist organizations raise funds from a variety of resources, including criminal activities, legitimate businesses and charities, organized crime groups make money through criminal activities and launder their proceeds using various mechanisms, including legitimate enterprises.

Furthermore, terrorist organizations try to attract the attention of the public and carry out spectacular attacks targeting masses, law enforcement units, military personnel, politicians and high-ranking bureaucrats. On the contrary, organized crime groups pay attention to secrecy and refrain from being in the public eye and attracting the attention of law enforcement authorities. Only by this way, they can be successful in their criminal activities.<sup>52</sup>

Moreover, the use of violence is very important for terrorist organizations to have a psychological impact on the public and to enhance their power. In this respect, the victims of violence in terrorist acts are security forces and innocent people. However, organized crime groups, resort to violence, usually, to sustain the discipline within the group and against their rivals. Therefore, unlike terrorist organizations, their violent acts are not publicized and do not have the same effect as terrorist attacks.<sup>53</sup>

Finally, there is a difference between terrorist organizations and organized crime groups in terms of the role of the leader in sustaining the organization. While a terrorist organization can seriously be weakened after the arrest of the leader, such a kind of an arrest has little effect on the organized crime group. For example, after the arrest of Abimael Guzman Reynoso, the leader of the terrorist organization Shinning Path, by the Peruvian Government in 1992, the organization was severely weakened. However, the Cali cartel in Colombia was not affected from the arrest of its high level members in the 1990s and continued its activities.<sup>54</sup>

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<sup>52</sup> Ersoy (2004), *op.cit.* , pp.246-247

<sup>53</sup> *Ibid.* , pp.248-249

<sup>54</sup> *Ibid.* , pp.250-251

### **2.2.3.3. Similarities between Terrorist and Organized Crime Groups**

Both terrorist organizations and organized crime networks thrive in chaotic places where there is a lack of rule of law and effective government and benefits from the corrupt officials in their activities.<sup>55</sup>

Moreover, these groups have similar characteristics in terms of structure and activities. In recent years, to refrain from being detected by intelligence units, they have adopted flexible networks, structures based on cells, instead of hierarchical structures.<sup>56</sup> There is also a division of labor in terrorist and organized crime groups. In both types, there are people who have expertise on different issues such as communication, intelligence and counter-intelligence, training, legal and financial affairs and operations.<sup>57</sup> Both terrorist organizations and organized crime groups involve in criminal activities such as drug trafficking, counterfeiting and various types of smuggling.

There are also strong punishment mechanisms to sustain discipline in terrorist and organized crime groups. Furthermore, these groups have sophisticated intelligence and counter-intelligence mechanisms, they make use of technology in intelligence gathering and communication and they require false identity cards and passports and as a result have expertise on forgery.

### **2.2.3.4. The Relationship between Terrorist and Organized Crime Groups**

As stated above, although terrorist attacks do not require huge amounts of money, terrorist organizations in order to cover their organizational expenses need financial resources. Therefore, especially from the 1970s, terrorist organizations has begun to diversify their financial resources and tried to decrease their dependency on state

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<sup>55</sup> Louise Shelley et al. , *Methods and Motives: Exploring Links between Transnational Organized Crime & International Terrorism*, (2005), p.34, Available at: <http://www.ncjrs.gov/pdffiles1/nij/grants/211207.pdf>

<sup>56</sup> Tulga Uyar, *Terörle Mali ve Hukuki Mücadele*, (Ankara: Adalet Yayınevi, 2008), p. 72

<sup>57</sup> Ersoy (2004), *op.cit.* , p.251

support. In this respect, in addition to legitimate business activities, terrorist organizations have begun to engage in criminal activities and have developed relationship with organized crime networks at different levels.

The terror-crime interaction spectrum demonstrates the relationship between terrorist organizations and criminal groups and the different forms it takes. This spectrum consists of five stages; activity appropriation, nexus, symbiotic relationship, hybrid and transformation, each illustrating different stages of interaction.<sup>58</sup>

*Activity appropriation:* It refers to a situation where terrorist and organized crime groups adopt the other's methods without cooperation. In order to raise funds, the use of criminal activities by terror cells without interacting with organized crime groups is the one side of the activity appropriation. The Irish Republican Army's (IRA) and Al-Qaeda cells' involvement in a range of criminal activities can be given as an example of activity appropriation. The other side of activity appropriation refers to use of terror tactics by organized crime groups. The bombing of Lateran Church in Rome and the Uffizi museum in Florence by the Sicilian mafia in 1993 is an example of the other side of activity appropriation.<sup>59</sup>

*Nexus:* The second stage in terror-crime interaction continuum is the nexus. At this stage, organized crime networks and terrorist groups cooperate to supply their needs. For example, a terrorist group may require forged documents and organized crime group may supply it in return for arms. Moreover, they may work together and engage in criminal activities for financial gains. The tri-border region of Latin America is the best example for such cases. In the region not only Latin American groups but also Middle Eastern terrorist groups, namely, Hamas, al Gama'a al Islamiyya and Hezbollah and some other organized crime groups operate. It is

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<sup>58</sup> Shelly, et.al (2005), *op.cit.* , p.36

<sup>59</sup> *Ibid.* p.36

asserted that in the region the Sung-I and Ming organized crime groups and al Gama'a al Islamiyya involved jointly in intellectual property crime.<sup>60</sup>

*Symbiotic Relationship:* If the nexus continues and deepens in time and it results in symbiotic relationship, which refers to mutual benefit or dependence. For such relationship, Shelly gives the example of the close links between the Revolutionary Armed Forces of Colombia (FARC) and drug cartels in Colombia.<sup>61</sup>

*Hybrid:* In this case, both groups cooperate for a long time and merges. These hybrid organizations have political objectives and does not regard criminal activities as a means of fund raising, instead seek for economic interests.

*Transformation:* The activity appropriation phase does not always result in nexus. Instead, a terrorist organization may transform into an organized crime group due to the attractiveness of huge amounts of profits in criminal activities. According to Williams, IRA, which has not stopped its criminal activities in the peace process, is the typical example of such transformation<sup>62</sup>. On the other hand, criminals also may morph into terrorists. In this scenario, crime group still engages in criminal activities but these activities are not carried out for economic ends, rather the profits acquired from crime are used for political objectives. However, there are no concrete examples that demonstrate the transformation of an organization crime group to a terrorist one. On the other hand, such transformations may take place in terms of individuals. A member of an organized crime network can be recruited by a terrorist organization with a view to benefiting from his expertise on some critical areas such as forged banknotes or documents.

Similar to Shelly, Williams explains the links between organized crime and terrorist groups as follows:

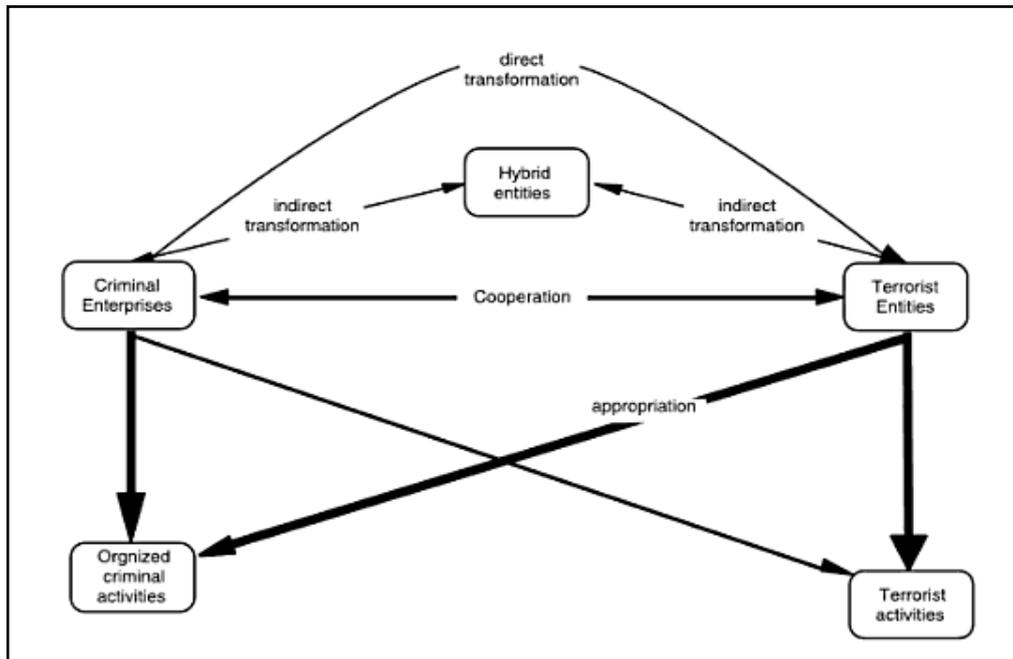
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<sup>60</sup> Williams (2008), *op.cit.* , p.135

<sup>61</sup> Shelly, et al (2005), *op.cit.* , p.37

<sup>62</sup> Williams (2008), *op.cit.* p.143

Figure 1: Possible relationships and transformations between terrorist organizations and criminal enterprises



Source: Phil Willams, “Terrorist financing and organized crime: Nexus, appropriation or transformation?” in Thomas J. Biersteker and Sue E. Eckert (eds), *Countering the Financing of Terrorism*, (London: Routledge, 2008), p. 134

Although there are some exceptions such as FARC and IRA, the relationships between terrorist and organized crime groups are mainly either at activity appropriation or nexus level. In other words, terrorist organizations to finance their activities involve in various types of criminal activities or cooperate with organized crime groups. Therefore, it can be argued that countering the financing of terrorism cannot be separated from the efforts to prevent organized crime.

Finally, it should be noted that unstable regions, where there are ongoing conflicts, the governments are very weak and corrupt, provide breeding grounds for organized crime and terrorism and these regions enable the cooperation between terrorist and organized crime groups. Shelly classifies and outlines these regions as follows:

- Regions where the central state has lost control over some of its territory, as in Colombia, Georgia, the Sumatra peninsula of Indonesia, portions of Sri Lanka and Myanmar, Chechnya, the

breakaway states of Georgia such as Abkhazia and South Ossetia, and the trans-Dniester region of Moldova;

- Regions straddling several national borders or jurisdictions such as Pakistan's North West Frontier, the Tri-Border Area of Paraguay, Brazil and Argentina, the Pamir Mountains in Tajikistan, and certain Balkan regions;
- Conflict zones where separatists are fighting government forces, such as the Tamil areas of Sri Lanka, and most of Nepal.<sup>63</sup>

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<sup>63</sup> Shelly, et al (2005), *op.cit.* , p.42

## CHAPTER 3

### RAISING OF TERRORIST FUNDS

Although there are some differences between terrorist organizations depending on their ideologies and their size, most of the terrorist organizations follow similar patterns in raising funds for their activities. Some of the most widely used methods include state sponsorship, criminal activities such as drug trafficking, smuggling, extortion and kidnapping, legitimate business activities and charities

#### **3.1. Drug Trafficking:**

In several UN Conventions, the use of narcotic drugs and psychotropic substances is limited to health and other scientific research activities. In spite of the UN's and international community's efforts, since the 5 % of the world population between 15-64 (approximately 208 million people)<sup>64</sup> have been using narcotic drugs, the production and trafficking of these have become a profitable sector for terrorist organizations and organized crime networks. In the 2007 World Drug Report, United Nations Office on Drugs and Crime (UNODC) valued the world narcotics trade about 320 billion US dollar.<sup>65</sup>

In addition to profitability of drug trafficking, the large scale of its demand and the simplicity of its production, transportation, storage and lastly its liquidity have led to greater involvement of terrorist groups in illicit drug business and as a result the

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<sup>64</sup> United Nations Office on Drugs and Crime (UNODC), *World Drug Report*, (2008), p. 9, Available at: [http://www.unodc.org/documents/wdr/WDR\\_2008/WDR\\_2008\\_eng\\_web.pdf](http://www.unodc.org/documents/wdr/WDR_2008/WDR_2008_eng_web.pdf)

<sup>65</sup> *Ibid.* p.170

nexus between drug trafficking organized crime networks and terrorist groups have emerged in recent years.

Besides its profitability, according to a report prepared by the Federal Research Division of Library Congress, the decline of state sponsorship of terrorism in the 1990s due to the collapse of the Soviet Union has played a crucial role in terrorist groups' turning to drug trafficking as a source of revenue.<sup>66</sup> As Beers and Taylor argue that, the involvement of terrorist groups in drug business is not only to raise funds but also to weaken their enemies by flooding their societies with addictive drugs.<sup>67</sup>

Before going inside the role of terrorist groups in drug trafficking, some statistics regarding the drug production and consumption will be useful in understanding the share of drug trafficking in raising terrorist funds.

According to the 2008 Afghanistan Opium Survey<sup>68</sup>, prepared by the UNODC, the opium production in Afghanistan is estimated about 7.700 metric tons and this corresponds to 93 % of the total world output. In the same survey it is stated that in 2007, the value of opium cultivation was about 1 billion US dollars and this amount decreased to 730 millions US dollars in 2008. Furthermore, it is expressed that potential export value of opium, morphine and heroin is about 3,4 billion US dollars. While the current gross domestic product (GDP) of Afghanistan is about 10,2 billion US dollars, it is clearly seen that the value of opium and related drug production (morphine and heroin) and trafficking is very significant in Afghan economy. In addition to this, war lords, drug lords and insurgents in Afghanistan impose a charge

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<sup>66</sup> LaVerle Berry, et al, *A Global Overview of Narcotics-Funded Terrorist and Other Extremist Groups* (Washington: Federal Research Division, Library of Congress, May 2002), p. 2, Available at: [http://www.loc.gov/rr/frd/pdf-files/NarcsFundedTerrs\\_Extrems.pdf](http://www.loc.gov/rr/frd/pdf-files/NarcsFundedTerrs_Extrems.pdf)

<sup>67</sup> Rand Beers and Francis Taylor, "Narco-Terror: The Worldwide Connection Between Drugs and Terror", *Testimony Before the Senate Committee on the Judiciary Subcommittee on Technology, Terrorism and Government Information*, (Washington, 13 March 2002), <http://www.state.gov/p/inl/rls/rm/8743.htm>, Accessed on 25 February 2009

<sup>68</sup> UNODC, *Afghanistan Opium Survey 2008*, (2008), Available at: [http://www.unodc.org/documents/crop-monitoring/Afghanistan\\_Opium\\_Survey\\_2008.pdf](http://www.unodc.org/documents/crop-monitoring/Afghanistan_Opium_Survey_2008.pdf)

(called *ushr*) on economic activity, traditionally set at 10 % of income. By this way, it is indicated that they collect nearly half a billion US dollars annually from drug farming, production and trafficking. (50-70 million US dollars from opium farming and 200-400 million US dollars from opium processing and trafficking)<sup>69</sup>

After explaining the supply side, it is time for looking at the demand side of illicit drugs. As it is demonstrated in World Drug Report 2008<sup>70</sup>, nearly 208 millions of people (approximately 5 % of the world population) are addicted to illicit drugs. In the same report it is estimated that the number of opiate abusers is 16.540.000 (0,4 %), heroin abusers is 11.970.000 (0,3 %) cocaine abusers is 15.987.000 (0,37 %), cannabis abusers 166.000.000 (3,9 %) and amphetamines and related synthetic abusers is 24.700.000 (0,6 %).

Another issue that should be focused on in fully identifying the illicit drug economy is the market prices of these drugs. According to the World Drug Report 2008, the price of opium is increasing very much while being trafficked from Afghanistan to Europe and the US. For instance, while it is 0,1 US dollars/gram in Afghanistan, it increases to 22 US dollars in Turkey, 46 US dollars in Germany, 67 US dollars in France and 71 US dollars in the United Kingdom. The heroin also follows the same pattern. While its price per gram in Afghanistan is 3 US dollars, it is sold at a price of 12,7 US dollars in Iran, 18,2 US dollars in Turkey, 46 US dollars in Germany, 67 US dollars in France and 171,1 US dollars in the United States.<sup>71</sup>

Although some of the terrorist organizations, such as FARC in Colombia, are active in the production phase of illicit drugs, most of the terrorist groups are involved in drug trafficking. In order to describe the involvement of these groups in drug trafficking, the some of most significant routes of the illicit drugs should be analyzed. As it is stated in the World Drug Report 2008 the opium and heroin are produced and transported from 3 major regions: Afghanistan, Myanmar/Laos and

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<sup>69</sup> *Ibid.*

<sup>70</sup> UNODC (2008), p.9

<sup>71</sup> *Ibid.* pp.256-257

Latin America (Mexico, Colombia, Guatemala and Peru). The main routes are as follows:<sup>72</sup>

- From Afghanistan to the world's largest opium producer, to neighbouring countries of South, South West and Central Asia, the Middle East, Africa and, in particular, to Europe;
- From Myanmar/Laos to neighbouring countries of South East Asia, (notably China) and to the Oceania region (mainly Australia)
- From Latin America (Mexico, Colombia, Guatemala and Peru) to North America (notably USA)

In the way to the Europe, Turkey is very crucial because of being the starting point of the Balkan route which is divided into three sub-routes:<sup>73</sup>

- The southern route which runs through Turkey, Greece, Albania and Italy
- The central route, which runs through Turkey, Bulgaria, the Former Yugoslav Republic of Macedonia, Serbia and Montenegro, Bosnia and Herzegovina, Croatia, Slovenia, Italy or Austria
- The northern route, which runs through Turkey, Bulgaria and Romania to Austria, Hungary, Czech Republic, Poland or Germany.

According to the World Drug Report 2008, the world's main cocaine trafficking route runs from the Andean Region, notably Colombia<sup>74</sup> to the US. Another route in cocaine trafficking is from Andean Region to Europe via West Africa-Spain/Portugal corridor.<sup>75</sup> As explained above, the crucial regions in drug production and trafficking are as follows; tri-border region in Latin America, the Balkans and Turkey, Afghanistan, East and South East Asia and the Middle East. Some of the terrorist groups operating in these regions and involving in drug trafficking are; Revolutionary Armed Forces of Colombia (FARC), the United Self-Defense Groups

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<sup>72</sup> *Ibid.* pp.46-47

<sup>73</sup> <http://www.interpol.int/public/Drugs/heroin/default.asp>, Accessed on 1 March 2009

<sup>74</sup> According to the World Drug Report 2008, Colombia comes first in cocaine production with 600 metric tons (60 % of the total world production)

<sup>75</sup> UNODC,(2008), pp.76-77

of Colombia (AUC), the National Liberation Army (ELN), the Shinning Path, the Palestinian Islamic Jihad, the Islamic Movement of Uzbekistan, Hezbollah, the Kurdistan Worker's Party (PKK), the Basque Fatherland and Liberty (ETA), the Liberation Tigers of Tamil Eelam (LTTE) and Abu Sayyaf.<sup>76</sup>

Some of the key findings regarding the involvement of terrorist groups in drug trafficking can be summarized as follows:

- According to the US National Drug Control Strategy 2008 Annual Report, in Colombia, FARC is involved not only in transporting cocaine to North America and Europe but also in controlling cocaine production, securing labs and airstrips.<sup>77</sup> It is estimated that FARC takes in 200 300 million annually-at least half of its income-from the illegal drug trade.<sup>78</sup>
- In addition to FARC, other Latin American terrorist organizations such as ELN, AUC, and Shinning Path, are also profiting from drug production and trafficking as well as imposing tax on drug dealers.<sup>79</sup>
- Al-Qaeda and the Taliban regime are also engaged in drug trade in Afghanistan. According to the UN World Drug Report 2008, they have been receiving nearly half a billion US dollars by taxing the drug production and trafficking. Moreover, it is asserted that the funds raised from drug trafficking

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<sup>76</sup> Kimberley Thachuk, "Countering Terrorist Support Structures" in *Defence Against Terrorism Review*, Vol. 1, No. 1, Spring 2008 (Ankara: The Turkish General Staff Centre of Excellence Defence Against Terrorism, 2008), p.17, Available at: <http://www.tmmm.tsk.mil.tr/publications/datr/02.Kimberley%20THACHUK.pdf>

<sup>77</sup> United States Office of National Drug Control Policy, *National Drug Control Strategy 2008 Annual Report*, (Washington, 2008), p.34, Available at: <http://www.ncjrs.gov/pdffiles1/ondcp/221371.pdf>

<sup>78</sup> Stephanie Hanson, *FARC, ELN: Colombia's Left Wing Guerillas*, (Council on Foreign Relations, 2008), <http://www.cfr.org/publication/9272/>, Accessed on 1 March 2009

<sup>79</sup> Beers and Taylor (2002)

are used to finance Al-Qaeda operations in areas of the former Soviet Union, including Chechnya.<sup>80</sup>

- In Central Asia, the Islamic Movement of Uzbekistan (IMU) is known to be involved in drug trafficking to supply its military and propaganda activities. It is noted that IMU mainly engages in trafficking of heroin from Afghanistan through Tajikistan, Uzbekistan and Kyrgyzstan into Russia and Europe.<sup>81</sup>
- The Abu Sayyaf Group, an extremist Islamic movement also known as the al Harakat-ul al Islamiya and operating in Philippines, relies on narcotics trafficking. According to the 2008 International Narcotics Control Strategy Report prepared by the US State Department's Bureau of International Narcotics and Law Enforcement Affairs, the Abu Sayyaf Group is involved in trafficking of methamphetamine across South East Asia as well as providing security for drug production.<sup>82</sup>
- Also in Turkey, terrorist organizations are raising funds from drug trafficking. PKK is taking part in every phases of drug trafficking and has a close relationship with drug dealers in transportation of narcotics to Europe.<sup>83</sup> Furthermore, it is argued that through its widespread associations across the Europe, PKK has established a complicated structure in drug trafficking business and even used small children in this business.<sup>84</sup> With the operations jointly carried out by Turkish, German and Romanian law enforcement units in 2007, 273 kg heroin and 40.000 ecstasy tablets belonging to people who

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<sup>80</sup> Victor Comras, "Al-Qaeda Finances and Funding to Affiliated Groups" in *Strategic Insights*, Volume IV, Issue 1, (California: Center for Contemporary Conflict, Naval Postgraduate School, 2005), p.7, Available at: <http://www.ccc.nps.navy.mil/si/2005/jan/comrasJan05.pdf>

<sup>81</sup> LaVerle Bery et al (2002), *op.cit.*, p.89

<sup>82</sup> United States Department of State Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report*, (March 2008), Available at: <http://www.state.gov/p/inl/rls/nrcrpt/2008/vol1/html/100780.htm>

<sup>83</sup> Uyar (2008), *op.cit.* , p. 56

<sup>84</sup> Sedat Laçiner, "NARKOTERÖR: Terörün Geliri de Ölümden", *Star Gazetesi*, 10.02.2008

are associated with PKK were seized.<sup>85</sup> Beside drug trafficking, PKK has also involved drug production. On 3 September 2007 in Van 947 kg hashish were seized and the investigation revealed the fact that the owner of the hashish is a member of PKK terrorist organization and hashish was produced to drive revenue for the terrorist organization.<sup>86</sup> In addition to these, like the other terrorist organizations such as FARC, PKK is taxing the Kurdish drug traffickers in Europe.<sup>87</sup>

In his closing speech General Ergin Saygun, the former Deputy Chief of General Staff, in the symposium “Global Terrorism and International Cooperation” organized by the Turkish General Staff Centre of Excellence Defence Against Terrorism on 10-11 March 2008 indicated that PKK’s estimated annual income is about 400-500 million Euros, and of that income 200-250 million Euros are provided through drug trafficking, 100-150 million Euros from fuel and tobacco smuggling and human trafficking, 15-20 million Euros from donations and 20-25 million Euros from other activities.<sup>88</sup>

### **3.2. Migrant Smuggling:**

In recent years, illegal migration has come to the centre of international political debates. Today, because of violation of human rights, civil wars, natural disasters, social and economic problems especially in underdeveloped and developing countries, millions of people have become illegal immigrants and terrorist organizations, due to its high profitability and low risk of detection, have been engaged in migrant smuggling.

