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# Countering Violent Nonstate Actor Financing

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Revenue Sources, Financing Strategies,  
and Tools of Disruption



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Published by the RAND Corporation, Santa Monica, Calif.

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Library of Congress Cataloging-in-Publication Data is available for this publication.

ISBN: 978-1-9774-1082-5

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# About This Report

This report documents research and analysis conducted as part of a project entitled *Assessing How Violent Non-State Actors Generate Funds and Sustain Their Activities and Operations*, sponsored by the Office of the Deputy Chief of Staff, G-3/5/7, U.S. Army. The purpose of the project was to identify methods and means of violent nonstate actor financing, examine how these finances sustain violent nonstate actor (VNSA) activities and operations, and provide recommendations on how to reduce VNSAs' ability to generate (and maintain) financial solvency.

This research was conducted within RAND Arroyo Center's Strategy, Doctrine, and Resources Program. RAND Arroyo Center, part of the RAND Corporation, is a federally funded research and development center (FFRDC) sponsored by the United States Army.

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## Acknowledgments

We thank the Deputy Chief of Staff, G-3/5/7, U.S. Army, for sponsoring this research, and COL Jason Charland, LTC Bret Bohannon, MAJ Jenny Gunderson, and Mark D. Calvo for their feedback on the research. Reviews by Eric Robinson of RAND and Jacob N. Shapiro of Princeton University greatly improved the manuscript. At RAND, we also thank Jennifer Kavanagh, Steve Watts, and Molly Dunigan of the Strategy, Doctrine, and Resources program within RAND Arroyo Center for their useful suggestions and help throughout the project. We thank Cindy Lyons for her

work as production editor, piloting this manuscript through to publication; Phyllis Gilmore for her expert copyediting, which greatly improved the manuscript; Sandra Petitjean for preparing the figures; and Kristen Meadows for designing the cover. All errors of fact and interpretation remain those of the authors.

# Summary

*The research reported here was completed in March 2021, followed by security review by the sponsor and the U.S. Army Office of the Chief of Public Affairs, with final sign-off in August 2022.*

Dismantling an adversary's resource and industrial base is often an important step in defeating any adversary. In the case of the violent nonstate actors (VNSAs) that the U.S. Army has been called on to defeat, this step amounts to stopping their financing. VNSAs comprise a broad set of groups, including terrorists, insurgents, criminal enterprises, paramilitary organizations, and militias, which operate outside the direct control of a nation-state and use violence instrumentally.

Countering VNSA financing plays a critical role in degrading such organizations, which remain a threat even as the U.S. Army has shifted its focus to strategic competition. In the shaping phase, ground forces help identify threat network structures and vulnerabilities. These activities also help set operational conditions if the conflict escalates, supporting targeted strikes on the threat network's resources. Disrupting finances also makes it harder for VNSAs to pay, equip, and sustain their fighters. Financial resources can prolong conflicts and undermine stabilization efforts after the fighting ends. And even in a nonconflict environment, VNSAs can use their financial resources to invest in local goods and services that offer an alternative to the incumbent regime, which may be a U.S. ally or partner. Such service provision can help groups build support among a broader population, from which they can extract resources, gain safe haven, and eventually challenge the state for control.

VNSA financing can be considered in a staged approach, from how groups generate revenues, to how the revenue-generating activities change over time, to the use of the revenues, to efforts to counter and disrupt those revenue streams. This report addresses each of these stages.

Chapter 1 defines the key terms that will appear frequently in this study and lays out the scope of the research. Additionally, it provides details on RAND's research approach for this study. Chapter 2 offers evidence that group ideology, identity, and organizational goals are strongly related to

the mix of revenue sources that VNSAs exploit. Communist groups, for example, are more likely to derive revenues from many sources, revealing an underlying pragmatism that their ideology would otherwise not suggest, which positions these groups to be more resilient against disruption. Islamist groups are much more likely to receive external state support than other VNSAs. Eroding this support—both by increasing pressure on the group and its sponsor—may be critical to degrading Islamist threat networks. There is also evidence that operational context shapes access to different resources and financial opportunities. With some revenue sources more common in particular regions (e.g., smuggling in the Americas), tracking tools and financial indicators may be more effective if they focus on the most common revenue streams in these areas.

For policymakers, this chapter suggests that counter-threat finance (CTF) efforts should be tailored to group type. Targeted CTF efforts, which may focus on disrupting a single revenue stream, are less likely to strike a decisive blow to many communist groups' finances. Under such conditions, a broader CTF approach, which tracks multiple streams or degrades a group's financial infrastructure, may be preferable. For Islamist groups, however, a targeted approach may be more useful, especially if it can disrupt external state support, which is common among these groups. Although challenging, such efforts to disrupt external support also offer some advantages, expanding the range of potential instruments and targets, including the state sponsor. The results on regional variation also suggest that, while some geographic combatant commands can focus on developing indicators and tools for disrupting revenue streams that dominate in their areas (e.g., smuggling in U.S. Southern Command), other geographic combatant commands (e.g., U.S. Central Command, U.S. Indo-Pacific Command) confront more-varied environments in which no single revenue source dominates. Under such conditions, it may be especially important for commanders to invest in broader surveillance tools.

Chapter 3 addresses how VNSA financing strategies change over time. The data suggest that VNSA financial portfolios have generally become more diverse since 1990, although the mix has changed. The importance of external state support, for example, has shifted, initially declining in the 1990s but resurging by the early 2000s. The change in external state support is particularly notable because it likely reflects broader shocks in the post-

Cold War environment. This shock has had an especially pronounced effect on communist groups, which were forced to develop more-expansive (and potentially resilient) financial portfolios after losing their external support.

Dynamic models of revenue generation also suggest that, as groups age, their mixes of revenue sources evolve, revealing adaptation and organizational learning, by moving away from risky revenue streams. And although the models indicate that several group characteristics affect portfolio diversity, no single factor matters as much as whether a group is transnational. There is robust evidence that transnational groups tend to have more diverse financial portfolios than national groups. Such portfolio diversity may provide some resilience against CTF efforts, making it harder to degrade these transnational networks. Notably, however, our analysis also suggests that, if a VNSA loses its transnational status (no longer operating in multiple countries), its financial portfolio is likely to shrink.

For policymakers, these findings have important implications for managing CTF efforts in a dynamic threat environment. CTF efforts should anticipate VNSA adaptation and get ahead of these tactical shifts by developing tools for tracking and disrupting alternative (and safer) revenue sources that may become more attractive to a group over time. Given the speed at which new technologies proliferate and groups evolve, CTF efforts cannot afford to simply react but should be planning for and preparing countermeasures against the next resource available to VNSAs. Such advance planning is especially important for sustaining gains against transnational threat networks. When these VNSAs lose territory, their financial portfolios appear to shrink, providing further evidence that degrading transnational threat networks critically depends on denying these organizations a space to conduct operations abroad. After suffering such losses, however, transnational groups are likely to adapt, in part, by focusing on safer revenue streams that are harder to disrupt. CTF efforts should prepare to shift resources to track these new revenue sources.

Chapter 4 moves on to the topic of how groups spend their resources on violent and nonviolent activities. For some groups, the production of violence is the central focus, making terror an end in and of itself. In other cases, violence is instrumental, used to pursue various political objectives or goals, and is only part of the feasible choice set. Nonviolent activities, including service provision and the distribution of local goods, offer an alterna-

tive instrument for such groups. Like any budget-constrained actor, VNSAs must choose how to optimally allocate their scarce resources. Understanding this allocation, and how it relates to VNSA financing choices, is critically important to reducing violence.

We find strong evidence that VNSAs with more-diverse financial portfolios tend to be more violent, especially those using extortion and external state support. This finding is pronounced among national groups, which dramatically increase their violent output as their financial portfolios expand. By contrast, transnational groups' violent activities appear to be less elastic to changes in their revenue bases. Even transnational groups with modest financial portfolios tend to be fairly violent. As for nonviolent activities, we again find distinct trends among national and transnational VNSAs. As a group's financial portfolio becomes more diverse, national groups tend to invest more in local governance, especially medical services, while transnational groups often spend less on these services. These varying trends likely reflect a more fundamental strategic difference between national and transnational groups and how they use different means to generate local and international support.

Given this logic, policymakers should carefully consider how CTF efforts affect not only violence but also other local power dynamics. Reducing violent activity among national VNSAs, in particular, may depend on targeting specific revenue streams and encouraging substitution into nonviolent activities. Unfortunately, this substitution strategy is less likely to pay off with transnational groups, whose degradation often requires more-kinetic tools. Even if successful, this substitution strategy is not without its costs. This strategy may offer short-term security benefits by reducing local violence but can also entail long-term costs if the VNSA can build its popular support through increased investment in local goods and services. International actors may accept this trade-off because it reduces the violent threat that a group poses, but local partners tend to be less willing to countenance the growth of a future challenger. Such a preference divergence could very well undermine CTF efforts, which often depend on motivated partners whose interests broadly align with those of the U.S. government and other international actors.

Having explored the financing strategies of groups and how these choices associate with different patterns in violent and nonviolent behav-



ior, the report discusses the effectiveness of CTF efforts in Chapter 5. The U.S. Army, the U.S. Department of Defense (DoD), and the U.S. government have a variety of tools to counter VNSA financing. Although the Army is more likely to use kinetic tools, civilian agencies more commonly use non-kinetic tools that also have the potential to enhance Army actions. DoD, through U.S. Special Operations Command (USSOCOM), leads kinetic efforts. These efforts include providing support to partner nations, conducting threat-finance intelligence operations, and taking direct military action. Direct action includes the eradication or destruction of resources; the interdiction of illicit substances, cash, and other assets; the decapitation of VNSA leaders; and certain aspects of counterinsurgency operations. Nonkinetic CTF tools include U.S. and international legal authorities; targeted financial sanctions; designations of VNSAs and their leaders; asset freezes to impede financial access; anti-money laundering and combating the financing of terrorism standards; and investigation, prosecution, and sentencing.

Case studies of CTF activities against a variety of groups show that both kinetic and nonkinetic actions are almost always used. But it is not obvious from the start which tools should be used, and there are usually a number of false starts. Population support for the campaign—or at least not alienating the population—is important, at minimum to discourage people from supporting or joining the target group. Successful campaigns are also aided by effective local governments and multinational participation.

In terms of specific tools and targets, when money is coming from legitimate actors in legitimate economies (such as from foreign sources in developed economies), legal authorities blocking VNSA financing can be effective. VNSA logistics present a weak point, especially when larger modes of transportation are used or when the geography of logistics routes makes these supply lines easier to isolate. When a group relies on territorial control or even covert influence in a territory, reducing that control or influence is essential, which provides a clear role for the U.S. Army.

DoD has conducted CTF for decades but institutionalized it in a new, more formal way starting with the Iraq war. Notably, the peak institutionalization occurred with the creation of the Iraq Threat Finance Cell in 2005 and the Afghan Threat Finance Cell in 2008. These cells proved advantageous in teaming personnel from multiple agencies with multiple skills—

including the ability to act quickly on intelligence—but the Afghan cell also showed that there were limits to action when a host government’s cooperation is limited. The U.S. Army has played an important role in these efforts in Iraq, Afghanistan, and elsewhere. These efforts have largely targeted VNSAs, such as jihadist terrorists and transnational criminal organizations.

The shift in strategy to competition with great powers, especially Russia and China, does not mean that CTF will no longer play a role in future deployments of the U.S. Army. Already, the United States is using a variety of nonkinetic tools against them, especially sanctions and terrorism and transnational criminal organization designations. In addition, Russia is known to use criminal networks toward achieving its policy ends, and the United States has embarked on a course of economic pressure more generally against China. Although all efforts are aimed at deterring war with China and Russia, CTF is already part of that deterrence and may play a greater role in the future.

Finally, Chapter 6 summarizes the findings and offers a series of recommendations, discussing a number of implications for the U.S. Army and the joint force. Countering the finances of VNSAs requires a broad skill set, with personnel performing activities ranging from specialized threat finance intelligence analysis to more broadly defined CTF analysis, which may include everything from analyzing intelligence to planning operations. Very few people will have all the necessary skills. The U.S. Army can fulfill its Title 10 mission by taking the following steps to ensure a steady supply of soldiers and civilians with the necessary skills and knowledge and, potentially, to expand that supply:

- Encourage service members to gain the Additional Skill Identifier, T1, “Counter Threat Finance Analyst,” so that the Army has soldiers from a variety of specialties who can be deployed when needed. The desirable specialties include intelligence, law enforcement, finance, and information technology.
- Fund a training course on illicit finance and CTF. As with the Additional Skill Identifier, this should be open to people from different specialties, including intelligence, law enforcement, finance, and information technology.

- Consider funding the equipment that threat finance intelligence and CTF analysts need: information processing systems, software, and databases. Databases would include open-source business research tools and more-specialized intelligence tools. Given that CTF activities in the field often involve ingesting large amounts of information quickly as a result of actions against targets, having the technology to process and analyze such information would be important.
- Consider placing personnel with the U.S. Department of the Treasury or agencies that conduct CTF, perhaps as a joint duty assignment. This assignment would expose the personnel to the agencies with which they will likely have to interact on CTF tasks and missions.
- Draw personnel from the Reserve Component and National Guard Bureau who already have the necessary skills, such as police officers, bankers, computer programmers, and accountants, and ensure that they have access to CTF training. Such training can help develop a large pool of trained soldiers who can be deployed to the field when operations demand threat finance specialists.

Our research also suggests a number of implications for the joint force:

- Joint doctrine should expand its discussion of the role of local partners in CTF efforts and consider ways to better utilize partners' capabilities to complement U.S. efforts, especially as the joint force continues to transition away from the large-footprint missions that have defined much of what was originally known as the Global War on Terrorism. Along with these doctrinal updates, expanding the role of partners will depend on additional training, exercise, and educational opportunities—all of which will require additional resources but could allow partners to assume a greater share of the burden.
- In terms of organization, the joint force should consider evaluating the long-standing CTF structure, in which USSOCOM is the lead agent, and explore whether reorganizing could offer potential gains. Threats have evolved since this structure was established. Although USSOCOM may very well remain the best choice to lead CTF efforts, an evaluation should answer this question and consider how best to struc-

ture USSOCOM's role and responsibilities, given the changing operational environment.

- As for personnel, CTF cells may need to augment their staffs with civilian financial analysts and computer scientists to better counter cybercrimes and the exploitation of other emerging technologies. Incorporating other interagency actors, such as law enforcement officers, who can leverage their distinct skills and experiences from working related problem sets, will also help the joint force respond with greater agility to VNSA financing in a dynamic threat environment.

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# Introduction

The September 11, 2001, attacks and the subsequent U.S. response ushered in a new era of efforts to counter the financing of violent nonstate actors (VNSAs).<sup>1</sup> U.S. laws, regulations, and enforcement tools all quickly changed to support these new efforts.<sup>2</sup> At the same time, the U.S. armed forces increased their capabilities, exploiting financial documents captured in raids and creating two in-theater counter-threat finance (CTF) cells, the Iraq Threat Finance Cell (ITFC) and the Afghanistan Threat Finance Cell, to support kinetic activities.<sup>3</sup> Internationally, the Financial Action Task Force (FATF), originally founded to counter money laundering, was also tasked to counter terrorist financing.<sup>4</sup> Although the focus for many of these reforms was on countering terrorist financing, the same tools and policies can be and have been applied to the broader array of VNSAs. Throughout this report, we use this term to refer to a broad set of groups, including terrorists, insurgents, criminal enterprises, paramilitary organizations, and

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<sup>1</sup> John Roth, Douglas Greenburg, and Serena Wille, *Monograph on Terrorist Financing: Staff Report to the Commission*, Washington, D.C.: National Commission on Terrorist Attacks Upon the United States, 2004.

<sup>2</sup> Juan C. Zarate, “Harnessing the Financial Furies: Smart Financial Power and National Security,” *Washington Quarterly*, Vol. 32, No. 4, 2009.

<sup>3</sup> On captured financial documents, see Patrick B. Johnston, Jacob N. Shapiro, Howard J. Shatz, Benjamin Bahney, Danielle F. Jung, Patrick K. Ryan, and Jonathan Wallace, *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005-2010*, Santa Monica, Calif.: RAND Corporation, RR-1192-DARPA, 2016. On the threat finance cells, see U.S. Department of the Treasury (Treasury), “Combating the Financing of Terrorism, Disrupting Terrorism at its Core,” fact sheet, September 8, 2011.

<sup>4</sup> FATF, “History of the FATF,” webpage, undated c.

militias, all of which operate outside the direct control of a nation state and use or threaten the use of force “to achieve their objectives.”<sup>5</sup>

Countering VNSA financing is important to U.S. Army operations, playing a critical role in degrading such organizations. In the competition phase, ground forces help identify threat network structures and vulnerabilities to support the goal of denying “the threat network the resources needed to expand their operations.”<sup>6</sup> These activities also help set operational conditions if the conflict escalates, supporting targeted strikes on the threat network’s resources. During a conflict, VNSAs can use their financial resources to recruit, equip, and sustain their fighters. After a conflict ends, VNSAs can maintain access to substantial financial holdings, or raise new funds, to continue violent operations that threaten U.S. interests, allies, and partners. These financial resources can prolong conflicts and undermine stabilization efforts. Even in a nonconflict environment, VNSAs can use their financial resources to invest in local goods and services that offer an alternative to the incumbent regime. Such service provision can help groups build support among a broader population, from which they can extract resources; gain safe haven; and, eventually, challenge the state for control.

In this report, we explore VNSA financing, from how groups generate revenues, to the use of these revenues, to efforts to counter and disrupt these revenue streams. We explore the types of revenue sources that VNSAs exploit and how the sources vary across different types of groups and operational environments. We show how financing strategies have evolved and how VNSAs adapt over time. We show how groups spend their money and how violent and nonviolent activities vary across different types of groups and revenue sources. Through a series of in-depth case studies, we provide more detail on each of these issues and draw lessons on the effectiveness of counterthreat efforts to disrupt, degrade, and halt VNSA financing.

These topics should be of value to any soldier planning for or taking part in any level of conflict. CTF is a supporting activity to counterthreat network activities, which may take place in a military engagement, secu-

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<sup>5</sup> Benedetta Berti, “What’s in a Name? Re-Conceptualizing Non-State Armed Groups in the Middle East,” *Nature*, November 29, 2016.

<sup>6</sup> Joint Publication (JP) 3-25, *Countering Threat Networks*, Washington, D.C.: Joint Chiefs of Staff, December 21, 2016, p. IV-17.

rity cooperation, deterrence, antiterrorism, counterterrorism, counter-drug, sanction enforcement, and counterinsurgency.<sup>7</sup> The topics are applicable beyond the U.S. Army to the entire joint force, including the National Guard Bureau in its Title 32 counterdrug activities.<sup>8</sup> They also enable the U.S. Army to support interagency efforts,<sup>9</sup> which represent a critical piece within broader multilateral CTF efforts, with the United States often playing a leading role.<sup>10</sup>

The findings in this report are meant to inform several sets of decisions the U.S. Army faces in the CTF effort. First, they are meant to help the Army support CTF operations through its Title 10 roles, such as training. Second, they are meant to help the Army serve as an essential part of the joint force in CTF efforts. Third, they are meant to help the Army play a role in interagency and multilateral CTF efforts. These roles include prioritizing efforts based on the type of revenue source, anticipating how groups might generate and use their revenues, and degrading groups' capacity to raise or spend money. Finally, these findings can offer insights into related efforts to compete with great powers. Already, the United States is using a variety of nonkinetic tools against these strategic competitors, especially sanctions and designations.<sup>11</sup> In addition, Russia is known to use criminal networks to help achieve its policy ends.<sup>12</sup> And the United States has embarked on a course of economic pressure more generally against China. These tools are

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<sup>7</sup> JP 3-25, 2016, p. I-5.

<sup>8</sup> National Guard Bureau Public Affairs, "National Guard Counterdrug Program," fact sheet, December 2017.

<sup>9</sup> Treasury, *National Strategy for Combating Terrorist and Other Illicit Financing*, Washington, D.C., 2020a.

<sup>10</sup> Treasury, "Counter ISIS Finance Group Leaders Issue Joint Statement," Press Release, November 20, 2019b.

<sup>11</sup> Treasury, "Ukraine-/Russia-Related Sanctions," webpage, July 16, 2020d; Treasury, "Treasury Sanctions Chinese Entity and Officials Pursuant to the Global Magnitsky Human Rights Accountability Act," press release, July 9, 2020c.

<sup>12</sup> Mark Galeotti, *Crimintern: How the Kremlin Uses Russia's Criminal Networks in Europe*, Berlin: European Council on Foreign Relations, April 18, 2017.

already being used in deterrence efforts and are likely to play a role should deterrence fail.<sup>13</sup>

## Defining Terms and Project Scope

VNSA financing is the central focus of this report. In Chapter 2, we discuss financing in greater depth, describing the various sources and means by which groups generate revenues. Before exploring these topics in earnest, we first define the term VNSA, which defines our scope. VNSA often refers to several categories of groups that mostly operate outside the direct control of a nation state and that are “willing and able to use force” or threaten the use of force “to achieve their objectives.”<sup>14</sup> Although there are many types of VNSAs, some of the most common groups include terrorists, insurgents, criminal enterprises, paramilitary organizations, and militias.<sup>15</sup> There is little agreement among policy experts and scholars, however, about the exact definition for each of these categories,<sup>16</sup> which contributes to the general confusion in many studies on VNSAs. Despite this conceptual disagreement, there are some clear differences among the various types of VNSAs that are based on their goals (e.g., financial or political), targets (e.g., civilian versus military or government), control over territory, and ties to local communities and the role the VNSAs play in these communities (e.g., predatory or protective).

Over time, however, the distinction between the different types of VNSAs has become increasingly muddled. For instance, some insurgent groups have hybrid goals (both political and financial) and alternate their

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<sup>13</sup> U.S. Department of Defense (DoD), *Summary of the 2018 National Defense Strategy of the United States of America: Sharpening the American Military’s Competitive Edge*, Washington, D.C., 2018.

<sup>14</sup> Berti, 2016.

