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Breaking the Bank

Undermining Terrorist Financing

Seth G. Jones

RAND Office of External Affairs

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Testimony presented before the House Financial Services Committee, Task Force to Investigate Terrorist Financing on April 22, 2015

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Seth G. Jones[1]
The RAND Corporation

Breaking the Bank
Undermining Terrorist Financing [2]

Before the Committee on Financial Services
Task Force to Investigate Terrorism Financing
United States House of Representatives

April 22, 2015

Chairman Fitzpatrick, Ranking Member Lynch, and members of the Task Force to Investigate Terrorism Financing, thank you for inviting me to testify at this hearing, "A Survey of Global Terrorism and Terrorist Financing." I commend the bipartisan nature of the task force and its focus on U.S. efforts to undermine terrorist financing. I have divided my comments into three sections. The first provides an overview of the evolving terrorist landscape, the second briefly examines terrorist financing, and the third offers preliminary recommendations.

I. The Terrorist Threat

While there are a substantial number of terrorist groups today, I will focus on three sets: al Qa'ida and its affiliates, Da'ish and its affiliates, and Hezbollah. These sets include the groups most threatening to the United States.

First, al Qa'ida is led by Ayman al-Zawahiri, the fiery Egyptian who took over when Osama bin Laden was killed in 2011. Al Qa'ida's goal continues to be the establishment of an Islamic caliphate that extends from Africa through the Middle East, South Asia, and parts of the Pacific. From its base in Pakistan, al Qa'ida's primary strategy is to work with its affiliates—such as al Shabaab in Somalia, al Qa'ida in the Arabian Peninsula in Yemen, al Qa'ida in the Islamic Maghreb in North Africa, Jabhat al-Nusrah in Syria, and al Qaeda in the Indian Subcontinent in South Asia—to overthrow local regimes. Zawahiri and his colleagues seek to replace these governments with ones that implement an extreme interpretation of Islamic law, or sharia.

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[2] This testimony is available for free download at http://www.rand.org/pubs/testimonies/CT430.html.

Second, Da'ish—also referred to as the Islamic State of Iraq and the Levant, Islamic State of Iraq and Syria, Islamic State of Iraq and al-Sham, or simply Islamic State—has emerged as al Qa'ida's premier pan-Islamic Sunni competitor.[3] Formerly al Qa'ida in Iraq and then the Islamic State of Iraq, Da'ish broke away from al Qa'ida in early 2014 after a series of personality, ideological, organizational, and tactical disputes. Its leader, Abu Bakr al-Baghdadi, could not bear to remain under the control of al Qa'ida any more. And Da'ish's anti-Shi'a attacks and brutal executions, including beheadings and burnings, were too extreme even for al Qa'ida. Similar to al Qa'ida, the goal of Da'ish is to establish a radical Islamic caliphate. "Rush O Muslims to your state. Yes, it is your state," said Baghdadi in a recent announcement, asking for volunteers to emigrate to Iraq and Syria to fill key positions.[4]

Da'ish leaders have focused most of their operations in Iraq and Syria. But they have also attempted to expand their network into Africa, other countries in the Middle East, and Asia. In Nigeria, for instance, the terrorist organization Boko Haram recently pledged its allegiance to Da'ish. While the move might end up nominally aiding the group with fundraising and recruitment, it may also have been motivated by a desire to counter the recent military setbacks that Boko Haram has suffered at the hands of Nigerian and neighboring government forces. In Libya, Da'ish sent emissaries in late 2014 to meet with extremist groups across the country in an effort to establish a formal relationship. Da'ish fighters now control key sections of Libyan cities like Surt, along the Mediterranean coast. In Egypt, leaders from the group Ansar Bayt al-Maqdis, based in the Sinai Peninsula, pledged their loyalty to Da'ish in 2014. Da'ish has even established networks and been involved in attacks in Afghanistan, including allegedly perpetrating the April 2015 bombing at a Kabul Bank branch in Jalalabad, which killed roughly three dozen civilians.

While Da'ish and al Qa'ida both want to establish Islamic caliphates, they differ in important ways. Da'ish is less reliant on funding from Persian Gulf donors and raises money from such activities as smuggling oil, selling stolen goods, kidnapping and extortion, and seizing bank accounts. While both movements view Shi'a Muslims as infidels, Da'ish has regularly targeted Shi'a. As its beheadings and burnings highlight, Da'ish operatives have also been more inclined to conduct grisly attacks. A decade ago, al Qa'ida leader Zawahiri wrote a letter to al Qa'ida in Iraq extremists—the predecessors of Da'ish—warning that its gruesome practices were counterproductive. "Among the things which the feelings of the Muslim populace who love and

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[3] Da'ish is an acronym from the Arabic name of the group, al-Dawlah al-Islamiyah fil 'Iraq wal-Sham.
[4] Abu Bakr al-Baghdadi, "A Message to the Mujahidin and the Muslim Ummah in the Month of Ramadan," Al-Hayat Media Center, June 2014.

support you will never find palatable—also—are the scenes of slaughtering the hostages," Zawahiri scolded.[5] The warnings went unheeded.