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<sup>85</sup> Kaçakçılık ve Organize Suçlarla Mücadele Daire Başkanlığı (KOM), *2007 Faaliyet Raporu*, p. 42

<sup>86</sup> *Ibid.* p.42

<sup>87</sup> Laçiner (2008)

<sup>88</sup> Ergin Saygun, “Closing Remarks”, in *Proceedings of the Second International Symposium on Global Terrorism and International Cooperation*, (Ankara: The Turkish General Staff Centre of Excellence Defence Against Terrorism, 2008), p.229

In the Article 3 of the Migrants Protocol supplementing the UN Convention against Transnational Organized Crime; migrant smuggling is defined as:<sup>89</sup>

...procurement, in order to obtain, directly or indirectly, a financial or other material benefit, of the illegal entry of a person into a State Party of which the person is not a national or a permanent resident.

According to the International Organization for Migration's estimates, there are more than 200 million of international migrants, of which 20-30 millions are unauthorized.<sup>90</sup> The smuggling of migrants generates a reasonable amount of proceeds of crime. According to the Council of Europe's "Organized Crime Situation Report 2005"<sup>91</sup>,

...average cost of smuggling from northern Africa to Spain is about 4,000 Euro (6,000 Euro, if false identity documents are provided), through Hungary to Western Europe 800 – 10,000 Euro (for example from Russia), from Slovakia to Italy 3,000 – 4,000 US dollars, from China to Italy 13,000 US dollars, from South Asia to Spain 6,000 Euro (12,000 Euro with false identity documents).

Today terrorist groups are in cooperation with organized crime networks regarding the migrant smuggling and by this way; they are raising funds and recruiting new members. Alkan advocates that terrorist groups are taxing the smuggling of migrants and directly smuggling illegal migrants to the Europe. Moreover, terrorist groups are benefiting from the financial assistance provided by the European countries to the refugees and forcing these people to take part in their terrorist activities.<sup>92</sup>

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<sup>89</sup> UNODC, *Protocol against the Smuggling of Migrants by Land, Sea and Air, supplementing the United Nations Convention against Transnational Organized Crime*, (2004), Available at: <http://www.unodc.org/documents/treaties/UNTOC/Publications/TOC%20Convention/TOCebook-e.pdf>

<sup>90</sup> <http://www.iom.int/jahia/Jahia/about-migration/facts-and-figures/global-estimates-and-trends>, Accessed on 6 March 2009

<sup>91</sup> Council of Europe, *Organized Crime Situation Report 2005*, (Strasbourg, 2005), p.39, Available at: <http://www.coe.int/t/dghl/cooperation/economiccrime/organisedcrime/Report2005E.pdf>

<sup>92</sup> Necati Alkan, "Terör Örgütlerinin Finans Kaynakları" in *Polis Dergisi*, Sayı 40 (Ankara: 2004), Available at: <http://www.egm.gov.tr/egitim/dergi/eskisayi/index.htm>

Turkey is a target, a source and a transit country for illegal migrants and therefore many migrant smuggling cases occur every year. Therefore, terrorist organizations operating in Turkey are not out of migrant smuggling. For example, PKK is engaged in migrant smuggling and in close cooperation with migrant smuggling networks in Bulgaria, Romania, Albania, Hungary and Italy. By this way, PKK funds its terrorist activities, recruit new members, sends its deciphered members abroad and prevents them to be caught.<sup>93</sup> For example, in 2000, two PKK members linked with migrant smuggling were sentenced to 2 years imprisonment in Germany.<sup>94</sup> In June 2008, a PKK member caught in Sweden confessed that PKK organizes the entrance of illegal migrants to Sweden, provides falsified passports to them and get 7.000 Euro per person. Furthermore, in July 2008, 3 PKK members linked with migrant smuggling and fraud were caught in Austria.<sup>95</sup>

In addition to Europe, the US is also a target country for illegal migrants. In this respect, the Central American countries, especially, Mexico is very at the heart of migrant smuggling business. According to Mexican authorities, there are a number of terrorist cells related to ETA, FARC and Islamist groups operating in various parts of Mexico. It is believed that as well as petty crime, these groups also involve in migrant smuggling.<sup>96</sup>

### **3.3. Arm Smuggling:**

Another criminal activity in which terrorist groups are involved is arm smuggling. Arms smuggling is a global business that has close links with drug trafficking and it brings different terrorist organizations and organized crime networks together.

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<sup>93</sup> İbrahim Üney, *Organize Suç ve Terörizm İlişkisi: PKK Örneği*, (Yüksek Lisans Tezi, Polis Akademisi Başkanlığı, Ankara, 2006) pp.103-106

<sup>94</sup> <http://arama.hurriyet.com.tr/arsivnews.aspx?id=-207315>, Accessed on 16 March 2009

<sup>95</sup> <http://arama.hurriyet.com.tr/arsivnews.aspx?id=9506160>, Accessed on 16 March 2009

<sup>96</sup> Thomas Davidson, "Terrorism and Human Smuggling Rings in South and Central America", *Terrorism Monitor*, Volume: 3, Issue: 22, (Washington: Jamestown Foundation, 2005), Available at: [http://www.jamestown.org/programs/gta/single/?tx\\_ttnews%5Btt\\_news%5D=611&tx\\_ttnews%5BbackPid%5D=180&no\\_cache=1](http://www.jamestown.org/programs/gta/single/?tx_ttnews%5Btt_news%5D=611&tx_ttnews%5BbackPid%5D=180&no_cache=1)

Via arm smuggling, terrorist groups generate a reasonable amount of money for financing their terrorist activities and acquire the arms needed in carrying out terrorist attacks.

In the Cold War period, when the international politics were dominated by two super powers, it can be argued that arms smuggling was a minor concern. As Taylor points out the US and the Soviet Union dominated the supply of major new weapons systems for themselves and their European allies and largely eliminated the risk of black market for arms by giving away older models to Third World allies.<sup>97</sup>

The end of the Cold War resulting in transition economies in Warsaw Pact countries and the globalization of financial, transportation and communication networks, enabled arms smuggling and provided a suitable environment for arms dealers and terrorists. The lack of effective control over massive amounts of arms and the corrupt officials in Eastern European countries facilitated the profitable arms smuggling business. In addition to this, the ethnic conflicts in different regions of the world also gave rise to the demand for arms and arms smuggling has become an important issue for terrorist organizations not only in terms of acquiring arms but also raising funds.

As mentioned above, there is a close linkage between drug trafficking and arms smuggling and cooperation among various terrorist groups concerning the issue. For example, there is a close relationship between IRA and FARC in terms of narcotics trafficking and arms smuggling. As Curtis and Karacan argue that IRA provides arms, explosives and guerilla training to FARC and receives narcotics in return. They indicate that IRA uses narcotics as a currency in payments made to the Croatian arms traffickers, rather than trafficking actively itself.<sup>98</sup>

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<sup>97</sup> R. T. Taylor, *Wages of Crime: Black Markets, Illegal Finance and the Underworld Economy*, (New York: Cornell University Press, 2002), p.95

<sup>98</sup> Glenn E. Curtis and Tara Karacan, *The Nexus Among Terrorists, Narcotics Traffickers, Weapons Proliferators and Organized Crime Networks In Western Europe*, (Washington: Federal Research Division, Library of Congress, 2002), pp. 7-8, Available at: [http://www.loc.gov/rr/frd/pdf-files/WestEurope\\_NEXUS.pdf](http://www.loc.gov/rr/frd/pdf-files/WestEurope_NEXUS.pdf)

Similarly, the ETA is known to use cocaine and heroin to pay for illegal arms shipments in support of terrorist activities. The ETA is linked with arms trafficking operations in or transiting through the former Yugoslavia and supplying the Middle Eastern terrorist group Hamas with explosives. Furthermore, it is reported that there is a link between the ETA and Camorra crime organization based in Naples. According to the agreement made in 2001 it is decided that the Camorra would supply heavy weapons to the ETA in return for large amounts of cocaine and hashish.<sup>99</sup>

PKK is also directly involved in arms smuggling not only to supply its weapons but also to raise funds. It is believed that the lack of authority in the north of Iraq in the aftermath of the Gulf War and the US's invasion of Iraq in 2003 provided a secure environment for PKK. Moreover, it is asserted that American weapons delivered to local groups allied with the US and the Iraqi arms from the Saddam period constitutes a black market especially in the north of Iraq where PKK operates. PKK benefits from this black market and organizes the arms smuggling in the region. These arms are smuggled into Turkey through Eastern and Southeastern Anatolia regions and after delivered to the PKK members the rest is sold to other Kurdish terrorist groups and even to the Tamil Tigers of Sri Lanka.<sup>100</sup>

#### **3.4. Cigarette Smuggling:**

Terrorist organizations are also involved in the smuggling of cigarettes or other goods such as alcoholic beverages and fuel oil for funding their activities.

The high special consumption taxes on cigarettes and alcoholic beverages make the smuggling of these goods a profitable sector for organized crime networks and terrorist groups. Like in the smuggling of other goods, in this sector there is also a nexus between terrorist groups and international crime networks.

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<sup>99</sup> *Ibid.* p.9

<sup>100</sup> *Ibid.* p.20

According to British authorities, in 2000, the losses of the public sector from fuel smuggling and counterfeit tobacco products between Northern Ireland and the Irish Republic reached 568 million US dollars and it is known that Provisional Irish Republican Army was benefiting from this business.<sup>101</sup>

Similarly, in the US, cigarette smuggling generates millions of dollars and results in huge amount of tax losses. According to United States General Accounting Office's findings, Hezbollah, HAMAS and Al-Qaeda raise funds from trafficking contraband cigarettes or counterfeit cigarette tax stamps. In 2002, during an investigation it was found that Hezbollah was funded via cigarette smuggling during 1996-2000 from North Carolina to Michigan. The total value of Hezbollah cell's assets seized was about 1,5 million US dollars, consisting of cigarettes, real property and currency.<sup>102</sup>

PKK also involves in cigarette smuggling and generates a reasonable amount of fund for facilitating its terrorist activities. Although it is very difficult to find out the exact amount of revenue earned by PKK via cigarette smuggling, there are some estimates about this issue. For example, former Health Minister of Republic of Turkey, Bülent Akarcalı asserts that PKK earns 300 million Euro annually from cigarette smuggling.<sup>103</sup>

According to Ergin Saygun, Deputy Chief of General Staff, PKK gains 100-150 million Euros via fuel oil, tobacco and human smuggling.<sup>104</sup> Though it is very difficult to confirm the amount of money funneled to PKK via cigarette smuggling, the amounts mentioned above demonstrate that PKK raises a reasonable amount of money through this illegal sector.

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<sup>101</sup> Kimberly Thachuk, "Countering Sources Supporting Terrorism", *Proceedings of the First International Symposium on Global Terrorism and International Cooperation*, (Ankara: The Turkish General Staff Centre of Excellence Defence Against Terrorism, 2006), p.64

<sup>102</sup> United States General Accounting Office (GAO), "Terrorist Financing", *Report to Congressional Requesters*, (November 2003), p.12, Available at. <http://www.gao.gov/new.items/d04163.pdf>

<sup>103</sup> <http://arama.hurriyet.com.tr/arsivnews.aspx?id=8157679>, Accessed on 21 March 2009

<sup>104</sup> Saygun (2008), p.229

Regarding the issue, finally, it should be noted that through cigarette smuggling, terrorist organizations not only generate funds for their activities, but also give a financial damage to the states by causing a reasonable amount of tax losses.

### **3.5. Extortion, Kidnapping and Ransom:**

Extortion, which can be defined as the payments made by the people either by cash or commodity, to the terrorist organization because of threat and coercion, is a significant source of income for terrorist groups. Terrorist groups collect money from people in return for providing security and not reporting the status of unregistered workers in foreign countries to the law enforcement authorities and by threatening them to give harm to them or their relatives' life and their businesses.

Through extortion, terrorist groups not only raise funds for their activities but also challenge the authority of the states.

The ETA, Philippines based terrorist organization Abu Sayyaf Group, Hezbollah and narco-terror groups in Latin America particularly in Colombia are actively involved in extortion. They receive money especially from transnational companies under the name of revolutionary payments or protection money. For instance, Chiquita, worldwide famous banana producer and exporter, had to pay 1.7 million US dollars between 1997-2004 to AUC, a terror group responsible for some of the worst massacres in Colombia's civil conflict. Additionally, it is reported that Chiquita also made payments to the terror groups ELN and FARC.<sup>105</sup>

Like other terrorist organizations, PKK also collects money by coercion especially from Kurdish origin businessmen and workers in Europe especially in Germany, France, Britain, Sweden, Norway, Denmark and Benelux countries under the name of revolution tax. Furthermore, PKK is known to receive funds from the sale of publications of the terrorist organization to rich businessmen at a price very much

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<sup>105</sup> Dean Alexander, "*Terrorism and Extortion*", 1 February 2008, [http://www.securitymagazine.com/Articles/SEC\\_Highlights/BNP\\_GUID\\_9-52006\\_A\\_1000000000000245261](http://www.securitymagazine.com/Articles/SEC_Highlights/BNP_GUID_9-52006_A_1000000000000245261), Accessed on 26 March 2009

above the original one. In this category, another source of PKK's funds is the so-called taxes collected from the illegal migrants and the people who get help from PKK in finding jobs.<sup>106</sup>

In addition to extortion, kidnapping and ransom are also important financial resources of terrorist organizations. Ransom can be defined as the payment made for the release of a famous or a rich person or a statesman who is kidnapped by the terrorist organizations.

In the past, terrorist organizations were involved in kidnapping and ransom cases not only to raise funds but also to make propaganda. For instance, in 1980 1.5 million US dollars was paid to ETA for the release of a Catalan businessman Jesus Sera Santamans and in 1990, ETA received 2.8 million US dollars for the release of Adolfo V. Martin.

Some other terrorist organizations also adopted kidnapping and ransom as a fund raising method. For instance, the Abu Sayyaf Group has generated a reasonable amount of money through kidnapping of Christian missionaries, businessmen and tourists. It is reported that it gained as much as 25 million US dollars in return for releasing the hostages from Malaysia and Europe in July 2000. Similarly, the Salafist Group for Prayer and Combat, based in Algeria, received approximately 5 million Euros for the release of 14 European tourists in 2003.<sup>107</sup>

Although, in the last decade, some kidnapping cases occurred, it has not been the main source of funding for terrorist groups. Instead, they have shifted to more profitable sectors, such as narcotics trafficking. Furthermore, the establishment of private security firms has also challenged the possibility of terrorist organizations to kidnap people and raise significant amounts of funds through release of these people.

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<sup>106</sup> Sedat Laçiner, "Bölücü Televizyon Yayıncılığı ve Uluslararası Bağlantıları: Med-TV Örnek Olayı 1994-1999", in *Avrasya Dosyası*, Cilt: 8, Sayı: 2, Yaz 2002, (Ankara: Avrasya Stratejik Araştırmalar Merkezi), pp. 334-336

<sup>107</sup> Williams (2008), *op.cit.* , pp.139-141

### **3.6. Robbery and Theft:**

Robbery and theft are also among the criminal activities, which are used for generating funds by terrorist groups. For example, in 1975, three contrasting groups, the Palestinian Liberation Organization (PLO), the Phalange and Italian mafia, made a temporary coalition and broke into the British Bank of the Middle East. The robbery continued for three days and they swept away with between 50-100 million US dollars.<sup>108</sup>

Furthermore, the IRA<sup>109</sup> and ETA<sup>110</sup> have also benefited from robberies for raising funds. For example, it is claimed that the ETA's revenues from robberies in the 1970s was about 800 million peseta. However, the ETA was not satisfied with the "low" profit in robberies compared to its high risks. Therefore, from the mid 1980s the ETA gave up robberies and shifted to other crimes such as kidnapping.<sup>111</sup>

Although robberies and theft as a method of terrorist fund raising have declined in recent years thanks to the improvements in the security measures taken by banks or other financial institutions, they can be still used by terrorist cells when they are very in need of cash money.

### **3.7. Counterfeiting and Credit Card Fraud:**

With the developments in printing techniques, today, counterfeiting of banknotes or other documents such as passports and identity cards, have become a useful and profitable sector for terrorist organizations. By this way, terrorist groups are able to overcome financial difficulties and obtain required documents for traveling or human smuggling.