<sup>15</sup> Phil Williams, *Violent Non-State Actors and National and International Security*, Zürich: International Relations and Security Network, ETH, 2008b. Also see Richard H. Shultz and Andrew J. Dew, *Insurgents, Terrorists, and Militias: The Warriors of Contemporary Combat*, Columbia University Press, 2009.

<sup>16</sup> Williams, 2008b. Also see Louise I. Shelley, *Dirty Entanglements: Corruption, Crime, and Terrorism*, Cambridge, UK: Cambridge University Press, 2014, pp. 11–13.

focus between the two, for example, the Abu Sayyaf Group (ASG) in the Philippines.<sup>17</sup> In other cases, a group can transform into a de facto criminal organization over time, for example, Fuerzas Armadas Revolucionarias de Colombia (FARC) [Revolutionary Armed Forces of Colombia].<sup>18</sup> Militia groups often provide protection to the same local communities on which they prey, for example, Shia militias in Iraq.<sup>19</sup> And in recent years, not only have terrorist and insurgent groups increasingly relied on criminal activities to finance their operations, but criminal organizations have extensively employed terrorist tactics to intimidate governments and civilians, further blurring the lines between different types of armed groups. Given this convergence among groups, there are important CTF lessons to learn from studying various types of organizations, however distinct their nominal goals or ideologies may initially appear.

Therefore, we explore VNSAs in general, which includes another important type of group: violent extremist organizations (VEOs). In recent years, VEOs have become a point of focus in security studies and U.S. strategic documents. And yet despite representing an important threat, VEO has no widely accepted definition, in part because of disagreement over what constitutes “violent extremism.”<sup>20</sup> Very often, both scholars and practitioners use *violent extremism* and *religious radicalization* or *terrorism*

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<sup>17</sup> McKenzie O’Brien, “Fluctuations Between Crime and Terror: The Case of Abu Sayyaf’s Kidnapping Activities,” *Terrorism and Political Violence*, Vol. 24, No. 2, 2012; Bilveer Singh, “Crime-Terror Nexus in Southeast Asia: Case Study of the Abu Sayyaf Group,” *Counter Terrorist Trends and Analyses*, Vol. 10, No. 9, 2018.

<sup>18</sup> For a discussion of FARC’s involvement in criminal activities and its goals, see Bilal Y. Saab and Alexandra W. Taylor, “Criminality and Armed Groups: A Comparative Study of FARC and Paramilitary Groups in Colombia,” *Studies in Conflict and Terrorism*, Vol. 32, No. 6, 2009. Also see Douglas Farah, “Terrorist Groups in Latin America: The Changing Landscape,” testimony before the Subcommittee on Terrorism, Nonproliferation and Trade, Committee on Foreign Affairs, U.S. House of Representatives, 113th Cong., 2nd Sess., February 4, 2014. For more details, see footnote 1 in Appendix C.

<sup>19</sup> Williams, 2008b, p. 10. Also see Shultz and Dew, 2009, pp. 230–242.

<sup>20</sup> United Nations (UN) Office on Drugs and Crime, “‘Radicalization’ and ‘Violent Extremism,’” webpage, undated.

interchangeably,<sup>21</sup> although the terms are not synonyms. There is even some disagreement within the interagency.<sup>22</sup> By the FBI's definition, some notable examples of VEOs include al-Qaeda (AQ), al-Shabaab, Lebanese Hezbollah (LH), Islamic State in Iraq and Syria (ISIS), and the FARC.<sup>23</sup> And although the FBI's definition of *violent extremism* would technically apply to criminal organizations that have committed gruesome acts of violence to achieve economic goals (e.g., Los Zetas), no such groups are present among the FBI's list of examples.

Despite its own conceptual challenges, we use VNSA throughout this report to refer to the broad class of nonstate groups that use financing to conduct violent activities and operations. This term covers a broader conceptual scope than VEO does, and it explicitly includes transnational criminal organizations, which—together with jihadi terrorist groups—represent one of the categories identified as transnational threats in the latest National Security Strategy.<sup>24</sup> This broader scope allows us to capture not only a more diverse set of armed groups but also a wider spectrum of financing activities across different areas and operational environments. Given the purported trend in convergence among different types of groups, it is imperative that we include as broad a spectrum as possible to ensure we capture lessons from CTF efforts targeting criminal groups, militias, and other violent actors.

## Research Approach and Report Outline

Disrupting finances is critical to countering VNSAs, and the U.S. Army has an important but often overlooked role within the whole-of-government, international CTF effort. Just as conventional warfare has long recognized

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<sup>21</sup> UN Office on Drugs and Crime, undated; Randy Borum, "Radicalization into Violent Extremism I: A Review of Social Science Theories," *Journal of Strategic Security*, Vol. 4, No. 4, 2011, pp. 7–36.

<sup>22</sup> Please see Federal Bureau of Investigation (FBI), "What Are Known Violent Extremist Groups?" webpage, undated a, and FBI, "What Is Violent Extremism," webpage, undated b.

<sup>23</sup> FBI, undated a.

<sup>24</sup> White House, *National Security Strategy of the United States of America*, Washington D.C., December 2017, pp. 2–3.

the importance of attacking an enemy's resources, "CTF provides an analogous means of attacking modern, irregular adversaries at the very foundation of their supply lines, their finances."<sup>25</sup> Academic studies tend to minimize Army and joint force CTF efforts, focusing instead on law enforcement agencies and financial systems. With these activities often subsumed under broader counterinsurgency (COIN) and counterterrorism missions, the Army's role in CTF efforts will have to evolve as it continues to move toward smaller footprint, economy-of-force missions. Given these various constraints, "CTF may become the preemptive 'first strike option' against trans-national or non-state actors" in a dynamic threat environment, offering a "far less costly [means] to disrupt access to funding sources, which will have an immediate and taming effect."<sup>26</sup>

In this report, we explore a series of interrelated questions to provide the U.S. Army and the joint force a broader understanding of VNSA financing in a dynamic threat environment. Through this analysis, we derive lessons on how, and under what conditions, CTF efforts can help disrupt, degrade, and defeat VNSAs. The report proceeds as follows.

We begin our analysis in Chapter 2, where we explore how different group characteristics and operational contexts shape VNSAs' opportunities and determine which revenue sources they use to finance their activities. Existing research tends to focus on individual groups or specific types of revenue streams, which makes it hard to discern broader trends across groups or contexts. Such trends can help inform training by identifying specific financial indicators to watch for, depending on group type and threat environment. These findings can also help policymakers better understand the threat environment, which is important to developing effective shaping activities that can "shape the strategic environment and deter adversaries rather than engag[e] in costly kinetic operations with the enemy."<sup>27</sup>

Building on this discussion of financing across different groups and contexts, Chapter 3 investigates the evolution of financing strategies and

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<sup>25</sup> Jennifer E. Carter, *Emerging DoD Role in the Interagency Counter Threat Finance Mission*, Carlisle, Pa.: U.S. Army War College, 2012, p. 18.

<sup>26</sup> Carter, 2012, p. 18.

<sup>27</sup> Carter, 2012, p. 19.

how groups adapt over time. The threat environment is, after all, dynamic, making it imperative that CTF efforts respond with agility to conflict shocks and VNSA adaptations. As opportunities and risk profiles change, VNSAs respond by expanding or contracting their financial portfolios, which has implications for assessing these groups' resilience and potential vulnerabilities. If shaping efforts fail, CTF efforts may need to shift to more-targeted strikes against VNSAs. The findings in this chapter highlight ways to more effectively cut off VNSA funding and explain why some groups may be more resilient to disruption.

In Chapter 4, we discuss the consequences of financing for VNSAs' violent and nonviolent activities. For some groups, the production of violence is the central focus. For others, violence is more instrumental, used to pursue various political objectives. For some groups, nonviolent activities, including nonstate service provision and the distribution of local goods, offer an alternative instrument to achieve their goals. Understanding how and why some groups invest in these services (as opposed to terror) is important to reducing violence. Given the need for economy of force, these results can help prioritize CTF efforts by focusing on the groups and revenue sources that are most associated with violent activity.

Having discussed the sources, strategies, and consequences of VNSA financing, Chapter 5 turns the focus to CTF efforts, enumerating the tools and methods of disruption and then evaluating their effectiveness. We divide these tools into nonkinetic tools, such as sanctions and anti-money laundering (AML) laws, and kinetic tools, such as targeting senior VNSA members and engaging in combat against VNSAs. Drawing on a series of case studies, we derive lessons from past CTF efforts that help identify the conditions under which the different tools may be more or less effective in disrupting revenue streams and degrading VNSAs.

Finally, in Chapter 6, we conclude with a focused discussion on the implications of this research for the U.S. Army and the joint force. We summarize our major findings and then offer a series of recommendations to support more-effective, -targeted, and -efficient CTF efforts.<sup>28</sup>

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<sup>28</sup> In addition to these six chapters, this report also includes a series of appendices that complement the main report by providing additional information on our data sources, quantitative models, qualitative case studies, and CTF tools.



# Revenue Sources Across Groups and Regions

This chapter focuses on one of the central questions motivating our research: What revenue sources do VNSAs use to finance their organizations? Efforts to counter VNSA financing crucially depend on understanding how and why some groups exploit some revenue sources but not others. In this chapter, we explore variation in revenue sources across groups and regions. Drawing on a series of quantitative models, we investigate how VNSA organizational characteristics and varying operational contexts shape opportunities and help explain which sources groups use to finance their activities. Our analysis suggests that organizational characteristics, including ideology, goals, and identity, play a significant role in explaining variation in VNSAs' revenue sources. Operational contexts, as captured by regional variables, also appear to play an important role, making some revenue sources more accessible in some areas than others, critically shaping VNSAs' revenue-raising opportunities.<sup>1</sup>

This chapter proceeds as follows: We begin with a brief discussion of the existing literature on VNSA revenue sources and identify outstanding unresolved questions. We then introduce the various data sources that we use to explore the relationship between VNSA organizational characteristics, operational contexts, and revenue sources. We next summarize our main findings on revenue sources across VNSA characteristics, then explore

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<sup>1</sup> Although some of these group characteristics and variables are relatively fixed and/or decided before financing choices are made, others (such as a group's age and its operational activities) are endogenous to its available revenue sources and financial streams. Chapter 3 explores some of these dynamic variables in greater depth.

trends across regions, which shape VNSA opportunities. We conclude the chapter with a brief summary, discussing the major implications and limitations of our analysis.

## Existing Work and Outstanding Questions

Much of the expansive literature on VNSA financing focuses on the various means by which groups finance their day-to-day operations and the tools of disruption that state actors and international organizations use to counter these groups.<sup>2</sup> A large share of these studies is qualitative; the evidence is often anecdotal and speculative, making it challenging to carry out a systematic evaluation of hypotheses.<sup>3</sup>

Several seminal studies include some quantitative analysis but focus largely on the association between organizational characteristics and the

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<sup>2</sup> For more details, see Michael Freeman, "Sources of Terrorist Financing: Theory and Typology," Ch. 2 in Michael Freeman, ed., *Financing Terrorism: Case Studies*, Ashgate Publishing, 2012; Jeanne K. Giraldo and Harold A. Trinkunas, "The Political Economy of Terrorism Financing," Ch. 1 in Jeanne K. Giraldo and Harold A. Trinkunas, eds., *Terrorism Financing and State Responses: A Comparative Perspective*, Stanford: Stanford University Press, 2007; Nikos Passas, "Terrorism Financing Mechanisms and Policy Dilemmas," Ch. 2 in Giraldo and Trinkunas, eds., 2007; Moyara de Moraes Ruehsen, "Arab Government Responses to the Threat of Terrorism Financing," Ch. 9 in Giraldo and Trinkunas, eds., 2007; Sue E. Eckert, "The US Regulatory Approach to Terrorist Financing," Ch. 10 in Thomas J. Biersteker and Sue E. Eckert, eds., *Countering the Financing of Terrorism*, Abingdon, UK: Routledge, 2008; Thomas J. Biersteker, Sue E. Eckert, and Peter Romaniiuk, "International Initiatives to Combat the Financing of Terrorism," Ch. 11 in Biersteker and Eckert, eds., 2008; Michael Levi, "Lessons for Countering Terrorist Financing from the War on Serious and Organized Crime," Ch. 12 in Biersteker and Eckert, eds., 2008; Thomas J. Biersteker and Sue E. Eckert, "Conclusion: Taking Stock of Efforts to Counter the Financing of Terrorism and Recommendations for the Way Forward," Ch. 13 in Biersteker and Eckert, eds., 2008; Şener Dalgan, "Combating the Financing of Terrorism: Rethinking Strategies for Success," *Defence Against Terrorism Review*, Vol. 1, No. 1, Spring 2008; Martin Rudner, "Using Financial Intelligence Against the Funding of Terrorism," *International Journal of Intelligence and CounterIntelligence*, Vol. 19, No. 1, 2006.

<sup>3</sup> Brandon A. Sullivan, Steven M. Chermak, Jeremy M. Wilson and Joshua D. Freilich, "The Nexus Between Terrorism and Product Counterfeiting in the United States," *Global Crime*, Vol. 15, Nos. 3–4, 2014.

likelihood that a VNSA exploits a specific type of criminal activity (e.g., drug trafficking, kidnapping) and its effects on downstream outcomes, such as rebel recruitment, territorial control, governance, and resilience.<sup>4</sup> Our review of the existing literature, which included journal articles and books, congressional testimony, and government and nongovernmental organization (NGO) reports, suggests that there are few, if any, broad, longitudinal studies that can help identify financing patterns across different types of groups and regions or threat environments. Despite the relatively limited scope of most studies, the existing literature collectively offers some valuable insights into VNSA financing and how revenue exploitation varies across groups and regions.

## Main VNSA Sources of Revenue

VNSAs rely on a wide variety of revenue sources to finance their operations. These sources may be licit or illicit, with groups often using a combination of both.<sup>5</sup> VNSA sources of financing can be grouped into four main categories: illicit or criminal sources of funding, including extortion, theft, smuggling, and kidnapping; external sponsorship; charitable activities; and exploitation of the legitimate economy and the legal financial system, which often includes fraud and money laundering.<sup>6</sup>

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<sup>4</sup> Victor Asal, H. Brinton Milward, Eric W. Schoon, "When Terrorists Go Bad: Analyzing Terrorist Organizations' Involvement in Drug Smuggling," *International Studies Quarterly*, Vol. 59, No. 1, March 2015; James J. F. Forest, "Global Trends in Kidnapping by Terrorist Groups," *Global Change, Peace & Security*, Vol. 24, No. 3, October 2012; Jeremy M. Weinstein, *Inside Rebellion: The Politics of Insurgent Violence*, Cambridge, UK: Cambridge University Press, 2007. For other studies including quantitative analysis, also see Jacob N. Shapiro and David A. Siegel, "Underfunding in Terrorist Organizations," *International Studies Quarterly*, No. 51, No. 2, 2007.

<sup>5</sup> JP 3-25, 2016, pp. I-1, A-2; Celina B. Realuyo, "Following the Money Trail" to Combat Terrorism, Crime, and Corruption in the Americas, Washington, D.C.: Wilson Center, 2017, pp. 4-5; Steve Barber, "The 'New Economy of Terror': The Financing of Islamist Terrorism," *Global Security Studies*, Vol. 2, No. 1, Winter 2011.

<sup>6</sup> Freeman, 2012; "Introduction," Chapter 1 in Colin P. Clarke, *Terrorism, Inc.: The Financing of Terrorism, Insurgency, and Irregular Warfare*, Westport, Conn.: Praeger, 2015b; Muhamet Aliu, Mejdi Bektashi, Arben Sahiti, and Arbana Sahiti, "A Review of Sources on Terrorist Financing," *Acta Universitatis Danubius Juridica*, Vol. 13, No. 1, 2017.

VNSAs use criminal activities to fund their day-to-day operations for recruiting and training their fighters.<sup>7</sup> Illicit or criminal sources of funding include drug trafficking and other forms of smuggling operations, such as human smuggling and trafficking in wildlife and rare species; extortion; kidnapping for ransom; theft and robbery; murder for hire; piracy; and counterfeiting.<sup>8</sup> Furthermore, the illegal extraction, smuggling, or taxation of raw materials and natural resources (e.g., diamonds, oil, natural gas, precious metals, timber<sup>9</sup>) can provide VNSAs with large sources of income.<sup>10</sup>

According to one study, drug trafficking represents “the most significant source of income for both terrorist and international crimi-

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<sup>7</sup> This is largely reflected in the literature on the crime-terror nexus. For example, see Tamara Makarenko, “The Crime-Terror Continuum: Tracing the Interplay Between Transnational Organised Crime and Terrorism,” *Global Crime*, Vol. 6, No. 1, February 2004; Phil Williams, “Terrorist Financing and Organized Crime: Nexus, Appropriation, and Transformation,” Ch. 6 in Biersteker and Eckert, eds., 2008a; John T. Picarelli and Louise I. Shelley, “Organized Crime and Terrorism,” Ch. 3 in Giraldo and Trinkunas, eds., 2007; Annette Hübschle, “From Theory to Practice: Exploring the Organised Crime-Terror Nexus in Sub-Saharan Africa,” *Perspectives on Terrorism*, Vol. 5, Nos. 3–4, September 2011; Douglas Farah, “Terrorist-Criminal Pipelines and Criminalized States: Emerging Alliances,” *Prism*, Vol. 2, No. 3, June 2011; John T. Picarelli, “Osama bin Corleone? Vito the Jackal? Framing Threat Convergence Through an Examination of Transnational Organized Crime and International Terrorism,” *Terrorism and Political Violence*, Vol. 24, No. 2, 2012.

<sup>8</sup> Gregory F. Treverton, Carl Matthies, Karla J. Cunningham, Jeremiah Goulka, Greg Ridgeway, and Anny Wong, *Film Piracy, Organized Crime, and Terrorism*, Santa Monica, Calif.: RAND Corporation, MG-742-MPA, 2009, pp. 18, 21, 22–24; Angel Rabasa, Christopher M. Schnaubelt, Peter Chalk, Douglas Farah, Gregory Midgette, and Howard J. Shatz, *Counternetwork: Countering the Expansion of Transnational Criminal Networks*, Santa Monica, Calif.: RAND Corporation, RR-1481-A, 2017, pp. 28, 33–34, 72, 80, 103, 114, 188; Vanda Felbab-Brown, “Counterinsurgents in the Poppy Fields: Drugs, Wars, and Crime in Afghanistan,” in James Cockayne and Adam Lupel, eds., *Peace Operations and Organized Crime: Enemies or Allies?* London: Routledge, 2011; Shelley, 2014, p. 189.

<sup>9</sup> For example, see Douglas Farah, “Al Qaeda and the Gemstone Trade,” Ch. 9 in Biersteker and Eckert, eds., 2008; Nikos Passas and Kimberly Jones, “Commodities and Terrorist Financing: Focus on Diamonds,” *European Journal on Criminal Policy and Research*, Vol. 12, No. 1, 2006.

<sup>10</sup> Ellie Maruyama and Kelsey Hallahan, “Following the Money: A Primer on Terrorist Financing,” webpage, Center for a New American Security, June 9, 2017.

nal organizations.”<sup>11</sup> Such disparate groups, however, often have distinct motivations driving their criminal activities. On the one hand, terrorist and insurgent groups engage in criminal activities to advance their political and ideological goals, even when criminal activities contravene those groups’ nominal religious or doctrinal values. For instance, Islamists may issue fatwas to justify their drug trafficking because the revenues support their jihad against “infidels.”<sup>12</sup> On the other hand, criminal groups tend to pursue illicit activities to enrich themselves, using violence to extort businesses and other actors where they operate.<sup>13</sup>

Alongside criminal activities, many VNSAs also receive funding from external sources. Ideological, ethnic, and religious ties represent some of the main sources of external financial support for VNSAs. These external actors include states, nonstate organizations (e.g., other VNSAs but also NGOs and charities), and individuals (e.g., wealthy donors and members of the diaspora who have an interest in supporting the group’s cause). Some, if not most groups, raise external financing from a combination of these sources,<sup>14</sup> with state sponsorship and charity or diaspora funding being the most common.<sup>15</sup>

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<sup>11</sup> Treverton et al., 2009, p. 15; Colin P. Clarke, “Drugs & Thugs: Funding Terrorism Through Narcotics Trafficking,” *Journal of Strategic Security*, Vol. 9, No. 3, Fall 2016, p. 1.

<sup>12</sup> Phil Williams, *Organized Crime and Terrorism*, Washington, D.C.: Defense Intelligence Agency, Project on Terrorist Financing 2004–2005, 2005.

<sup>13</sup> Chris Dishman, “Terrorism, Crime, and Transformation,” *Studies in Conflict & Terrorism*, Vol. 24, No. 1, 2001.

<sup>14</sup> Kenneth Katzman, *Terrorism: Near Eastern Groups and State Sponsors*, Washington D.C.: Congressional Research Service, RL31119, February 13, 2002; Martin Rudner, “Hizbullah Terrorism Finance: Fund-Raising and Money-Laundering,” *Studies in Conflict and Terrorism*, Vol. 33, No. 8, 2010.

<sup>15</sup> Freeman, 2012, pp. 12–14, 20–22; Clarke, 2015b, pp. 5–6, 13–14. Also see James J. F. Forest and Jennifer Giroux, “Terrorism and Political Violence in Africa: Contemporary Trends in a Shifting Terrain,” *Perspectives on Terrorism*, Vol. 5, Nos. 3–4, September 2011, p. 11; Ekaterina Stepanova, *Terrorism in Asymmetrical Conflict: Ideological and Structural Aspects*, Oxford University Press, Stockholm International Peace Research Institute Research Report No. 23, 2008.

Most of the existing literature on state sponsorship focuses on the reasons states finance VNSA activities and on the advantages and disadvantages for VNSAs to accept external state sponsorship, as opposed to pursuing other funding alternatives.<sup>16</sup> Scholars have identified contradictory trends regarding the effect of state sponsorship on VNSA resilience. On the one hand, state sponsorship can improve VNSA resilience, and there is a strong correlation between external state support and insurgent victory. On the other hand, external support is shown to act “as a trigger for indiscipline and thuggishness,” as VNSAs tend to engage in predatory activities against communities, eroding popular support at the local level.<sup>17</sup> External state support may introduce incentive problems similar to those for natural resources, which have been shown to make insurgents more likely to use violence against civilians.<sup>18</sup> VNSAs that do not rely on local populations for financing have fewer constraints on the use of terror. We return to this topic, and its implications for violent and nonviolent activities, in Chapter 4.