Other Sunni jihadist groups, such as the various Ansar al-Sharia organizations in Libya, are members of neither Da'ish nor al Qa'ida. Overall, the number of Sunni jihadist groups jumped 58 percent between 2010 and 2013.[6] Libya, for instance, has become a breeding ground for new groups after the collapse of its government, which followed only four years after the overthrow of Muammar Qaddafi. While Qaddafi's demise and the July 2012 democratic elections represented a remarkable achievement for political freedom, Libya faces massive challenges. The bureaucracy is weak and well-armed militias control much of the countryside and urban areas. Ansar al-Sharia Libya, a loose collection of extremist groups, has emerged into this vacuum. Based in such cities as Benghazi, Darnah, and Misratah, which hug the Mediterranean coast, the various Ansar al-Sharia factions seek to establish sharia in the country.

The number of extremist fighters has also increased dramatically, more than doubling between 2010 and 2013 to a high of over 100,000 fighters. The wars in Syria and Iraq are the single most important attraction for fighters. Extremist groups represent a significant portion of the Syrian rebel manpower against the Assad regime. The levels of extremist violence have also grown. Among al Qa'ida affiliates alone, the number of attacks more than doubled between 2010 and 2013. But most are not directed at the United States—or the West more broadly. Roughly 98 percent of these attacks targeted local regimes and civilian populations across such countries as Iraq, Syria, Yemen, and Somalia.[7]

This rise in Sunni extremism has been caused, in part, by a growing weakness of governments across Africa and the Middle East, where the Arab uprisings created an opportunity for extremist groups to secure a foothold. Since 2010, governance indicators in these areas have dropped markedly in such categories as political stability, rule of law, and control of corruption, according to World Bank data. The surge has also been caused by the transnational movement of fighters trained on such battlefields as Iraq, Syria, Afghanistan, and Pakistan. These wars have provided a unique environment for extremists to pray, share meals, train, socialize, and fight together. A growing number of operatives have moved from these battlefields to new locations in Africa, the Middle East, and South Asia.

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[5] Letter from Ayman al-Zawahiri to Abu Musab al-Zarqawi, July 9, 2005.
[6] Seth G. Jones, *A Persistent Threat: The Evolution of al Qa'ida and Other Salafi Jihadists*, Santa Monica, Calif.: RAND Corporation, RR-637-OSD, 2014.
[7] The data in this paragraph come from Jones, 2014.

Third, Hezbollah remains one of the most capable terrorist organizations in the world. The group's original aims were to establish a radical Shi'a Islamist theocracy in Lebanon and to destroy Israel. In recent years, Hezbollah has developed proficient governance capabilities and participated in parliamentary elections in Lebanon. It has also established cells and infrastructure in place across the globe, from Latin America and Africa to Europe and Asia. The 2006 war between Hezbollah and Israel demonstrated that Hezbollah's paramilitary wing, Al-Muqawama al-Islamiyya, has evolved into an adept guerrilla army. Hezbollah has also supported some Palestinian militants and provided fighters to Syria in support of the Assad regime. Hezbollah's threat to the United States has varied over the years. In 1983, for example, Hezbollah conducted a suicide attack that killed 241 U.S. Marines, 58 French paratroopers, and 6 civilians at the U.S. and French barracks in Beirut. But Hezbollah's primary adversary remains Israel. This could change, for example, with a deterioration in U.S.-Iranian relations.

II. Terrorist Financing

Based on the current terrorist landscape, this section will briefly examine the financing of the groups highlighted in the previous section.

A. Al Qa'ida and Its Affiliates: Core al Qa'ida has received funding from multiple sources, such as private donations to front charities. Some of al Qa'ida's affiliates have increasingly raised money through kidnapping, using an elaborate network of middlemen and negotiators to exchange their captives for funds. According to one assessment, al Qa'ida and its affiliates earned at least $125 million in revenue from kidnappings between 2008 and 2014.[8] This may be why the head of al Qa'ida in the Arabian Peninsula, Nasir al-Wuhayshi, remarked: "Kidnapping hostages is an easy spoil, which I may describe as a profitable trade and a precious treasure."[9]

Overall, al Qa'ida affiliates finance themselves in different ways. Al Qa'ida in the Arabian Peninsula, for example, has traditionally funded itself through several mechanisms. The first is through *zakat*, or philanthropic religious donations to al Qa'ida-connected collectors. A second is through mosque collections, though this has been regulated to some extent at larger mosques in Saudi Arabia. Although some donors may know how their money is being used, others may believe their donations are used by more legitimate Islamic charities. A third funding mechanism is through a wide range of licit and illicit activities, such as running farms and seizing bank

[8] Rukmini Callimachi, "Paying Ransoms, Europe Bankrolls Qaeda Terror," *New York Times*, July 29, 2014.
[9] Callimachi, 2014.

accounts. Over the past year, for example, al Qa'ida in the Arabian Peninsula has secured hundreds of thousands of dollars from raiding banks in such Yemeni cities as Al Mukalla, a port city located on the Gulf of Aden.