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<sup>108</sup> Steve Kiser, *Financing Terror: An Analysis and Simulation for Affecting Al-Qaeda's Financial Infrastructure*, (Ph. D. Dissertation, Pardee RAND Graduate School, 2004), p.44

<sup>109</sup> *Ibid.* pp.56-57

<sup>110</sup> Loretta Napoleoni, *Modern Cihat: Terör Örgütlerinin Kasalarındaki Dolarlar Nereden Geliyor*, trans. by Neşenur Domaniç and Nusret Avhan, (İstanbul:Bulut Yayınları, 2004), p.72

<sup>111</sup> *Ibid.* p.72

In this field, PKK is one of the leading terrorist groups that have expertise. According to Turkish authorities, PKK prepares falsified documents for asylum seekers or migrants in return for a reasonable amount of money. After these migrants or asylum seekers are accepted by the government authorities, they are recruited by PKK and forced to make monthly payments to the terrorist organization or affiliated associations.<sup>112</sup>

In legal terms, counterfeiting or pirating of goods for sale, where the consent of the rights holders is not obtained, is defined as Intellectual Property Crime (IPC). According to the Organization for Economic Cooperation and Development (OECD) analysis, the volume of tangible counterfeit products in international trade could be up to 200 billion US dollars, which is larger than GDPs of about 150 economies around the world. Nevertheless, domestically produced and consumed counterfeit products and counterfeit digital products that are distributed via internet are not included; if the volume of these is added it is estimated that total volume of counterfeit products could well be several hundred billion dollars more.<sup>113</sup>

The huge amount of money in this sector attracts the attention of terrorist groups and many of these groups are involved in counterfeiting. The involvement of terrorist groups in IPC can be either directly or indirectly. In direct involvement, terrorist group is on the stage in every phase (production, distribution and sale) of IPC. Terrorist groups, which resemble organized crime networks, such as IRA, are directly involved in counterfeiting. On the other hand, indirect involvement refers to the involvement of sympathizers or militants of a terrorist group in IPC and remitting funds knowingly to terrorist groups. Hezbollah and the Salafi Group for Call and Combat can be given as an example to this category.<sup>114</sup>

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<sup>112</sup> Aykın, and Sözman (2008), *op.cit.*, pp. 31-32

<sup>113</sup> OECD, *The Economic Impact of Counterfeiting and Piracy*, (Paris, 2007), p.16, Available at: <http://www.oecd.org/dataoecd/13/12/38707619.pdf>

<sup>114</sup> Ronald K. Noble, "The Links Between Intellectual Property Crime and Terrorist Financing" *Testimony Before the United States House Committee on International Relations One hundred eight congress*, (16 July 2003), <http://www.interpol.int/Public/ICPO/speeches/SG20030716.asp>, Accessed on 1 April 2009

As Noble points out, in Northern Ireland the counterfeit products market is estimated to cost the economy in excess of 167 million US dollars and in 2002, the police seized counterfeit products valued 11 million US dollars. He also adds that paramilitary groups such as IRA are involved in IPC including counterfeit cigarette trafficking. In his testimony he also mentions about the involvement of Chechen separatist groups and local ethnic-Albanian extremist groups in Kosovo in counterfeiting of consumer goods such as CDs, DVDs, clothes, shoes, cigarettes and computer software.<sup>115</sup>

Similar to these groups, Hezbollah is also considered to be involved in counterfeiting. According to INTERPOL, people linked with Hezbollah are carrying out IPC-related activity in South America and the funds raised from this criminal activity are remitted to Hezbollah.<sup>116</sup> However, Hezbollah's counterfeiting activities are not limited to South America; according to US authorities, Hezbollah receives 20-30 million US dollars in every year from criminal fund raising activities including the sale of counterfeit of consumer products.<sup>117</sup>

As well as counterfeiting, credit card fraud is a field where terrorist groups involve. In recent years, with the opportunities provided by the technological developments, terrorist groups have begun to raise funds for their terrorist activities through obtaining identity and credit card details including credit card account numbers, card holder's name, address and telephone number and security number on the rear of the card. For example, in 2002 and 2003, Pakistani group allegedly linked to Al-Qaeda fraudulently obtained social security numbers, work permits and other personal documents, procured credit cards, used them in a variety of fraud schemes and sent the proceeds to Pakistan.<sup>118</sup> Another case regarding the financing of terrorism

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<sup>115</sup> *Ibid.*

<sup>116</sup> *Ibid.*

<sup>117</sup> Josh Meyer, "Knockoff Dealers Could Have Designs on Terror" in *Los Angeles Times*, 26 May 2005, Available at: <http://articles.latimes.com/2005/may/26/nation/na-hez26>

<sup>118</sup> Dennis M. Lormel, *Terrorism and Credit Card Information Theft*, (Shift4 Secure Payment Processing, 2008), pp.13-14, [http://www.shift4.com/pdf/s4-wp0806\\_terrorism-and-credit-card-information-theft.pdf](http://www.shift4.com/pdf/s4-wp0806_terrorism-and-credit-card-information-theft.pdf), Accessed on 1 April 2009

through credit card fraud and information theft is the Imam Samudra case. Samudra, a member of Al-Qaeda linked terrorist group Jamaah Islamiah in Indonesia, while in prison in 2004 wrote a book about his activities. In the chapter titled “Hacking, Why Not” he called a cyber jihad against the US and explained the basics of online credit card fraud and money laundering.<sup>119</sup>

### **3.8. Charities**

In the aftermath of September 11 attacks, links between Islamist groups and Islamic charities have begun to be scrutinized in terms of financing of terrorism. The assets of many Islamic charities with alleged ties to Al-Qaeda have been frozen and most prominently, the relatives of September 11 victims have sued six charities and their subsidiaries in a 116 trillion US dollars for financing Al-Qaeda attacks in September 11.<sup>120</sup>

However, the link between charities and terrorist organization is not a new phenomenon; it dates back to the 1970s when the Irish origin Americans founded charities for the Catholic widows and orphans. During the anti-Soviet Jihad period Islamist humanitarian organizations were flourished and after the Cold War Islamist charities continued to support the Muslim groups in Bosnia and Chechnya.<sup>121</sup> Today, still terrorist groups are engaged with charities to gain financial and logistical support to carry out their operations. But, before analyzing the relationship between various terrorist groups including Al-Qaeda and Al-Qaeda affiliated groups, the LTTE, IRA, Hamas and PKK, the general framework of the terrorist financing through charities will be explained.

The interest of terrorist groups in charities comes from the public trust that these organizations possess, their access to considerable sources of funds and their cash-

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<sup>119</sup> *Ibid.* pp.13-14

<sup>120</sup> Jeroen Gunning, “Terrorism, Charities and Diasporas: Contrasting the Fundraising Practices of Hamas and Al Qaeda among Muslims in Europe”, in Thomas J. Biersteker and Sue E. Eckert (eds.), *Countering the Financing of Terrorism*, (London: Routledge, 2008), p. 93

<sup>121</sup> Napoleoni (2004), *op.cit.* , p.231.

intensive humanitarian activities. Additionally, the global network of these organizations and being subject to lighter regulatory requirements than business corporations and financial institutions increases the attractiveness of these organizations in the eyes of terrorist groups. According to FATF, generally the abuse of charities takes place in three forms:<sup>122</sup>

- 1) Diversion of funds through fraud- for example, donors are told that they are donating money for orphans, and the charity then uses the funds to finance terrorists. This can occur alongside charitable work and within an otherwise legitimate charity.
- 2) The use of an entirely bogus or sham organization that poses as a legitimate charity as a front organization for terror groups.
- 3) Broad exploitation- for example, the charity raises money to feed orphans and actually does so but does it through a designated terrorist organization.

According to one of the five pillars of Islam, *zakat*, faithful Muslims are expected to give 1/40 (2,5 %) of their wealth to the poor people every year. In the Muslim world, this obligation is fulfilled mainly through donations to Islamic charities, which have global access to poor Muslims, and therefore millions of dollars are collected every year. Furthermore, in Islamic faith, *zakat* is given secretly in order not to hurt the pride of the poor, thus the donors are not disclosed. In addition to these, charities thanks to their good works such as providing health services and building houses and schools, have a good image in the eyes of the citizens, particularly in the Third World and they enjoy the lack of oversight of the competent authorities. Besides, even they are involved in financing of the radical Islamist groups, because of their social and humanitarian works, they continue to operate and no investigation is carried out about their works.

Of course, not all the Islamic charities are involved in terrorist financing. Unfortunately, in order to benefit from this global network and the wealth that these charities possess, extremist groups, such as Al-Qaeda abuse this sensitive issue. For example, it is claimed that Al-Qaeda has close links with the Saudi based Al-Haramain, the Global Relief Foundation, the Al Wafa Humanitarian Organization,

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<sup>122</sup> FATF (2008), pp. 11-12

Afghan Support Committee and al Barakaat.<sup>123</sup> Moreover, some other charities such as Kuwait-based Revival of Islamic Heritage Society and Saudi Arabia-based Islamic International Relief Organization (IIRO) have been infiltrated by Al-Qaeda. It is reported that the IIRO supported Al-Qaeda training camps in Afghanistan prior to September 11. In addition to this, Usama Bin Laden's brother-in-law Muhammad Jamal Khalifa was in charge of the Philippines branch of IIRO in the early 1990s and gave financial support to Islamic Separatism and the Abu Sayyaf Group.<sup>124</sup>

Al-Haramain Islamic Foundation, Saudi-based charity, with its branches especially in Indonesia, Kenya, Tanzania, Somali and Pakistan where Islamic movements are strong, has also ties with Al-Qaeda and its affiliated groups. For example, it is believed that the Somali branch of Al-Haramain involved in the funding of the operations of Al Ittihad al Islami (AIAI) in Somalia and eastern Africa such as the attack on American soldiers in Mogadishu, Somalia, in 1993.<sup>125</sup> The Indonesian branch of Al-Haramain has also been actively supporting the Al-Qaeda affiliated group, Jemaah Islamiya. It is known that Al-Haramain financed the bombings that killed 202 people, on 12 October 2002 in Bali, Indonesia.<sup>126</sup> Furthermore, according to US authorities the other branches of Al-Haramain in various places such as Afghanistan, Albania, Bangladesh and even the US and the Netherlands, have been used to finance the terrorist operations of the Al-Qaeda and its affiliated groups in various places.<sup>127</sup>

Similar to Al-Qaeda, Hezbollah also uses charities in fund raising activities. Islamic Resistance Support Organization based in Lebanon, Martyrs Foundation based in Iran and Lebanon and Goodwill Charitable Organization based in United States are linked with Hezbollah. For example, during the investigation carried out by

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<sup>123</sup> Kiser (2004), *op.cit.*, pp.75-76

<sup>124</sup> Peter Brookes, *A Devil's Triangle: Terrorism, Weapons of Mass Destruction and Rogue States* (Lanham: Rowman & Littlefield Publishers, 2005), p.53

<sup>125</sup> *Ibid.* p.54

<sup>126</sup> [http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities\\_execorder\\_13224-a.shtml#ahindo](http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-a.shtml#ahindo), Accessed on 21 April 2009

<sup>127</sup> [http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities\\_execorder\\_13224-a.shtml#ahindo](http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-a.shtml#ahindo), Accessed on 21 April 2009

Paraguayan police in 2001 in tri-border region, it is found out that Sobhi Mahmoud Fayad, Hezbollah operative in Latin America, sent more than 3.5 million US dollars through the Martyrs' Foundation. In 2007, US Department of Treasury designated this organization for providing financial support to the families of killed and imprisoned Hezbollah members.<sup>128</sup> Beside the charities that are tied to Hezbollah, from some other extremist Islamic institutions such as the Islamic Resistance Support Association in the US, the Al-Shadid Organization in Canada, the Lebanese Islamic Association in Germany and the Help Foundation in Britain, due to ideological reasons, Hezbollah receives funds.<sup>129</sup>

Another Middle Eastern extremist group, Hamas, also benefits from charities for its fund raising activities. Among these charities, al-Salah Society plays a crucial role. Through this organization, Hamas receives a substantial funding from the wealthy donors of the Gulf countries. In addition to local charities that are directly controlled by Hamas, some foreign charities such as the Holy Land Foundation for Relief and Development, in the US, Interpal (Palestinian Relief and Development Fund) in the United Kingdom and Palestinian Association in Austria provide a reasonable financial support to Hamas.<sup>130</sup> As well as fund raising, Hamas uses charities and humanitarian organizations for increasing its popularity among the poor and needy people of the Palestine, recruiting new members and providing a logistical support to its activities.

LTTE, operating in Sri Lanka also generates a reasonable amount of revenue from the donations to aid organizations that finance the social service and development programs in Sri Lanka. For instance, the LTTE used Canadian schools and the aid

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<sup>128</sup> Matthew Levitt and Michael Jacobson, "The Money Trail: Finding, Following and Freezing Terrorist Assets", in *Policy Focus*, #89 (Washington: The Washington Institute for Near East Policy: 2008), pp.54-55

<sup>129</sup> *Ibid.* p. 55

<sup>130</sup> <http://www.ustreas.gov/offices/enforcement/key-issues/protecting/fto.shtml>, Accessed on 22 April 2009

organizations in Norway where there is a lack of tight control over charities in fund-raising activities.<sup>131</sup>

Although charities are mostly abused by the Islamist extremist groups such as Al-Qaeda, for long years IRA has also benefited from this method. Irish Northern Aid Committee (NORAID), which was established by Irish Americans in 1969 after the start of the troubles in Northern Ireland, provided a substantial financial support to IRA. For example, in the early 1970s, NORAID managed to supply more than fifty per cent of the cash needed by the IRA.<sup>132</sup> Furthermore, as NORAID officials expressed that, the organization sent 3.6 million US dollars to Northern Ireland between 1970 and 1999.<sup>133</sup>

As explained above, charities and humanitarian organizations are significant financial resources for terrorist organizations. As well as fund raising, these organizations are abused by terrorist groups for transferring terrorist funds and recruiting new members. Furthermore, terrorist groups benefit from the humanitarian works, such as health services, especially in needy communities to make their propaganda, increase their popularity among those people and recruit new members. However, through strict control over these organizations in terms of fund raising activities and money transfers, governments can deny terrorists the ability to generate and move funds. Increasing the public awareness about the problem is also a necessary step that should be taken by the governments.

### **3.9. Donations from Wealthy Individuals**

Wealthy individuals, who are sympathetic to the terrorist organizations and their objectives, are among the financial resources of terrorist groups. However, compared to other legitimate and illegitimate resources the magnitude of this financial support is limited.

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<sup>131</sup> Kiser (2004), *op.cit.* p. 35

<sup>132</sup> James Adams, *The Financing of Terror*, (New York: Simon and Schuster, 1986), p. 136

<sup>133</sup> Kiser (2004), *op.cit.* p.54

The most important case regarding this issue is the Al-Qaeda. For many years, it was thought that Usama Bin Laden's personal wealth financed the Al-Qaeda operations. However, according to the Staff Report to the National Commission on Terrorist Attacks Upon the United States, this was only a myth. The report points out that Bin Laden's financial contribution has not been the main driving force behind Al-Qaeda but the wealthy donors from the Gulf countries has been an important financial resource for Al-Qaeda.<sup>134</sup> For example, upon the findings of the US Treasury Department, in 2006, executive director of the Eastern Province of the IIRO, Abd al-Hamid al-Mujil, was designated for his financial support of Al-Qaeda and its Southeast Asian affiliates, the Abu Sayyaf Group and JI.<sup>135</sup> Three Kuwaitis, Hamid al-Ali, Jaber al-Jamalah and Mubarak al-Bathali who were involved in financing of Al-Qaeda activities in Kuwait, Iraq, Afghanistan and Pakistan, were also designated in 2006 by US Treasury Department. According to the UN list regarding the individuals and entities related to Al-Qaeda, Usama Bin Laden and Taliban, there are hundreds of individuals most of whom are from Middle Eastern countries financing terrorism through their donations. Moreover, the LTTE has been receiving a reasonable amount of funds, approximately 4 million US dollars over the past 12 years, from Shad Sunder, a wealthy Tamil living in California and a supporter of an independent Tamil state.<sup>136</sup>

Not only wealthy individuals provide financial support to the terrorist groups, but also expatriate communities especially in Western countries are fundamental financial resources. For instance, LTTE through the use of effective propaganda, have been enjoying the voluntarily made donations from the Tamil families living abroad.<sup>137</sup>

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<sup>134</sup> John Roth, Douglas Greenburg and Serena Wille, *Staff Report to National Commission on Terrorist Attacks Upon the United States*, (2004), p.4 , Available at: [http://www.9-11commission.gov/staff\\_statements/911\\_TerrFin\\_Monograph.pdf](http://www.9-11commission.gov/staff_statements/911_TerrFin_Monograph.pdf)

<sup>135</sup> Levitt and Jacobson, (2008), *op.cit.*, p.49

<sup>136</sup> Kiser (2004), *op.cit.* p.35

<sup>137</sup> *Ibid.* p.34

Another group benefiting from the expatriate remittances is the Lebanese based Hezbollah. Hezbollah has been provided funds by its supporters living abroad, particularly from Lebanese nationals living in Africa, South America and other places with large Lebanese Shiite expatriate communities.<sup>138</sup>

Furthermore, the voluntarily contributions made by the sympathizers of PKK and Revolutionary People's Liberation Front (DHKP-C), living abroad especially in Western European countries, corresponds to a reasonable amount among the financial resources of these groups. According to Annual Report 2005 on the protection of the Constitution prepared by Federal Ministry of Interior, Germany, PKK collects several millions of Euros in donations during its annual campaign in Germany.<sup>139</sup>

### **3.10. Funds from Legitimate Businesses**

Another source for terrorist groups to raise funds is the legitimate business activities. Compared to other sources of funds such as revenues from criminal activities, running legitimate businesses and profiting from these are less risky for terrorist groups. Furthermore, to hide and facilitate the illegal activities, terrorist groups, similar to organized crime networks, engage in legitimate business activities.<sup>140</sup>

Today, Al-Qaeda, the most sophisticated terrorist group has been involved in various sectors. However, the involvement of terrorist groups in commercial activities is not a new phenomenon. For example, in the 1970s IRA had become a monopoly in taxicab service in Northern Ireland. The IRA affiliated firms; Falls Taxi and People's Taxi had owned 350 taxis and employed 800 drivers.<sup>141</sup> The annual income generated by

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<sup>138</sup> Levitt and Jacobson, *op.cit.* pp.53-54

<sup>139</sup> [http://www.verfassungsschutz.de/download/SHOW/vsbericht\\_2005\\_engl.pdf](http://www.verfassungsschutz.de/download/SHOW/vsbericht_2005_engl.pdf), Accessed on 27 April 2009

<sup>140</sup> Hasan Aykın, "Terör A.Ş.", in *Yaklaşım Dergisi*, (Ankara: Temmuz 2008), pp.4-5, Accessed on 12 March 2009

<sup>141</sup> Napoleoni (2004), *op.cit.* , p.220

IRA in this sector was estimated to be about 1 million US dollars.<sup>142</sup> Beside this, IRA has owned or controlled a variety of construction firms, shops, restaurants, pubs, hotels and butcher shops.<sup>143</sup>

Similar to IRA, the PLO was quite successful in commercial activities. The Palestinians Martyrs' Sons Enterprises (SAMED), founded in 1970 to provide vocational training to children of Palestinians who died or were in prison, had invested in farms and newspapers in Africa, clothing and real estate sectors in Europe, industrial plants in the Middle East and airlines in Nicaragua and the Maldives.<sup>144</sup>

The LTTE has also benefiting from a complex network of legitimate business activities in gold and jewelry, computer, telephone and bus service sectors, which have been estimated to be generating about 6.5 million US dollars annually.<sup>145</sup>

PKK is another terrorist organization that heavily deals with commercial activities. It is known that PKK owns or controls various restaurants and cafes in European countries, including Germany, the United Kingdom, Austria and the Netherlands.<sup>146</sup> Jack Straw's, the United Kingdom's Secretary of State for Justice, speech in a forum in Boğaziçi University, in 2007, demonstrates that there are many firms linked to PKK in Britain.<sup>147</sup> Furthermore, according to German authorities, PKK, through the Association of Kurdish Employers (KARSAZ), which has its headquarters in Frankfurt, endeavor to bring together the economic power of Kurdish firms and entrepreneurs.<sup>148</sup>

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<sup>142</sup> Kiser (2004), *op.cit.* , p.55

<sup>143</sup> *Ibid.* , pp.55-56

<sup>144</sup> *Ibid.* , pp.43-44

<sup>145</sup> *Ibid.* , p.36

<sup>146</sup> Uyar (2008), *op.cit.* p.46

<sup>147</sup> "PKK destekçisi şirketleri durduracağız", *Zaman*, 27 Kasım 2007

<sup>148</sup> [http://www.verfassungsschutz.de/download/SHOW/vsbericht\\_2004\\_engl.pdf](http://www.verfassungsschutz.de/download/SHOW/vsbericht_2004_engl.pdf), Accessed on 27 April 2009

However, among the terrorist groups Al-Qaeda has been the most successful one in raising funds from legitimate businesses. The sophisticated financial network of Al-Qaeda and the reasonable amount of terrorist funds that Al-Qaeda enjoys have been the results of the profitable legitimate companies that Bin Laden set up in Sudan. Those companies include, Wadi al Aqiq, the first company that Bin Laden set up in Sudan which served as a holding company for other businesses; Hijra Construction, which performed construction projects for Sudanese government; Taba Investment, dealt with currency trading; Ladin International Company, an export-import company; Themar al-Mubarak Company which grew peanuts, sesame and corn in farm that was also used as military training ground in Sudan.<sup>149</sup> Although these businesses were shut down by the Sudanese government when Al-Qaeda was expelled from Sudan in 1998, there are still concerns regarding the possible business holdings of these companies outside Sudan.<sup>150</sup>

Furthermore, Bin Laden and Al-Qaeda have been involved in honey trading. After the September 11 attacks it is found out that two Yemen based honey producing and trading companies, Al Nur Honey Press Shops and Al Shifa Honey Press for Industry and Commerce financed the Al Qaeda operations.<sup>151</sup> As well as fund raising, honey trading has also been used in smuggling of narcotics, weapons and gold.<sup>152</sup>

Moreover, it is known that the Al-Qaeda network profited from the Gum Arabic Company Limited that supply 80% of the gum arabic in the world and it owned shares in the Swedish hospital equipment industry; paper mills in Norway and the dairy products industry in Denmark<sup>153</sup>.

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<sup>149</sup> Syed Waqar Hasib, *Why the Global Anti-Money Laundering Regime is Ill-Equipped to Fight the War on Terrorism, and What to Do About It*, (Master Dissertation, Tufts University Fletcher School: 2004), pp. 30-31

<sup>150</sup> Comras (2005), *op.cit.* , p.6

<sup>151</sup> *Ibid.* p.6

<sup>152</sup> Napoleoni (2004), *op.cit.* p.220

<sup>153</sup> Kiser (2004), *op.cit.* p.79

The business activities of the Al-Qaeda network is not limited to Europe, Africa and the Middle East; there were numerous businesses and corporations used in financing of Al Qaeda and its affiliated groups' operatives in South East Asia. Khalifa Trading Industries, ET Dizon Travel Pyramid Trading, Manpower Services and Daw al-Iman al-Shafee Inc. which, which were established by the brother in-law of Usama Bin Laden, Mohammed Jamal Khalifa in Philippines, were among the financial resources of Al Qaeda.<sup>154</sup>

Furthermore, today various companies such as Somali Internet Company; Parka Trading Company based in United Arab Emirates (UAE), Mamoun Darkazanli Import-Export Company in Germany; Barako Trading Company in UAE and UAE based Al Barakaat Group operating in many sectors including, banking, construction, telecommunications and computer are designated as responsible for the financing of Al-Qaeda by the UN Security Council's Al-Qaeda and Taliban Sanctions Committee.<sup>155</sup>

Lastly, although the 9/11 Commission did not agree, it is suspected that prior to September 11, Al-Qaeda speculated in the US and British Stock Market and generated reasonable amount profits for the terrorist attacks.<sup>156</sup>

Today, it is obvious that terrorist groups are very successful in using the Western market economy and the gaps within it for the benefit of their terrorist activities. Regarding the issue the most striking case is the Al-Qaeda, which claims to be conducting a holy war against the Western world, particularly the US and have a very complicated financial network that is characterized by the rules of typical free market economy of the Western world.