Besides external state support, VNSAs also receive funding from other VNSAs. VNSA-to-VNSA financial support and franchising emerged as a prominent trend in the 1990s and 2000s, particularly with AQ’s sponsorship of groups in Iraq and the Philippines, and continues to be a major feature in the contemporary VNSA financing landscape. One study found that, in 68 percent (26 out of 38 cases) of countries experiencing an insurgency between 2008 and 2013, the insurgent groups received support from other

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<sup>16</sup> Daniel Byman, Peter Chalk, Bruce Hoffman, William Rosenau, and David Brannan, *Trends in Outside Support for Insurgent Movements*, Santa Monica, Calif.: RAND Corporation, MR-1405-OTI, 2001; Daniel Byman, *Deadly Connections: States that Sponsor Terrorism*, Cambridge, UK: Cambridge University Press, 2005; Navin A. Bapat, “The Internationalization of Terrorist Campaigns,” *Conflict Management and Peace Science*, Vol. 24, No. 4, September 2007; Navin A. Bapat, “Understanding State Sponsorship of Militant Groups,” *British Journal of Political Science*, Vol. 42, No. 1, 2012; Marc R. DeVore, “Exploring the Iran-Hezbollah Relationship: A Case Study of How State Sponsorship Affects Terrorist Group Decision-Making,” *Perspectives on Terrorism*, Vol. 6, No. 4/5, October 2012, pp. 85–107.

<sup>17</sup> Paul Staniland, “Organizing Insurgency: Networks, Resources, and Rebellion in South Asia,” *International Security*, Vol. 37, No. 1, Summer 2012b, pp. 146.

<sup>18</sup> Weinstein, 2007; Lucy Hovil and Eric Werker, “Portrait of a Failed Rebellion: An Account of Rational, Sub-Optimal Violence in Western Uganda,” *Rationality and Society*, Vol. 17, No. 1, February 2005.

insurgent groups, and in 10 of these 26 cases, VNSA-to-VNSA support was in the form of funding, next to training, provision of weapons and materiel and of logistical and other military support.<sup>19</sup> Additionally, after state sponsorship, VNSA support to other VNSAs may have the most significant impact on an insurgency's longevity and success.<sup>20</sup> VNSA financial support is arguably less restrictive than state sponsorship, as VNSAs are generally less concerned with pressure and blowback within the international community than are state sponsors. Additionally, both forms of outside sponsorship arguably decrease a VNSA's reliance on grassroots support from local communities, which may increase the group's propensity for violent acts.<sup>21</sup>

VNSAs also rely on funds from charitable donations,<sup>22</sup> mainly from individuals and diaspora populations with an interest in supporting the VNSA's cause.<sup>23</sup> However, charitable donations are a rather unreliable source of funding, with support fluctuating depending on media coverage of a certain organization and its activities. For instance, charitable donations for insurgent movements may increase when the respective insurgency registers military successes that are widely publicized and may decrease when media publicizes the openness of an insurgent group to open peace talks with the government.<sup>24</sup> Diaspora funding through charities often reinforces

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<sup>19</sup> Daniel Byman, "Outside Support for Insurgent Movements," *Studies in Conflict & Terrorism*, Vol. 36, No. 12, November 13, 2013.

<sup>20</sup> Byman, 2013, p. 983.

<sup>21</sup> Kevin Siqueira and Todd Sandler, "Terrorists Versus the Government: Strategic Interaction, Support, and Sponsorship," *Journal of Conflict Resolution*, Vol. 50, No. 6, December 2006.

<sup>22</sup> For example, see Gregory Rose, "Terrorism Financing in Foreign Conflict Zones," *Counter Terrorist Trends and Analyses*, Vol. 10, No. 2, February 2018; Mark Basile, "Going to the Source: Why Al Qaeda's Financial Network Is Likely to Withstand the Current War on Terrorist Financing," *Studies in Conflict & Terrorism*, Vol. 27, No. 3, 2004; Barber, 2011.

<sup>23</sup> For example, see Rem Korteweg, "Black Holes: On Terrorist Sanctuaries and Governmental Weakness," *Civil Wars*, Vol. 10, No. 1, 2008, p. 66.

<sup>24</sup> Clarke, 2015b, p. 6; Giraldo and Trinkunas, eds., 2007, p. 13.

and exacerbates “the protracted nature of conflicts by endorsing the most militant leaders in the homeland.”<sup>25</sup>

In addition to criminal activities and external support, some VNSAs also derive revenues through the legitimate financial system and legal businesses,<sup>26</sup> which can help launder illicit proceeds and hide the illegitimate origin of some of their sources of funding. Legal business entities can serve a dual role, providing revenues while also serving as front companies or vehicles for money laundering.<sup>27</sup> Both scholars and policymakers emphasize the need to differentiate between terrorist financing and money laundering, which are often conflated.<sup>28</sup> Although money laundering hides the origin and ownership of illicit financial proceeds, making it appear to be the outcome of legitimate business and financial operations, terrorist financing uses the illicit proceedings to prepare and carry out terrorist attacks.<sup>29</sup> In essence, money laundering is one component of terrorist financing, but, in most cases, terrorists engage in little money laundering and simply use dirty money to finance their operations. However, similar to criminal organizations, terrorist groups also aim to move their money quietly through the financial system without drawing the attention of authorities.<sup>30</sup>

## Organizational Characteristics and Revenue Sources

Much of the existing literature explores a limited number of organizational characteristics and their relationships to specific sources of VNSA funding. In contrast to our project, which is fairly expansive in scope, most studies of VNSA financing tend to have a relatively narrow focus, exploring relationships between a few organization-related variables and, usually, one spe-

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<sup>25</sup> Clarke, 2015b, pp. 5–6.

<sup>26</sup> For example, see Basile, 2004.

<sup>27</sup> Clarke, 2015b, p. 7; Treverton et al., 2009, p. 23.

<sup>28</sup> Phil Williams, “Warning Indicators and Terrorist Finances,” Ch. 5 in Giraldo and Trinkunas, eds., 2007, p. 85; Ian Robege, “Misguided Policies in the War on Terror? The Case for Disentangling Terrorist Financing From Money Laundering,” *Politics*, Vol. 27, No. 3, 2007; Realuyo, 2017, pp. 4–5.

<sup>29</sup> Williams, 2007, p. 85.

<sup>30</sup> Williams, 2007, pp. 85–86.



cific source of financing, such as drug trafficking, kidnapping, or external support.<sup>31</sup>

One study, for example, found that religious ideology had no significant effect in predicting a group's involvement in the illicit drug economy.<sup>32</sup> Other studies have suggested that ethnonationalist groups tend to dominate international drug trafficking.<sup>33</sup> Beyond ideology, there is some evidence to suggest that a group's organizational size may shape the likelihood that it would engage in drug trafficking.<sup>34</sup> Another study suggests that long-established (i.e., older) groups, such as the Liberation Tigers of Tamil Eelam (LTTE), Partiya Karkerên Kurdistanê (PKK) [Kurdistan Workers' Party], and LH, were more likely to have "the organizational capacity to engage in larger-scale crime with higher profit margins" than smaller, less-established groups.<sup>35</sup> A group's control over territory has also been associated with drug trafficking, mostly as a consequence of the group's greater freedom and flexibility.<sup>36</sup>

Research on counterfeiting schemes as a form of VNSA funding shows that this criminal activity is rarely ideology-driven and seldom geared toward funding terrorist operations. Often, financial incentives are the main drivers of terrorist groups' engagement in counterfeiting, including self-enrichment rather than furthering the political goals of the group. However, some jihadi suspects in one study engaged in counterfeiting to raise funds for the broader fundamentalist movement, and approximately 90 percent of the counterfeiting schemes the researchers evaluated showed a link to jihadi extremism. This connection was most likely the result of many

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<sup>31</sup> For example, see Asal, Milward, and Schoon, 2015; Forest, 2012; C. Christine Fair, "Diaspora Involvement in Insurgencies: Insights from the Khalistan and Tamil Eelam Movements," *Nationalism and Ethnic Politics*, Vol. 11, No. 1, 2005; Byman, 2005.

<sup>32</sup> Asal, Milward, and Schoon, 2015.

<sup>33</sup> Letizia Paoli and Peter Reuter, "Drug Trafficking and Ethnic Minorities in Western Europe," *European Journal of Criminology*, Vol. 5, No. 1, 2008.

<sup>34</sup> Asal, Milward, and Schoon, 2015.

<sup>35</sup> Treverton et al., 2009, p. 15.

<sup>36</sup> Asal, Milward, and Schoon, 2015. Statistical significance means that the relationship among a set of variables is likely not the result of chance.

individual jihadi suspects not being closely linked to terrorism but being involved in counterfeiting mainly for profit reasons.<sup>37</sup>

## Operational Contexts and Revenue Sources

Although most studies of VNSA financing tend to focus on specific areas or regions,<sup>38</sup> our report takes a broader, global approach to better identify patterns within and across operational contexts and threat environments. Despite our more expansive scope, there is much we can learn from existing work on the ways specific contexts may shape VNSA opportunities and access to resources. State sponsorship, for example, tends to be common among groups operating in the Middle East.<sup>39</sup> In part, this finding may be driven by these studies' focus on some especially prominent groups in the region, such as ISIS, AQ, LH, and Hamas,<sup>40</sup> who tend to garner considerable attention from scholars and policymakers alike. Whether groups in the Middle East are statistically more likely to receive external support is a question we return to later in this chapter.

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<sup>37</sup> Sullivan et al., 2014, p. 369.

<sup>38</sup> Vinesh Basdeo, "Terrorist Financing in Southern Africa: African Commitment to Combating Terrorism," *First International Conference of the South Asian Society of Criminology and Victimology: Conference Proceedings*, Jaipur, India, January 2011; Jean-Charles Brisard, "Terrorism Financing in North Africa," in János Tomolya and Larry D. White, eds., *Terrorist Threats in North Africa from a NATO Perspective*, IOS Press, 2015; Jessica Piombo, "Terrorist Financing and Government Responses in East Africa," Ch. 11 in Giraldo and Trinkunas, eds., 2007; Hübschle, 2011; Aurel Croissant and Daniel Barlow, "Following the Money Trail: Terrorist Financing and Government Responses in Southeast Asia," *Studies in Conflict & Terrorism*, Vol. 30, No. 2, February 2007, p. 135; Rose, 2018; John L. Lombardi and David J. Sanchez, "Terrorist Financing and the Tri-Border Area of South America: The Challenge of Effective Governmental Response in a Permissive Environment," Ch. 13 in Giraldo and Trinkunas, eds., 2007.

<sup>39</sup> Rudner, 2010; Farah, 2011, pp. 15–32.

<sup>40</sup> See Chapters 4, 5, 7, and 8 in Clarke, 2015b; Chapters Two and Three in Colin P. Clarke, Kimberly Jackson, Patrick B. Johnston, Eric Robinson, and Howard J. Shatz, *Financial Futures of the Islamic State of Iraq and the Levant: Findings from a RAND Corporation Workshop*, Santa Monica, Calif.: RAND Corporation, CF-361, 2017; Basile, 2004; Rudner, 2010; Doug Philippon, "Hezbollah: The Organization and its Finances," Ch. 4 in Freeman, ed., 2012; and Chapters Eight and Nine in Johnston et al., 2016.

Studies on groups operating in other regions, however, often discuss a wider mix of revenue sources. Research on VNSAs in Southeast Asia, for example, identify a variety of funding streams, both local and international, including criminal activity, smuggling, external support, and front companies and investments.<sup>41</sup> Although some local VNSAs, such as ASG, mostly fund themselves through a combination of criminal activities and local donations, groups with a more regional reach, such as Jemaah Islamiyah, have been able to enjoy both local and international sources of funding, ranging from local criminal activities and donations to international charitable and business networks.<sup>42</sup>

Recent studies on VNSA financing in Central and West Africa have tended to focus on Boko Haram and AQ affiliated groups, which have used extortion in the Lake Chad Basin,<sup>43</sup> and kidnapping for ransom and illicit trafficking in West Africa.<sup>44</sup> A 2016 report noted that most sources of funding for Boko Haram were local, while AQ affiliates in the region not only received foreign donations but also benefited from illicit trafficking throughout West and North Africa.<sup>45</sup>

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<sup>41</sup> For discussions of the sources of financing for the main VNSAs active in Asia, see Moyara Ruehsen, "Partiya Karkeren Kurdistan (PKK)," Ch. 5 in Freeman, ed., 2012; Geoffrey Kambere, Puay Hock Goh, Pranav Kumar, and Fulgence Msafiri, "Lashkar-e-Taiba (LeT)," Ch. 6 in Freeman, ed., 2012; Justin Y. Reese, "Financing the Taliban," Ch. 7 in Freeman, ed., 2012; Christopher L. Corley, "The Liberation Tigers of Tamil Eelam (LTTE)," Ch. 8 in Freeman, ed., 2012; and Wade A. Germann, Eric Harunian, Richard A. Polen, and Krishnamurti Mortela, "Terrorist Financing in the Philippines," Ch. 9 in Freeman, ed., 2012. Also see Agus Santoso and Sylvia Windya Laksmi, "Regional Terrorism Financing Risk Assessment Framework: Southeast Asia and Australia," *Counter Terrorist Trends and Analyses*, Vol. 8, No. 10, 2016.

<sup>42</sup> Croissant and Barlow, 2007, p. 135. Also see Rose, 2018.

<sup>43</sup> FATF, Inter-Governmental Action Group Against Money Laundering in West Africa, and the Task Force on Money Laundering in Central Africa, *Terrorist Financing in West and Central Africa*, Paris: FATF, 2016.

<sup>44</sup> Daniel Detzi and Steven Winkleman, "Hitting Them Where It Hurts: A Joint Inter-agency Network to Disrupt Terrorist Financing in West Africa," *Studies in Conflict & Terrorism*, Vol. 39, No. 3, 2016, p. 227.

<sup>45</sup> Detzi and Winkleman, 2016, p. 227; FATF, Inter-Governmental Action Group Against Money Laundering in West Africa, and the Task Force on Money Laundering in Central Africa, 2016.

In Europe and the Americas, studies reveal a diverse mix of VNSAs, who tend to draw on a variety of sources. Along with exhaustive studies of the Basque separatist group Euskadi Ta Askatasuna (ETA), the Provisional Irish Republican Army (PIRA), and the Italian mafia,<sup>46</sup> recent work on European VNSAs has focused on jihadi groups.<sup>47</sup> A 2015 study from the Norwegian Defence Research Establishment analyzing “40 jihadi cells that have plotted attacks against European targets between 1994 and 2013,” found that the use of personal assets and the illicit trade in drugs, cars, forged documents, and weapons represented the most common sources of funding for these attacks.<sup>48</sup> ISIS recruits in Europe are also known to have generated low levels of resources from drug trafficking.<sup>49</sup> When it comes to the Americas, the region is host to a wide variety of VNSAs ranging from drug trafficking organizations to insurgent and terrorist groups to street gangs. Drug trafficking, kidnapping, and extortion appear to be some of the most prevalent sources of funding for the various groups in the region.<sup>50</sup>

Collectively, these studies, along with those described earlier, suggest some potentially important differences in VNSA financing across regions and different types of groups. And while this literature provides useful insights into why some groups might rely on particular sources of financing, the dearth of broader cross-regional quantitative studies makes it difficult to draw firm conclusions on the relationship between organizational

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<sup>46</sup> Ignacio Sánchez-Cuenca, “The Dynamics of Nationalist Terrorism: ETA and the IRA,” *Terrorism and Political Violence*, Vol. 19, No. 3, 2007; Stein-Fr Kynoe, “Financing the Loyalists in Northern Ireland,” Ch. 10 in Freeman, ed., 2012; Letizia Paoli, *Mafia Brotherhoods: Organized Crime, Italian Style*, New York: Oxford University Press, 2008.

<sup>47</sup> Loretta Napoleoni, “Terrorism Financing in Europe,” *Journal of Middle Eastern Geopolitics*, Vol. 1, No. 2, 2005; Lorenzo Vidino, *Al Qaeda in Europe: The New Battleground of International Jihad*, Buffalo, N.Y.: Prometheus Books, 2005.

<sup>48</sup> Clarke, 2016; Emilie Oftedal, *The Financing of Jihadi Terrorist Cells in Europe*, Kjeller, Norway: Norwegian Defence Research Establishment, January 6, 2015.

<sup>49</sup> Clarke, 2016.

<sup>50</sup> On insurgent group financing, see Saul Hiram Bandala, “The FARC of Colombia,” Ch. 12 in Freeman, ed., 2012; and Celso Andrade-Garzon, “The Finances of the National Liberation Army,” Ch. 13 in Freeman, ed., 2012; Thomas R. Cook, “The Financial Arm of the FARC: A Threat Finance Perspective,” *Journal of Strategic Security*, Vol. 4, No. 1, Spring 2011.

characteristics, contextual factors, and the wide spectrum of VNSA revenue sources. The remaining sections of this chapter aim to fill some of these gaps by using new data that allow us to model the relationship between VNSA financing and these various group and regional factors.

## Data on VNSAs and Their Revenue Sources

Throughout this report, we draw on three publicly available datasets to capture VNSA revenue sources and financing strategies: the Rebel Contraband Dataset (RCD),<sup>51</sup> the Dangerous Companions Dataset (DCD),<sup>52</sup> and the Uppsala Conflict Data Program (UCDP) External Support Dataset (UCDP-ESD).<sup>53</sup> We also draw on two other datasets, the Foundations of Rebel Group Emergence (FORGE) dataset and the UCDP Georeferenced Event Dataset (UCDP-GED),<sup>54</sup> to capture group characteristics and violent behavior.<sup>55</sup> We now briefly describe each of these datasets in greater detail.<sup>56</sup>

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<sup>51</sup> James Igoe Walsh, Justin M. Conrad, Beth Elise Whitaker, and Katelin M. Hudak. “Funding Rebellion: The Rebel Contraband Dataset,” *Journal of Peace Research*, Vol. 55, No. 5, 2018.

<sup>52</sup> Belgin San-Akca, *States in Disguise: Causes of State Support for Rebel Groups*, New York: Oxford University Press, 2016.

<sup>53</sup> Stina Högladh, Therése Pettersson, and Lotta Themnér, “External Support in Armed Conflict 1975–2009: Presenting New Data,” paper presented at the 52nd Annual International Studies Association Convention, Montreal, Canada, March 16–19, 2011.

<sup>54</sup> Jessica Maves Braithwaite and Kathleen Gallagher Cunningham, “When Organizations Rebel: Introducing the Foundations of Rebel Group Emergence Dataset,” *International Studies Quarterly*, Vol. 64, No. 1, March 2020; Ralph Sundberg and Erik Melander, “Introducing the UCDP Georeferenced Event Dataset,” *Journal of Peace Research*, Vol. 50, No. 4, 2013; Stina Högladh, *UCDP GED Codebook*, v. 19.1, Uppsala, Sweden: Uppsala Universitet, Department of Peace and Conflict Research, 2019.

<sup>55</sup> All five of these datasets have UCDP numeric actor identifiers, although some of these datasets use the UCDP’s previous numeric actor identifiers that have since changed. These identifiers were updated to their current form using the UCDP’s translation table.

<sup>56</sup> Appendix A provides more information on each of these data sources, the variables they include, and the potential limitations that they impose on our analysis.

## Measures of VNSA Revenue Sources

The RCD catalogues VNSA resource exploitation and criminal fundraising on an annual basis from 1990 through 2015.<sup>57</sup> We found that 72 of the 98 groups for which we have at least two years of data saw some change in their revenue sources (i.e., 36 percent of the group-years). This share of the sample is nontrivial and suggests that the RCD data are in fact capturing some meaningful within-group variation over time.

The RCD is predominantly organized around the resource (e.g., oil, diamonds, drugs) and exploitation type (e.g., oil smuggling, diamond theft, drug trafficking), although the dataset includes a number of additional variables.<sup>58</sup> Using these data, we created a series of binary variables that represent whether a group derives revenues from different types of funding streams in a given year. Many of these variables map onto the funding streams described in the existing literature, allowing us to test hypotheses implicit in these studies. Throughout this report, we focus on the most common revenue streams:

- *Extortion* occurs when a VNSA “uses violence or the threat of violence to earn money directly or indirectly from the production of natural resources” on a regular basis or when a VNSA “taxes” much of the economic activity that occurs in a particular area.<sup>59</sup>
- *Theft* occurs when a VNSA steals a resource to sell it or engages in the regular illicit seizure of goods.<sup>60</sup> This definition also includes “large-scale theft, such as multiple bank robberies, stealing large numbers of vehicles or other valuable goods,” and “credit card fraud.”<sup>61</sup>

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<sup>57</sup> RCD covers 1990–2015 as of 2020.

<sup>58</sup> More information on these resources and exploitation types can be found in Appendix A.

<sup>59</sup> Walsh et al., 2018; James Igoe Walsh, Justin M. Conrad, Beth Elise Whitaker, and Katelin M. Hudak, “Codebook for Rebel Contraband Dataset,” vers. 1.0, July 2017, pp. 5, 8.

<sup>60</sup> Walsh et al., 2018; Walsh et al., 2017, p. 6.

<sup>61</sup> Walsh et al., 2018; Walsh et al., 2017, p. 8.

- *Smuggling* occurs when a VNSA “earns income by directly engaging in or protecting those who” engage in illicit transport of legal or illegal resources, including drugs, basic commodities, and natural resources.<sup>62</sup>
- *Kidnapping for ransom* occurs when a VNSA “kidnaps people in exchange for payments.”<sup>63</sup>

Although the RCD also considers other potential revenue streams (e.g., piracy, human trafficking, and money laundering), relatively few groups tend to exploit such sources—at least according to publicly available, open-source data—making it difficult to estimate robust relationships between revenue streams and group and regional factors.<sup>64</sup>

In addition to the revenue sources defined by the RCD, we drew on two other datasets to capture external state support (i.e., financial sponsorship). Data on other sources of external support, such as charities and diaspora communities, are not as broadly collected as data on state sponsors. Because including these data would dramatically constrain our empirical tests, we focus our analysis on external state support. The DCD is our principal data source for external state support, which includes information on financial sponsorship for VNSAs on an annual basis from 1922 through 2010.<sup>65</sup> Given the limits of our other datasets, especially the RCD, we include state support data only from 1990 through 2010 and focus exclusively on financial assistance, ignoring other types of support that a sponsor may provide. As a supplement to the DCD’s information on state support, we also drew on the UCDP-ESD to create our measure of external state support.<sup>66</sup> The UCDP-ESD

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<sup>62</sup> Walsh et al., 2017, p. 7.