Al Shabaab derives much of its funding from its own activities, particularly taxation of trade and other forms of business occurring in, or passing through, its areas of control in Somalia. The group's control of the strategically important southern port town of Kismayo—prior to losing control of the city in September 2012—was particularly important, including facilitating its illicit trade in charcoal. Al Shabaab also controls parts of the southern Kenyan border region, through which there is a significant flow of smuggled goods. In addition, the group is reported to tax farmers in its territory. Al Shabaab has also received funding from its sympathizers based in Western countries, including in the United States.

B. Da'ish and Its Affiliates: Da'ish receives money from such activities as smuggling oil, selling stolen goods, kidnapping and extortion, seizing bank accounts, and smuggling antiquities.[10] Alongside intimidation to gain access to arms caches, Da'ish has previously extorted cash and monetary tribute from other insurgent groups and community leaders. Controlling the derivative fuels market (gasoline, cooking gas, and diesel) has historically been a particularly lucrative sector for Da'ish, which has diverted shipments of fuel to external markets (such as in Jordan and Syria) to take advantage of higher prices there. Following Da'ish's capture of Mosul in June 2014, the group raided several banks in the city. Meanwhile in Syria, Da'ish militants on July 3 seized control of the Al-Omar oil field in the Deir ez Zour governorate. This oil field—the largest in Syria—had been under the control of Jabhat al-Nusrah. The seizure of oil and gas facilities has been a key priority for Da'ish in its operations across both Syria and Iraq, though Da'ish revenues from oil have recently been degraded.

There is considerable diversity among Da'ish's affiliates. Boko Haram, for example, carried out a series of raids on banks to secure finances after its establishment. Over time, Boko Haram has increasingly relied on such measures as extortion. Its operatives have made telephone calls or sent text messages to individuals, threatening violence if they fail to pay. Boko Haram has also received substantial funding from kidnapping.

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[10] See, for example, Patrick B. Johnston, "Countering ISIL's Financing: Testimony Presented Before the House Financial Services Committee on November 13, 2014," Santa Monica, Calif.: RAND Corporation, CT-419, November 2014. On antiquities, see Financial Action Task Force, *Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)*, Paris, February 2015.

C. Hezbollah: Hezbollah receives some assistance from Iran. As Hezbollah leader Sheikh Hassan Nasrallah remarked several years ago: "We have been receiving since 1982 all kinds of moral, political and material backing from the Islamic Republic of Iran." His statement was the first time he openly admitted that Iran provided aid. "In the past we alluded partially to this truth," Nasrallah remarked. "We used to speak of a moral and political support while keeping silent when questioned about our military backing so as not to embarrass Iran. But today . . . we have decided to speak out."[11] In addition, Hezbollah has extensive fundraising capabilities of its own. Hezbollah's welfare and educational programs are run by charitable foundations, which collect money, often legitimately, from Shi'a Muslim communities inside and outside Lebanon. The group also benefits from a diverse series of licit and illicit activities in Lebanon, Iran, Latin America, West Africa, and elsewhere, including construction, credit card fraud, illicit drugs, sale of counterfeit goods, foodstuffs, and clothing manufacture.

III. Policy Implications

U.S. efforts to undermine the finances of terrorist groups must be done as part of a broader effort to undermine terrorist ideology, target its key leaders, build the capacity of local allies, and take other steps. They must also involve coordination among multiple U.S. agencies and allies—such as foreign governments, international institutions, and non-governmental organizations—overseas. Following are several steps that remain important.

A. Focus on the Most Significant Threats: Because of the sheer number of terrorist groups today, the United States should focus on targeting the finances of those groups that present a substantial threat to the United States. Terrorist groups can be divided into several categories: (1) groups that pose a high threat because they are involved in active plotting against—or encouraging attacks in—the U.S. homeland; (2) groups that pose a medium threat because they are involved in plotting attacks against U.S. facilities (such as embassies) and U.S. citizens overseas; and (3) groups those that pose a low threat because they are focused on targeting local regimes or other countries. Table 1 provides an overview.

[11] "Hezbollah Chief Boasts of Iran Military Support," *Agence France-Presse*, February 7, 2012.