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<sup>154</sup> Comras (2005), p.6

<sup>155</sup> The full list of entities associated with the Al-Qaeda can be accessed from the following link: <http://www.un.org/sc/committees/1267/pdf/consolidatedlist.pdf>

<sup>156</sup> Kiser (2004), *op.cit.* pp.79-80

### 3.11. State Sponsorship

Terrorism and terrorist organizations have been used by states as a foreign policy tool. Since terrorist organizations can easily be penetrated and directed by intelligence units, some states have been in close relationship with them. Furthermore, while direct confrontation with another state over a dispute may be more risky and may not provide the intended results, using a terrorist organization with a view to destabilizing the other state may be less costly and may be more likely to succeed. In addition to these, terrorist organizations can also be useful for a state to spread its ideology to different countries. In this context, terrorist organizations supported by the Soviet Union during the Cold War can be given as an example. These terrorist groups contributed to spread of communism to various regions.

Although state sponsorship of terrorism peaked in Cold War, it existed nearly half a century before the beginning of the Cold War. As explained in the previous chapter, in the early 1900s, Serbia directly supported a terrorist group called “Black Hand” to weaken Austro-Hungarian Empire and in the 1930s Italy and Hungary provided arms and financial resources to Croat groups, especially to *Utashe*, against Yugoslavia.

During the Cold War, the Soviet Union and Eastern Bloc countries provided active support to terrorist organizations.<sup>157</sup> On the other hand, the US also gave support to terrorism in the Cold War; in the 1980s the US actively supported paramilitary group called “The Contras” against the Nicaraguan government and provided arms, training, food and funding to this group.<sup>158</sup> Furthermore, beside the super powers, some other countries such as Cuba, Libya and North Korea were also among the direct supporters

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<sup>157</sup> Sertaç Başeren, “Conceptual Definition of Terrorism: A Historical and Legal Analysis”, *Proceedings of the First International Symposium on “Global Terrorism and International Cooperation*, (Ankara: The Turkish General Staff Centre of Excellence Defence Against Terrorism 2006), p.17

<sup>158</sup> Lutz and Lutz (2004), *op.cit.* , pp.60-62

of terrorist groups.<sup>159</sup> In addition to these, Palestinian groups and Hezbollah, for several years, have been supported and funded by Iran and some Arab states.<sup>160</sup>

However, the active support given to terrorist organizations declined especially in the post-Cold War period. Today, instead of providing direct financial support to terrorist organizations, states prefer passive sponsorship of terrorism. In other words, states provide safe havens to terrorist organizations or tolerate the fund raising activities of terrorist organizations.

Although the US government designates Cuba, Iran, Sudan and Syria as the sponsors of terrorism<sup>161</sup>, the state support provided to terrorist organizations cannot be limited to these countries. For example, the Saudi Arabia and the Gulf countries may not be regarded as direct supporters of international terrorism, but considering the fund raising activities of various terrorist organizations such as Al-Qaeda, Hezbollah, Hamas and other Palestinian groups through charities, wealthy donors and legitimate businesses in these countries as explained above, it can be argued that these states by tolerating or ignoring the fund raising activities of terrorist organizations, provide passive support to terrorism.

### **3.12. Other Resources**

In addition to legitimate resources explained above, terrorist organizations raise funds through a variety of legitimate activities. For instance, terrorist organizations use newspapers, magazines and books not only to make propaganda and provide theoretical training for their members and sympathizers but also to raise funds for their operations. In Turkey, most of the terrorist groups in the beginning phase were organized through a weekly or a monthly magazine. For example, *Türkiye Halk Kurtuluş Partisi Cephesi* (THKP-C) started their activities through a newspaper

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<sup>159</sup> Napoleoni (2004), *op.cit.* , pp.50,53 and Lutz and Lutz (2004),, *op.cit.* , p.53

<sup>160</sup> Lutz and Lutz (2008), *op.cit.* , pp.57-60, 124

<sup>161</sup> U.S. Secretary of State, *Country Reports on Terrorism 2008*, (April 2009), Available at: <http://www.state.gov/s/ct/rls/crt/2008/122436.htm>

called “Kurtuluş” in the 1970s. Similarly Turkish Hezbollah was organized through “Vahdet Kitabevi” in Diyarbakır in 1979. Although it was not organized through a weekly or a monthly publication PKK also uses the publications called “Serxwebun” meaning independence and “Özgür Politika” for making propaganda and fund raising.<sup>162</sup>

Moreover, terrorist groups also raise funds from the sale of the albums of affiliated music bands, the concert revenues of these bands and the social activities such as feasts and exhibitions.<sup>163</sup>

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<sup>162</sup> Aykın and Sözman (2008), *op.cit.* p.39

<sup>163</sup> Uyar (2008), *op.cit.* p.47 and *Terörün Finansmanına Yönelik Şüpheli İşlemlerin Bildirimi Genel Tebliği* (Ankara: MASAK, 2007)

## CHAPTER 4

### THE MOVEMENT OF TERRORIST FUNDS

As well as fund raising, the movement of these funds to different units or cells is very crucial for terrorist organizations. On the other hand, having adequate information on the mechanisms used in transferring terrorist funds is helpful in detecting and tracing terrorist funds and by this way, intelligence regarding the structure of terrorist organizations can be gathered. Although the fund raising methods may vary, there are not much differences between terrorist groups in fund transfer methods. The common fund transfer methods applied by terrorist groups are; the use of formal financial sector, alternative remittance systems such as *hawala*, the abuse of charities, legitimate businesses, cash couriers and the use of precious stones and metals.

In the fight against terrorism or more specifically in countering the financing of terrorism, tracing terrorist funds, penetrating the financial network of terrorist groups and finally preventing their operatives are very crucial. Thus, in this chapter, the fund transfer methods of terrorist groups will be explained.

#### 4.1. The Formal Financial System

With the globalization process, international capital movements have speed up and international financial system has become more integrated. These developments in the international financial system allow terrorists to move funds efficiently and effectively and often without detection between and within jurisdictions.<sup>164</sup> Especially, advances in electronic payment systems present a secure transfer

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<sup>164</sup> FATF (2008), *op.cit.* p.21

mechanism for terrorist groups. The rapidity and high volume of these transfers in the absence of regulations regarding the customer due diligence principle, record keeping and suspicious transaction reporting enable the free movement of terrorist funds.

On the other hand, money and value transfer mechanisms within formal financial system also presents a valuable source of intelligence on the transactions carried out by terrorist networks. However, this is achievable only when regulations on customer due diligence and record keeping are fully implemented in cooperation between public and private sector.

In recent years, the efforts to prevent the use of financial sector for money laundering and terrorist financing within the context of FATF's 40 Recommendations on money laundering and 9 Special Recommendations on terrorist financing, to some extent, have deprived terrorist groups of fund transfers through formal financial system. However, despite these efforts, through correspondent banking, Islamic banking and offshore centers, terrorist organizations still move their funds without detection. Furthermore, in the formal financial system, through correspondent banking, Islamic banking and off-shore centers where there are no strict financial control, terrorist groups can also store their funds. Below, the involvement of these types of formal financial institutions in the transfer of terrorist funds will be discussed.

#### **4.1.1. Correspondent Banking**

It is not possible for banks to open branches in every part of the world. Therefore, banks or other financial institutions in different countries enter into agreements to carry out transactions on behalf of each others. For example, if a bank in Kuwait has a client who wants pound in Britain, the Kuwaiti bank will employ a bank in Britain with which it has a correspondent relationship to provide the client pound. As Navias argues, this kind of financial relationship provides terrorists to access to both the

Western European and the North American banking system and thus reveals the vulnerability of Western banking system to external penetration.<sup>165</sup>

The threat posed by correspondent banking relationship increases when customer due diligence procedures are not carried out properly. Prior to September 11, when there were lax regulatory controls within the financial sector, Al-Qaeda benefited from correspondent banking relationships. In the early 1990s bin Laden, with 50 million US dollars, became a major shareholding in al Shamal Islamic Bank in Khartoum. At the bank, foreign currency accounts were set up for various companies belonging to bin Laden, such as al Hijra Construction and Development Co. Ltd and Wadi al Aqiq. Then, through al Shamal's correspondent banking relationships with reputable financial institutions, including Citibank and American Express in the U.S.; Commerzbank in Germany and Credit Lyonnais in Switzerland, Al-Qaeda was able to move terrorist funds rapidly and easily<sup>166</sup>.

#### **4.1.2. Islamic Banking**

Islamist groups, particularly Al-Qaeda, abuse the Islamic banking system, a legitimate form of investment and finance regulated by Islamic law, *sharia*, which prohibits interest. Since these financial institutions usually are based in countries where very weak anti-money laundering and anti terrorist financing regimes exist, they operate under loose oversight and control. Furthermore, Al-Qaeda and other Islamist groups can easily find willing collaborators within the Islamic banking system.<sup>167</sup>

Napoleoni claims that Bin Laden has used Tadamon Islamic Bank and Faisal Islamic Bank as well as al Shamal Islamic Bank for transferring funds to various Al-Qaeda

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<sup>165</sup> Martin S. Navias, "Finance Warfare as a Response to International Terrorism", in *The Political Quarterly*, (London: Blackwell Publishing, 2002), p.60

<sup>166</sup> Hasib (2004), *op.cit.*, pp.45-46

<sup>167</sup> Maurice Greenberg, William F. Wechsler and Lee S. Wolosky, "Terrorist Financing", *Report of an Independent Task Force Sponsored by Council on Foreign Relations*, (Council on Foreign Relations: 2002), p.10

cells around the world.<sup>168</sup> In addition to these, Al-Barakat and Al-Taqwa are also suspected to be linked with Al-Qaeda network. Al-Barakat, until its funds were frozen by the US authorities in September 2001, transferred at least 500 million US dollars profit from the US to UAE, annually and Al-Qaeda was receiving 5% (25 million US dollars) of this profit.<sup>169</sup>

#### **4.1.3. Off-shore Centers**

In the global financial system, another opportunity for terrorist groups to move their funds without detection is off-shore centers. Off-shore centers can be defined as jurisdictions that have huge numbers of financial institutions engaging in business with non-residents and provide low or zero taxation, moderate or light financial regulation, banking secrecy and anonymity.<sup>170</sup> Some of the jurisdictions that provide off-shore banking services are as follows: Seychelles in Africa, Cook Islands, Marshall Islands and Vanuatu in Asia-Pacific, Andorra, Isle of Man, Liechtenstein, Monaco and Switzerland in Europe, Bahrain and Lebanon in Middle East, Bahamas, Barbados, Cayman Islands, St. Kitts and Nevis, St. Vincent and Grenadines in Western Hemisphere.<sup>171</sup>

Terrorist groups take the advantage of these non-transparent financial centers, known also as tax havens, which lack oversight and customer due diligence principles to move their funds throughout the world. For example, Al-Taqwa, suspected to be linked with Al-Qaeda, have had offices in three of the world's banking secrecy havens: the Bahamas, Switzerland and Liechtenstein and Al-Qaeda's terrorist funds have moved around the world through accounts in these off-shore centers.

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<sup>168</sup> Napoleoni, (2004), *op.cit.* , p.173

<sup>169</sup> *Ibid.* p. 221

<sup>170</sup> IMF, *Offshore Financial Centers IMF Background Paper*, (23 June 2000)  
<http://www.imf.org/external/np/mae/oshore/2000/eng/back.htm#box>, Accessed on 2 May 2009

<sup>171</sup> *Ibid.*

Furthermore, Panama and the Isle of Man, with very weak anti-money laundering regimes, have been used by Al-Taqwa to transfer funds to Al-Qaeda.<sup>172</sup>

As well as Al-Qaeda, the Palestinian groups also have used off-shore centers such as Monaco, Nauru, Cyprus, the Bahamas and Hong Kong, to move funds.<sup>173</sup> Another group using off-shore banking for moving terrorist funds is PKK. According to MASAK, PKK has been transferring its funds through its accounts in Swiss banks without detection, thanks to the banking secrecy and light supervision in terms of anti-money laundering and terrorist financing.<sup>174</sup>

#### **4.2. Alternative Remittance Systems**

Terrorist funds are not only transferred through formal financial sector; investigations regarding terrorist financing demonstrate that alternative remittance systems have also been used for this purpose. Though there is not a common definition of these systems, there is some agreement on the common characteristics. These systems are generally based on specific ethnic, cultural or historical factors and are a traditional way of moving money before the emergence and spread of Western banking systems in the 19<sup>th</sup> and 20<sup>th</sup> centuries.<sup>175</sup>

Since alternative remittance systems, in which there is no physical movement of funds, provide a reliable fund transfer mechanism especially in politically and/or financially unstable regions, are less costly than formal financial institutions, can easily access to remote regions where the traditional financial institutions cannot reach, avoid currency exchange regulations and finally provide anonymity, they have been widely used by immigrant workers sending money to their home countries, legal traders, organized crime networks and terrorist organizations for different

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<sup>172</sup> Hasib (2004), *op.cit.* p.48 and Greenberg (2008), *op.cit.* p.9

<sup>173</sup> Kiser (2004), *op.cit.* p.46

<sup>174</sup> “İsviçre’deki PKK parasına sıkı takip”, *Star*, 23 Mart 2009

<sup>175</sup> FATF, *Report on Money Laundering Typologies 1999-2000*, (Paris: 2000), p.4

reasons.<sup>176</sup> Below, two significant types of alternative remittance systems, namely the *hawala* and the black market peso exchange system, will be explained.

#### 4.2.1. The Hawala System

The first major alternative remittance system to be explained within the framework of the movement of terrorist funds is the *hawala* (known also as *hundi*) which dates back to medieval period, hundred years before the emergence of modern financial system. This remittance transfer system, which is based upon trust originated from southern Asia, particularly from India, is widely applied in southern Asia, in the Middle East and furthermore used in other parts of the world, such as Europe, North America and the Gulf Region, by migrant workers from these regions to transfer money to their home countries. Because the *hawala* system operates outside the legal financial system, measuring the volume of transactions carried out within the system is too difficult. However, some estimates by international organizations could be helpful to draw a broad image on the volume of financial flows through *hawala*. According to UN, the annual volume of transactions conducted through *hawala* system is estimated to be about 200 billion US dollars. In Pakistan, where the *hawala* is widely used, according to official figures 5 billion US dollars move through this system and there have been 1100 *hawala* dealers capable of transferring 10 million US dollars in a single transaction.<sup>177</sup>

The *hawala* means change and transform in Arabic while in Hindi and Urdu it retained these meanings and additionally gained the meanings “trust” and “reference” which reflect the nature of the system.<sup>178</sup>

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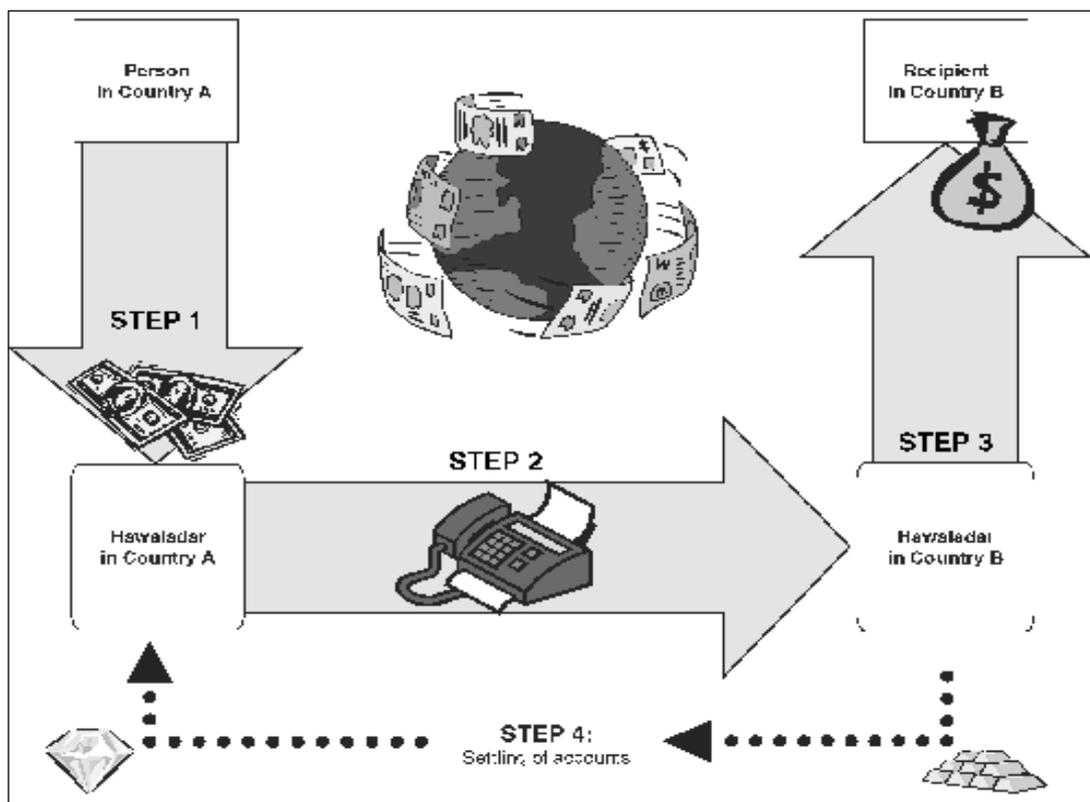
<sup>176</sup> IMF, *Suppressing the Financing of Terrorism: A Hand Book for Legislative Drafting*, (2003), p.30 <http://www.imf.org/external/pubs/nft/2003/SFTH/pdf/chp2.pdf> , Accessed on 2 May 2009, Kiser (2004), *op.cit.* p.91 and FATF (2000), *op.cit.* p.5

<sup>177</sup> Napoleoni,(2004), *op.cit.*, p.178

<sup>178</sup> Patrick M. Jost and Harjit Singh Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering*, (Lyon: Interpol General Secretariat, 2000), <http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/Hawala/default.asp#2>, Accessed on 1 February 2009

Since, this system is less expensive; the fees charged by hawaladars on the transfer of money are lower than the formal financial institutions, swifter because of the lack of bureaucratic procedures and based upon trust, it is popular in southern Asia and the Middle East and among the migrant worker communities, coming from these regions, in Europe, North America and the Gulf Region.<sup>179</sup> Furthermore, the lack efficient formal banking system in places such as Pakistan and Afghanistan also increases the attractiveness of *hawala* system. Similarly, in India, where the *hawala* is very popular, according to FATF's estimates nearly 50 % of the economy uses *hawala*.<sup>180</sup>

Figure 2: The *Hawala* System



Source: United States General Accounting Office, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanism*, (Washington, 2003), p.18

<sup>179</sup> Mohammed El-Qorchi, "Hawala: How does this informal funds transfer system work, and should it be regulated", *Finance & Development*, Volume 39, Number 4 (IMF:2002), <http://www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm>, Accessed on 27 October 2008

<sup>180</sup> FATF (2000), *op.cit.*, p.6

**Step 1:** A person in Country A wants to send money to a recipient in Country B. The person in Country A contacts with a *hawaladar* in Country A and gives him the amount that will be transferred and information about recipient in Country B and delivery instructions

**Step 2:** The *hawaladar* in Country A gets in touch with the *hawaladar* in Country B via fax, internet, and telephone or by other means of communication and gives him the disposition instructions of the funds.

**Step 3:** The *hawaladar* in Country B contacts the recipient and the recipient with the code passed by the sender in Country A, gets the equivalent amount in currency or commodity (e.g. gold) from the *hawaladar* in Country B after the transaction fee is charged.

**Step 4:** Over time, the imbalances between the *hawaladars*' accounts can occur. For settling these imbalances between accounts reciprocal remittances, physical movement of currency, wire transfers, trade or smuggling of gold or other precious metals and trade invoice manipulation are used.<sup>181</sup>

However, this system is not only used by an immigrant working thousands kilometers away from his home country to transfer money to his family or by a father sending money to his son studying abroad. As well as these innocent purposes, because of the security and secrecy provided by the system and being a global network operating beyond the financial oversight, the *hawala* system is used by criminal groups to launder the proceeds of crime and by terrorist organizations to move their funds.