<sup>63</sup> Walsh et al., 2018; Walsh et al., 2017, p. 8.

<sup>64</sup> In Appendix B, we discuss these econometric challenges in greater depth and describe some of the less robust findings that hold for these other types of revenue sources.

<sup>65</sup> These years of coverage are as of 2020.

<sup>66</sup> San-Akca, 2016.

includes data on external support to VNSAs from 1975 through 2009<sup>67</sup>—we leveraged this dataset to cover the period from 1990 through 2009.

## Measures of Group Characteristics and Behavior

Although financing is the focus of our analysis, our models also include various group characteristics and contextual factors that could shape VNSA behavior and activities. To capture these factors, we drew heavily on the FORGE dataset, which provides information on the origins and formative features of VNSAs: their ideology, organizational goals, identity, and other relevant group details.<sup>68</sup> FORGE defines communist groups as those that “proclaim an explicitly Communist ideology (Maoist, Marxist, Marxist-Leninist, or other).”<sup>69</sup> It codes ethnic groups as those that were “explicitly founded around an ethnic identity.”<sup>70</sup> And it codes independence movements if the VNSA had an initial goal of pursuing “an independent state.”<sup>71</sup> As for Islamist groups, we created this variable from the FORGE data by identifying religious-based groups with a Sunni or Shia political identity. All four of these measures are coded as binary variables (i.e., receive a one or zero).

In addition to the FORGE dataset, we drew on data from the UCDP-GED, which represents the most comprehensive and widely used source on violent activity over time and across groups. For our purposes, we have dropped instances of state-on-state violence and aggregated the total number of events a VNSA was involved in during a calendar year. We also used these data to construct variables on the countries and regions in which a VNSA operates.

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<sup>67</sup> These years of coverage are as of 2020.

<sup>68</sup> The variables constructed from these data are used throughout our empirical analysis, first to explain trends in VNSA revenue sources and financing strategies, and later as controls and conditioning variables to understand the effects on group behavior and activities.

<sup>69</sup> Jessica Maves Braithwaite and Kathleen Gallagher Cunningham, “Codebook for the Foundations of Rebel Group Emergence (FORGE) Dataset,” vs. 1.0, March 2019, p. 4.

<sup>70</sup> Braithwaite and Cunningham, 2019, p. 5.

<sup>71</sup> Braithwaite and Cunningham, 2019, p. 4.



## Data Coverage and Summary Statistics

Given our focus on financing and the limited availability of data on revenues, our quantitative analysis is largely confined to the years 1990 to 2015.<sup>72</sup> This period includes some major transitions in the threat environment, spanning the post-Soviet period and much of the war on terror, but does not capture the expansion of ISIS, which represents a watershed moment in VNSA financing. Although the group's emergence precedes 2015, its expansion of the caliphate, growth in revenue base, and the development of franchises is not captured in our quantitative models. Therefore, scholars and practitioners should interpret our results with some caution, particularly when it comes to extrapolating our findings to transnational jihadist groups.

Table 2.1 provides a summary of the number of groups and total observations (i.e., group-years) contained in each of the datasets described earlier. Because of missing data, however, the actual number of observations in any given empirical model is often much smaller than the maximum possible.

Table 2.2 lists some of the major variables used in the quantitative analysis for this chapter.<sup>73</sup> All the variables in the table are binary. For each variable, the table includes the total number of group-years (i.e., observations), and the percentage of the years for which a group satisfies the binary condition. The first five variables represent the most common revenue sources for VNSAs, which we described earlier. Below the revenue sources, we include statistics on VNSA organizational characteristics. Note that these organizational characteristics are not mutually exclusive: groups can have an established ethnic identity and also be communist, for example. And while these terms are used loosely to distinguish among VNSAs with different ideological views or identities, they should be read in context. For example, when we discuss patterns among Islamist groups, we do not intend to refer to all such groups but those organizations that qualify as VNSAs and adhere to some

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<sup>72</sup> A notable exception concerns data on external state support. No existing dataset provides information on financial sponsorship after 2010; our analysis on external state support is therefore limited to the period from 1990 through 2010.

<sup>73</sup> In addition to these variables, the models include control variables for whether a group is transnational, how old it is (organizational age), and time trends. These variables, and their relationship with VNSA financing, are discussed at greater length in Chapter 3.

**TABLE 2.1**  
**Data Coverage Across Datasets**

| Dataset  | Number of VNSAs | Number of Group-Years |
|----------|-----------------|-----------------------|
| RCD      | 299             | 1,580                 |
| FORGE    | 258             | 2,553                 |
| UCDP-ESD | 227             | 962                   |
| DCD      | 255             | 2,203                 |
| UCDP-GED | 608             | 2,951                 |

NOTE: For more on these datasets, see Appendix A. The FORGE data are collected at the group-level, while the remaining datasets are all annual.

**TABLE 2.2**  
**Descriptive Statistics for Revenue Sources and Group Characteristics**

| Variable               | Number of Group-Years Covered | Percentage of Sample Meeting Condition |
|------------------------|-------------------------------|----------------------------------------|
| Revenue sources        |                               |                                        |
| Extortion              | 1,580                         | 54                                     |
| Smuggling              | 1,580                         | 38                                     |
| External state support | 2,162                         | 20                                     |
| Kidnapping             | 1,580                         | 20                                     |
| Theft                  | 1,580                         | 15                                     |
| VNSA characteristics   |                               |                                        |
| Independence movement  | 2,560                         | 43                                     |
| Communist group        | 2,560                         | 27                                     |
| Islamist group         | 2,560                         | 23                                     |
| Ethnic group           | 2,560                         | 61                                     |

NOTE: For more on these data, see Appendix A.

form of political Islam. Many Islamist groups do not use violence to achieve their goals and so are not included in this analysis.

Table 2.3 provides a breakdown of group-years across regions. We show the regional distribution by group-years (the left column) and distinct groups (the middle column) for our revenue data. The right column also provides the average number of years per group in each region, which highlights how much shorter the panels are for groups in Europe and Africa. Overall, Asian and African groups have the most coverage in the data, followed by groups in the Middle East; groups in the Americas and Europe comprise a much smaller share of the data overall. Given the limited coverage for groups in the Americas and Europe, we should be cautious in interpreting the results and applying their lessons too broadly. In the case of the Americas, in particular, a few select groups—e.g., the FARC and Ejército de Liberación Nacional (ELN) [National Liberation Army]—likely play an outsized role in driving the results.

Collectively, these variables allow us to quantitatively model the relationship between organizational characteristics, operational context, and VNSA financing. Although such models represent an important contribution to existing work, which has traditionally focused on more narrowly defined case studies, they are not without limitations. We lack systematic data on important variables, such as territorial control, fighting power, and organizational strength.

**TABLE 2.3**  
**Coverage Across Regions**

| Variable    | Number of Group-Years | Number of Groups | Average Number of Years per Group |
|-------------|-----------------------|------------------|-----------------------------------|
| Middle East | 203                   | 32               | 6.3                               |
| Asia        | 559                   | 87               | 6.4                               |
| Africa      | 501                   | 135              | 3.7                               |
| Americas    | 95                    | 18               | 5.3                               |
| Europe      | 96                    | 39               | 2.5                               |

NOTE: For more on these data, see Appendix A.

Most importantly, however, we do not have data on *the volume or amount of funds* each VNSA collects annually. Note that all our measures of revenue sources represent binary variables, indicating whether—not how much—a group derives revenues from that source in a given year. Unfortunately, no publicly available dataset provides consistent or reliable estimates on the volume of VNSAs’ revenues over time. Any such estimates tend to be scattered across a handful of groups and cover only a limited number of years, making broad, quantitative analysis all but impossible. We return to this data limitation throughout our analysis, noting any potential implications for what we can (and cannot) infer from the models.

## Revenue Sources Across VNSAs

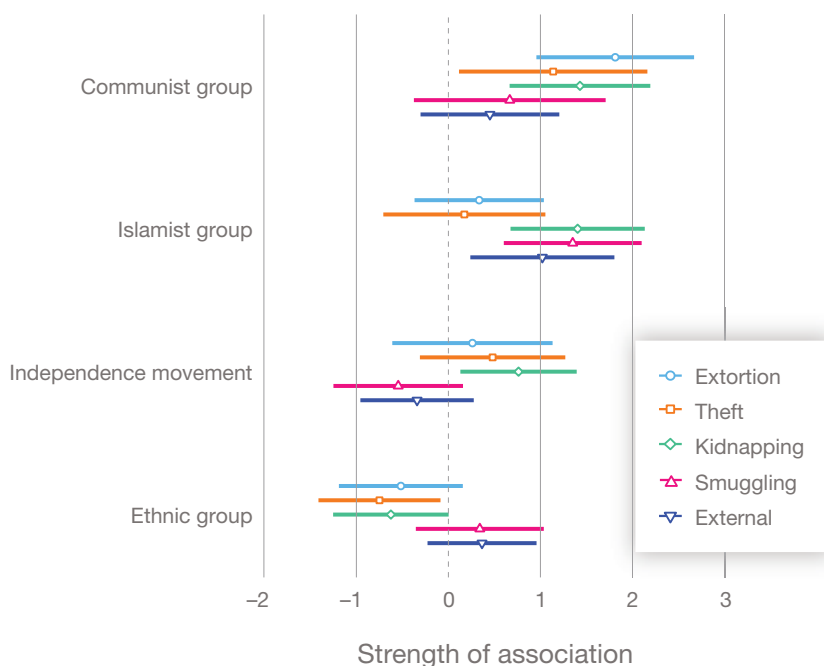
We now discuss the relationship between organizational characteristics and revenue sources. In this section—as we do throughout the report—we use illustrative figures to present our quantitative findings.<sup>74</sup> Figure 2.1 reports the relationship between different group characteristics and the choice of revenue sources. In the figure, different revenue sources are represented by distinct colors and shapes. The strength of the relationship between some characteristic (e.g., the group adheres to a communist ideology) and a revenue source (e.g., the group uses extortion) is represented by the placement of the colored shape relative to the dashed vertical line at zero. The farther the shape is from zero, the stronger the relationship between the group characteristic and the revenue source. The colored lines represent the relative certainty of that estimate (i.e., 90-percent confidence intervals, meaning that there is a 90 percent likelihood that the true value lies within the bounds of that line).

### Communist Groups

Revenue-raising by groups with a communist ideology offers the simplest story, albeit a somewhat surprising one. The figure suggests that, all things being equal (i.e., controlling for other characteristics, regional contexts,

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<sup>74</sup> For more technical modeling discussions, including estimation strategies and robustness checks, see Appendix B.

**FIGURE 2.1****Revenue Sources Across Different Group Types**

SOURCE: RAND Arroyo Center analysis of various data sources.

NOTES: For more on the data and model specifications, see Appendix B. The plotted coefficients represent log odds.

and time trends), communist groups are significantly more likely to draw revenues from extortion, theft, and kidnapping. These groups also tend to be more likely to use smuggling and to draw on external state support, although these results are less robust and tend to be more dependent on the model specification.

As discussed earlier, these five are the most common revenue sources among VNSAs in general, and communist groups are more likely than noncommunist groups to draw on each of them. In more-concrete terms, a communist group is 37, 15, and 19 percent more likely to use extortion, theft, and kidnapping, respectively, than a noncommunist group. Similar trends hold for the other sources as well, although smaller in magnitude. Collectively, these results suggest that communist groups tend to be fairly

agnostic or pragmatic about their financial streams, showing a willingness to exploit a variety of revenue sources to fund their organizations.<sup>75</sup>

The Communist Party of India–Maoist (CPI-M) illustrates this trend, having used multiple revenue streams to fund its insurgency over the years. Since 2004, CPI-M has funded itself through extortion, theft, smuggling, and kidnapping for ransom in its struggle against India.<sup>76</sup> CPI-M extorts funds from individuals and businesses in the areas in which it operates, although members of CPI-M have insisted that this is not extortion but rather a tax on wealthy individuals and corporations and voluntary donations from villagers.<sup>77</sup> Additionally, CPI-M steals from businesses in the areas it controls,<sup>78</sup> cultivates and smuggles cannabis and “forest products such as ivory and sandalwood,”<sup>79</sup> and kidnaps individuals for ransom.<sup>80</sup>

Other communist groups, such as the Communist Party of the Philippines (CPP), however, are less consistent with our findings. The CPP has been active since 1968,<sup>81</sup> and our data suggest that it almost exclusively uses extortion to support its fight against the Filipino government.<sup>82</sup> In part, the CPP’s reliance on local-level extortion may be a response to the U.S. Department of State’s (DoS’s) 2002 designation of the group as a foreign terrorist

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<sup>75</sup> Appendix B provides more details on these models. The appendix also reports results from additional models, which suggest that communist groups are significantly less likely to exploit some relatively uncommon revenue sources, such as human trafficking and fraud. These additional results indicate that communist groups may be slightly more discriminating than Figure 2.1 suggests.

<sup>76</sup> Arijit Mazumdar, “Left-Wing Extremism and Counterinsurgency in India: The ‘Andhra Model,’” *Strategic Analysis*, Vol. 37, No. 4, August 2, 2013.

<sup>77</sup> Human Rights Watch, *Between Two Sets of Guns: Attacks on Civil Society Activists in India’s Maoist Conflict*, July 30, 2012.

<sup>78</sup> European Foundation for South Asian Studies, “A Historical Introduction to Naxalism in India,” paper, December 2019.

<sup>79</sup> “India: No Nexus Between Naxals, Nepal Maoists,” *Times of India*, April 17, 2008.

<sup>80</sup> “India’s Maoist Rebels: An Explainer,” Al Jazeera, April 26, 2017.

<sup>81</sup> Central Intelligence Agency, *Communist Insurgency in the Philippines: Organization and Capabilities: An Intelligence Assessment*, Langley, Va., May 30, 1985 (sanitized).

<sup>82</sup> “AFP, PNP Urge Bukidnon Bizmen to Report NPA Extortion Activities,” Philippine Information Agency, January 28, 2020.

organization (FTO), which has made it difficult for the group to acquire funds abroad.<sup>83</sup> It appears that, for some time, the CPP managed to fund some of its activities with money acquired from international NGOs,<sup>84</sup> but this revenue stream has reportedly dried up in recent years.

Although communist groups may attract state support for various reasons,<sup>85</sup> few studies explain why communist groups would enjoy more-diverse resource streams overall. Our findings may suggest that communist VNSAs have a greater propensity to target local landowners, businesses, and wealthy individuals for extortion, theft, and kidnapping for ransom because of a perception that these actors and individuals are fair game because their existence runs in direct conflict with the egalitarian system that these groups purport to fight for. Alternatively, it may be the case that such groups have had to pursue a variety of revenue sources to replace lost revenues when their state sponsors collapsed after the Cold War ended. Lacking a reliable sponsor, these groups may have been forced to pragmatically pursue other sources to finance their organizations. Unfortunately, because of data limitations (i.e., little revenue data from before 1990), we cannot rigorously test this potential explanation.

## Islamist Groups

Our models suggest that other types of groups, such as Islamists, tend to follow more-distinctive trends. Figure 2.1 shows that, while Islamist groups are no more likely to use extortion or theft than non-Islamist groups (i.e., there are no significant differences for these revenue sources), Islamists are much more likely to use kidnapping, smuggling, and external state support. Among these revenue sources, the most notable is external state support. No other group type or characteristic has as large of a relationship with the likelihood of receiving state support as Islamism. All things being equal,

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<sup>83</sup> Australian Country Research Section of the Refugee Review Tribunal, Research Response Number: PHL17750, United Nations High Commissioner for Refugees, January 25, 2005.

<sup>84</sup> Alan Robles, “The Philippines’ Communist Rebellion is Asia’s Longest-Running Insurgency,” explainer, *This Week in Asia*, September 16, 2019.

<sup>85</sup> Byman, et al., 2001.

Islamist groups are 20 percent more likely to receive external state support than non-Islamist groups.

Our data further suggest that a disproportionate number of Islamist groups that receive external state support can be found in three countries—Israel and the Palestinian Occupied Territories, Lebanon, and Afghanistan—and that, in most of these cases, the support came during the 1990s in the midst of civil war. In Afghanistan, various states provided support to a number of different actors because of competing interests regarding the future of the country during the Afghan Civil War.<sup>86</sup> In the Israeli-Palestinian conflict and Lebanon, the majority of support has flowed to three groups engaged in conflict with Israel— Hamas, Palestinian Islamic Jihad (PIJ), and LH.

Iran is by far the most frequent sponsor of financial support for Islamist groups—with no other state coming close. VNSAs identified as receiving regular support from Iran include PIJ and Hamas in Gaza, Hizb-i-Wahdat in Afghanistan, LH in Lebanon, and the Supreme Council for the Islamic Revolution in Iraq.<sup>87</sup> These instances of support appear to be based on Iranian interests in influencing the outcome of the Afghan Civil War;<sup>88</sup> engaging in conflict with Israel;<sup>89</sup> challenging Saddam Hussein's Iraq;<sup>90</sup> Iran's neighbor and rival; and influencing the politics of post-Saddam Iraq.<sup>91</sup> Iran appears to have provided support to a larger number of groups during the 1990s than the 2000s, but support for Hamas, PIJ, and LH remained constant across both periods.<sup>92</sup> Three common themes emerge among the

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<sup>86</sup> "Afghanistan Profile—Timeline," BBC News, September 9, 2019.

<sup>87</sup> San-Akca, 2016; Höglbladh, Pettersson, and Themnér, 2011.

<sup>88</sup> Mohsen M. Milani, "Iran's Policy Towards Afghanistan," *Middle East Journal*, Vol. 60, No. 2, Spring 2006.

<sup>89</sup> Daviel Levin, "Iran, Hamas and Palestinian Islamic Jihad," webpage, United States Institute of Peace: The Iran Primer, July 9, 2018.

<sup>90</sup> Daniel Byman, "Iran, Terrorism, and Weapons of Mass Destruction," *Studies in Conflict & Terrorism*, Vol. 31, No. 3, 2008.

<sup>91</sup> International Institute of Strategic Studies, *Iran's Networks of Influence*, London, 2019, pp. 121–158.

<sup>92</sup> San-Akca, 2016; Höglbladh, Pettersson, and Themnér, 2011.



VNSAs Iran supports: They tend to be Islamist, are engaged in conflict with a rival, or are predominantly Shia organizations.

Potential explanations for the heightened rate of state support to Islamist organizations could be due to shared religious identity between the supporter and the VNSA, intention to support a VNSA in conflict with a rival state, and a shared overall ideology.<sup>93</sup> Alternatively, this finding may be driven by states within the Middle East and South Asia competing for more regional influence,<sup>94</sup> particularly in areas where a significant number of VNSAs have been organized around religious, and especially Islamist, lines.

In terms of other revenue sources associated with Islamists, we found that, while kidnapping for ransom is used by such groups around the world, it is particularly common among Islamists in the Philippines, Algeria, and Iraq. In the Philippines, the Moro Islamic Liberation Front, Moro National Liberation Front, and ASG have regularly used kidnapping as a means to fund insurgencies. This revenue source can also be seen among Algeria's AQ in the Islamic Maghreb (AQIM) and Iraq's Islamic State, both before and after it expanded into Syria. Among the Islamists using kidnapping for ransom, we found that a disproportionate share of the groups are Sunni organizations, although Shia VNSAs, such as Iraq's al-Mahdi Army, have also used this method of financing. It is not immediately clear why Islamist groups have a greater propensity to use kidnapping for ransom as a financing strategy than do non-Islamist VNSAs.

It remains similarly unclear why Islamist groups have a higher propensity to engage in smuggling than other organizations. VNSAs, such as the Islamic Movement of Uzbekistan, the Taliban, United Tajik Opposition, and al-Shabaab, have used smuggling as a fundraising tool over the course of their operations.<sup>95</sup> Similar to kidnapping for ransom, this method has been more frequent among Sunni VNSAs but has been used by at least one Shia organization, the al-Mahdi Army.<sup>96</sup> Islamist VNSAs are more likely to operate transnationally, so it is possible that they have a higher propensity

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<sup>93</sup> Byman et al., 2001.

<sup>94</sup> Byman et al., 2001.

<sup>95</sup> Walsh et al., 2018.

<sup>96</sup> Walsh et al., 2018; Braithwaite and Cunningham, 2020.

toward smuggling because they have an existing network that facilitates the movement of goods across borders.

## Independence Movements

Independence movements appear to follow yet another pattern when it comes to the mix of revenue sources. Although the results are less robust than those for communist and Islamist groups, we found suggestive evidence that independence movements are slightly more likely to use theft and kidnapping than other groups (increases of 5 and 8 percent, respectively) and less likely to derive revenues from smuggling and external state support.<sup>97</sup> Controlling for other factors, independence movements are 12 and 6 percent less likely to use smuggling and external state support, respectively, than groups that are not motivated by these goals. These reduced likelihoods, while relatively small in magnitude, are nonetheless notable because they suggest that the focus on local causes may constrain the potential pool of resources for these groups. Smuggling often depends on developing cross-border and international networks, while external support requires attracting a foreign state sponsor to invest in one's cause. Neither of these revenue sources is particularly suited to narrowly focused independence movements, which are significantly less likely to be transnational in orientation.<sup>98</sup>

The Moro National Liberation Front, Moro Islamic Liberation Front, and ASG have all relied on local resources in their struggle to gain independence in parts of the Philippines. Across the three groups, kidnapping for ransom and extortion have been common methods of raising funds.<sup>99</sup> In Myanmar,

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<sup>97</sup> Among these revenue sources, the finding on kidnapping is the most robust across model specifications. Depending on the model specification, some results do not hold across all robustness checks. In general, these findings all tend to hold for errors clustered on group, but some results fall just outside traditional standards of statistical significance when we use country-level clustered errors.