Table 1. Terrorist Threats to the United States

	High Threat	Medium Threat	Low Threat
Characteristics	Plotting against U.S. homeland and U.S. targets overseas (e.g. U.S. embassies)	Plotting against U.S. targets overseas, but little or none against U.S. homeland	Limited or no active plotting against U.S. targets overseas or U.S. homeland
Examples	• Al Qa'ida in the Arabian Peninsula • Core al Qa'ida (including the Khorasan Group) • Da'ish • Some inspired individuals and networks	• Al Shabaab • Ansar al-Sharia Libya groups • Al Qa'ida in the Islamic Maghreb • Hezbollah • Boko Haram • Jabhat al-Nusrah	• East Turkestan Islamic Movement • Imarat Kavkaz

The highest threat likely comes from al Qa'ida in the Arabian Peninsula, core al Qa'ida (including its Levant cell, sometimes referred to as the Khorasan Group), Da'ish, and a range of inspired individuals. With the collapse of the Yemeni government, al Qa'ida in the Arabian Peninsula retains a capability and desire to target the U.S. homeland and U.S. interests overseas. Core al Qa'ida also presents a threat because of its interest in targeting the U.S. homeland, though its leaders have had difficulty recruiting—or even inspiring—competent operatives in the West. Da'ish is a threat primarily because of its effort to inspire individuals in the West to conduct attacks. A small number of inspired individuals, like the Tsarnaev brothers, who perpetrated the April 2013 Boston Marathon bombings, also pose a threat. The growth in social media and the terrorist use of chat rooms, Facebook, Twitter, YouTube, and other sites and applications has facilitated radicalization inside the United States and provided extremists better access to encrypted communication. The six Americans arrested in April 2014 for attempting to leave the United States to fight with Da'ish in Syria, for example, used the instant messaging application Kik to communicate with each other and with extremists overseas.[12]

Several groups pose a medium-level threat because of their interest in—and capability to—targeting U.S. citizens and installations overseas. The various Ansar al-Sharia groups in Libya, for instance, have planned attacks against U.S. diplomats and infrastructure, including the U.S.

[12] United States District Court for the District of Minnesota, United States of America v. Mohammed Abdihamid Farah, et al., April 2015.

embassy. Al Shabaab's objectives are largely parochial, and it has conducted attacks in Somalia and the region, especially Kenya. Finally, some groups present a low-level threat to the United States. They do not possess the capability or intent to target the United States at home or overseas. They include such groups as the East Turkestan Islamic Movement, which is primarily interested in Chinese targets.

B. Utilize Targeted Tools: Since these terrorist groups are able to secure funding from multiple sources, an effective financial campaign needs to consider a wide range of tools. These tools need to be modified to deal with different groups and should be based on intelligence analysis of how groups finance themselves, including using documents and other material seized from counterterrorism raids. Examples of key steps include:

- *Sanction individuals, groups, and supporters:* These sanctions can involve the Specially Designated Nationals (SDN) list, other sanction programs, and broader actions of the U.S. Treasury Department's Office of Foreign Assets Control. These sanctions should also include banks that handle terrorist funds, including banks used by middlemen or hawalas handling terrorist financing.

- *Attack money laundering:* Money laundering generally refers to financial transactions in which criminals, including terrorist organizations, attempt to disguise the proceeds, sources, or nature of their illicit activities. The U.S. Department of the Treasury should continue to utilize a range of assets—including a diverse assortment of legal authorities, core financial expertise, operational resources, and expansive relationships with the private sector and international community—to identify and attack money laundering vulnerabilities and networks across the domestic and international financial systems. This includes actions under Section 311 of the USA PATRIOT Act. It also includes support to the Financial Action Task Force, an international policymaking and standard-setting body dedicated to combating money laundering and terrorist financing.

- *Undermine terrorist use of charitable organizations:* While charities provide essential services, comfort, and hope to those in need around the world, terrorists have exploited the charitable sector to raise and move funds. Groups use some to provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations and operations.

Target Local Revenue Sources: The terrorist organizations discussed in this testimony have generated substantial revenue from local sources. These sources can be targeted. For example,

Da'ish raises most of its money through such practices as oil smuggling, sales of stolen goods, and extortion. Undermining these sources of revenue requires providing support for local ground, air, and maritime operations that disrupt these networks. Against Da'ish, for instance, effective ground and air strikes by local forces—with U.S. assistance—can disrupt Da'ish's oil operations, reduce its profits, and buy time to build more-robust diplomatic, intelligence, and military capabilities for a coordinated effort to weaken Da'ish financially. One challenge is to avoid destroying those assets that legitimate successor governments will need to maintain.[13]

While these steps may not, by themselves, severely degrade terrorist groups that threaten the United States, they can, in combination with other steps, undermine the support necessary for terrorist groups to function.

[13] See, for example, Johnston, 2014.