Among terrorist networks, Al-Qaeda has been the first one that uses the *hawala* extensively for transferring terrorist funds. In the aftermath of its move to Afghanistan in 1996, where there has been a very weak financial system, Al-Qaeda began to use a established *hawala* networks operating in Pakistan, in Dubai and

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<sup>181</sup> GAO (2003) *op.cit.* p.18 and FATF (2000), *op.cit.* p.6

throughout the Middle East to transfer funds efficiently.<sup>182</sup> For instance, a *hawaladar* from Pakistan was one of the financiers of the attacks against the US Embassies in Africa in 1998.<sup>183</sup> The FBI believes that before the September 11 attacks, the hijackers used *hawala* to transfer thousands of dollars in and out of the US.<sup>184</sup> After the September 11 attacks, which resulted in the US invasion of Afghanistan, the Al-Qaeda made use of *hawaladars*, to move millions of dollars to Karachi, Pakistan and to diffuse throughout the world.<sup>185</sup>

Moreover, as Kiser indicates that the authorities in southern Asian countries, particularly in Pakistan, India, Malaysia and Indonesia found out that Al-Qaeda affiliated groups have been substantially using *hawala* system to transfer funds.<sup>186</sup>

#### **4.2.2. Black Market Peso Exchange**

The second type of alternative remittance systems that will be discussed in this study is *black market peso exchange* (BMPE). Originally developed in Latin America, BMPE is a system widely used in Western Hemisphere in legal trade and smuggling between North and South America. Although the system is used by migrant workers for sending money to their home countries and by some legal businesses for rapid payment as a response to foreign exchange restrictions and to financial systems that are unable to provide reliable and timely money transfers, in time it began to be exploited by narcotics traffickers.<sup>187</sup>

Especially Latin American narco-terrorist groups operate in the US market and the money coming from the sale of narcotics is in US dollar. Drug traffickers need to pay the suppliers in Latin America, particularly in Colombia, but they cannot make use of

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<sup>182</sup> National Commission on Terrorist Attacks Upon the United States (2004), p.171

<sup>183</sup> Napoleoni (2004), *op.cit.* , p.178

<sup>184</sup> GAO (2003), *op.cit.* , p.19

<sup>185</sup> Kiser (2004), *op.cit.* , p.93

<sup>186</sup> Ibid, p.93

<sup>187</sup> FATF (2000), *op.cit.* , p.5

the formal financial system to transfer the proceeds of drug sale without drawing attention. Therefore, they contact with a broker in the U.S. for the fund transfer. The broker in the US arranges his agent in Colombia and he makes the payment to the drug suppliers in peso. For this payment, the broker usually charges a higher rate than the official US dollar/peso exchange rate. By this way, without the physical movement of funds, proceeds of narco-terror groups are transferred. Then, accounts are balanced when the peso broker sells US dollar to Colombian businessmen smuggling goods from the US in order to avoid high import tariffs imposed by the government, at a better rate than the Colombian government. The broker in Colombia get in touch with his counter-part in the US and through him the payments are made in US dollar to the person from whom the Colombian so called businessmen buy goods. When these goods are smuggled into Colombia or after sold at the streets, the smugglers make the payment to the broker in peso.<sup>188</sup>

According to US officials, through the BMPE, which has a devastating impact on the Colombian economy by fostering smuggled goods trade that undermine legitimate businesses and by depriving the Colombian government of very significant amount of tax revenue, it is estimated that between 3-6 billions of US dollars are transferred.<sup>189</sup>

Considering the involvement of Latin American terrorist groups, namely, FARC, United Self Defense Forces of Colombia, the National Liberation Army, operating in Colombia and the Shinning Path, based in Peru, in drug production and trafficking, it can be suggested that BMPE system, besides being a widely used method of money laundering by the drug lords in Latin America, is also a way of moving terrorist funds raised from narcotics trafficking.

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<sup>188</sup> *Ibid.* p.5 and Alparslan Çalışkan, “Karapara Aklama Yöntem ve Tipolojileri ile Bu Amaçla Kullanılan Sektörler”, in Süleyman Aydın (ed), *Karapara Aklama ve Terörizmin Finansmanı*, (Ankara: Adalet Yayınevi, 2008), pp.274-275

<sup>189</sup> Steven W. Casteel, “Narco-Terrorism: International Drug Trafficking and Terrorism- A Dangerous Mix”, *Statement Before the Committee on the Judiciary, United States Senate, One Hundred Eight Congress* ( Washington, 20 May 2003), p.58, <http://www.usdoj.gov/dea/pubs/cngtrtest/ct052003.html>, Accessed on 1 November 2008

### 4.3. Cash Couriers

Cash couriers are mainly preferred in the regions where an efficient financial system does not exist or very weak and the economy is almost cash based such as the Middle East, South Asia and Africa. With the adoption and implementation of counter terrorist financing measures in recent years, terrorist groups have shifted to this oldest method of fund transfer, which refers to physical movement of money from one place to another.

Through cash couriers, moving terrorist funds is preferable since there are no written records left behind regarding the transaction, there is no third party such as bank official, who may become suspicious of transaction and report to financial intelligence units, and terrorist groups have the full control over the money. Furthermore, the internationally used currencies, particularly US dollar, convertible to other national currencies easily, facilitate cash smuggling by terrorist groups.<sup>190</sup> On the other hand, moving funds using cash couriers is more expensive than formal transfer mechanisms through financial institutions. Moreover, the risk of the courier stealing the money and the risk of the courier being an informant are other disadvantages of transferring terrorist funds through this method. Finally, there is the possibility of the cash courier to be detected at the border or at the airport by the law enforcement authorities. However, to overcome these risks terrorist organizations, for instance, Al-Qaeda network recruits couriers from within itself; no outsiders are involved in physical transportation of the money to be used in Al-Qaeda operatives.<sup>191</sup>

For example, Jamal al Fadl, one of the key financiers of Al-Qaeda, in the 1998 Embassy bombings trial explained that he was given bulk cash to transport to areas where a terrorist attack would take place or where there were little risks in placing the cash into the financial system. In this respect, he also confessed that he had

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<sup>190</sup> GAO (2003), *op.cit.* p.19

<sup>191</sup> Haslerud Gjermund and Tranqy Bent Sofus, *Fighting Terrorist Finance-Issues, Impact and Challenges*, (Norway: Norwegian Defence Research Establishment, 2005), p.18

transported 100.000 US dollars in cash to the capital city of Jordan, Amman, for the operations that would be carried out there. According to FBI's findings, this method, as well as the other fund transfer mechanisms, was also used for moving the funds needed to carry out the September 11 attacks.<sup>192</sup>

Jemaah Islamiyah and Abu Sayyaf Group, terrorist organizations mainly operating in South East Asia and directly linked to Al-Qaeda, have also taken the advantage of cash couriers in the moving of terrorist funds.<sup>193</sup> According to FATF, the funding required for the Bali bombings took place in 2002 were provided by Al-Qaeda militant hiding in Thailand, to perpetrators of the attack through the use of several cash couriers. Similarly, for the JW Marriot Hotel bombing in Jakarta 30.000 US dollars were sent by an Al-Qaeda chief in Thailand to Indonesia in April 2003 via cash couriers.<sup>194</sup>

As well as Al-Qaeda and its affiliated groups, various terrorist organizations have adopted the use of cash couriers with a view to transfer terrorist funds. Kiser contends that LTTE, Palestinian groups and IRA have benefited from cash couriers in moving terrorist funds.

Similar to these terrorist groups, it is also known that Turkish Hezbollah has been avoiding the use of financial sector in moving terrorist funds and have preferred its militants to conduct the physical movement of funds. For the elimination of the risk of the courier stealing the money, Hezbollah have also imposed very serious punishments for any misfeasance in terms of financial issues.<sup>195</sup>

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<sup>192</sup> GAO (2003), *op.cit.* , p.19

<sup>193</sup> <http://www.rsi.sg/english/newslines/view/20080214165430/1/.htm>, Accessed on 13 January 2009

<sup>194</sup> FATF (2008), *op.cit.* , p.24

<sup>195</sup> Aykın and Sözman (2008), *op.cit.* p.59

#### 4.4. The Use of Precious Stones and Metals

In addition to methods explained above, terrorist organizations also make use of the precious stones and metals for fund transfer. Their high value and low weight and easiness in concealing and converting them to cash are the main reasons behind the interest of terrorist groups towards precious stones and metals. Another advantage for terrorist groups involved in trafficking of precious metals and stones is that these are mainly produced in places that have porous borders and have deficiencies in control over their production and trade. In terms of trading diamonds and similar precious stones and metals, the lack of transaction records is not unique to African countries; it is asserted that substantial amount of diamonds have been sold on black market also in Antwerp, Belgium, the world's largest diamond trading center.<sup>196</sup>

Among the precious stones and metals, gold has been the most widely used metal in moving of funds by terrorist groups because it can be smuggled easily and there is always a market for it, especially in the Afghanistan, the Middle East and South East Asia, where terrorist organizations have been active.

For instance, gold has played a vital role in the financing of Al-Qaeda network both before the September 11 attacks and in the aftermath of 9/11.<sup>197</sup> While moving terrorist funds via gold, Dubai, being at the crossroad of Africa, South Asia and the Middle East and having gold refineries capable of smelting the gold into bars or jewellery, has been at the heart of Al-Qaeda's fund transfer. Furthermore, very loose financial oversight and *hawaladars* ready to transfer and accept gold as payment, also facilitates Al-Qaeda's financial activities and enable it to transfer wealth for financing terrorist attacks in other parts of the world.<sup>198</sup> It is also believed that, Dubai was the source of reasonable amount money that was used to fund 9/11 attacks.<sup>199</sup>

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<sup>196</sup> GAO (2003), *op.cit.* , p.21

<sup>197</sup> Kiser (2004), *op.cit.* , p.100

<sup>198</sup> *Ibid.* , p.100

<sup>199</sup> Douglas Farah, "Al-Qaeda's Gold: Following Trail to Dubai", *Washington Post*, 18 February 2002

When the US and its allies launched an attack against Afghanistan in the aftermath of September 11, the ruling Taliban and Al-Qaeda sent bars of gold and bundles of dollars to Pakistan through couriers. According to American and Pakistani officials, over three weeks in late November and early December in 2001, 10 million US dollars had been moved to Pakistan.<sup>200</sup> Although it is not easy to identify the portion of gold in this trafficking, considering its low weight, high value and being convertible to any currency, it would not be wrong to say that gold bars constituted a fair share in the transfer of Taliban and Al-Qaeda funds in the aftermath of US invasion.

Diamond has also been an attractive commodity for terrorist organizations, particularly Al-Qaeda, since mid 1990s. Al-Qaeda has used diamond in its financial structure for several reasons. First of all, diamonds preserve their value over time, secondly they can easily be moved without detection and finally can be converted to cash at any time in any country.<sup>201</sup> Moreover, diamond mines are also located in regions, for example, in sub Saharan Africa, where very weak and corrupt governments are in power. This also paves the way for Al-Qaeda's involvement in diamond mining and trading.

Al-Qaeda's involvement in diamond mining goes back to early 1993, when an Al-Qaeda operative and its co-founder, Abu Ubaidiah al Banshiri (also known as Ali al Rushidi) established a diamond and gold mining company called Taher Limited in Tanzania, with the purpose of producing new financial sources for the activities of the network.<sup>202</sup>

After the Al-Qaeda attacks on American Embassies in Kenya and Tanzania, in 1998, the US government targeted Al-Qaeda and Taliban money and froze some of the 240

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<sup>200</sup> *Ibid.*

<sup>201</sup> Douglas Farah, "Al Qaeda and the gemstone trade", Biersteker and Eckert (eds) *Countering the Financing of Terrorism*, (New York: Routledge, 2008), p.193

<sup>202</sup> *Ibid.* , p.195 and Kiser (2004), *op.cit.* , p.97

million US dollars, which was held as gold reserves in the United States.<sup>203</sup> As a response to this unexpected financial strike of the US government, to eliminate the risks of possible seizures and to move easily its terrorist funds, Al-Qaeda began to buy diamonds from the corrupt states of West Africa, particularly from Liberia and Sierra Leone, between 2000 and September 2001. Although it is not easy to reach accurate figure it is estimated to be about 10 million US dollars.<sup>204</sup>

As well as Al-Qaeda, other terrorist groups such as Hezbollah and the LTTE, have also taken part in gemstone trading.<sup>205</sup> Due to their high value, low weight and low risks of being detected by law enforcement authorities and world-wide convertibility, gemstones are vital in moving terrorist funds. However, a significant component of terrorist financing, gemstone business is also an important source of income and one of the secure ways of storing mechanism for terrorist funds.

#### **4.5. Legitimate Businesses and International Trade Sector**

Legitimate businesses and international trade system have long been abused by organized crime networks to launder the proceeds of crime. This method, named as trade based money laundering, is defined by FATF, “as a process of disguising the proceeds of crime and moving value through the use of transactions in an attempt to legitimize their illicit origin”.<sup>206</sup> According to FATF, some of the techniques used in this process are as follows: over and under invoicing of goods and services; multiple invoicing of goods and services; over and under shipments of goods and services and falsely described goods and services.<sup>207</sup>

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<sup>203</sup> Farah (2008), *op.cit.* , p.196

<sup>204</sup> Kiser (2004), *op.cit.* , p.99

<sup>205</sup> Global Witness, “For a Few Dollars More: How al Qaeda moved into the diamond trade”, (April 2003), p.20, [http://www.globalwitness.org/media\\_library\\_detail.php/109/en/for\\_a\\_few\\_dollars\\_more](http://www.globalwitness.org/media_library_detail.php/109/en/for_a_few_dollars_more), Accessed on 12 April 2009 and Kiser (2004), *op.cit.* , p.38

<sup>206</sup> FATF, *Trade Based Money Laundering*, (Paris: 2006), p.3

<sup>207</sup> *Ibid.* , p.4

As mentioned in chapter 3, terrorist organizations have also engaged in trade and established various legitimate businesses. In addition to being a valuable source of income for terrorist groups, legitimate businesses and trade sector also provide some opportunities to terrorist organizations in terms of transferring terrorist funds.

Terrorist funds are transferred from one country to another through legitimate business transactions between two companies controlled by the same terrorist group. With the laundering methods applied by organized crime groups mentioned above, companies owned by terrorist organizations carry out business transactions with each other. From outside it can be seen as a legitimate business activity between two different companies in two different countries. On the other hand, business transactions at the domestic level provide a secure mechanism for the movement of terrorist funds within the country. However, in reality, both the international and domestic trade between companies controlled by terrorist groups, are only a transfer of terrorist group's fund from one place to another.

Taking into account the involvement of terrorists groups such as Al-Qaeda, the PLO, the LTTE and PKK in trade sector and front companies affiliated with these groups, it can be claimed that legitimate businesses and trade sector are crucial components of both fund raising and fund transfer activities of terrorist groups.

#### **4.6. Charities**

Charities abused by terrorist organizations not only generate reasonable amount of funds for terrorism, but also facilitates the moving of these funds. Relatively light control over these organizations compared to financial institutions and legitimate businesses and their world-wide offices and activities provide a great network for terrorist groups that are in search of secure ways to move their funds.

Among the terrorist groups, Al-Qaeda seems the one that heavily abused charities and humanitarian organizations. As discussed in chapter 3, some of the Islamic charities and humanitarian organizations, such as Al-Haramain, The Global Relief

Foundation and Benevolence International Foundation are thought to have connections with Al-Qaeda. Al-Qaeda have benefited from these organizations in acquiring revenue for its activities, but also used them with a view to transferring funds from one place to another. Through the offices of these humanitarian organizations, terrorist funds have moved around the without detection.

For example, several charities including “Mercy International Relief Organization” were involved in Al-Qaeda attacks upon the U.S. Embassies in 1998; these organizations funneled funds to Al-Qaeda cells that conducted the terrorist attacks, facilitated the transfer of weapons and provided false passports and documents to Al-Qaeda operatives.<sup>208</sup>

Furthermore, Al-Qaeda has used the Philippines and Georgia offices of world’s biggest Islamic charity, Saudi based International Islamic Relief Organization, to transfer funds to the Abu Sayyaf Group of Philippines and Ansar al-Mujahedeen in Chechnya.<sup>209</sup>

In addition to Al-Qaeda and the groups that are in cooperation with it, namely, Al-Ittihad al Islami, Jemaah Islamiya and the Abu Sayyaf, Middle Eastern terrorist groups have been using humanitarian organizations for both fund raising and fund transfer. As explained in chapter 3, it is known that, the PLO, Hezbollah and Hamas have close ties with various charities in the Middle East and actively uses these organizations for funneling terrorist funds.

Moreover, charities can serve as a secure storing mechanism for terrorist funds. The donations collected by terrorist groups under the name of humanitarian work can

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<sup>208</sup> Matthew Epstein and Ben Schmidt, “Operation Support-System Shutdown: Who paid for the 1998 East African Embassy Bombings”, in *National Review Online*, 4 September 2003, <http://www.nationalreview.com/comment/comment-epstein-schmidt090403.asp>, Accessed on 29 November 2008 and Matthew Levitt, “Charitable and Humanitarian Organizations in the Network of International Terrorist Financing”, *Testimony before the Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on International Trade and Finance*, (1 August 2002), <http://www.washingtoninstitute.org/templateC07.php?CID=138>, Accessed on 25 November 2008

<sup>209</sup> Gjermund and Sofus (2005), pp.13-14

easily be stored without detection at the bank accounts of the humanitarian organizations especially in countries that have very light financial regulations.

#### **4.7. Mobile Payment Systems**

The technological developments in the 21<sup>st</sup> century have led to emergence of a new type of international payment system, mobile payment systems. The mobile payment systems, known also as mobile banking (m-banking), provide remitting and receiving money cheaply and rapidly through the use of mobile phones. M-banking system generally works as follow: The user first buys a stored value card and a prepaid mobile phone and register to the m-payment service provider with the mobile phone number and an anonymous e-mail account and the money stored on the value card. Then, with the mobile phone, the user logs on the system and gives the receiver's mobile phone number to which the sender wants to transfer money from his stored value card. Afterwards, the service provider sends a message to the receiver's phone and asks where to transfer money. The receiver can request the money to be transferred to his stored value card and finally he can withdraw the money from any ATM. At the end of the transfer, both sides can get rid of the phones and value cards and use new ones for another transaction without the risk of being detected.<sup>210</sup>

The key component of the m-payment systems is the stored value cards. It does not require a bank account or a credit. The only thing that is needed is the cash to use it. Furthermore, the stored value card can enable the sender to transfer thousands of dollars. The easiness in acquiring these cards and the anonymity provided by the m-payment systems increase the possibility of the system to be abused by terrorist organizations with a view to transferring their funds.

Today, various companies provide m-payment systems in many parts of the world, including one of the hotbeds of fundamentalist terrorist groups, the Middle East, and millions of people use these systems as a cheaper way of transferring money.

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<sup>210</sup> Rachel Ehrenfeld and John Wood, *How Terrorists Send Money*, (1 May 2007), [http://www.acdemocracy.org/article/invent\\_index.php?id=352](http://www.acdemocracy.org/article/invent_index.php?id=352), Accessed on 3 April 2009

However, considering the advantages provided by these systems, the rapidity and anonymity, it can be asserted that terrorist groups can enjoy the benefits of these systems in moving their funds. Experts also, draw attention to the issue and call for an immediate measures to be taken to prevent the abuse of m-payment by terrorist groups.<sup>211</sup>

#### **4.8. Commercial Websites**

Since the internet has become widespread all over the world, terrorist organizations have begun to use it for their purposes. As well as a communication and a propaganda tool, internet is also regarded as a way of transferring funds by terrorist groups. Non face to face registration, the anonymity, rapidity, limited human intervention and difficulties in the traceability of transactions and detection of the illegalities by the intelligence and law enforcement bodies, make commercial websites vulnerable to the risks of being exploited by terrorist groups.<sup>212</sup>

According FATF report regarding the issue, commercial websites can be classified into five categories:<sup>213</sup>

- Mediated customer to customer sites that allow private individuals to sell one another via online marketplace
- Mediated business to customer sites that allow multiple merchants to sell to customers via online market place
- Non-mediated customer to customer sites that only allow customers to advertise goods they want to sell
- Direct business to customer sites where merchants sell goods to consumers via their own websites.
- Direct business to business websites where merchants sell to merchants

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<sup>211</sup> *Ibid.*

<sup>212</sup> FATF, *Money Laundering and Terrorist Financing Vulnerabilities of Commercial Websites and Internet Payment Systems*, (Paris: 2008), p.1

<sup>213</sup> *Ibid.* , p.6

Among the commercial websites, non-mediated customer to customer sites are the most suitable ones for transferring terrorist funds. According to FATF, these sites only bring together buyers and sellers and are not responsible for the delivery, for checking the quality and/or the reality/existence of the goods offered for sale. Through these kinds of sites, terrorists knowing each other and living in different countries, even in different continents, can transfer huge amounts of funds. Payments are made through the formal financial system, but, in reality, no goods are delivered. At the end of the transaction, the seller will have received the funds as a result of a sale on the internet and the buyer will have spent the money to purchase an expensive good on the internet.<sup>214</sup> So, by this way, terrorists can easily transfer huge amounts of funds to each other without attracting the attention of financial bodies.

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<sup>214</sup> *Ibid.* , p.17

Table-5: Mechanisms used for raising, moving and storing terrorist funds

	<b>Earning</b>	<b>Moving</b>	<b>Storing</b>
Drug Trafficking	X		
Migrant Smuggling	X		
Arms Smuggling	X		
Cigarette Smuggling	X		
Extortion	X		
Ransom	X		
Robbery and Theft	X		
Counterfeiting	X		
Credit Card Fraud	X		
Charities	X	X	X
Individual Donations	X		
Legitimate Businesses	X	X	
State Sponsors	X	X	
Formal Financial System		X	X
Alternative Remittance Systems		X	
Cash Couriers		X	X
Precious Stones and Metals		X	X
Mobile Payment Systems		X	
Commercial Websites		X	

## **CHAPTER 5**

### **INTERNATIONAL FIGHT AGAINST THE FINANCING OF TERRORISM**

Terrorism is a very serious threat for the national and international security, the rule of law, human rights and the democracy. In time, terrorist groups have begun to expand their activities beyond the national boundaries. Today, most of the terrorist organizations have international links, are able to carry out attacks in different countries, recruit members from various regions, raise funds from all around the world and move them from one place to another. The expansion has not only taken place in terms of location, but also in terms of activities. Terrorist organizations have begun to engage in criminal activities such as drug trafficking, migrant smuggling, arms trafficking and cooperate with organized criminal groups for raising funds. Furthermore, the fund transfer mechanisms of terrorist organizations have become global. As explained in the previous chapter, terrorist organizations have been exploiting the financial system for moving and storing terrorist funds.

All these factors mentioned above show us the need for an international cooperation against terrorism. As part of international efforts to prevent and combat terrorism, the international measures taken against the financing of terrorism will be discussed in detail in this part of the thesis. In this context, the efforts of the UN, the FATF, the European Union (EU), the Council of Europe, the World Bank, the IMF, the Egmont Group, the Wolfsberg Group and the Basel Committee on Banking Supervision will be explained.

## 5.1. The United Nations (UN)

The UN, with its 192 members, is most critical international actor in the fight against the financing of terrorism. Although the financing of terrorism is a new phenomenon in international security issues, the UN's counter terrorism efforts dates back to early 1960s. On 14 September 1963, the first international convention regarding terrorism, the "Convention on Offences and Certain Other Acts Committed on Board Aircraft", was adopted by the UN General Assembly. Since then, numerous conventions and resolutions have been adopted to counter terrorism.