<sup>98</sup> Controlling for time trends, we estimated the likelihood that a VNSA is transnational in a given year. We find that independence movements are significantly less likely to be transnational, while Islamist and ethnic groups are significantly more likely.

<sup>99</sup> Treasury, "Treasury Designates Director, Branches of Charity Bankrolling Al Qaida Network," press release, August 3, 2006; Zachary Abuza, "The Moro Islamic Liberation Front at 20: State of the Revolution," *Studies in Conflict & Terrorism*, Vol. 28, No. 6, 2005;

two independence movements have relied on local revenue streams in their fight against the Tatmadaw. We found the Karenni National Progressive Party to be particularly focused on local funding streams, such as extortion.<sup>100</sup> Similarly, in Russia, the Caucasus Emirate has largely relied on such local revenue streams as extortion and kidnapping for ransom to fund its fight against Moscow.<sup>101</sup>

Although we found independence movements to be less likely than non-independence movements to receive state support, this finding does not hold for all such groups. Hamas and PIJ, for example, are independence-oriented groups that have received backing from a state sponsor, Iran, in their pursuit of their shared goal, an independent Palestinian state. Similarly the Ogaden National Liberation Front received state support from Eritrea in its fight for independence from Ethiopia. Notably, however, external state support went to independence movements in conflict with one of the sponsor's rivals in these cases.<sup>102</sup>

It seems that, while state support to independence movements is less likely than it is to nonindependence movements, it may be more likely to occur where geopolitical rivalries come into play.<sup>103</sup> Otherwise, it seems likely that a state may be hesitant to back independence movements in other states for fear of significantly harming its relationships with other states or causing blowback.<sup>104</sup> This strategic logic, however, may be somewhat conditional in light of recent work that suggests hostile states may deliberately

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P. Kathleen Hammerberg and Pamela G. Faber, *Abu Sayyaf Group (ASG): An Al-Qaeda Associate Case Study*, Arlington, Va.: CNA, October 2017; Nori Katagiri, "Organized Insurgency, Lethality, and Target Selection: Abu Sayyaf Group and Jemaah Islamiyah," *Small Wars & Insurgencies*, Vol. 30, No. 3, 2019; Walsh et al., 2018.

<sup>100</sup> Walsh et al., 2018.

<sup>101</sup> Walsh et al., 2018.

<sup>102</sup> Eritrea and Ethiopia had a rivalry until recent years; see Harry Verhoeven, "Amid Red Sea Rivalries, Eritrea Plays for Independence," webpage, United States Institute of Peace, March 11, 2020.

<sup>103</sup> Byman et al., 2001.

<sup>104</sup> Byman et al., 2001.

weaken their neighbors for various domestic and foreign policy benefits.<sup>105</sup> Under such conditions, a hostile neighbor might instead see an independence movement as a useful tool.

## Ethnic Groups

As Figure 2.1 reveals, ethnic-based groups appear to be the mirror image of independence movements. Although the magnitude of the difference is relatively small, ethnic groups appear to be less likely to use extortion, theft, and kidnapping (12-, 8-, and 6-percent reduced likelihoods, respectively), but significantly more likely to draw revenues from smuggling and external state support (8- and 6-percent increased likelihoods, respectively) than nonethnic groups. And in contrast with independence movements, this pattern suggests that ethnic-based groups tend to depend on revenues from cross-border flows and foreign support. Shared ethnic ties may be one reason for this trend, giving these groups built-in advantages by exploiting coethnic networks and the affinity of potential state sponsors.

The Taliban, originally organized as a predominantly Pashtun VNSA, has been particularly active in smuggling for much of its existence. At times, it has also exploited extortion, kidnapping for ransom, human trafficking, and external state support for financing. In the 1990s, the group was known to get financial support from Saudi Arabia, Qatar, Bahrain, Pakistan,<sup>106</sup> and the United Arab Emirates.<sup>107</sup> The Taliban's success in smuggling transnationally may be connected to both the sanctuary it enjoyed in Pakistan and its local networks in Pakistan's border regions, especially among tribes whose members constituted the group's leadership in the early years. The Taliban has had a presence and has recruited from Pashtun areas of Pakistan since its initial formation in the 1990s and has historically used truck-

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<sup>105</sup> Melissa M. Lee, "The International Politics of Incomplete Sovereignty: How Hostile Neighbors Weaken the State," *International Organization*, Vol. 72, No. 2, 2018.

<sup>106</sup> Höglbladh, Pettersson, and Themnér, 2011; John R. Schmidt, "The Unravelling of Pakistan," *Survival*, Vol. 51, No. 3, 2009.

<sup>107</sup> San-Akca, 2016.

transport mafias to standardize rent extraction, providing an important smuggling system.<sup>108</sup>

In Azerbaijan, the Republic of Artsakh, an ethnically Armenian VNSA, has received financial support from Armenia in its fight for independence and continuation of its current de facto independence from Azerbaijan.<sup>109</sup> In addition to this external support, Republic of Artsakh is known to collect taxes in the area it controls.<sup>110</sup> There are several potential reasons that ethnic groups tend to receive external state support. It may be that states are more likely to have an affinity for groups with coethnics or that are engaged in conflict with a rival state.<sup>111</sup> Both reasons could explain Armenia's support for the Republic of Artsakh. At the same time, external states may provide support to VNSAs to destabilize, to gain influence in, or to inflict retribution on another state.<sup>112</sup> Ethnic groups may be more likely to exploit smuggling as a revenue source because coethnic networks provide an advantage in building cross-border smuggling routes. Like Islamists, ethnic groups' operations are significantly more likely to be transnational, which likely unlocks additional revenue streams.<sup>113</sup>

## Revenue Sources Across Regions

Having discussed the relationships between group characteristics and VNSA financing, we now consider the role of operational context, as rep-

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<sup>108</sup> Michael Rubin, "Who Is Responsible for the Taliban," webpage, Washington Institute for Near East Policy, March 1, 2002.

<sup>109</sup> Höglbladh, Pettersson, and Themnér, 2011; San-Akca, 2016; Pål Kolstø and Helge Blakkisrud, "De Facto States and Democracy: The Case of Nagorno-Karabakh," *Communist and Post-Communist Studies*, Vol. 45, Nos. 1–2, 2012.

<sup>110</sup> Vladimir A. Kolosov and Maria V. Zotova, "Multiple Borders of Nagorno-Karabakh," *Geography, Environment, Sustainability*, Vol. 13, No. 1, 2020.

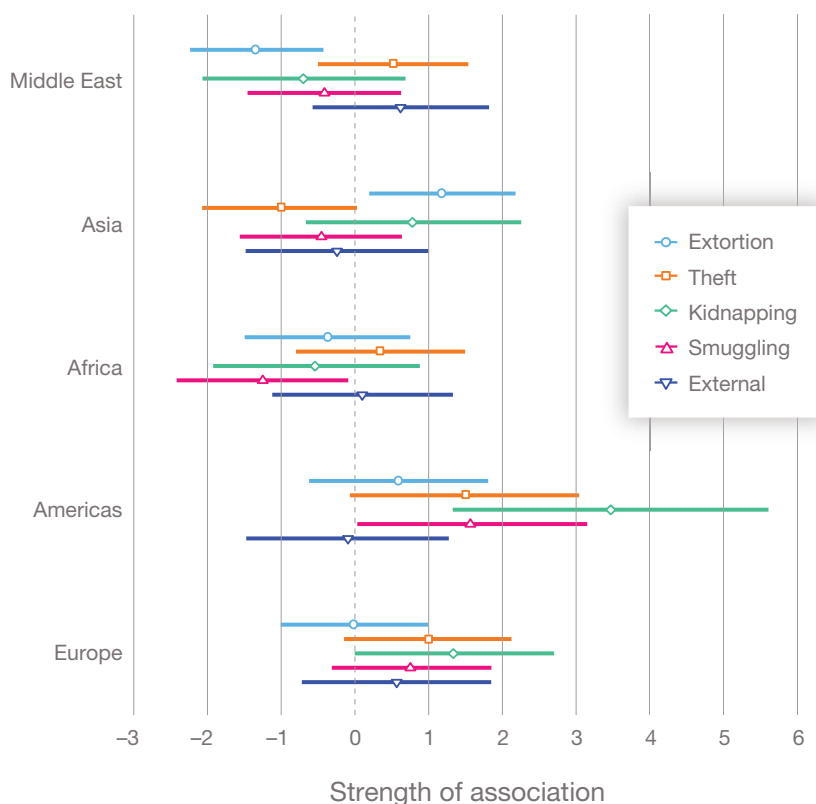
<sup>111</sup> Byman et al., 2001.

<sup>112</sup> Byman et al., 2001.

<sup>113</sup> This transnational status may be a product of having access to networks in other countries, through which smuggling channels operate, or groups may become transnational to protect these revenue flows. Whatever the explanation, we discuss transnational groups in greater detail in Chapter 3.

resented by regional variables. Drawing again on our quantitative models, Figure 2.2 illustrates the relationships between different regions and revenue sources.<sup>114</sup> Although an admittedly coarse measure of operational context, these regional variables help capture factors that shape a group’s potential opportunities and access to different resources or revenue streams. Varying

**FIGURE 2.2**  
**Revenue Sources Across Regions**



SOURCE: RAND Arroyo Center analysis of various data sources.

NOTES: For more on the data and model specifications, see Appendix B. The plotted coefficients represent log odds.

<sup>114</sup> As with the results on group characteristics, we discuss the models in greater detail in Appendix B.

access to natural resources and other commodities, differences in the threat environment, local governance, and state security structures are all factors that likely shape VNSAs' revenue opportunities. The results in Figure 2.2 provide suggestive evidence that, even controlling for group characteristics and time trends, these regional variables help explain patterns in VNSA revenue sources.

VNSAs in the Middle East and Africa are not positively associated with any particular revenue source. Groups operating in these regions, however, are significantly *less* likely to exploit some sources: VNSAs in the Middle East are 33 percent less likely to use extortion, while groups in Africa are 27 percent less likely to use smuggling.

In the Middle East, only a limited number of VNSAs have used extortion as a fundraising strategy. Although less common than in other regions, several Middle East-based groups that do use extortion include some major organizations, such as Islamic State, LH, al-Mahdi Army, al-Aqsa Martyrs' Brigades, and the PKK. But other than these four groups, no other Middle East-based groups in our data have consistently used extortion. It is not immediately clear why groups in the Middle East have a lower propensity for using extortion. It may be that, in some parts of the Middle East (e.g., the Arabian Gulf), the presence of a strong internal security and intelligence apparatus makes extortion costly. In states with sophisticated surveillance technologies and other repressive tools, it may be difficult for smaller VNSAs to establish a local base to extort communities and businesses. Notably, the few exceptions to this trend were all in weak states whose security structures had collapsed (Lebanon), been dismantled (Iraq), or were never fully developed in the first place (Palestine).

In Africa, VNSAs have rarely exploited smuggling, especially compared with groups operating in other regions. With most of the continent landlocked, this difference may be partly driven by some groups' limited access to more-profitable markets. Although this trend holds for African groups in the aggregate, there are some notable exceptions. In North Africa and the Sahel, AQIM, Groupe Islamique Armé [Islamic Armed Group], and other VNSAs have used smuggling as a regular revenue stream to support insur-

gencies.<sup>115</sup> The same trend is found in the Horn of Africa, where al-Shabaab has used smuggling as a regular source of funding for its fight in Somalia and neighboring states.<sup>116</sup>

Our models also reveal some positive relationships between a group's region and its revenue sources. Comparing across regions, Figure 2.2 suggests that extortion is largely driven by groups operating in Asia (27-percent increase in likelihood). Extortion is particularly common among VNSAs active in India, the Philippines, and Myanmar. In India, this behavior is often used by groups in Kashmir,<sup>117</sup> its northeastern states, and in its "red corridor."<sup>118</sup> In the Philippines, extortion has been used by Islamist, communist, and secessionist groups, including the CPP, Moro Islamic Liberation Front, Moro National Liberation Front, and ASG. In Myanmar, extortion has been a regular source of funding for groups active throughout the country, including the United Wa State Army, the Karen National Union, the Kachin Independence Organization, and the Restoration Council of Shan State. These four groups were some of the most frequent users of extortion within our dataset.

Despite comprising only 13 percent of our sample, VNSAs in the Americas appear to drive the results for several revenue sources, including theft, kidnapping, and smuggling (increased likelihoods of 24 percent, 67 percent, and 38 percent, respectively). Two groups account for more than one-half of our South American data, and both come from Colombia: the FARC and ELN. These two groups, along with Peru's Movimiento Revolucionario Túpac Amaru [Tupac Amaru Revolutionary Movement], have had quite

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<sup>115</sup> Walsh et al., 2018.

<sup>116</sup> Walsh et al., 2018.

<sup>117</sup> UCDP has used a catchall term, *Kashmir insurgents*, that includes the activities of the Jammu and Kashmir Liberation Front, Hizb-ul-Mujahideen, Pasdaran-e-Inqilab-e-Islami, Harkat-ul-Ansar, Jaish-e-Mohammed, Lashkar-e-Toiba, and other Kashmiri groups. It is not possible to disaggregate these for individual results, but RCD has taken this catchall and coded results for all these groups as one.

<sup>118</sup> This refers to the area of India in which Naxalite and Maoist insurgencies have a historic presence. The area mostly consists of forest regions in the country's east and center. This conflict has gone on since the 1960s and is currently dominated by CPI-M. For a brief introduction, see "Inside India's 'Red Corridor,'" Al Jazeera, October 20, 2011.



diverse resource streams. In Colombia, the FARC has used extortion, theft, drug trafficking (i.e., smuggling),<sup>119</sup> kidnapping for ransom, and external state support to fund its insurgency. The group is known to have been active in the trafficking and production of cocaine and taxing drug producers and traders.<sup>120</sup> The FARC has also routinely kidnapped civilians it believed could be ransomed for a high price and, at times, has received financial support from Venezuela.<sup>121</sup> The ELN used a similar stream of resources, although our dataset does not include any instances of state support for the group.<sup>122</sup> Like the FARC, the ELN has regularly used kidnapping for ransom, theft, smuggling, and extortion to fund its insurgency. ELN funding comes from a variety of sources, including the smuggling of drugs and cheese, illicit mining, and ransoms from kidnapping.<sup>123</sup>

Surprisingly, our models indicate that there are no significant regional differences in the likelihood that groups receive external state support. In short, no region associates with state sponsored groups more or less than any other. Although VNSAs in Europe and the Middle East are more likely to receive external state support, these findings are not statistically significant at conventional levels. This result suggests that, while sponsors may be discriminating in which specific groups they invest in, they are largely agnostic about region, showing a willingness to support groups across the globe. Such a result may indicate an underlying pragmatism in sponsors or could

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<sup>119</sup> As discussed earlier, our data on revenues largely derive from the RCD, which treats drug trafficking as a subset of smuggling (i.e., profiting from the movement of licit and illicit goods across borders or other authorities).

<sup>120</sup> John Otis, *The FARC and Colombia's Illegal Drug Trade*, Washington, D.C.: Wilson Center, November 2014.

<sup>121</sup> "Colombia Kidnappings Down 92% Since 2000, Police Say," BBC News, December 28, 2016; Tom Heyden, "Venezuela, Ecuador Heavily Implicated in New Study of FARC Files," webpage, Colombia Reports, May 10, 2011.

<sup>122</sup> This is strictly in terms of financial support. There is evidence that Venezuela has provided ELN with other forms of support ("ELN in Venezuela," webpage, InSight Crime, January 28, 2020).

<sup>123</sup> "Profiles: Colombia's Armed Groups," BBC News, August 29, 2013; InSight Crime Venezuela Investigation Unit, "Contraband Cheese from Venezuela on Colombia's Criminal Menu," webpage, February 28, 2020; Juan Forero, "Venezuela Gives Colombian Rebels Free Rein," *Wall Street Journal*, July 14, 2019.

simply reflect the competing effects of different strategic dynamics, with some sponsors investing in some regions, and others investing elsewhere, which ultimately washes out any discernible regional relationships in our statistical models.

A cursory glance across regions is consistent with this finding, yielding any number of examples of external state support driven by varying strategic considerations. In the Americas, we have seen Venezuelan support to the FARC and Cuban support for the Movimiento Revolucionario Túpac Amaru. In Africa, the United States and South Africa supported Angola's União Nacional para a Independência Total de Angola (UNITA) [National Union for the Total Independence of Angola]. In Europe, Libya provided support to PIRA. And in the Middle East, various sponsors have competed for influence, including Iran, which has given funds to PIJ, Hamas, and LH. Finally, in Asia, Pakistan has supported Kashmiri insurgents and the Taliban,<sup>124</sup> while China provided support to the Khmer Rouge in Cambodia during the 1990s.<sup>125</sup>

Along with Iran, whose proclivity for sponsorship was described earlier, Russia has been a regular supporter of VNSAs. Open-source evidence suggests that Russia has supported VNSAs in almost every region of the world.<sup>126</sup> In the Middle East, Moscow supported the Kurdish Democratic Party of Iran.<sup>127</sup> In Europe, it has supported Georgia's Republic of South Ossetia.<sup>128</sup> In Asia, Russia supported Afghanistan's United Islamic Front for Salvation of Afghanistan.<sup>129</sup> In the Americas, Moscow provided support to Frente Farabundo Martí para la Liberación Nacional [The Farabundo Martí National Liberation Front] in El Salvador.<sup>130</sup> Collectively, there does

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<sup>124</sup> Peter Chalk, "Pakistan's Role in the Kashmiri Insurgency," *Jane's Intelligence Review*, September 1, 2001.

<sup>125</sup> San-Akca, 2016; Höglbladh, Pettersson, and Themnér, 2011.

<sup>126</sup> Both the Soviet Union and Russian Federation are coded as Russia in our dataset.

<sup>127</sup> San-Akca, 2016.

<sup>128</sup> Anton Troianovski, "To Avoid Sanctions, Kremlin Goes off the Grid," *Washington Post*, November 21, 2018.

<sup>129</sup> San-Akca, 2016.

<sup>130</sup> San-Akca, 2016; Höglbladh, Pettersson, and Themnér, 2011.

not appear to be any uniform or widely shared ideology among the VNSAs that Russia has supported, although most have been relatively close to Russia's borders (with the Frente Farabundo Martí para la Liberación Nacional being an exception). Qualitative evidence suggests that Moscow's behavior in the post-Cold War period has diverged from that of the Soviet era, when it more regularly sponsored groups in distant countries, such as Movimento Popular de Libertação de Angola [Popular Movement for the Liberation of Angola] in Angola and the African National Congress in South Africa.<sup>131</sup> While our data on external support end in 2010, Russia has undoubtedly continued to support armed groups over the past ten years, including VNSAs in Syria, Ukraine, and Libya.<sup>132</sup>

## Conclusions and Implications

In this chapter, we have discussed the results from a series of quantitative models on revenue sources across groups and regions. Overall, we found strong evidence that group ideology, identity, and organizational goals significantly associate with the mix of revenue sources that VNSAs exploit. The operational context, captured here by regional variables, shapes access to different resources and revenue-generating opportunities. Although many of these results are consistent with existing work, which tends to focus on specific VNSAs or resources, the models offer a broader understanding of how and why some groups exploit particular revenue sources to finance their organizations. We conclude this chapter with a brief discussion on major implications of these findings. The different patterns and trends that we have identified can help inform better indicators for tracking and disrupting VNSA revenue flows.

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<sup>131</sup> San-Akca, 2016.

<sup>132</sup> Abdullah Al-Jabassini, *From Insurgents to Soldiers: The Fifth Assault Corps in Daraa, Southern Syria*, Fiesole, Italy: European University Institute, May 14, 2019; International Crisis Group, *Rebels Without a Cause: Russia's Proxies in Eastern Ukraine*, Europe Report No. 254, July 16, 2019; Anas El Gomati, "Russia's Role in the Libyan Civil War Gives It Leverage Over Europe," *Foreign Policy*, January 18, 2020.

For policymakers, this chapter suggests that CTF efforts should be tailored to group type. Communist groups, for example, are more likely to derive revenues from many sources, revealing an underlying pragmatism that their ideology would otherwise not suggest and that positions these groups to be more resilient against disruption. Given this mix of resources, targeted CTF efforts that focus on disrupting a single revenue stream may be less likely to strike a decisive blow to many communist groups' finances. Under such conditions, a broader CTF approach, one that tracks multiple streams or degrades a group's financial infrastructure, may be preferable. For Islamist groups, however, a targeted approach may be more useful, especially if these efforts focus on curtailing external state support. Among all VNSAs, Islamist groups are the most likely to receive external state support, which often extends beyond financing to include other forms of material support. Disrupting this external support—both by increasing pressure on the group and its sponsor—may be critical to degrading these Islamist groups.

Although regional variables are coarse measures of operational context, our findings reveal distinct trends in financing across contexts that offer important implications for CTF efforts. With some revenue sources being more common in particular regions (e.g., extortion in Asia, smuggling in the Americas), tracking tools and financial indicators may be most effective if they focus on the most-common revenue streams in these areas. Even if these sources do not appear to be the most threatening (e.g., local smuggling networks among ethnic-based VNSAs), investing in efforts to track these common streams (e.g., focusing on coethnic communities in border regions) may yield the largest payoffs.

## Financing Strategies Over Time

In the previous chapter, we explored the relationship between organizational characteristics, operational context, and revenue sources. Many of these factors, such as group identity and ideology, are relatively fixed or slow to change. Even regional variables, which serve as a coarse proxy for operational context, tend to be fixed in practice because most groups usually operate within a single region. Although these fixed variables can help us understand why some groups may be more or less likely to pursue a given revenue source, they are far less useful in explaining how and why VNSA financing strategies evolve over time. In this chapter, we focus on within-group and temporal variation, exploring the dynamic conditions that underlie changes in VNSA financing strategies over time.

We focused on specific types of resources in the previous chapter but now explore groups' overall portfolios. These financial portfolios may be more sensitive to change than some revenue sources, giving us greater leverage to explore temporal variation. For most groups, financial portfolios tend to be fairly consistent over time and rarely grow or contract. But a VNSA can rapidly expand its resource base, increasing the number of distinct revenue sources. This dynamic analysis is especially helpful in exploring the distinct trends between national and transnational groups. Transnational groups, in particular, appear to enjoy an advantage in financing. By building more-diverse financial portfolios, these groups may become more resilient to disruption and pose a greater challenge to CTF efforts.