However, until the mid 1990s, the financing of terrorism was not considered as a major issue in the fight against terrorism. For the first time in 1994, the General Assembly handled the issue and approved the "Declaration on Measures to Eliminate International Terrorism". With this Declaration, the Member States were called to refrain from organizing, facilitating, financing, encouraging or tolerating terrorist activities and to take appropriate and effective measures to eliminate international terrorism.<sup>215</sup>

After the 1994 Declaration, the General Assembly passed a new resolution<sup>216</sup> on the measures to eliminate international terrorism, calling upon all Member States,

to take steps to prevent and counteract, through appropriate domestic measures, the financing of terrorists and terrorist organizations, whether such financing is direct or indirect through organizations which also have or claim to have charitable, social or cultural goals or which are also engaged in unlawful activities such as illicit arms trafficking, drug dealing and racketeering, including the exploitation of persons for purposes of funding terrorist activities, and in particular to consider, where appropriate, adopting regulatory measures to prevent and counteract movements of funds suspected to be intended for terrorist purposes without impeding in any way the freedom of legitimate capital movements and to intensify the exchange of information concerning international movements of such funds...

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<sup>215</sup> United Nations, *General Assembly Resolution A/RES/49/60*, (1994), Available at: <http://www.un.org/documents/ga/res/49/a49r060.htm>

<sup>216</sup> United Nations, *General Assembly Resolution A/RES/51/210*, (1996), Available at: <http://www.un.org/documents/ga/res/51/a51r210.htm>

With this Resolution, the UN for the first time touched upon the both legitimate and illegitimate financial resources of terrorist organizations. The involvement of terrorist groups in organized crime and the abuse of charitable organizations for terrorist financing and the need for measures to prevent the movement of terrorist funds were mentioned. Moreover, the establishment of an ad hoc committee regarding the counter terrorism efforts was decided with this Resolution.

In 1998, the Resolution 53/108 of the General Assembly decided the ad hoc counter terrorism committee to develop a draft convention for the suppression of terrorist financing.<sup>217</sup> In line with this, the International Convention for the Suppression of the Financing of Terrorism<sup>218</sup> was prepared and adopted by the General Assembly on 9 December 1999. With this Convention, the financing of terrorism is defined as:

...directly or indirectly, unlawfully and willfully, providing or collecting funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out:

- (c) An act which constitutes an offence within the scope of and as defined in one of the treaties listed in the annex<sup>219</sup>; or
- (d) Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.

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<sup>217</sup> United Nations, *General Assembly Resolution, A/RES/53/108*, (1999), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N99/762/67/PDF/N9976267.pdf?OpenElement>

<sup>218</sup> United Nations, *International Convention for the Suppression of the Financing of Terrorism*, (1999), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N00/251/28/PDF/N0025128.pdf?OpenElement>

<sup>219</sup> These treaties are as follow: “Convention for the Suppression of Unlawful Seizure of Aircraft”, “Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation”, “Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents”, International Convention against the Taking of Hostages”, “Convention on the Physical protection of Nuclear Material”, “Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation”, “Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation”, “Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf” and “International Convention for the Suppression of Terrorist Bombings”

After this detailed explanation, the Convention calls upon Member States to criminalize the financing of terrorism and to take the appropriate measures for the identification, detection and freezing or seizure of any funds used or allocated to commit the offences mentioned above. In this context, Member States should prohibit the activities of persons and organizations knowingly encouraging or organizing terrorist acts and financing terrorism in their territories and should require the financial institutions or other professions dealing with financial transactions to take measures for the identification of their customers and report transactions, which are suspected to be related to a criminal activity. Some of the suggestions made by the Convention for Member States' measures to be taken in terms of terrorist financing are as follow:

- a) To establish regulations prohibiting the opening of accounts for unidentified holders or beneficiaries.
- b) In relation to legal entities, to require financial institutions to verify the legal existence and the structure of the customer.
- c) To require financial institutions to report all unusual large transactions immediately to the relevant authorities.
- d) To require financial institutions to maintain all transactions records for at least five years.

In addition to these, in the Convention, the need for an international cooperation in terms of mutual legal assistance, exchange of information and extradition of criminals is underlined.

The Convention is the first international document defining the financing of terrorism as an offence and requiring Member States to freeze and confiscate the funds related to terrorist acts. Furthermore, the significant role of the financial institutions in detecting and following terrorist funds is emphasized and some obligations, such as suspicious transaction reporting, for these instructions are

introduced. The Convention does not focus on the financial resources of terrorist organizations; however, for the suppression of this crime, it presents some concrete preventive measures and pay attention to the necessity of an international of cooperation in terms of exchange of information, prosecution of the offence of financing of terrorism and extradition of the criminals. In short, the Convention draws a general framework for the measures to be taken with the objective of suppressing of financing of terrorism.

As well as the International Convention for the Suppression of the Financing of Terrorism, the UN Security Council Resolutions also address the problem of terrorist financing and propose some concrete measures in relation to the problem. Below, some of the most important Security Council Resolutions regarding the financing of terrorism will be explained. These Resolutions cover broad range issues but in this study, only the parts related to financing of terrorism will be discussed.

*Security Council Resolution 1267 (1999)*<sup>220</sup>

In the Resolution adopted by the Council on 15 October 1999, it is demanded that Taliban should give up providing a safe haven for terrorists and turn over Usama bin Laden immediately. Furthermore, until the Taliban comply with the decision taken by the Security Council regarding Usama bin Laden, Member States are called upon to freeze funds and other financial resources of the Taliban. Moreover, the establishment of a committee, known as “the Al-Qaeda and Taliban Sanctions Committee”, monitoring the measures taken by Member States against the Taliban and Usama bin Laden is another decision taken by the Council.

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<sup>220</sup> United Nations Security Council, *Security Council Resolution 1267*, (1999), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N99/300/44/PDF/N9930044.pdf?OpenElement>

*Security Council Resolution 1333 (2000)*<sup>221</sup>

The Resolution indicates that drug trafficking is one of the key financial resources of the Taliban's terrorist activities and demands the Taliban to halt all illegal drug activities. Furthermore, it is stated that the Committee established pursuant to the Resolution 1267 has the task of forming lists of individuals and entities associated with Al-Qaeda, Usama bin Laden and the Taliban. According to this list, Member States should freeze the funds, assets and economic resources of these blacklisted individuals and entities, prevent these designated individuals to enter into or transit through their territories and impose an arms embargo to individuals and entities associated with the Taliban and Al-Qaeda.

*Security Council Resolution 1363 (2001)*<sup>222</sup>

With this Resolution, a mechanism to monitor the implementation of the measures imposed by the previous resolutions concerning the Taliban and Usama bin Laden is established. In addition to monitoring, this mechanism is responsible for providing assistance to Member States bordering Afghanistan to increase their capacity to implement the measures against the Taliban and Afghanistan. According to the Resolution, this mechanism is composed of the Monitoring Group, working in the areas of counter-terrorism, arms embargoes, purchase of arms and related legislation, financing of terrorism, money laundering, financial transactions, drug trafficking, and the Sanctions Enforcement Support Team working in the fields of customs, border security and counter-terrorism and coordinated by the Monitoring Group. Moreover, in the Resolution it is stated that the Sanctions Enforcement Support Team reports to the Monitoring Group and the Monitoring Group reports to the Committee established pursuant to Resolution 1267.

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<sup>221</sup> United Nations Security Council, *Security Council Resolution 1333*, (2000), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N00/806/62/PDF/N0080662.pdf?OpenElement>

<sup>222</sup> United Nations Security Council, *Security Council Resolution 1363*, (2001), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N01/473/97/PDF/N0147397.pdf?OpenElement>

With this Resolution, the Security Council goes one step further in the fight against financing of terrorism. The Resolution demonstrates the link between the terrorism and drug and arms trafficking and the Security Council's decision to deny terrorists raising funds from these activities. In addition to these, by focusing on the financial transactions, the Council regards the movement of terrorist funds as a critical issue. However, like the previous ones, Resolution 1363 only targets the Taliban, Al-Qaeda, Usama bin Laden and individuals and entities associated with them and does not take any action against other terrorist groups.

*Security Council Resolution 1373 (2001)*<sup>223</sup>

The Resolution 1373, adopted on the 28 September 2001, different than previous Security Council resolutions, handles terrorism in general terms and does not mention any terrorist group's or individual's name. Therefore, it can be regarded as a global guideline for countering terrorism that should be applied by all Member States.

The Resolution mainly focuses on the financing of terrorism and calls upon Member States to prevent and suppress the financing of terrorist acts. The Resolution regards the financing of terrorism as, similar to the International Convention for the Suppression of the Financing of Terrorism, willful provision or collection of funds by any means in order to carry out terrorist acts and demands Member States to criminalize it. Furthermore, according to the Resolution all Member States should:

freeze, without delay, funds and other financial assets or economic resources of persons who commit, or attempt to commit, terrorist acts or participate in or facilitate the commission of terrorist acts; of entities owned or controlled directly or indirectly by such persons; and of persons and entities acting on behalf of, or at the direction of such persons and entities, including funds derived or generated from property owned or controlled directly or indirectly by such persons and associated persons and entities

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<sup>223</sup> United Nations Security Council, *Security Council Resolution 1373*, (2001), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N01/557/43/PDF/N0155743.pdf?OpenElement>

Another concern for the Security Council in terms of terrorism is the state sponsorship and thus, in the Resolution it is stated that all Member States should refrain from providing any forms of indirect or direct support to terrorism and being from a safe haven for terrorist groups.

In the Resolution, one of the most important aspects of counter-terrorism, international cooperation, is also emphasized. In this respect, all Member States are called upon to cooperate against terrorism by means of bilateral and multilateral agreements and become parties to the international conventions and protocols concerning terrorism and fully implement these conventions, protocols and Security Council Resolutions. Furthermore, the nexus between terrorist groups and transnational organized crime in the fields of drug, arms and nuclear material trafficking and money laundering is touched upon and the need for coordinated actions against these threats at national, regional and international levels is underlined.

Finally, in the Resolution it is decided that a committee, called now Counter Terrorism Committee, to be established to monitor the implementation of the Resolution. In this respect, Member States should report the measures that they take in line with the Resolution to the Committee. However, this Committee does not have power to issue sanctions or create lists of individuals and entities associated with terrorist groups unlike the Committee established pursuant to Resolution 1267.

*Security Council Resolution 1377 (2001)*<sup>224</sup>

The Resolution 1377 also stresses that international terrorism is a serious challenge to international peace and security as well as humanity and calls upon Member States to take required measures immediately for the full implementation of the Resolution 1373. Moreover, the Resolution emphasises the importance cooperation and declares that Member States should assist each other for taking the steps to implement the

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<sup>224</sup> United Nations Security Council, *Security Council Resolution 1377*, (2001), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N01/633/01/PDF/N0163301.pdf?OpenElement>

Resolution 1373 properly. In addition, the resolution invites Member States to inform the Counter Terrorism Committee of areas in which they require assistance.

*Security Council Resolution 1455 (2003)*<sup>225</sup>

According to the Resolution, the implementation of the measures adopted by the Resolution 1267 should be improved and in this respect, it is decided that the Al-Qaeda and Taliban Sanctions Committee should communicate the lists of individuals and entities associated with the Taliban and the Al-Qaeda to Member States every three months. Member States should submit to the Committee the relevant information about the individuals and entities associated with the Taliban and the Al-Qaeda so that the Committee can review the list and add new names and details about designated individuals and entities to the list. Furthermore, the Resolution underlines the need for an increased exchange of information between the Al-Qaeda and Taliban Sanctions Committee and the Counter Terrorism Committee.

*Security Council Resolution 1456 (2003)*<sup>226</sup>

The Resolution calls upon Member States to take necessary steps to prevent and suppress the support to terrorism and to comply with the Resolutions 1373 and 1455. Moreover, the Resolution urges Member States to become party to all international conventions and protocols on terrorism, particularly to the 1999 International Convention for the Suppression of the Financing of Terrorism. The international cooperation in the fight against terrorism is another issue that the Resolution draws attention to. In this context, the Resolution emphasizes that Member States should assist each other in the full implementation of sanctions imposed by the Al-Qaeda and Taliban Sanctions Committee and take the required measures to deny Taliban and Al-Qaeda access to the financial resources.

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<sup>225</sup> United Nations Security Council, *Security Council Resolution 1455*, (2003), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N03/214/07/PDF/N0321407.pdf?OpenElement>

<sup>226</sup> United Nations Security Council, *Security Council Resolution 1456*, (2003), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N03/216/05/PDF/N0321605.pdf?OpenElement>

*Security Council Resolution 1526 (2004)*<sup>227</sup>

In the Resolution, it is stated that Member States should continue to implement the measures imposed by the Resolution 1333 against the individuals and entities blacklisted by the Committee established pursuant to Resolution 1267. In addition to this, the Resolution focuses on the movement of the funds related to the Taliban and Al-Qaeda, particularly through the abuse of non-profit organizations and alternative remittance systems and calls upon Member States to take urgent action against the flow of funds and economic resources to individuals and entities associated with the Taliban and Al-Qaeda. In this respect, the Resolution urges Member States and regional organizations to define reporting requirements on the trans-border movement of the currency. Furthermore, the need for on-site visits to countries selected by the Al-Qaeda and Taliban Sanctions Committee with a view to enhancing the implementation of the sanctions imposed by the Committee is underlined.

*Security Council Resolution 1566 (2004)*<sup>228</sup>

The Resolution focuses on the significant role of the international cooperation in the fight against terrorism and calls upon Member States to become party to all international conventions and protocols on terrorism. Besides, the Resolution forms a working group with the task of submitting recommendations to the Security Council on the practical measures to be imposed on individuals and entities related to associated with terrorism, other than those associated with the Taliban and the Al-Qaeda, in order to bring them to justice, to freeze their economic resources, to cut their access to all types of arms and related material and to prevent their free movement across the countries.

The establishment of such a kind of working group can be regarded as a positive attempt to suppress the financing of terrorism. Unlike the Committee established

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<sup>227</sup> United Nations Security Council, *Security Council Resolution 1526*, (2004), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N03/216/05/PDF/N0321605.pdf?OpenElement>

<sup>228</sup> United Nations Security Council, *Security Council Resolution 1566*, (2004), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N04/542/82/PDF/N0454282.pdf?OpenElement>

pursuant to Resolution 1267, this working group does not focus only on the Taliban and Al-Qaeda. However, while the Al-Qaeda and Taliban Sanctions Committee designate individuals and entities associated with the Al-Qaeda and Taliban and impose sanctions against them, this working group only deals with recommendations. Of course, these recommendations can be very practical and useful in the fight against terrorism, but the way applied in countering the Taliban and Al-Qaeda, blacklisting those who are associated with the Taliban and Al-Qaeda, freezing their assets and imposing travel ban and arms embargo, seems more effective. Therefore, creating some lists regarding the individuals and entities associated with terrorist organizations other than the Taliban and Al-Qaeda and urging Member States to impose all sanctions decided by the working group fully against these individuals and entities can produce more success in the fight against terrorism.

*Security Council Resolution 1617 (2005)*<sup>229</sup>

The Resolution calls upon Member States to continue to impose the sanctions decided by the Committee established pursuant to Resolution 1267 with respect to the individuals and entities associated with the Taliban and Al-Qaeda. The criteria for determining the individuals and entities that are associated with these groups are introduced in the Resolution. Accordingly, the acts mentioned below indicate that the person or an entity is associated with Usama bin Laden, Al-Qaeda or the Taliban:

- participating in the financing, planning, facilitating, preparing, or perpetrating of acts or activities by, in conjunction with, under the name of, on behalf of, or in support of;
- supplying, selling or transferring arms and related materiel to;
- recruiting for; or
- otherwise supporting acts or activities of; Al-Qaida, Usama bin Laden or the Taliban, or any cell, affiliate, splinter group or derivative thereof.

Furthermore, in the Resolution it is stated that any undertaking or entity owned, controlled or supported by the individuals or entities associated with the Taliban,

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<sup>229</sup> United Nations Security Council, *Security Council Resolution 1617*, (2005), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N05/446/60/PDF/N0544660.pdf?OpenElement>

Usama bin Laden or Al-Qaeda will also be added to the list by the Al-Qaeda and Taliban Sanctions Committee. The Resolution also requests Member States to report the actions that are taken with a view to imposing the sanctions on the individuals and entities, which are included on the list.

Finally, the Resolution refers to another international body, FATF and urges Member States to implement FATF's Forty Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing.

*Security Council Resolutions 1730 (2006)*<sup>230</sup> and *1735 (2006)*<sup>231</sup>

These Resolutions mainly focus on the very detailed listing and de-listing procedures of the list of individuals and entities associated with the Taliban, Usama bin Laden and Al-Qaeda, which is formed by the Committee established pursuant to Resolution 1267. Furthermore, the Resolution 1735, reiterates the sanctions imposed on designated individuals and entities and urges Member States to fully impose these sanctions. In addition to this, the Resolution calls upon Member States to send the updated versions of the list of individuals and entities associated with the Taliban, Usama Bin Laden and Al-Qaeda to all relevant government offices, especially to those that are responsible for asset freezing and border control. The Resolution 1735, like the previous resolutions, underlines the importance of international cooperation and the need for a more close cooperation and exchange of information between Counter Terrorism Committee and the Committee established pursuant to Resolution 1267.

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<sup>230</sup> United Nations Security Council, *Security Council Resolution 1730*, (2006), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N06/671/31/PDF/N0667131.pdf?OpenElement>

<sup>231</sup> United Nations Security Council, *Security Council Resolution 1735*, (2006), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N06/680/14/PDF/N0668014.pdf?OpenElement>

*Security Council Resolution 1817 (2008)*<sup>232</sup>

The Resolution 1817, underlines the link between terrorism and transnational organized crimes such as trafficking of illicit drugs and arms, particularly in Afghanistan. In this respect, to overcome the threat stemming from the narcotics trafficking in which the Taliban and the Al-Qaeda involve, the Resolution calls upon Member States to increase both regional and international cooperation to counter the production and trafficking of narcotics and provide financial and technical assistance to the Afghan government to increase its capacity to counter the illicit drug production and trafficking which are utmost important financial resources of the Taliban and Al-Qaeda.

*Security Council Resolution 1822 (2008)*<sup>233</sup>

The Resolution requests Member States to fully implement the provisions of the Resolution 1373, which addresses the threat posed by terrorism to international peace and security and urges Member States to continue to impose the sanctions decided by the Committee established pursuant to Resolution 1267 efficiently on the individuals and entities that are associated with the Taliban and Al-Qaeda. Moreover, the Resolution focuses on the listing and de-listing procedures and underlines the importance of the cooperation and the exchange of information between the Al-Qaeda and Taliban Sanctions Committee and all Member States. Finally, the Resolution requests the Committee to monitor the steps taken by Member States regarding the sanctions imposed by the Committee and urges the Committee to report to the Security Council on the implementation performance of Member States concerning the sanctions.

The UN has begun to address the financing of terrorism before the devastating attacks upon the United States on 11 September 2001 and concluded the

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<sup>232</sup> United Nations Security Council, *Security Council Resolution 1817*, (2008), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N08/376/11/PDF/N0837611.pdf?OpenElement>

<sup>233</sup> United Nations Security Council, *Security Council Resolution 1822*, (2008), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N08/404/90/PDF/N0840490.pdf?OpenElement>

International Convention for the Suppression of the Financing of Terrorism, which is the first international document handling the issue in a detailed way. As explained above, the Convention urges all Member States to criminalize the financing of terrorism and freeze and confiscate the funds related to those involved in or associated with terrorist acts. Furthermore, the Convention focuses on the need for an efficient international cooperation and exchange of information on the fight against the financing of terrorism. In short, the Convention forms the general framework of the fight against the financing of terrorism.

Although the Convention requests Member States to freeze the funds related to terrorist groups, the issue has begun to be handled more seriously only after the September 11 attacks. In the post 9/11 period, with the US' efforts, the Security Council has decided to tackle the financing of terrorism and urged Member States to freeze funds and financial resources of the individuals and entities associated with the Taliban and Al-Qaeda. In this respect, a list, regularly updated, has been formed demonstrating the individuals and entities related to the Taliban and Al-Qaeda. In this context, special attention should be drawn to the role of the US in accelerating the efforts in the fight against the financing of terrorism. As explained in the first part of this thesis, realist tradition underlines the role of hegemonic power in the creation of international regimes. Furthermore, neo-liberal institutionalists also acknowledge that hegemonic power plays an important role in regime formation. However, the UN case seems more close to the realist explanation, since it mainly addresses the Al-Qaeda, which is a major threat to the US and does not mention any other terrorist organization posing threat to the national security of other states.

On the other hand, the Security Council Resolution 1373 does not focus on particular terrorist groups, but instead introduces a general guideline for Member States in the fight against the financing of terrorism. It can be argued that it is a step towards to establishing norms and rules, which are significant components of an international regime, as liberal institutionalist approach argues. Moreover, the Resolution 1373 encourages the international cooperation and commits to provide support to States through the Counter Terrorism Committee to strengthen the capacities of Member

States in the fight against terrorism. However, the lack of sanctions to be imposed by Counter Terrorism Committee on individuals and entities associated with terrorist organizations other than the Taliban and Al-Qaeda hampers the efforts of international fight against financing of terrorism.