This chapter proceeds as follows: We begin with a brief discussion of the existing literature on VNSA financing strategies. Although this literature is less developed, we tease out the implications for understanding the relationships between transnational operations and organizational maturation on financing. We then briefly discuss the additional data sources and variables

used in this chapter. Having described these data, we summarize our main findings, beginning with a discussion of major financing trends over time, followed by a deep dive on transnational groups and how their portfolios evolve relative to other groups. We conclude with a brief summary, discussing the major implications and limitations of our analysis.

## Existing Work and Outstanding Questions

Existing studies of VNSA financing tend to elide broader questions of strategy or why some groups generally rely on a single revenue stream, while other groups may build more-diverse financial portfolios over time. Studies that consider the role of dynamic conditions (e.g., technological shocks, vicissitudes of the global economy, changes in the threat environment or territorial control) on VNSA financial portfolios are even rarer. Such micro- and macro-level conditions change over time and are likely to shape VNSA financing strategies as a consequence.

Most studies that explore financing strategies tend to obliquely address these topics while describing the evolution of a specific group's financial portfolio (e.g., LH, AQ, the FARC, ASG).<sup>1</sup> For instance, studies on the FARC describe how the group has relied on a mix of revenues from extortion, theft, and kidnapping since its inception. In the early 1980s, the FARC expanded its portfolio by becoming involved in the drug trade (i.e., smuggling). Through drug trafficking, the group became a larger and more powerful organization over the following decade.<sup>2</sup> Other studies trace the evolution of AQ's finances over time, describing the mix of sources on which the organization has relied and how it has adapted in the face of national governments' efforts to disrupt its finances by increasingly self-generating its financing.<sup>3</sup>

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<sup>1</sup> For examples, see Chapters 2 through 8 in Clarke, 2015b, on PIRA, the LTTE, Hezbollah, Hamas, the Taliban, Al Qaeda, and ISIS; Cook, 2011; O'Brien, 2012; Singh, 2018; Rohan Gunaratna, "The Evolution of Al Qaeda," Ch. 3 in Biersteker and Eckert, eds., 2008.

<sup>2</sup> Cook, 2011; Garry Leech, *The FARC: The Longest Insurgency*, London: Zed Books, 2011.

<sup>3</sup> Shapiro and Siegel, 2007; Gunaratna, 2008, pp. 50–59.

Existing research often describes portfolio diversification as an adaptation. In response to CTF measures, some terrorist groups have diversified the range of tactics they employ to generate revenues. This dynamic response, and the unintended consequences of the CTF effort that follow, has been described as a *balloon effect*.<sup>4</sup> Like the displacement of air in a balloon that is subjected to external pressure, VNSAs will respond to CTF measures that focus on a given source (e.g., cocaine production) or method (e.g., money laundering) by shifting to different sources or methods or even by relocating their operations. In some cases, these responses may spill across borders or result in some unintended effects of the CTF effort on local markets or other actors.

But adaptation may also be in response to macro-level changes, such as technological shocks. Over the past two decades, as a result of globalization and rapid growth in communications and information technologies,<sup>5</sup> most VNSAs have diversified the pool of revenue sources that they exploit, which now includes a wide variety of cyber-based activities, including cyber-crimes, such as identity theft and credit card fraud.<sup>6</sup>

Dynamic threat conditions can also affect financial strategies. When VNSAs expand their control over territory, this change often unlocks access to new revenue sources, while the loss of territorial control can cut off these resources and the revenues they generated. In many cases, the conquest of new territory is also driven by the organization's desire to expand its revenue base and tap into the resources and financing opportunities the new territory has to offer. The FARC and ISIS, for example, deliberately targeted

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<sup>4</sup> Oscar Palma, "Transnational Networks of Insurgency and Crime: Explaining the Spread of Commercial Insurgencies Beyond State Borders," *Small Wars & Insurgencies*, Vol. 26, No. 3, 2015; Gunaratna, 2008, p. 59; Tom Wainwright, *Narconomics: How to Run a Drug Cartel*, New York: PublicAffairs, 2017.

<sup>5</sup> Sukanya Podder, "Non-State Armed Groups and Stability: Reconsidering Legitimacy and Inclusion," *Contemporary Security Policy*, Vol. 34, No. 1, 2013, p. 23.

<sup>6</sup> For a discussion of terrorist use of the internet to finance operations, see Michael Jacobson, "Terrorist Financing and the Internet," *Studies in Conflict & Terrorism*, Vol. 33, No. 4, 2010.

territories rich in natural resources (e.g., coca leaf, oil) to expand their revenue bases.<sup>7</sup>

A group's less-physical assets, such as organizational capacity and reputation, can also affect financing strategies and access to revenues. In some cases, as a group's reputation for violence increases, it may attract greater support from diasporas or individuals sympathetic to the group and its cause. But this reputational dynamic can also work against financing, with groups losing support when their reputations suffer (e.g., for engaging in peace negotiations).<sup>8</sup> Additional quantitative analysis to identify broader trends in VNSA financing strategies and changes over time could contribute to this existing but limited knowledge base.<sup>9</sup>

## Group Longevity and VNSA Financing

The existing literature advances a number of hypotheses regarding the relationship between group longevity (i.e., organizational age) and financing strategies. Studies on this topic, however, do not explicitly and systematically evaluate the impact of organizational age on the mix of resources that groups may exploit. Short-lived organizations often rely on self-generated funds, using petty crime and other low-level criminal activities, such as drug peddling.<sup>10</sup> According to some accounts, group longevity is strongly connected to local support, with larger groups being able to generate more resources and survive longer.<sup>11</sup> Research suggests that VNSAs that engage

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<sup>7</sup> See Chapter 4 in Vanda Felbab-Brown, *Shooting Up: Counterinsurgency and the War on Drugs*, Washington, D.C.: Brookings Institution Press, 2009a; Clarke, 2015b, pp. 158–159.

<sup>8</sup> Clarke, 2015b, p. 6; Giraldo and Trinkunas, 2007, p. 13.

<sup>9</sup> Tracey Durner and Danielle Cotter, “Untangling a Marriage of Convenience: Anti-Money Laundering and Countering the Financing of Terrorism,” policy brief, New York: Global Center on Cooperative Security, 2019, p. 5.

<sup>10</sup> Steven Hutchinson and Pat O'Malley, “A Crime–Terror Nexus? Thinking on Some of the Links Between Terrorism and Criminality,” *Studies in Conflict & Terrorism*, Vol. 30, No. 12, 2007, p. 1099.

<sup>11</sup> Frederic S. Pearson, Isil Akbulut and Marie Olson Lounsbery, “Group Structure and Intergroup Relations in Global Terror Networks: Further Explorations,” *Terrorism and Political Violence*, Vol. 29, No. 3, 2017.



in criminal activity appear to survive longer and collapse less often than others. It appears that this heightened longevity is most pronounced among organizations that use extortion.<sup>12</sup> Additionally, VNSA access to network contacts and collaboration allows them to bring in financial resources and gain access to safe havens,<sup>13</sup> increasing the group's chances of survival. As these examples show, the existing literature tends to focus on how resources affect VNSA survival rather than on the effects of organizational age on VNSA financial strategy.

## Transnational Status and VNSA Financing

Like much of the VNSA financing literature, studies on transnational groups tend to focus on specific organizations rather than take a broader approach. For example, one study describes the revenue sources that the LTTE exploited after it established cells across Europe, North America, and the Middle East: extortion, drug trade, credit card fraud, social security fraud, counterfeit currency trading, piracy, human trafficking, and gun running.<sup>14</sup> As the LTTE example shows, when a VNSA expands its operations across national borders and becomes transnational, it can gain access to additional revenue streams and expand its pool of revenue sources. In addition, when VNSAs rely on transnational criminal activities, they can also exploit the transnational character of the respective criminal networks to elude the CTF measures of local governments, leading to the previously described balloon effect.<sup>15</sup>

Transnational groups can also exploit mobile criminal networks and other cross-border relationships to spread their violent ideologies, recruit fighters, and find safe haven. Some examples of VNSAs able to exploit their transnational presence to financially support their operations and to find sanctuary are the PKK carrying out operations out of its safe havens across the border with Turkey in Iraq and the Taliban and AQ operating out of

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<sup>12</sup> James A. Piazza and Scott Piazza, "Crime Pays: Terrorist Group Engagement in Crime and Survival," *Terrorism and Political Violence*, Vol. 32, No. 4, 2020.

<sup>13</sup> Pearson, 2017.

<sup>14</sup> Hutchinson and O'Malley, 2007, p. 1102.

<sup>15</sup> Palma, 2015.

sanctuaries in Pakistan and receiving financial support from the Pakistani Inter-Services Intelligence.<sup>16</sup> Often, transnational groups have a limited presence in some countries (e.g., small cells to conduct attacks or raise revenues) and do not necessarily control territory. For example, although ISIS once controlled territory in Iraq and Syria, which generated large revenues for the group, its affiliates in other countries (e.g., Western Europe) had no such control but could nonetheless exploit various revenue streams.<sup>17</sup>

To conclude this section, the existing literature on VNSA financing strategies would benefit from more in-depth and systematic research regarding the impact of VNSA age, reputation, organizational structure and identity, control over territory, and transnational presence (among other variables) on VNSA financing strategies. Additionally, the current literature would gain from further research on VNSA reliance on a single source versus a mix of revenues to finance operations. The remainder of this chapter aims to fill in some of the gaps in the existing literature.

## Data and Descriptive Trends

Before discussing the results, we briefly describe the data used in our quantitative analysis. These data derive from the same sources summarized in Chapter 2.<sup>18</sup> Throughout our analysis, we again include the measures for group characteristics and regional context that were the focus of the previous chapter. But in addition to these variables, we include new measures to better capture dynamic relationships and how financing strategies may evolve over time.

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<sup>16</sup> Palma, 2015.

<sup>17</sup> Islamic State in Iraq and the Levant (ISIL) Finance Team, *ISIL Finances: Future Scenarios*, Washington, D.C.: Office of the Director of National Intelligence, 2016; Maruyama and Hallahan, 2017; Victor Comras, "Al Qaeda Finances and Funding to Affiliate Groups," Ch. 7 in Giraldo and Trinkunas, eds., 2007; Rajan Basra, Peter R. Neumann, and Claudia Brunner, *Criminal Pasts, Terrorist Futures: European Jihadists and the New Crime-Terror Nexus*, London: International Centre for the Study of Radicalization and Political Violence, 2016.

<sup>18</sup> For more on these data and their sources, see Chapter 2 and Appendix A.

Among these new variables, the most important is an indicator variable for *transnational groups*, which is the focus of much of our analysis in this chapter. We define a group as *transnational* in a given year if it conducts violent activities (as captured by UCDP) in at least two countries.<sup>19</sup> Table 3.1 provides a sample of the transnational groups included in our dataset and notes for how many years (and in what countries) they are coded as transnational. All told, transnational groups constitute just over 11 percent of our data (i.e., group-years).

Along with transnational group status, we also consider the relationship between *organizational age* and financing strategies. Drawing on the FORGE data, which records information at a group's foundation, we construct a measure to capture a group's age. Groups vary widely in organizational age, ranging from one to 82 and averaging around 17 years. In addition to this measure, our models include a quadratic term (i.e., age squared) to help capture nonlinear relationships over time.

These new group variables, transnational status and organizational age, are used to help explain within-group and temporal variation in VNSA financial portfolios. Although the previous chapter focused on the different revenue sources that a VNSA might exploit (for example, estimating the likelihood that a given group would receive external state support), we look more broadly at the complete financial portfolio and how it may change over time in this chapter. Drawing on our binary indicators for revenue sources, which were constructed using the RCD data, we created a new outcome measure, *financial portfolio diversity*, which ranges from zero to five and captures the number of distinct revenue sources that a group may use at any given time. Across our sample, groups average 1.4 revenue sources each year. Note that this measure captures only a group's number of revenue sources, not the actual amount of revenues generated. Notwithstanding this

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<sup>19</sup> Because our definition of transnational derives from the UCDP data on violent activity, it captures only some aspects of transnational networks, while ignoring other important aspects. Most notably, it does not capture financing operations abroad. Therefore, a group may be transnational in its attack profile but not in its financing. Ideally, we would like to have separate measures for transnational attacks and financing but no such data exist. Conventional wisdom suggests that groups that conduct transnational attacks also tend to generate revenues from sources in multiple countries, which would reduce the potential noise in our measure. This area is worthy of further study.

**TABLE 3.1**  
**Transnational Groups**

| Group Name                                   | Years | Operational Countries                                                                                        |
|----------------------------------------------|-------|--------------------------------------------------------------------------------------------------------------|
| Lord's Resistance Army                       | 21    | Uganda, Sudan, South Sudan, Democratic Republic of the Congo (DRC; formerly Zaire), Central African Republic |
| Partiya Karkeran Kurdistan                   | 19    | Turkey, Iraq                                                                                                 |
| AQ                                           | 15    | Afghanistan, Somalia, Pakistan, Yemen (North Yemen), United Kingdom (UK), France, United States of America   |
| Taliban                                      | 14    | Afghanistan, Pakistan                                                                                        |
| AQIM                                         | 11    | Algeria, Mali, Mauritania, Chad, Niger                                                                       |
| Mujahideen e Khalq Organization              | 8     | Iraq, Iran, Pakistan, Italy                                                                                  |
| LH                                           | 8     | Lebanon, Israel, Argentina                                                                                   |
| Karen National Union                         | 7     | Myanmar (Burma), Thailand                                                                                    |
| Alliance of Democratic Forces                | 7     | Uganda, DRC                                                                                                  |
| Forces démocratiques de libération du Rwanda | 7     | DRC, Rwanda, Burundi, Tanzania                                                                               |
| Republic of Artsakh                          | 6     | Azerbaijan, Armenia                                                                                          |
| Ogaden National Liberation Front             | 6     | Ethiopia, Somalia, Kenya                                                                                     |
| Al-Shabaab                                   | 6     | Kenya, Somalia, Djibouti, Ethiopia                                                                           |
| Partî Jiyanî Azadî Kurdistan                 | 5     | Iran, Iraq                                                                                                   |
| Sudan People's Liberation Movement/Army      | 5     | Sudan, Central African Republic, Uganda, DRC                                                                 |
| UNITA                                        | 5     | Angola, Namibia, DRC, Zambia                                                                                 |
| Armed People for the Liberation of Rwanda    | 5     | Rwanda, Burundi, DRC, Uganda                                                                                 |

NOTE: The VNSAs listed here include any group that is defined as transnational for at least five years. Many more groups are also transnational but have fewer years in the data. For more on the UCDP data used to construct this measure, see Appendix A.

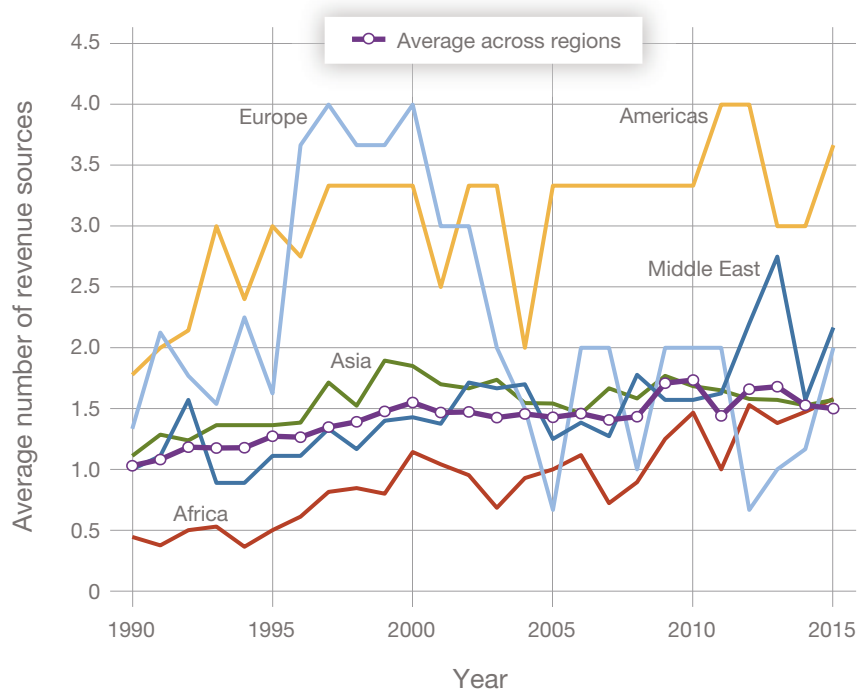
important caveat, the measure offers a valuable and unique way to capture the change in a group's portfolio of financial assets, which may expand or

contract over time. We now turn to the results of our analysis using this measure.

## The Number of Revenue Sources Over Time

Figure 3.1 illustrates the change in revenue portfolios over time broken down across regions. Overall, portfolios grew slightly, as captured by the increasing number of distinct revenue sources per group averaged across all regions (the dotted purple line). The average trend line for the total dataset reveals a slight but relatively *stable* increase from 1990 to 2015. This aggre-

**FIGURE 3.1**  
**Portfolio Diversity Over Time Across Region**



SOURCE: RAND Arroyo Center analysis of various data sources.

NOTE: For more on the data, see Appendix A.

gate stability, however, obscures some significant variation among regions. Some regions, such as Europe and the Americas, experienced dramatic changes over time. The average portfolio for groups in these regions saw large swings, both positive and negative, from 1990 to 2015. Other regions, such as Asia and the Middle East, are more stable and follow, if not drive, the aggregate trend line. Increases in Africa also appear to be an important driver for the average growth over this period, helping offset some of the losses seen in groups from Europe.

Collectively, these trend lines suggest two distinct periods in the data. Our revenue data begin in 1990, when the average number of revenue sources per group was 1.03. Over the next ten years, the average number increased by 50 percent, reaching 1.55 in 2000, before dipping back down again over the next decade. These trends were fairly stable until 2008, when the data follow a new pattern of two-year peaks followed by a sharp decline. With data cutting off at 2015, it is hard to determine whether this trend persists, reflecting some new cyclical equilibrium, is random noise, or is an artifact of the data. Given the uncertainty over the most recent period, we focus our attention on the two periods that follow more-consistent trends: increasing diversity from 1990 to 2000 and decreasing diversity from 2000 to 2008.

The collapse of the Soviet Union is one likely driver of increasing financial diversity in the 1990s. As competition between the Soviet Union and the United States faded, so too did these states' need to sponsor proxy forces around the globe. This change forced some VNSAs that had previously depended on external support to either diversify or expire. For example, various Marxist insurgencies around the globe, including the Red Brigades, the Japanese Red Army, and Baader-Meinhof, depended on support from states, such as Libya.<sup>20</sup> This funding dried up in the early 1990s, putting a strain on the groups' operations. PIRA, by contrast, had also received aid from communist-friendly states, but its diverse revenue streams made it less vulnerable to the decline of external support.

The end of the Cold War also coincided with a series of other changes that likely affected VNSA financing strategies. After the fall of the Berlin Wall,

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<sup>20</sup> For more on the role of Libya's sponsorship in facilitating communist VNSAs, see Boaz Ganor, "Libya and Terrorism," Herzliya, Israel: International Institute for Counter-Terrorism, 1998.

Central and Eastern Europe began to democratize and integrate into the global economy, opening up access and new resources for groups operating in this area. New institutional changes, along with growing internet accessibility later in the decade, gave VNSAs unprecedented access to information, communications, and freedom of movement. The black-market demand for former-Soviet nuclear material specifically helped establish sophisticated trafficking networks for VNSAs to exploit. Additionally, diminishing state censorship of the press served as a financial boon for some groups because they were able to spread their message to a broader audience.<sup>21</sup> PIRA had exploited this for decades, using its newspapers to highlight the oppression of Catholics in Northern Ireland to raise international sympathy for its cause.

The 1991 Gulf War, and its accompanying sanctions regime against Iraq, may have also contributed to this increase in portfolio diversity.<sup>22</sup> The war hastened the arrival of a new wave of transnational, jihadist groups with distinct financial needs and opportunities.<sup>23</sup> During the Cold War, domestic groups typically posed the greatest terrorist threats, but the new wave brought internationally focused organizations, such as AQ, whose operations were transnational. These new groups had deadlier and further-reaching goals than their predecessors.<sup>24</sup> This transnational orientation not only motivated them to acquire more resources but also presented them with more opportunities for revenue outside their host countries' borders. Bruce Hoffman has argued that such groups experience a "Darwinian principle of natural selection," wherein they learn from their predecessors and adapt.<sup>25</sup> New groups therefore benefitted from institutional knowledge. AQ, for example, established relationships with like-minded affiliates around

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<sup>21</sup> Walter Enders and Todd Sandler, "Transnational Terrorism in the Post-Cold War Era," *International Studies Quarterly*, Vol. 43, No. 1, March 1999, p. 145.

<sup>22</sup> Enders and Sandler, 1999, p. 146.

<sup>23</sup> For more on the waves of terrorism, see David C. Rapoport, "The Four Waves of Modern Terror: International Dimensions and Consequences," in Jussi M. Hanhimäki and Bernhard Blumenau, eds., *An International History of Terrorism: Western and Non-Western Experiences*, New York: Routledge, 2013.

<sup>24</sup> Bruce Hoffman, "The Confluence of International and Domestic Trends in Terrorism," *Terrorism and Political Violence*, Vol. 9, No. 2, June 1997.

<sup>25</sup> Hoffman, 1997, p. 7.

the globe that eventually pledged loyalty to Osama bin Laden. These affiliates provided new access to a broad array of resources and financial opportunities, including individual donors, natural resources for smuggling, and narcotrafficking. Eventually, AQ's financial portfolio had assets in illicit economies in Africa, Asia, the Middle East, and elsewhere.