With the UN's efforts, the awareness of the international community has been increased and the issue has become a concern for the international community. Furthermore, Member States has begun to take measures against the financial structures of the terrorist groups, particularly the Taliban and Al-Qaeda. According to an UN report, by the end of September 2007, approximately 85 million US dollars have been frozen by 36 States under the sanctions regime established by the Al-Qaeda and Taliban Sanctions Committee.<sup>234</sup> Finally, the UN has provided a general guideline for Member States in their fight against the financing of terrorism, contributed to enhancement of international cooperation and triggered other international efforts addressing the financing of terrorism, which will be explained in this chapter.

## **5.2. The Financial Action Task Force (FATF)**

The FATF was established in G-7 Summit that was held in Paris in 1989 due to growing concern over the money laundering activities carried out by organized crime networks. Currently, FATF has 34 members and 2 countries and various international organizations have observer status. At the beginning, FATF, a policy-making body, had the tasks of examining money laundering techniques and trends, reviewing the measures taken both at national and international level and proposing what could be done further to combat money laundering in a more effective way.<sup>235</sup> In this respect,

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<sup>234</sup> United Nations Analytical Support and Sanctions Monitoring Team established pursuant to Resolution 1526 (2004), *Report Eight* (S/2008/324, 2008), Available at: <http://daccessdds.un.org/doc/UNDOC/GEN/N08/404/90/PDF/N0840490.pdf?OpenElement>

<sup>235</sup> [http://www.fatf-gafi.org/pages/0,3417,en\\_32250379\\_32236836\\_1\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/pages/0,3417,en_32250379_32236836_1_1_1_1_1,00.html), Accessed on 16 April 2009

in April 1990, the FATF issued 40 Recommendations<sup>236</sup> covering a set of counter-measures against money laundering.

In the aftermath of September 11 attacks, at the FATF's plenary meeting on 29-30 October 2001 in Washington, the fight against the terrorist financing was included to the tasks of FATF and to this end, 8 Special Recommendations regarding financing of terrorism were adopted. Later, at the plenary meeting on 22 October 2004, the recommendation IX addressing the physical movement cash by the couriers was added to the Special Recommendations on terrorist financing.

The first five of these recommendations have similarities with the provisions of the International Convention for the Suppression of Financing of Terrorism and the UN Security Council resolutions regarding the issue. On the other hand, the remaining recommendations addresses the vulnerable fields in terms of terrorist financing. Below, these Special Recommendations<sup>237</sup> on terrorist financing will be explained.

*Special Recommendation I: Ratification and implementation of UN instruments*

According to Special Recommendation I, each country should ratify and fully implement the 1999 International Convention for the Suppression of the Financing of Terrorism and implement the UN Security Council Resolutions concerning the financing of terrorism, especially Resolution 1373.

*Special Recommendation II: Criminalizing the financing of terrorism and associated money laundering*

In the Recommendation, it is stated that every country should criminalize terrorist acts, terrorist organizations and the financing of terrorism and should designate these

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<sup>236</sup> For further information about the 40 Recommendations regarding money laundering see. [http://www.fatf-gafi.org/document/28/0,3343,en\\_32250379\\_32236930\\_33658140\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/document/28/0,3343,en_32250379_32236930_33658140_1_1_1_1,00.html)

<sup>237</sup> [http://www.fatf-gafi.org/document/9/0,3343,en\\_32250379\\_32236920\\_34032073\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/document/9/0,3343,en_32250379_32236920_34032073_1_1_1_1,00.html), Accessed on 16 April 2009

offences as predicate offences for money laundering. The Recommendation aims to ensure that countries have the efficient legal systems to prosecute and give severe punishments for the financing of terrorism. In this respect, the Interpretative Note to Special Recommendation II, presents a definition of the concept of terrorist financing in line with the UN's definition. According to FATF, the term "terrorist financing" refers to willfully providing or collecting funds through legitimate or illegitimate sources, with the intention that the funds should be used or in the knowledge that they are to be used to carry out terrorist acts, by a terrorist organization or by an individual terrorist.<sup>238</sup>

### *Special Recommendation III: Freezing and confiscating terrorist assets*

According to this Special Recommendation, countries should take necessary steps, immediately, to freeze the funds or other assets of terrorists, terrorist organizations and those who involve in the financing of terrorism, in accordance with the relevant UN Security Council Resolutions. Furthermore, it is also suggested that countries should adopt and implement measures enabling the relevant authorities to seize and confiscate the funds and assets that are used in or intended or allocated for use in the financing of terrorism. While the UN Security Council Resolutions calls upon member states to freeze the funds and economic resources of terrorists, terrorist organizations and those who take part in terrorist financing, with this Special Recommendation, FATF goes one step further and suggests the seizure and confiscation of funds and assets associated with the financing of terrorism. On the other hand, while the UN Security Council Committee established pursuant to the Resolution 1267 forms a list of individuals and entities associated with the Al-Qaeda, Usama bin Laden and the Taliban and urges all states to freeze the funds and assets of the blacklisted individuals and entities, FATF handles the issues in broader terms and does not target any individual or entity associated with the financing of terrorism.

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<sup>238</sup> FATF, *Interpretative Note to Special Recommendation II: Criminalising the financing of terrorism and associated money laundering*, (2 July 2004), <http://www.fatf-gafi.org/dataoecd/45/19/34863009.PDF>, Accessed on 16 April 2009

*Special Recommendation IV: Reporting suspicious transactions related to terrorism*

According to this Recommendation, financial institutions or other businesses that are subject to anti-money laundering obligations should also report the transactions suspected to be linked to terrorism, terrorist organizations and terrorist acts to the competent authorities.

*Special Recommendation V: International cooperation*

In the Recommendation, it is suggested that all countries should take the required measures to enhance the mutual legal assistance and exchange of information in the investigations, inquiries and proceedings relating to the financing of terrorism. Moreover, the Recommendation focuses on the state sponsorship of terrorism and suggests that all countries should refrain from providing safe havens for terrorist organizations and those who finance terrorism.

*Special Recommendation VI: Alternative remittance*

The Special Recommendation VI addresses remittance systems operating outside the conventional financial system and vulnerable to be used for the financing of terrorism. According to this Recommendation, each country should ensure that individuals or legal entities that provide money transfer services, including transfer through informal mechanisms, be registered and subject to the same FATF Recommendations that apply to banks and other financial institutions. In addition to this, it is suggested that persons or legal entities providing this service illegally should be subject to severe sanctions.

*Special Recommendation VII: Wire transfers*

With this Recommendation, the FATF regulates the issues concerning the “know your customer” principle, which has a great importance in detecting the movement of funds related to terrorist organizations. In this respect, it is suggested that financial

institutions providing value transfer services should be required to gather accurate information, for instance, name, address, account number, in fund transfers and to monitor the suspicious transactions, which does not include accurate information about the sender.

*Special Recommendation VIII: Non-profit organizations*

As explained in the previous chapters, non-profit organizations or charities are used by terrorist organizations to raise and move funds. Furthermore, through these organizations, terrorist groups can conceal their funds and economic resources and escape from asset freezing sanctions. Therefore, non-profit organizations play a crucial role in countering the financing of terrorism. In this respect, in the Resolution, it is stated that countries should review their legal arrangements regarding the non-profit organizations and prevent the exploitation of these organizations for terrorist purposes.

*Special Recommendation IX: Cash couriers*

The final FATF Recommendation on the fight against terrorist financing addresses a significant issue especially in terms of the movement of terrorist funds. According to the Recommendation, countries should take efficient measures such as disclosure obligations to detect the cross-border physical movement of currency and bearer negotiable instruments, such as cheques. Furthermore, the Recommendation calls upon countries to make necessary changes in their legal systems with a view to stopping the movement of currency and bearer negotiable instruments which are suspected to be related to financing of terrorism and money laundering and introduce effective sanctions including confiscation.

With the recommendations concerning money laundering and terrorist financing, FAFT has become an international standard setter. The members design their national legislation according to these standards and FATF monitor members' progress in implementing the recommendations.

Currently, FATF does not accept new members, instead, promotes the establishment of FATF Style Regional Bodies. These bodies encourage the implementation and enforcement of FATF Recommendations, monitor their members' progress in complying with these Recommendations and provide information to its members about new trends and techniques in money laundering and terrorist financing. Currently, there are 8 FATF Style Regional Bodies; the Asia/Pacific Group on Money Laundering, Caribbean Financial Action Task Force, the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, the Financial Action Task Force on Money Laundering in South America, Middle East and North Africa Financial Action Task Force, Eurasian Group, Eastern and Southern Africa Anti-Money Laundering Group and Intergovernmental Action Group against Money-Laundering in Africa.

To promote global action against money laundering and terrorist financing, in addition to their members, FATF and FATF Style Regional Bodies also closely watch non-member states. Countries that do not cooperate with FATF or FATF Style Regional Bodies are added to Non-Cooperative Countries or Territories List and an international pressure emerges on these countries. In this respect, FATF urges its members to take effective measures to protect their financial systems from money laundering and terrorist financing risks emanating from these countries. The FATF's listing process about non-cooperative countries is quite successful; while in 2000 and 2001 there were 23 countries in the list, these countries have made a significant progress since being in the list causes significant problems to their international financial and commercial activities and their reputation. As a result, today there are no countries listed as non-cooperative.<sup>239</sup>

The FATF's efforts in the fight against the financing of terrorism can be regarded as successful steps. Special Recommendations on terrorist financing can be regarded as global standards that can contribute the solution of an international problem. The monitoring process, of which Keohane emphasizes importance in the formation of a regime, promotes countries' compliance with these standards and enhances the

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<sup>239</sup> [http://www.fatf-gafi.org/pages/0,3417,en\\_32250379\\_32236992\\_1\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/pages/0,3417,en_32250379_32236992_1_1_1_1_1,00.html), Accessed on 17 April 2009

global action against the financing of terrorism. In addition to these, FATF also informs countries about new trends and techniques in terrorist financing, draws the attention to fields, which are vulnerable to terrorist exploitation, such as charities and by this way contributes very much to the countries' awareness about the fund raising and transfer methods of terrorist organizations. Finally, it should also be noted that, the FATF began to take the problem seriously, after the 9/11 attacks, and this reflects the role of a powerful state, namely the US, in shaping the international actions against the financing of terrorism. However, this does not mean that the FATF's efforts represent American interests.

### **5.3. The European Union (EU)**

The fight against the financing of terrorism is one of the key aspects of the EU's counter terrorism strategy, which is based on 4 pillars; prevent, protect, pursue and respond. The EU's policy in the fight against the financing of terrorism is based on FATF's Special Recommendations on terrorist financing and the Commission Communication on the Prevention of and Fight against Terrorist Financing of October 2004 provides a general framework of EU's counter terrorist finance strategy.<sup>240</sup>

The Communication<sup>241</sup> identifies exchange of information, transparency and traceability of financial transactions as critical areas in the fight against terrorist financing and outlines the steps that should be taken in these areas.

*a) Exchange of Information:* The exchange of information at national and international level is of great importance in the fight against the financing of terrorism. In this context, the Communication point outs that competent authorities (financial oversight bodies, Justice Departments, law enforcement authorities, financial intelligence units, and authorities in charge of administrative freezing

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<sup>240</sup>[http://ec.europa.eu/justice\\_home/fsj/terrorism/prevention/fsj\\_terrorism\\_prevention\\_disrupt\\_en.htm](http://ec.europa.eu/justice_home/fsj/terrorism/prevention/fsj_terrorism_prevention_disrupt_en.htm), Accessed on 12 May 2009

<sup>241</sup> European Commission, *Communication on the Prevention of and the Fight against Terrorist Financing*, COM(2004) 700 final (Brussels, 2004)

measures) should work in coordination at the national and international level. The Communication also underlines the importance of the private sector, especially financial institutions, in the fight against the financing of terrorism and the cooperation between public and private sector.

*b) Traceability of Financial Transactions:* The Communications states that national bodies dealing with identification, tracing, freezing and confiscation of assets related to terrorism should be formed and a cooperation mechanism among these bodies should be established in order to facilitate the tracing of terrorist funds.

*c) Transparency:* Since the charities are widely used in raising and moving terrorist funds, EU-wide standards should be introduced to enhance the transparency in this field. Furthermore, it is stated that the Commission will conduct a study together with Europol to detect the risks in non-profit sector for terrorist financing.

On 14 December 2004, EU Counter Terrorist Financing Strategy was formed. The key elements of the Strategy and the can be summarized as follows:<sup>242</sup>

*a) Intelligence led approach based on improved information sharing between the public and private sector:* The coordination and exchange of information between financial intelligence units, public prosecutors, law enforcement authorities and financial institutions should be promoted.

*b) Designation of terrorists and asset freezing:* Member States' designations and asset freezing actions should be based on solid intelligence, should respect legal safeguards and focus on non-profit sector, front organizations and individuals related to terrorist groups.

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<sup>242</sup> [http://www.consilium.europa.eu/uedocs/cmsUpload/16089fight\\_against\\_terrorist\\_financing.pdf](http://www.consilium.europa.eu/uedocs/cmsUpload/16089fight_against_terrorist_financing.pdf), Accessed on 12 May 2009

c) *Improving traceability and transparency*: Member States should promote financial investigation as a law enforcement technique and focus on wire transfers, alternative remittance systems and non-profit organizations.

d) *Analysis of trends and techniques in terrorist financing*: The Europol should report to the Council on trends and techniques used in financing of terrorism and the link between organized crime and terrorist financing.

e) *Cooperation with international actors*: The EU should work on the full implementation of the International Convention for the Suppression of the Financing of Terrorism, UN Security Council Resolution 1373 and other relevant international conventions and Security Council Resolutions. Furthermore, cooperation with the FATF and FATF Style Regional Bodies should be further developed.

Another initiative of the EU in terms of the fight against the financing of terrorism is the Directive 2005/60/EC of 26 October 2005<sup>243</sup> on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The Directive defines terrorist financing as;

The provision or collection of funds, by any means, directly or indirectly, with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out any of the offences within the meaning of Articles 1 to 4 of Council Framework Decision 2002/475/JHA of 13 June 2002 on combating terrorism<sup>244</sup>

and calls upon Member States to prohibit money laundering and terrorist financing.

According to the Directive, credit and financial institutions, auditors, external accountants, tax advisors, real estate agents, casinos and notaries and other

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<sup>243</sup> European Council and European Parliament, *Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing*, (Brussels: Official Journal of the European Communities L309, 2005), Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32005L0060:EN:NOT>

<sup>244</sup> The Council Framework Decision 2002/475/JHA of 13 June 2002 can be accessed from: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32002F0475:EN:NOT>

independent legal professionals when they act on behalf of their clients or assist them in any financial or real estate transaction and finally other natural or legal persons trading in goods, only to the extent that payments are made in cash in an amount of 15.000 EURO or more, are obliged parties.

Furthermore, the Directive focuses on risk based customer due diligence procedures in detail and states that enhanced customer due diligence measures should be applied in situations where there is a high risk of money laundering or terrorist financing. Moreover, the Directive calls upon Member States to establish financial intelligence units to fight against terrorist financing and money laundering effectively. In the Directive, it is also stated that, obliged parties, listed above, should report any suspicious activity that could be related to financing of terrorism or money laundering and unusually large transactions to financial intelligence units. Finally, the Directive prohibits the anonymous accounts and within the context of customer due diligence measures and require the obliged parties to keep documents concerning their business relationship with their customers for a period of at least five years following the end of the business relationship.

Another significant document in EU's fight against the financing of terrorism is the Regulation (EC) No 1889/2005<sup>245</sup>, which addresses physical movement of money. According to the Regulation, any natural person entering or leaving the Community and carrying cash of a value of 10.000 EURO or more should make a declaration including full name, date of birth, nationality, the owner and the amount of the cash, the intended use of the cash and transport route to the competent authorities where he is entering or leaving the Community.

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<sup>245</sup> European Parliament and European Council, *Regulation (EC) No 1889/2005 on controls of cash entering or leaving the Community*, (Brussels: Official Journal of the European Communities L309,2005), Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32005R1889:EN:NOT>

With the Communication dated 29 November 2005<sup>246</sup>, the European Commission addresses two important aspects of the fight against the financing of terrorism; cooperation and exchange of information between competent authorities at national level and the prevention of the use of non-profit sector for the purpose of terrorist financing. The Communications calls for an enhanced cooperation among the Finance, Justice, Interior and Foreign Ministries, financial intelligence unit, law enforcement authorities, intelligence agency and public prosecutor offices in policy formation and operational issues. Moreover, in the Communication, the need for promoting the cooperation is underlined. In terms of non-profit sector, the Communication suggests that Member States should have an efficient oversight of their non-profit sector and ensure that non-profit sector report their incomes and expenditures regularly, refrain from using alternative remittance systems and use the formal financial sector in fund transfers.

Although the EU's strategy on countering the financing of terrorism was formed in 2004, before that the EU had also been dealing with the issue. With the Council Common Position of 27 December 2001<sup>247</sup>, a list of individuals, groups and entities involved in terrorist acts was formed in order with a view to implementing UN Security Council Resolution 1373. According to the Council Regulation of 27 December 2001<sup>248</sup>, financial sanctions, including freezing of funds, assets and economic resources and prohibition on the provision of financial services should be imposed on these individuals, groups and entities. Since 2001, the list formed under

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<sup>246</sup> European Commission, *Communication on the Prevention of and the Fight against Terrorist Financing through enhanced national level coordination and greater transparency of the non-profit sector COM(2005)620*, (Brussels, 2005), Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52005DC0620:EN:NOT>

<sup>247</sup> Council of the European Union, *Council Common Position of 27 December 2001 on the application of specific measures to combat terrorism 2001/931/CFSP*, (Brussels: Official Journal of the European Communities L344/93, 2001), Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:344:0093:0096:EN:PDF>

<sup>248</sup> Council of the European Union, *Council Regulation (EC) No 2580/2001 of 27 December 2001 on specific restrictive measures directed against certain persons and entities with a view to combating terrorism*, (Brussels: Official Journal of the European Communities L344/70, 2001), Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:344:0070:0075:EN:PDF>

the Council Common Position of 27 December 2001 has been updated regularly. As of 16 June 2009, there are 57 persons and 47 groups and entities in the list.<sup>249</sup>

As well as its own list, the EU also addresses Usama bin Laden, the Al-Qaeda, the Taliban and other individuals, groups, undertakings and entities associated with them, in line with the UN Security Council Resolution 1390. In this context, the Council Regulation of 27 May 2002, states that all funds, assets and economic resources of those designated by the UN with the Security Council Resolution 1390 should be frozen and no funds or economic resources should be made available to those.

The EU's policy in the fight against the financing of terrorism has progressed in time. While the early efforts were about freezing assets, with the FATF's Special Recommendations on terrorist financing, the EU began to tackle the issue in a comprehensive manner and counter terrorist financing strategy was formed in 2004. As well as the formation of the Strategy, the directives, communications and framework decisions contributed very much to the deepening of the EU policy against the financing of terrorism.

Today, the EU's combat against the financing of terrorism covers a broad range of issues and mainly focuses on customer due diligence mechanisms, suspicious transaction reporting, cooperation and exchange of information both at national and international level, the financial sector, the physical movement of currency, the prevention of the use of non-profit sector for the purpose of terrorist financing. However, it can be argued that the EU's efforts in combating terrorist financing concentrate basically on the detection of terrorist funds and disrupting the flow of these funds. Of course, as part of a comprehensive strategy, these efforts are very critical but the EU should also focus on the financial resources of terrorist

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<sup>249</sup> Council of the European Union, *Council Regulation (EC) No 501/2009 of 15 June 2009 implementing Article 2(3) of Regulation (EC) No 2580/2001 on specific restrictive measures directed against certain persons and entities with a view to combating terrorism and repealing Decision 2009/62/EC*, (Brussels: Official Journal of the European Communities L151/14, 2009), Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:151:0014:0016:EN:PDF>

organizations. In this respect, the link between organized crime and terrorism is a field where the EU should further conduct research and develop counter policies.

#### **5.4. The Council of Europe**

The Council of Europe, which was established in 1949 to protect human rights, democracy and the rule of law, identifies the prevention of the financing of terrorism as one of the most important aspects of the fight against terrorism. In his respect, in Warsaw on 16 May 2005, the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism is signed.<sup>250</sup> The Convention defines the financing of terrorism as it is defined in the 1999 International Convention for the Suppression of the Financing of Terrorism.

In the Convention in order to prevent and stop the financing of terrorism, states are called upon to take necessary measures to search, trace, identify, freeze, seize and confiscate a property used or allocated to be used by any means for the financing of terrorism. Moreover, the Convention urges contracting parties to establish financial intelligence units, which refer to central, national agencies responsible for receiving suspicious transaction reportings about transactions, suspected to be related to money laundering or terrorist financing, analyzing these reportings and disseminating the analysis results to competent authorities. The Convention also underlines the significance of cooperation between financial intelligence units and calls upon contracting parties to take appropriate steps to facilitate the exchange of information between financial intelligence units.