In the early 2000s, the average number of revenue sources gradually declined for the first time in more than a decade. This decrease may be the result of increasing international CTF efforts after 9/11. With the beginning of the Global War on Terrorism, a broad international coalition began targeting terrorists' operational bases and resources around the globe. These efforts likely caused at least temporary disruption of their financial networks, which may partly explain the decline seen in the data. The United States and its partners established and strengthened legal authorities to combat terrorist financing.<sup>26</sup> In 2001, the UN Security Council broadened UN Security Council Resolution (UNSCR) 1267, originally issued in 1999 to freeze funds intended for the Taliban and AQ, to include terrorist organizations and their affiliates around the globe.<sup>27</sup> The United States also passed several domestic measures in the same year to strengthen law enforcement's ability to track and degrade nefarious finance streams.<sup>28</sup> Although the U.S.-led response to 9/11 did have some success disrupting terrorist funding, our data suggest that, in the aggregate, the results were, at best, ephemeral.

Beginning in the mid-2000s, the number of revenue streams starts to increase again, rising above what they were in 2000. Several factors may have contributed to this change. First, as Hoffman argued, terrorist organizations adapt over time. The decline in state sponsorship in the early 2000s may have compelled VNSAs to diversify their revenue streams, as they did

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<sup>26</sup> For more on this topic, see Appendix H.

<sup>27</sup> Christopher Michaelsen, "The Security Council's Al Qaeda and Taliban Sanctions Regime: 'Essential Tool' or Increasing Liability for the UN's Counterterrorism Efforts?" *Studies in Conflict and Terrorism*, Vol. 33, No. 5, 2010, p. 450.

<sup>28</sup> U.S. House of Representatives, "Terrorist Financing Since 9/11: Assessing an Evolving Al-Qaeda and State Sponsors of Terrorism," hearing before the Subcommittee on Counterterrorism and Intelligence of the Committee on Homeland Security, 112 Cong., 2nd Sess., May 18, 2012.



in the 1990s after the collapse of the Soviet Union.<sup>29</sup> Furthermore, the U.S. targeting of VNSAs' home bases forced some groups to decentralize, causing regional affiliates to pop up around the globe. This targeting had unintended consequences, resulting in AQ and other transnational groups gaining a foothold in new countries and access to new revenue streams.

Finally, the purported convergence between terrorist or insurgent groups and organized criminal gangs may have altered the financial strategies of both types of actors.<sup>30</sup> Although the evidence for convergence remains largely anecdotal and group specific, some accounts suggest that terrorist and insurgent groups have become more profit-driven, like criminal gangs, for whom maximizing revenues is the end in and of itself. For example, the FARC, despite its Marxist-Leninist origins, evolved into the largest exporter of cocaine in the world.<sup>31</sup>

Beyond these general trends in financing, these changes affected distinct revenue sources differently in the 1990s and 2000s. Figure 3.2 helps unpack these broad trends by disaggregating financing into the five major revenue sources discussed in Chapter 2. In the figure, we plot separate color-coded lines for the percentage of VNSAs that use a revenue source in a given year. Not surprisingly, across the entire 1990–2015 period, extortion and smuggling are the two most common financial sources for VNSAs. Note that the trend line for extortion closely tracks with the aggregate trend in Figure 3.1, suggesting that changes in the rate of extortion play a significant role in explaining the overall number of revenue sources over time. Other, less common revenue sources, however, follow varying trends that may help reveal more-distinct changes in the opportunity structure since 1990.

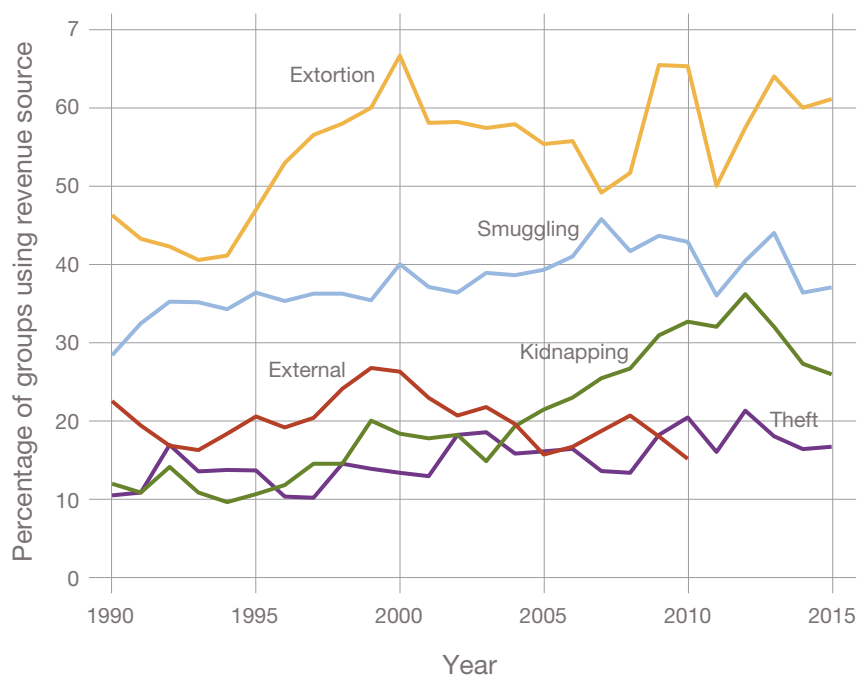
Kidnapping, for example, is one of the least common forms of revenue sources in 1990, with only 12 percent of groups using it to finance their organizations. But over the next two decades, the rate of kidnapping steadily increased. By 2005, kidnapping had become the third most common source for VNSA financing. At its height in 2012, 36 percent of groups were reported

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<sup>29</sup> Philippe Le Billon, "The Political Ecology of War: Natural Resources and Armed Conflicts," *Political Geography*, Vol. 20, No. 5, 2001, p. 562.

<sup>30</sup> For more on crime-terror convergence, see Makrenko, 2004.

<sup>31</sup> For more on FARC's evolution, see Appendix C.

**FIGURE 3.2**
**Propensity to Use Different Revenue Sources Over Time**


to use kidnapping. This percentage may be an underestimate; several studies argue that kidnapping is notoriously underreported across the globe, with potentially 75 percent of all kidnappings going unreported.<sup>32</sup>

However, it is also possible that the available data do not accurately scale. Differences in the rates of reporting and in the reliability of sources between regions and time periods could seriously confound the results. Open-source data on kidnapping mostly come from the news reports, which tend to be biased toward “newsworthy” groups, individuals, and high-profile events. Kidnappings conducted by groups with less international attention, of unknown victims, and/or in states with weak institutions are likely underrepresented in our data. Another reason for discrepant reporting is differences in the ways groups can employ kidnapping. For example, kidnap-

<sup>32</sup> Forest, 2012, p. 312.

pings a group broadcasts to garner international attention (in addition to revenue), such as the 1972 Olympics kidnappings of Israeli athletes by the Palestinian terror group Black September, are very likely to be captured in open-source databases. Kidnappings aimed at quietly earning ransom fees, however, such as those conducted by various criminal networks in Iraq in the 1990s, will be underrepresented.

Despite these complicating factors, there are several reasons to believe that the number of groups using kidnappings increased throughout the 1990s and 2000s. Conflicts in Iraq and Afghanistan in the 1990s and 2000s increased opportunities and “contributed significantly” to the rise in kidnappings.<sup>33</sup> Kidnappings tend to be concentrated in certain geographic regions, and these regional hotspots can change over time.<sup>34</sup> These findings suggest that VNSAs may simply conduct kidnappings when they are easy—often when their host states are too weak to enforce rule of law, which may explain why the majority of kidnappings shifted to the Middle East in the 1990s. By the mid-2000s, the Taliban led the world in kidnappings, often conducting twice as many as any other group at the time.<sup>35</sup>

Emulation represents another possible explanation for the steady increase in kidnappings. When VNSAs enjoy high-profile successes from kidnapping (i.e., receive large ransoms), other groups may be encouraged to replicate the practice. Foreigners kidnapped in Iraq, for example, could earn especially large ransoms, many of which were widely publicized. The *New York Times* reported that, in 2013 alone, European governments paid AQ \$66 million in ransom.<sup>36</sup> These payments likely encouraged other groups to target Europeans for kidnap, as evidenced by the growing tendency of AQIM and ASG to capture European tourists and collect large sums of money for their return. This trend may be an example of convergence, in

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<sup>33</sup> Forest, 2012, p. 314.

<sup>34</sup> Forest, 2012, p. 316.

<sup>35</sup> Forest, 2012, p. 318.

<sup>36</sup> Rukmini Callimachi, “Paying Ransoms, Europe Bankrolls Qaeda Terror,” *New York Times*, July 29, 2014.

which terrorist groups, enticed by the possibility of enormous profits, subordinate their original political goals to criminal activity.<sup>37</sup>

One study suggests that, as the number of kidnappings increased over time, so too did other terrorist activities.<sup>38</sup> This trend highlights an important distinction between kidnapping and other forms of financing: Kidnapping is both a means of producing terror and an act of terror itself. This distinction implies that kidnappings may be more directly related to terrorists' operational capacities and strategies than other revenue sources.

External state support is another revenue source that follows a notable trend over time. Like most types of revenues, external state support saw an overall increase during the 1990–2000 period, but this change was more sporadic than it was for other sources. The share of VNSAs drawing on external state support declined at the beginning of the decade, falling from 23 percent in 1990 to 16 percent in 1993. Later in the decade, external state support increased, reaching a high of 27 percent of groups in 1999. Over the next decade, the percentage of groups receiving external state support mostly declined, falling to an all-time low of 15 percent in 2010, the last year for which we have data. Although it is possible that external state support increased after this period, data limitations constrain our analysis of more-recent events (e.g., post–Arab Spring instability) that may have shifted this calculus over the past decade.

The dissolution of the Soviet Union in 1991 significantly reduced the number of states willing to fund VNSAs.<sup>39</sup> The transition from a bipolar to a unipolar world order decreased the need to use nonstate proxies to compete for power. This transition caused a sharp decline in the share of VNSAs receiving external support. However, just a couple of years later, external support started to rise again. One factor that aided this rise was the relative inattention that the United States paid to state sponsorship after the collapse of the Soviet Union. During this period, states used terrorist groups as a low-cost, low-risk way of waging war, especially against conventionally

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<sup>37</sup> Andrew McGregor, "Will al-Qaeda Survive the Loss of its Leadership?" *Terrorism Monitor*, Vol. 8, No. 24, 2010.

<sup>38</sup> Forest, 2012, p. 314.

<sup>39</sup> Stephen D. Collins, "State-Sponsored Terrorism: In Decline, Yet Still a Potent Threat," *Politics and Policy*, Vol. 42, No. 1, February 2014, p. 140.

stronger enemies.<sup>40</sup> As the new wave of religious terrorism garnered support around the globe, Iran and other states began to provide generous support to VNSAs.<sup>41</sup> It is also worth noting that, as U.S. dominance has waned with the resurgence of strategic competitors, the world order has again become increasingly multipolar, which may imply a return to the status quo ante that defined the Cold War period. Under these conditions, we should expect an increase in external state support for proxies and other VNSAs.

After 9/11, the United States and its international partners reinvigorated their efforts to combat state support of terrorism, which likely contributed to the sharp decline in the number of groups receiving external support. During this period, the United States employed a variety of carrot-and-stick measures to coerce the biggest offenders, Iran and Pakistan, to cease their support of terrorist groups.<sup>42</sup> The United States also launched and expanded kinetic efforts against several terrorist groups, including the Taliban and AQ, to disrupt their access to state resources.<sup>43</sup> Finally, the United States and the UN created and strengthened legal authorities to prevent states from nefariously exploiting licit financial regimes.<sup>44</sup>

## Transnational VNSAs and Financing Strategies

Having explored these time trends through simple descriptive statistics, we now discuss the results from our quantitative models, which can be found in Appendix B. We drew on a variety of estimation strategies to model the relationship between organizational characteristics, operational context, and the diversity of a group's revenue base, as captured by the number of distinct revenue sources (i.e., their financial portfolio). Figure 3.3 summarizes these results. Similar to the figures in Chapter 2, the estimated rela-

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<sup>40</sup> Bruce Hoffman, *Inside Terrorism*, New York: Columbia University Press, 2006, p. 258.

<sup>41</sup> Byman et al. provide a useful table and overview of state support to insurgencies during the 1990s and early ought years. See Byman et al., 2001, pp. 110–116.

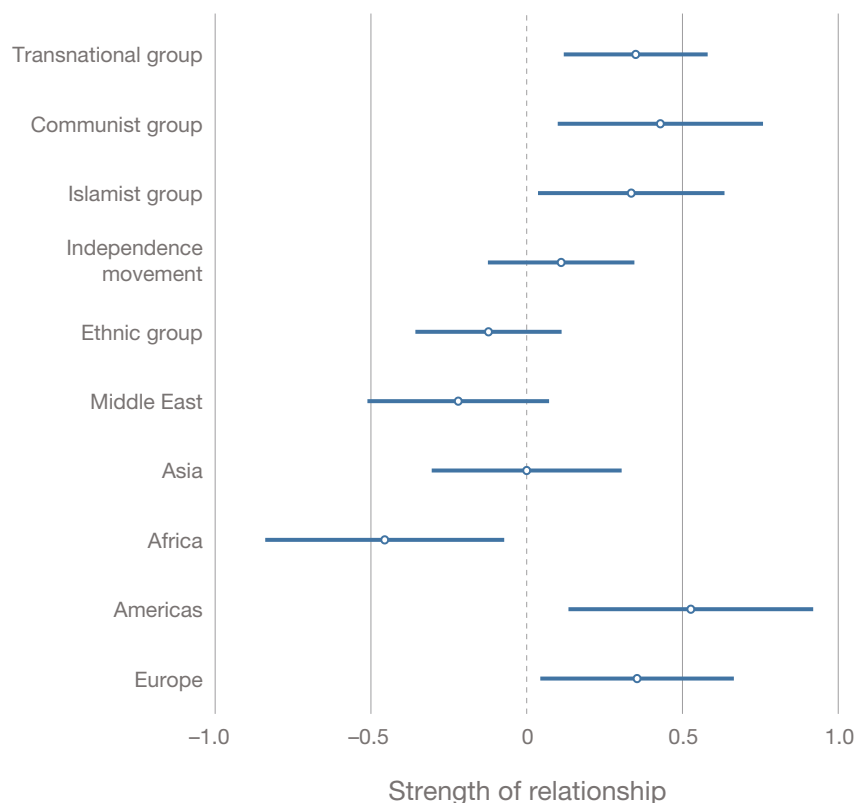
<sup>42</sup> For more information on both nonkinetic and kinetic methods, see Appendix H.

<sup>43</sup> For more information on this topic, see Chapter 5 on kinetic disruption methods.

<sup>44</sup> Michaelsen, 2010, p. 450.

**FIGURE 3.3**

**Portfolio Diversity Across Groups and Regions**



SOURCE: RAND Arroyo Center analysis of various data sources.

NOTES: These results are derived from a Poisson regression with year fixed effects. For more on the data sources, modeling structure, and alternative specifications, see Appendix B.

tionship between some variable and the number of distinct revenues that a group exploits is represented by the blue circle; the blue lines represent the relative certainty of that estimate (i.e., 90 percent confidence intervals).<sup>45</sup>

Our quantitative models on revenue diversity include all the group characteristics and regional variables discussed in Chapter 2. The results

<sup>45</sup> The farther the lines are from the dashed vertical line at zero, the greater the relationship's statistical significance.

in Figure 3.3 are consistent with some of the trends we saw before. As we discussed earlier, communist groups are more likely than noncommunist groups to derive revenues from a variety of sources, which obviously translates into more diverse financial portfolios. In a similar vein, Islamist groups also tend to have more-diverse portfolios.<sup>46</sup> The trends across regions are also mostly consistent with the revenue-specific models from before: Groups in Africa tend to have less-diverse revenue bases, while those operating in the Americas and Europe draw on a greater number of distinct revenue streams.

Collectively, these results complement our earlier models and provide a clear snapshot of how revenue diversity tends to vary across different types of VNSAs and operational contexts. However, while these group characteristics and regional variables offer important insights, they cannot speak to dynamics, which is critical to understanding how VNSA financing strategies change over time. For the most part, these variables are either fixed (data on ideology and identity is based on the group's formation and do not vary over time in our analysis)<sup>47</sup> or slow moving (groups rarely move from one region to another). Given such limitations, we cannot use these variables to model the dynamic relationship between VNSA evolution and financing.

## Transnational Groups and Financing

To help capture these dynamics, we also consider some variables that change over time, such as whether a group is transnational. Most VNSAs in our data (89 percent of all group-years) only operate in one country in a given year. Although there are any number of reasons for a group to operate in only one country, these limited operations likely constrain the number of potential revenue sources. For transnational groups, operating across

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<sup>46</sup> The results for independence movements and ethnic groups are a bit less robust and depend on the model specification. The statistical significance of these results can vary with different clustering approaches for the standard errors.

<sup>47</sup> Charting group ideological and identity changes over time would be a useful area of future study.

multiple countries or even multiple regions may unlock new resources and financial streams.

Our quantitative models provide strong evidence that this portfolio diversity exists for transnational groups. Along with the organizational characteristics and regional variables discussed in Chapter 2, we also included an indicator for whether or not a group is transnational in a given year. As Figure 3.3 reveals, this variable is positive and highly significant. All things being equal, transnational groups have 43 percent more revenue sources than non-transnational groups. Although the relationships between other variables (e.g., communist groups) and revenue diversity are similarly sized or even larger, none of these group characteristics or regional variables are nearly as robust or as consistent as the indicator for transnational status.

In addition to the model used to generate Figure 3.3, we estimated a series of alternative specifications that consider various robustness checks, controlling for group- and country-specific factors that could lead to spurious results.<sup>48</sup> Across the five models we estimated, the indicator for transnational status is the only variable that is robustly significant. Although the magnitude varies, transnational groups consistently have more-diverse financial portfolios than other groups. And as we will discuss later, we found evidence that this difference does not reflect selection effects that make groups with more-diverse portfolios more likely to be transnational. Although these selection effects likely play a part—inflating the difference in portfolio diversity between national and transnational groups—the data also suggest that the *loss* of transnational status results in a significant decrease in a group's available revenue sources.

Transnational operations and presence give VNSAs the potential to control new resources for smuggling, increase the number of licit business and front companies, and exploit more trade routes. Given their presence abroad, transnational groups may also have an easier time soliciting (or coercing) support from diaspora communities. International financial ventures provide opportunities to work with foreign criminal organizations or other political groups that can offer financial advice and support. VNSAs can also use sources abroad to help evade CTF regimes in their own states

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<sup>48</sup> For more on these fixed effects models, see Appendix B.



and exploit friendly states' turning a blind eye to their activities. Finally, the revenues earned abroad can be reinvested at home, such as in licit businesses.

LH's financial success through transnational networks is especially notable. The group controls a variety of resources and trafficking networks all over the world. In Africa, LH raises significant funds by dealing conflict diamonds from Sierra Leone, Liberia, and DRC and from the West African drug trade.<sup>49</sup> In South America, LH earns money from several illicit markets, including counterfeiting and narcotics trafficking. Moreover, the group maintains working relationships with several criminal organizations in Mexico and Colombia that have shared their financing methods in exchange for LH's operational expertise.<sup>50</sup> In both West Africa and South America, LH also benefits from large Lebanese diaspora populations, which support the group financially and operationally.<sup>51</sup> Finally, LH's financial success abroad has allowed it to diversify its business and investment profile at home, earning enormous profits from a wide variety of shops, food markets, and real estate properties.<sup>52</sup>

PIRA has also enjoyed an exceptionally diverse financial portfolio. Initially, PIRA exploited Irish Republican expatriates and a supportive Irish American diaspora in the United States to garner "charitable" contributions to its cause.<sup>53</sup> Along with donations from the former Libyan dictator Muammar Qaddafi and some aid from the Republic of Ireland, these contributions were essential to PIRA's survival.<sup>54</sup> Despite its reliance on external support during its formative years, PIRA aggressively diversified its rev-

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<sup>49</sup> Matthew Levitt, "Hezbollah Finances: Funding the Party of God," Ch. 8 in Giraldo and Trinkunas, eds., 2007, p. 147; Rabasa et al., 2017, p. 118.

<sup>50</sup> Rabasa et al., 2017, p. 114.

<sup>51</sup> Rabasa et al., 2017, p. 118.

<sup>52</sup> Shelley, 2014, p. 178.

<sup>53</sup> James Adams, *The Financing of Terror: How the Groups That Are Terrorizing the World Get the Money to Do It*, London: Lume Books, 2018, Kindle ed., pp. 149–151.

<sup>54</sup> Colin P. Clarke, "Countering PIRA Financing and Combating the Ability of Insurgents to Raise Funds through Crime in Northern Ireland during 'the Troubles,'" in Lawrence E. Cline and Paul Shemella, eds., *The Future of Counterinsurgency: Contemporary Debates in Internal Security Strategy*, Santa Barbara, Calif.: Praeger Security International, 2015a.

enue streams, having anticipated that it would need financial independence to realize its ultimate goal—a united socialist Ireland. Several international factors—a lawless border region between Ireland and Northern Ireland,<sup>55</sup> access to the European Union,<sup>56</sup> and havens in Ireland and the United States—created the ideal environment for smuggling, trafficking, harvesting the proceeds from legitimate businesses, and fraud. As the group matured, it was even able to establish manufacturing centers in Turkey and Eastern Europe to counterfeit goods, which were then trafficked on routes that went all the way through China.<sup>57</sup> PIRA also slowly built a network of legal and illegal businesses around the globe, eventually touching nearly every part of the Northern Irish economy, and owned drinking clubs in the United States and Ireland. PIRA was so successful at diversifying that, when external support finally dried up in the 1990s, it suffered no operational impact.

ISIS and AQ diversified their revenue streams via control of foreign territories or affiliates. ISIS once earned most of its revenues from illicit oil trade, which was made possible by its territorial control of fields in both Iraq and Syria.<sup>58</sup> When the group conquered territory it would also seize control of all financial institutions in the area, including banks, which offered not only cash but also a portal into licit international financial institutions. ISIS's affiliates also extracted revenue from conquered territories. The Islamic State in Libya (ISIS-L), for example, established a microstate amid anarchy in Libya and earned revenue through taxing civilians, seizing bank assets, and extorting local businesses.<sup>59</sup>

Given AQ's more decentralized structure after 2001, it was more likely to use international affiliates to tap into foreign resource and market oppor-

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<sup>55</sup> Adams, 2018, p. 172.