Although the Convention provides a detailed set of measures to be taken to enhance the fight against the financing of terrorism, the number of parties that signed and ratified the Convention heavily undermines the effectiveness of the Convention. So

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<sup>250</sup> Council of Europe, *Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism*, (Warsaw, 2005), Available at: <http://conventions.coe.int/Treaty/EN/Treaties/Html/198.htm>

far, 29 member states (out of 47) of the Council of Europe have signed the Convention but only 7 of them ratified it.<sup>251</sup>

### **5.5. The World Bank and International Monetary Fund (IMF)**

The basic mission of the World Bank is to fight against poverty throughout the world. On the other hand, the IMF deals with macroeconomic issues aims to promote international monetary cooperation and financial stability. Although their missions and priorities are quite different, they work together in the prevention of the laundering of the proceeds from crime and financing of terrorism. According to World Bank, money laundering has adverse political, economic and social effects on developing countries. The IMF approaches the issue from a macroeconomic perspective and regards money laundering as a risk to the soundness of international financial system.<sup>252</sup>

In April 2001, the Boards of Executive Directors of the World Bank and the IMF launched the joint initiative against the laundering of proceeds from crime. After the September 11, the scope of the activities carried out by the World Bank and the IMF jointly, was extended to include the financing of terrorism. In 2002, the World Bank and the IMF recognized the FATF's 40 Recommendations on money laundering and 9 Special Recommendations concerning terrorist financing as international standards in preventing money laundering and terrorist financing and launched a 12 month pilot program. Within the scope of this program, the World Bank and the IMF conducted assessments in 33 countries and in addition, FATF and FATF Style Regional Bodies conducted assessments in 8 countries. After reviewing the outcomes, it was concluded that the pilot program conducted together with FATF

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<sup>251</sup> Albania, Armenia, Bosnia and Herzegovina, Malta, Moldova, Poland and Romania signed and ratified the Convention. For further information see:  
<http://conventions.coe.int/Treaty/Commun/ChercheSig.asp?NT=198&CM=8&DF=1/8/2008&CL=ENG>

<sup>252</sup> Paul Allan Schott, *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*, (The World Bank and the International Monetary Fund: Washington, 2006), p.X-2

was quite successful and it was decided to continue collaboration with the FATF in the fields of anti-money laundering and countering terrorist financing.<sup>253</sup>

In 2002, the World Bank and the IMF worked together with the FATF, FATF Style Regional Bodies, the Egmont Group, the Basel Committee on Banking Supervision, International Association of Securities Commissioners (IOSCO) and International Association of Insurance Supervisors (IAIS) on a single comprehensive anti-money laundering and countering terrorist financing assessment methodology. This methodology was revised in 2004 and 200 criteria was determined to assess countries' efforts to prevent money laundering and terrorist financing.<sup>254</sup>

Moreover, the World Bank and the IMF, through global dialogue series, raise the awareness of countries in the fields of money laundering and terrorist financing, provide technical assistance of individual countries and conduct researches in various aspects of money laundering and terrorist financing, including the alternative remittance systems.<sup>255</sup>

## **5.6. The Egmont Group**

The Egmont Group was created at the meeting of financial intelligence units from different countries in Egmont-Arenberg Palace in Brussels on 9 June 1995. The Egmont Group, currently with its 107 members<sup>256</sup>, aims to provide support to financial intelligence units to improve their efforts in preventing money laundering and financing of terrorism.

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<sup>253</sup> *Ibid.* p.X-3

<sup>254</sup> *Ibid.* pp.X5-X6

<sup>255</sup> *Ibid.* pp.X3-X11

<sup>256</sup> The member list of the Egmont Group can be accessed from:  
[http://www.egmontgroup.org/files/library\\_egmont\\_docs/list\\_of\\_fius.pdf](http://www.egmontgroup.org/files/library_egmont_docs/list_of_fius.pdf)

The support provided by the Egmont Group includes<sup>257</sup>:

- Expanding and systematizing the exchange of financial intelligence information
- Improving expertise and capabilities of personnel of such organizations
- Fostering better communication among financial intelligence units through application of technology

In this respect, to enhance the cooperation and information exchange among the financial intelligence units, the following working groups were formed<sup>258</sup>:

- a) The Legal Working Group
- b) The Outreach Working Group
- c) The Training Working Group
- d) The Operational Working Group
- e) The IT Working Group

The Egmont Group previously concentrated on anti-money laundering measures, but after the 9/11, the financing of terrorism became a serious concern for the Group. In this context, in 2004, the definition of financial intelligence was revised to cover also the issue of terrorist financing. According to this revised definition, a financial intelligence unit is<sup>259</sup>:

A central, national agency responsible for receiving (and, as permitted, requesting), analyzing and disseminating to the competent authorities, disclosures of financial information:

- (i) concerning suspected proceeds of crime and potential financing of terrorism, or
- (ii) required by national legislation or regulation, in order to counter money laundering and terrorism financing.

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<sup>257</sup> Egmont Group, *Information Paper on Financial Intelligence Units and the Egmont Group*, (2004), p.3, [http://www.egmontgroup.org/files/library\\_egmont\\_docs/info\\_paper\\_final\\_oct\\_2004.pdf](http://www.egmontgroup.org/files/library_egmont_docs/info_paper_final_oct_2004.pdf), Accessed on 29 May 2009

<sup>258</sup> *Ibid.* pp.3-4

<sup>259</sup> *Ibid.* p.3

The core mission of the Egmont Group is to foster the cooperation and facilitate the exchange of information between the financial intelligence units. To this end, in 1997 the Egmont Secure Web was established. Through this Web, financial intelligence units communicate with each other and on the basis of confidentiality and protection of privacy, exchange information in a secure way. Furthermore, the Web also provides updated information about the new trends and techniques in money laundering and terrorist financing.<sup>260</sup>

In this context, it can be advocated that the creation of the Egmont Group, which facilitates the exchange of information among states and enhances the culture of working together and strengthens the trust among states, is a significant attempt on the way to the solution to the international common problem of the financing of terrorism.

### **5.7. The Wolfsberg Group**

Another initiative against the financing of terrorism is the Wolfsberg Group, which was formed by 12 banks<sup>261</sup> operating at global level, in 2000 at the Chateau Wolfsberg in Northeastern Switzerland. In January 2002, the Wolfsberg Group, published “the Statement on the Suppression of the Financing of Terrorism”<sup>262</sup>, which underlines the role of financial institutions in the fight against the financing of terrorism.

According to the Statement, financial institutions are the components of an effective fight against the financing of terrorism and they can help the relevant authorities by detecting transactions suspected to be related to financing of terrorism and sharing information with these authorities. Furthermore, in the Statement, the need for the

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<sup>260</sup> Aykın and Sözmen (2008), *op.cit.* p.122

<sup>261</sup> As of 2009, the Wolfsberg Group consists of the following 11 banks: Banco Santander, Bank of Tokyo Mitsubishi UFJ, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, J.P.Morgan Chase, Societe Generale and UBS.

<sup>262</sup> Wolfsberg Group, *Wolfsberg Statement on the Suppression of the Financing of Terrorism*, (2002), <http://www.wolfsberg-principles.com/financing-terrorism.html>, Accessed on 5 June 2009

application of enhanced due diligence procedures to those who engage in sectors and activities, which are identified by competent authorities as being widely used in the financing of terrorism is emphasized.

Finally, the Statement puts emphasis on the need for global cooperation and indicates that the official lists of those who known or suspected to be related to terrorist organizations, which will be formed by competent national authorities in coordination with other states and shared with the financial institutions and preparing guidelines for financial institutions about the techniques and mechanisms used in the financing of terrorism.

The Wolfsberg Statement on the Suppression of the Financing of Terrorism demonstrates the financial institutions' concerns over the issue and their willingness to be a part of the fight against the financing of terrorism, which will be a great contribution to the countering the financing of terrorism efforts.

### **5.8. The Basel Committee on Banking Supervision**

Another organization that deals with the prevention of the use of the financial sector for terrorist financing is the Basel Committee, which was established by the Group of Ten in 1974. The Committee's main objective is to develop international standards on banking supervision and it provides a forum for international cooperation on banking supervisory issues.

In addition to its activities in the field of anti-money laundering, in 2002, the Committee began to focus also on the issue of financing of terrorism and published a document called "Sharing of financial records between jurisdictions in connection with the fight against the financing of terrorism". The document emphasizes the importance of the "know our customer" principle and underlines the critical role of the sharing of financial information between jurisdictions in the fight against the

financing of terrorism and the need for an enhanced international cooperation on the issue.<sup>263</sup>

Furthermore, in June 2003, the Committee together with IOSCI and IAIS prepared a report assessing the efforts in banking, insurance and securities sectors for the prevention of the financing of terrorism and underlined the need for the efficient implementation of customer due diligence procedures in each sector.<sup>264</sup>

In addition to these efforts, in 2004, the IAIS published the “Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism”. In this document, the steps that should be taken by insurance companies with respect to customer due diligence procedures, suspicious transaction reporting, risk management, keeping record and training of the staff are presented.<sup>265</sup>

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<sup>263</sup> Basel Committee on Banking Supervision, *Sharing of financial records between jurisdictions in connection with the fight against the financing of terrorism*, (2002), <http://www.bis.org/publ/bcbs89.pdf?noframes=1>, Accessed on 10 June 2009

<sup>264</sup> Basel Committee on Banking Supervision, International Organization of Securities Commissions and International Association of Insurance Supervisors, *Initiatives by the BCBS, IAIS and IOSCO to combat money laundering and the financing of terrorism*, (2002), <http://www.bis.org/publ/joint05.pdf?noframes=1>, Accessed on 10 June 2009

<sup>265</sup> Oktay Üstün, “Karapara Aklama ve Terörün Finansmanı ile Mücadelede Uluslararası Girişimler ve Araçlara Toplu Bakış”, *Bankacılar Dergisi*, Sayı 65, (İstanbul: Haziran 2008), p.34

## **CHAPTER 6**

### **CONCLUSION**

Terrorism has long been at the heart of national and international security policies. Since terrorist organizations conduct violent acts with political purposes and the huge number of casualties in these acts, the decision makers have concentrated on the political and military side of the issue and developed policies in this framework. In other words, the issue has been handled within the framework of realist approach. Therefore, the financing of terrorism, which can be regarded as the combination of high and low politics, has been neglected for a long time.

Only with military operations it is not possible to fight against terrorist organizations and prevent terrorist attacks. On the contrary, this fight requires a comprehensive strategy with various components addressing different aspects of terrorism. One of these components of such kind of a strategy is the fight against the financing of terrorism.

Terrorist organizations have political motivations and to achieve their objectives, they engage in violent attacks. Although these attacks do not require huge amount of financial resources, as demonstrated in the first chapter, they are not totally free of charge. On the other hand, as well as launching terrorist attacks, terrorist organizations also need a substantial financial resources for acquiring weapons, covering the daily life expenses of terrorists, training, recruiting new members, traveling, bribing officials and making propaganda. That is to say, beside operational costs, terrorist organizations have to finance also their organizational costs. Therefore, the disrupting terrorist finances, not only hamper the launch of terrorist attacks but also weaken the capabilities of terrorist organizations.

To cover their expenses and launch violent attacks, today, terrorist organizations raise funds from a variety of criminal activities such as drug trafficking, migrant, arms and cigarette smuggling, counterfeiting, credit card fraud, extortion and ransom and robbery and theft. Although earlier terrorist groups usually used ransom and robbery, today terrorist organizations have expanded the scope of their criminal activities and cooperate with organized crime networks in drug trafficking, smuggling and counterfeiting. Therefore, the fight against the financing of terrorism should also focus on the link between terrorists and organized crime groups. On the other, in the operations against organized crime groups, the possible links to terrorist organizations should be investigated.

In addition to criminal activities, since the 1970s terrorist organizations have begun to raise funds from legitimate business activities. The companies belonging to people associated with terrorist organizations generate a reasonable amount of money to be used in financing the costs of terrorist organizations. Furthermore, donations provided by wealthy sympathizers, which is a widely used fund raising method since the 1880s, still contribute very much to the financing of terrorism. However, in the last decades, humanitarian organizations have become a significant financial resource, especially for Islamist terrorist organizations. The global networks that these charities possess, their control of massive amounts of funds and the lack of strict control over these institutions draw the attraction of terrorist organizations and today it is known that various charities are used for the purpose of terrorist financing.

Especially during the Cold War, most of the terrorist organizations relied on external aid provided by some states. Although, the financial support provided by states has declined in the post Cold War period, state sponsorship has not ceased to exist. However, state sponsorship of terrorism has drastically changed and transformed into a passive one. In other words, instead of direct funding, states have begun to provide safe havens or tolerate fund raising activities of terrorist organizations.

Although in defining the financing of terrorism, international organizations focus on the fund raising activities, the concept means more than collecting or providing funds

to terrorist organizations. The transfer of funds to different cells is also crucial for terrorist organizations. In this respect, terrorist organizations adopt the following fund transfer mechanisms: the formal financial sector, the alternative remittance systems, cash couriers, precious stones and metals, international trade system, charities, mobile payment systems and commercial websites. On the other hand, intelligence units can benefit from these mechanisms in detecting and freezing terrorist funds. Furthermore, following the money can also provide valuable information about the links and structure of a terrorist organization, which is more crucial in the fight against terrorism.

Today, terrorist organizations' activities are not limited to national boundaries. For instance, Al-Qaeda is the most globalized terrorist organization capable of launching attacks in different regions and recruiting new members from various countries. Furthermore, Al-Qaeda raises funds from a variety of countries and can easily transmit these funds through the formal financial system, the traditional *hawala* method, cash couriers and international charities that have offices all over the world from one continent to another. Other fundamentalist groups, such as Hamas and Hezbollah also engage in fund raising activities in places such as tri-border region of Latin America and the US that are thousands of kilometers far away from the Middle East. They also make use of the charities and *hawala* system in moving their funds across the borders. Moreover, in recent years terrorist organizations have begun to cooperate with criminal networks and involved transnational criminal activities such as drug trafficking, migrant and arms smuggling.

Therefore, as well as national security policies, the fight against the financing of terrorism should also be handled at international level. In this context, international organizations can be a platform for establishing an enhanced cooperation among states. Moreover, international organizations can also contribute to the development of a comprehensive strategy for combating the financing of terrorism.

Although for long years terrorism has been at the heart of international politics, until the 1990s, the financing of terrorism has not been considered to be a major

issue. The attempts to counter terrorist financing started with the UN's efforts in the 1990s. In aftermath of the catastrophic September 11 attacks, the efforts addressing the financing of terrorism have speed up. In addition to UN, some other international organizations have involved in the fight against the financing of terrorism in post 9/11 period.

With the International Convention for the Suppression of the Financing of Terrorism and UN Security Council Resolution 1373 the general framework of the measures that should be implemented by states in countering terrorist financing were drawn. In addition to these, the FATF, with the 9 Special Recommendations, developed international standards for fight against the financing of terrorism. Similarly, the EU and the Council of Europe have also addressed the issue and outlined some of the measures that should be implemented by member states for proper actions to prevent the financing of terrorism. The World Bank and the IMF also have expanded their activities also to this issue and focused on strengthening the capacities of states in the fight against the financing of terrorism. The Egmont Group, which serves as a platform for enhanced cooperation and the exchange of information among the financial intelligence units, has been created. Finally, some sectoral organizations, namely the Wolfsberg Group and the Basel Committee on Banking Supervision have underlined the vital role of the financial institutions and demonstrated the willingness of the sector to take active part and cooperate with the competent authorities in the fight against the financing of terrorism.

Considering these efforts as a whole, it can be concluded that general standards for the fight against the financing of terrorism have been developed. These efforts have made countries to criminalize the financing of terrorism and do necessary change in their national legal systems to comply with the international standards and freeze terrorist funds. Furthermore, through customer due diligence procedures and suspicious transaction reporting, successful steps have been taken to deny terrorist groups use the formal financial system for moving their funds. Another success of these efforts is raising the awareness of the financial sector about the financing of terrorism and its counter measures and adding them to the fight against terrorist

financing. Moreover, they have contributed to strengthening the individual states' capabilities of the fight against the financing of terrorism through technical assistance and informed countries about the current trends and methods in terrorist financing. Finally, they have also promoted the cooperation and exchange of information among states and established proper and secure platforms and channels for international cooperation.

In the last decade, several important steps have been taken in countering the financing of terrorism but the international community's efforts cannot be considered as adequate in the fight against the financing of terrorism.

The UN has concentrated only on the Taliban and Al-Qaeda in terms of freezing terrorist funds. The neglecting of other terrorist groups has a negative impact on states' willingness to take action in the fight against the financing of terrorism since the groups that pose a threat to their national security are not addressed by the UN and this situation seriously undermines international efforts to combat terrorist financing. Thus, although it requires a very long process and hard working, designation of other terrorist groups and the individuals and entities associated with them can be a remedy for the problem.

Although the alternative remittance systems, namely the *hawala*, and the abuse of charities by terrorist organizations are targeted in various documents, they remain as a problem in terms of terrorist financing. In this respect, to increase transparency of charities and prevent them to be used for the purpose of terrorist financing, comprehensive standards concerning them can be developed and an international body can be established to monitor and evaluate the level of charities' transparency in the light of these standards. For *hawala* system, registering and licensing those who engage in money transfers can be useful but there are serious concerns over the implementation of such measures. Instead, long terms measures such as providing technical and financial assistance to establish modern financial system, can be developed for cash based regions, where *hawala* is extensively used and the IMF and the World Bank can have a leading role in such a process.

The international trade system is used by terrorist organizations for moving funds, but so far, the issue has not been touched upon. In this respect, the FATF can conduct a research together with the World Trade Organization and International Trade Centre to analyze the misuse of the international trade system and formulate some solutions to the problem.

Finally, there are still problems concerning the enforcement of the measures that are proposed by the international standard setters. This problem mainly stems from two sources: the technical and financial incapability and the lack of political will. The first deficit is not so much tackling as the second one; it can be overcome through the assistance provided by the FATF, the World Bank and the IMF. Furthermore to encourage counter terrorist financing measures, countries which are reported to be in progress in implementing the measures on the fight against the terrorist financing according to the FATF's, IMF's and the World Bank's assessments can be provided more advantageous conditions in lending. On the other hand, similar mechanisms can also be applied in the absence of political will to implement measures. Threat of isolation from the global financial system and tough conditions for lending to some extent can be deterrent for those countries that are reported to be unwilling to cooperate and implement counter terrorist financing measures.

In addition to these, some steps should be taken with respect to fund raising activities of terrorist organizations through criminal activities. In recent years, terrorist organizations have developed intense relations with organized crime networks and have begun to raise substantial amounts of funds from drug trafficking, various types of smuggling and counterfeiting. In this respect, transnational organized crime should not be handled separate from terrorism. Thus, to deny terrorists access to financial resources, transnational criminal activities should be addressed at international level and the cooperation among states in the fight against transnational organized crimes should be further enhanced.

Today, the current trend is freezing and confiscating terrorist funds. Many international organizations, including the UN, the EU and FATF calls upon states to

freeze funds related to terrorism. Of course, this method will disrupt terrorist organizations' access to money, but tracing the flow of funds will be much more useful to see the whole picture. Therefore, in the fight against the financing of terrorism, following the money method should not be put aside.

In the final analysis, it can be concluded that neo-liberal institutionalism is helpful to understand the financing of terrorism and the international fight against it. The institutionalist approach claims that no distinction as high and low politics can be made between international issues. The financing of terrorism exactly fits in this point of view. Contrary to realist perception, the issue is beyond the high and low politics distinction. On the one hand, it includes security problem, which is regarded as high politics by realists, and on the other hand, it involves finance, which is seen by realists as inferior to military issues. Furthermore, the standards and assessment procedures developed by the FATF, the World Bank and the IMF can be considered as significant steps towards a formation of an international regime to combat the financing of terrorism within the framework of neo-liberal institutionalism. Moreover, the creation of the Egmont Group, which serves as a platform for exchange of information among the financial intelligence units of different countries, supports the institutionalists' assumptions advocating that international cooperation can be achieved in an anarchic system. Furthermore, the UN and Council of Europe's Conventions on the financing of terrorism and the EU's several legal arrangements, which are discussed in the previous chapter, demonstrate the willingness of the international community to cooperate to prevent the terrorist financing.

Although neo-liberal institutionalism is useful in explaining the international fight against the financing of terrorism, it has some missing points. Like realists, institutionalists also take states as unitary and rational actors. However, this kind of an assumption ignores the domestic issues within a state. For example, as explained in the previous chapters the drug production is an integral part of some countries' economies, such as Afghanistan and Colombia and terrorist groups in these regions extensively benefit from narcotics business. Therefore, any analysis on the international fight against the financing of terrorism, which excludes these facts, will

be inadequate. Similarly, without taking into account the influence of charities in Muslim countries or the cash based economies in the Middle East, South Asia and Africa, the failure of efforts to disrupt terrorist fund raising and transfer through the charities and the alternative remittance systems cannot be fully understood. Furthermore, the image of terrorist groups, especially in Middle Eastern societies is quite different from the Western world. Most of the terrorist organizations operating in the region are seen as an uprising against the Western domination by the Muslim societies. This situation gives path to different perceptions about terrorism, which undermine the collective action against terrorist groups.

Moreover, as discussed in the first chapter of this study, neo-liberal institutionalist approach does not pay an attention to the concept of power in explaining the cooperation and regime formation. It is known that the international efforts to prevent the financing of terrorism have accelerated in the aftermath of September 11 attacks. One can argue that after the Al-Qaeda attacks on Twin Towers, terrorism has become a global problem. However, instead of the US, if the attacks were upon against another country, would it be possible for that country to mobilize the international community to take action immediately?

In addition, it can be asserted that one of the reasons behind the failure of establishing an efficient cooperation on the prevention of the financing of terrorism is the importance of relative gains for states. As underlined in many parts of this study, some states have used terrorist organizations or turned a blind eye to their activities in order to destabilize or weaken another country. In other words, states do not only care about their absolute gains, other states' positions are also quite important for them. In this respect, it can be assumed that the biggest obstacle to the cooperation or the formation of an international regime on the fight against the financing of terrorism is the competitive behaviors of states.

In conclusion, since the 1990s, international community has come a long way in the fight against the financing of terrorism but this does not mean that the international community has completed its task. Further progress should be made and to this end,

the suggestions that are made presented above can be very fruitful. However, in the final analysis, the efforts will remain inadequate unless the states are willing to take proper actions and cooperate with each other in the fight against the financing of terrorism.

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