<sup>56</sup> Tim Parkman and Gill Peeling, *Counterering Terrorist Finance: A Training Handbook for Financial Services*, Gower Publishing, Ltd., 2007, p. 58.

<sup>57</sup> James Dingley, *The IRA: The Irish Republican Army*, New York: Praeger Security International, 2012, p. 196.

<sup>58</sup> ISIL Finance Team, 2016, p. 6.

<sup>59</sup> Lachlan Wilson and Jason Pack, "The Islamic State's Revitalization in Libya and Its Post-2016 War of Attrition," *CTC Sentinel*, Vol. 12, No. 3, March 2019, p. 27.

tunities. Like LH, AQ trafficked in conflict diamonds during the 1990s.<sup>60</sup> In Eastern Africa, al-Shabaab enhanced AQ's profits from extortion and added profits from the illicit charcoal trade.<sup>61</sup> AQIM has a similar financing strategy in North Africa, taxing and extorting the local population, while also trafficking cocaine.<sup>62</sup> Additionally, AQIM conducts frequent kidnapping-for-ransom missions, capitalizing on its proximity to European tourists in North Africa.<sup>63</sup>

These qualitative accounts suggest that, as transnational groups expand their operations into new countries and territories, they enjoy greater access to distinct revenue sources. Our quantitative models help further unpack these dynamic relationships, providing strong evidence that this result is not driven by some underlying selection problem.<sup>64</sup> Although other group characteristics are time invariant, a VNSA's transnational status can suddenly change. A group's financial portfolio may grow (or shrink) when it takes (or loses) territory across borders, opens (or closes) new franchises in different countries, or joins with (or splits from) existing groups and absorbs (or loses) their resources. We explored these dynamic relationships through a series of models that estimate the change in VNSA revenue sources as a function of a group gaining or losing transnational operational base.

Surprisingly, the models suggest that, although the *change* in transnational status has a significant relationship with revenue sources, this is largely driven by the negative impact of losing transnational status. Although this

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<sup>60</sup> Farah, 2008.

<sup>61</sup> Matthew Levitt, "Terrorist Financing and the Islamic State," testimony before the Committee on Financial Services, U.S. House of Representatives, 113th Cong., 2nd Sess., November 13, 2014.

<sup>62</sup> Rabasa et al., 2017, p. 103.

<sup>63</sup> Rabasa et al., 2017, p. 103.

<sup>64</sup> An alternative explanation for the effects of transnational status could be that groups that become transnational may simply be better at generating revenues than groups that do not become transnational. Transnational groups might enjoy some capabilities that otherwise confer an advantage. This selection problem is likely true to some degree, although its effects should be largely mitigated by our fixed-effects models in Appendix B, which control for unobservable group-specific differences. More importantly, Appendix B also reports some first-difference models, which show that changes in transnational status have a significant effect on revenue sources.

may have any number of reasons, one obvious explanation is the role of counterterrorism efforts in degrading high-profile groups, many of which are transnational. Conducting attacks abroad tends to attract more international attention, especially from U.S. government actors, which can result in an increase in targeted counterterrorism efforts. Often, such efforts not only degrade a group's ability to carry out transnational attacks but also curtail its access to revenue sources and other financial streams. We return to these CTF efforts, and their relative effectiveness, in greater detail in Chapter 5.

Contrary to our expectations, the data suggest that gaining transnational status has an insignificant relationship with a group's financial portfolio. This insignificant finding may be due to data limitations (e.g., some groups enter the dataset as transnational, censoring the data) or reflect some other process that obscures the value of becoming transnational (e.g., groups first slowly build a broader revenue base before becoming transnational, thus creating a ceiling effect on the potential impact from gaining transnational status). Although the data are not sufficient to disentangle these possible explanations, the qualitative literature can help provide some clarity.

In several notable cases, transnational groups have developed their financial infrastructure before launching attacks abroad. PIRA, for example, made diversifying its revenue streams an early priority to maximize the group's chances of long-term survival. The group began launching attacks in the UK only when it had gained sufficient resources and financial security to do so.<sup>65</sup> These attacks, however, did not result in new sources of income within the UK, which may have been the target but posed a greater risk to potential financing. Instead, PIRA continued to run financial operations largely through nonadversarial countries.<sup>66</sup> AQ's activities in the 1990s also suggest a similar trajectory. Osama bin Laden developed a vast network of strategic relationships in friendly states to grow AQ's financial and operational capabilities such that it was capable of carrying out a sophisticated attack on the United States.<sup>67</sup> If this logic holds for other VNSAs, it would suggest groups

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<sup>65</sup> Richard English, *Armed Struggle: The History of the IRA*, New York: Oxford University Press, 2003, p. 256.

<sup>66</sup> For more information on the evolution of PIRA financing, see Appendix F.

<sup>67</sup> Basile, 2004, pp. 171–176.

would increase their financial portfolios before officially becoming transnational. And just because a group begins targeting violent activities in new country does not necessarily imply access to new revenue sources.

## Organizational Age and Financing Strategies

In addition to transnational status, we also considered how organizational age may affect revenue diversity. Over time, most organizations tend to learn from their experiences, adapting and developing new capabilities to better meet their needs. Those that do not learn are likely to stagnate or collapse. Given such dynamics, we might suspect that organizational learning would inform financing strategies and increase the likelihood of success, making older groups more effective at revenue generation. Across our quantitative models, however, we found no evidence that organizational age is related to revenue diversity. In fact, the estimated relationship between age and revenue diversity is often negative, although statistically indistinguishable from zero.

Organizational age has little relation with overall revenue diversity, but when we disaggregated by revenue type, we found that age appears to work in opposite directions across different sources. Such variation may help explain why we did not find a statistically significant result for age: Age has competing influences that cancel out in the aggregate. For example, consider Figure 3.4, which plots the likelihood that a group uses smuggling (the left panel) or kidnapping (the right panel) as a function of organizational age. In both cases, age has a significant relationship but it is positive for smuggling and negative for kidnapping.

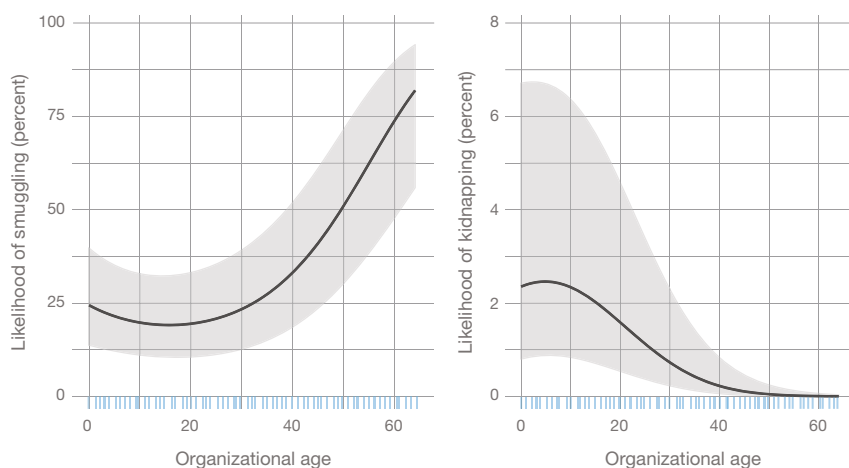
Smuggling can be a highly lucrative revenue source and is often difficult for state actors to disrupt. Although the potential benefits are large, it usually takes time and resources for a group to develop the necessary capabilities to sustain a sophisticated smuggling network. The LTTE, for example, began smuggling in the early 1980s, but this revenue source became a significant part of the financial portfolio only when the group acquired its own boats.<sup>68</sup>

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<sup>68</sup> Justin O. Smith, *Maritime Interdiction in Counterinsurgency: The Role of the Sri Lankan Navy in the Defeat of the Tamil Tigers*, thesis, Monterey, Calif.: Naval Postgraduate School, June 2010.

**FIGURE 3.4**

**Smuggling, Kidnapping, and Organizational Age**



SOURCE: RAND Arroyo Center analysis of various data sources.

NOTES: These results are derived from logit regressions with year fixed effects. For more on the data sources, modeling structure, and alternative specifications, see Appendix B. Blue tick marks on the x-axis show the distribution of organizational age for VNSAs in our sample.

By 1984, the LTTE was able to build its own merchant fleet,<sup>69</sup> and in the 1990s, it had enough funds to purchase commercial cargo ships. India faced challenges disrupting LTTE smuggling because the group's ships were difficult to distinguish from legal businesses. To make smuggling a profitable and reliable revenue stream, VNSAs, such as the LTTE, need to gain control of territories with natural resources or other commodities; develop complex transnational networks; and acquire expensive assets, such as transportation vehicles. For groups that survive long enough to meet these conditions, smuggling can be well worth the investment.

Under some conditions (e.g., weak state capacity, long porous borders), smuggling can be difficult for states to disrupt, making it even more likely that this revenue source will outlast other financial streams as groups age. This challenge for CTF efforts partly explains why smuggling has persisted

<sup>69</sup> Channa Wickremesekera, *The Tamil Separatist War in Sri Lanka*, Abingdon, UK: Routledge, 2016.

among some VNSAs, while kidnapping, a riskier revenue source, often declines after states (re)establish security and law enforcement agencies. Smuggling also tends to incur less blowback from the local population than do other revenue sources, such as kidnapping. For groups dependent on the support of local communities, kidnapping can alienate supporters, especially when a kidnapping goes bad. PIRA, for example, abandoned kidnapping after a much-publicized failure, which pushed the group to focus more on victimless crimes if it wanted to be seen as a legitimate political group.

These dynamics can also be seen in the evolution of FARC's financing strategy. It took decades for the FARC to develop its smuggling network, in part because its leaders feared that profit motives would corrupt the group's political goals.<sup>70</sup> The organization, however, struggled to sustain itself using only the taxes it levied on local residents. The FARC entered the drug business slowly, first allowing the taxation and regulation of the industry, then running its own labs and selling to Mexican cartels, and eventually running every node of the business.<sup>71</sup> Taking over the cocaine trade in Colombia was not easy. The FARC gradually gained revenues while establishing control over resource-rich areas in the south of the country, until it became the de facto governing authority in these areas.<sup>72</sup> This control gave them access to vast resources, transportation networks and assets, and human traffickers. The absence of state presence in FARC-controlled territories allowed the group to continue other financing operations, such as kidnapping, though it no longer depended on these other sources because of its enormous profits from the cocaine business. By 2008, President Álvaro Uribe's aggressive campaign to retake control of Colombia had caused the rate of kidnappings to drop; in 2012, the FARC announced it would cease kidnapping as part of a peace process with the government—likely because the activity had

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<sup>70</sup> Bandala, 2012, p. 204.

<sup>71</sup> Nick Miroff, "A Side Effect of Peace in Colombia? A Cocaine Boom in the U.S.," *Washington Post*, May 8, 2017.

<sup>72</sup> Edgardo Buscaglia and William Ratliff, *War and Lack of Governance in Colombia: Narcos, Guerrillas, and U.S. Policy*, Stanford, Calif.: Hoover Institution, 2001.

become more burdensome than it was worth.<sup>73</sup> Smuggling in Colombia, by contrast, has persisted and proven difficult to disrupt.

## Conclusions and Implications

At a macro level, the data suggest that VNSA financial portfolios have generally become more diverse since 1990. Over this period, however, there have been varying trends in the mix of revenue sources that groups exploit. Although extortion and smuggling consistently appear to be the most common sources for financing, VNSAs' reliance on kidnapping and external state support has seen dramatic changes. The change in external state support is particularly notable because it likely reflects broader shocks in post-Cold War conflict trends. Such shocks likely had a pronounced effect on communist groups. With their sponsors gone, these groups had to develop more expansive (and potentially resilient) financial portfolios. We highlight this potential side effect because it has policy implications for CTF efforts targeting Islamist groups, many of which also depend on external state support. Although disrupting this support may be critical to defeating these groups, as discussed in Chapter 2, it could have unintended consequences, resulting in Islamist groups developing more-robust financial bases. Actors involved in CTF efforts should be aware of this risk and watch for signs of adaptation.

More generally, policymakers should anticipate such adaptation to any CTF effort. Our models suggest that, as groups age, their mixes of revenue sources evolve, revealing organizational learning. This learning is most evident in the changing likelihood that groups use smuggling and kidnapping. Although older groups tend to exploit smuggling, younger groups disproportionately use kidnapping to finance their organizations. These different rates suggest that most groups either adapt, selecting safer revenue streams over time, or die out. CTF efforts should get ahead of these tactical shifts by developing tools for tracking and disrupting alternative revenue sources that may become more attractive to a group over time. Given the speed at

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<sup>73</sup> Luz E. Nagle, "The FARC: Doing What Any Multinational Corporation Would Do—Diversify," *International Enforcement Law Reporter*, Vol. 28, No. 5, May 2012, p. 1.



which new technologies proliferate and groups evolve, CTF efforts cannot afford to simply react but should plan for and prepare these countermeasures in advance.

Such advance planning is especially important for sustaining gains against transnational threat networks. Much of this chapter has focused on transnational groups, which tend to have more revenue sources than national VNSAs. Although the models also suggest that other group characteristics affect portfolio diversity, no relationship is as robust as this finding for transnational groups. Portfolio diversity offers potential resilience against CTF efforts, making it harder to degrade transnational networks. Notably, however, our analysis of within-group variation indicates that, if a VNSA loses its transnational status (i.e., no longer operates in multiple countries), its financial portfolio is likely to shrink. After suffering such losses, however, transnational groups are likely to adapt, in part by focusing on safer revenue streams that are harder to disrupt. CTF efforts should prepare to shift resources to track these new revenue sources.



## Financing Violent and Nonviolent Activities

In the previous two chapters, we discussed variation in revenue sources and the evolution of VNSA financing strategies over time. We now consider the consequences for VNSA behavior, asking: How do groups finance violent and nonviolent activities? For some groups, the production of violence is the central focus, making terror an end in and of itself. But for many groups, violence is instrumental, used to pursue various political objectives or goals. For such groups, violence is only part of the feasible choice set: Nonviolent activities, including nonstate service provision and the distribution of local goods, offer an alternative, if not complementary, instrument. And like any budget-constrained actor, VNSAs must choose how to optimally allocate their scarce resources across violent and nonviolent activities to achieve their objectives. Understanding this allocation, and the underlying violence-governance trade-off that shapes VNSA financing choices, may be crucial for reducing violence.

As in previous chapters, we drew on a series of quantitative models to estimate empirical relationships and then discuss the findings through illustrative examples. We found that VNSAs with more-diverse financial portfolios and groups that rely on extortion and external support tend to be more violent. As for nonviolent activities, local service provision associates more with some types of revenues (e.g., theft) than others (e.g., kidnapping), and there are some significant differences between national and transnational groups, depending on their financial portfolios.

This chapter proceeds as follows: We begin with a brief discussion of the existing literature on violent and nonviolent activities. We then introduce the data sources that we used to capture these activities. Having described

the data, we then summarize our main findings on the relationship between financing and violent and nonviolent activities. Finally, we conclude with a brief summary of the major implications and limitations of our analysis.

## Existing Work and Outstanding Questions

Violent activities entail a myriad of costs. From small discrete attacks to broad terror campaigns, groups must pay to recruit, mobilize, equip, and sustain their fighters and organizations.<sup>1</sup> For all VNSAs, greater funding can provide additional resources to support ongoing operations, carry out more attacks, and engage in higher rates of violence.<sup>2</sup> However, these additional resources do not necessarily imply that groups will always engage in more violence, a topic we return to later in the chapter. In general though, the production of violence is the core function of most VNSAs, making it an essential motivator of financing choices.

Beyond this general relationship between funding and violence, existing studies suggest that specific types of revenue sources and different financing strategies may have varying effects on violent activities. Access to natural resources, for example, may increase the likelihood that a VNSA engages in a prolonged conflict, especially if this revenue is derived through smuggling.<sup>3</sup> By extension, this finding would suggest that cutting off such financing could help end conflict. A separate study, however, provides evidence that this implication may not hold, especially if a VNSA maintains popular support.<sup>4</sup> VNSAs that engage in criminal activity appear to survive longer

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<sup>1</sup> Achim Wennmann, "Economic Dimensions of Armed Groups: Profiling the Financing, Costs, and Agendas and Their Implications for Mediated Engagements," *International Review of the Red Cross*, Vol. 93, No. 882, June 2011.

<sup>2</sup> Michael Freeman, "The Sources of Terrorist Financing: Theory and Typology," *Studies in Conflict & Terrorism*, Vol. 34, No. 6, 2011, p. 463.

<sup>3</sup> Justin M. Conrad, Kevin T. Greene, James Igoe Walsh, and Beth Elise Whitaker, "Rebel Natural Resource Exploitation and Conflict Duration," *Journal of Conflict Resolution*, Vol. 63, No. 3, 2019.

<sup>4</sup> Macartan Humphreys, *Economics and Violent Conflict*, Cambridge, Mass.: Harvard University, Program on Humanitarian Policy and Conflict, February 2003, p. 20.

and collapse less often than others. It appears that this heightened longevity is most pronounced among organizations that use extortion.<sup>5</sup>

When deprived of adequate revenue streams, a VNSA may be more likely to engage in peace negotiations with its adversaries.<sup>6</sup> Conversely, VNSAs may be less likely to engage in negotiations if there are revenue streams that it can exploit only through violence.<sup>7</sup> One study suggests that a VNSA losing access to resources does not imply that it will refrain from violence, instead finding that armed groups desperate for funds may target civilians in an effort to “acquire necessary resources and prevent collaboration with government forces.”<sup>8</sup>

In addition to violence, VNSAs have long used their finances to support nonviolent activities, including the provision of local governance and social services. These activities are especially important because some VNSAs face a trade-off between investing in governance and producing violence. A recent RAND report, for example, found that the ISIS core faced a trade-off between governing and defending cities on its periphery when the caliphate was under pressure from liberating forces.<sup>9</sup> The research offers suggestive evidence that the quality of governance significantly declined in these peripheral cities while core cities, such as Raqqa and Mosul, better sustained services without having to also defend against external threats. These findings suggest that as threats increase, groups may be inclined to shift toward funding violence rather than governance.

Over the past decade, this literature has dramatically expanded, focusing on VNSAs’ provision of governance services in otherwise ungoverned

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<sup>5</sup> Piazza and Piazza, 2017.

<sup>6</sup> Wennmann, 2011, p. 344; Paul Collier, V. L. Elliott, Håvard Hegre, Anke Hoeffler, Marta Reynal-Querol, and Nicholas Sambanis, *Breaking The Conflict Trap: Civil War and Development Policy*, Washington, D.C.: World Bank, 2003, p. 96.

<sup>7</sup> Wennmann, 2011, p. 347.

<sup>8</sup> Reed M. Wood, “Rebel Capability and Strategic Violence Against Civilians,” *Journal of Peace Research*, Vol. 47, No. 5, 2010, p. 612.

<sup>9</sup> Eric Robinson, Daniel Egel, Patrick B. Johnston, Sean Mann, Alexander D. Rothenberg, and David Stebbins, *When the Islamic State Comes to Town: The Economic Impact of Islamic State Governance in Iraq and Syria*, Santa Monica, Calif.: RAND Corporation, RR-1970-RC, 2017.

and marginalized areas within weak or fragile states.<sup>10</sup> These services are often motivated by a canny strategic logic. In their 20th century treatises on insurgency, both Mao Zedong and Che Guevara described the importance of generating good will with local populations through goods and services, which in turn would support their political agendas and insurgent campaigns.<sup>11</sup> Nonstate governance can include an array of services, including security, education, food assistance, and informal justice.<sup>12</sup>

These services are not only intended to garner good will but also to subvert the authority of the central government and make the case that the VNSA offers a plausible alternative to the incumbent regime. Competing governance structures, especially those related to informal justice, have been common among Islamist and Salafi-jihadi groups—such as Hamas, al-Shabaab, and AQ in the Arabian Peninsula—which have used these systems to help propagate their ideologies and share their interpretations of Islam.<sup>13</sup> VNSAs also use their financing to provide services in parallel with the central government where the recognized central authority’s reach is limited or nonexistent. A 2008 study describes how LH and the LTTE have provided services, in part, to fill the “large vacuum created by the incapacity” of the

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<sup>10</sup> See Maria Derks, “Improving Security and Justice Through Local/Non-State Actors: The Challenges of Donor Support to Local/Non-State Security and Justice Providers,” paper, Den Haag, Netherlands: Clingendael Institute, April 2012; Shadi Hamid, “What America Never Understood About ISIS,” *The Atlantic*, October 31, 2019; Louis Lillywhite, *Non-State Armed Groups, Health and Healthcare*, London: Chatham House, 2015; Ulrich Schneekener, “Spoilers or Governance Actors? Engaging Armed Non-State Groups in Areas of Limited Statehood,” Berlin: Collaborative Research Center (SFB) 700 Governance in Areas of Limited Statehood, No. 21, October 2009.

<sup>11</sup> Discussed in Zachariah Cherian Mampilly, *Rebel Rulers: Insurgent Governance and Civilian Life During War*, Ithaca, N.Y.: Cornell University Press, 2015, pp. 11–13. See Mao Zedong, *On Guerrilla Warfare*, New York: Praeger, 1961; Ernesto Guevara, *Guerrilla Warfare*, New York: Vintage Books, 1969.

<sup>12</sup> Mampilly, 2015, p. 4.

<sup>13</sup> Joana Cook, Haid Haid, and Inga Trauthig, “Jurisprudence Beyond the State: An Analysis of Jihadist ‘Justice’ in Yemen, Syria, and Libya,” *Studies in Conflict & Terrorism*, June 10, 2020, p. 3.

Lebanese and Sri Lankan states.<sup>14</sup> By reaching underserved communities, LH and the LTTE have been able to expand their influence and control over target populations.

Groups can provide services through various means, including tribal or other local mechanisms.<sup>15</sup> Often, these services vary across areas. One study on the FARC described how the group's nonviolent activities adapted to local institutions and realities.<sup>16</sup> VNSA governance also tends to vary along the urban-rural divide, in part because of weak states' emphasis on controlling urban areas and exerting only limited control over rural areas, which creates opportunities to develop a shadow economy.<sup>17</sup> At the extreme, Iraq's near collapse allowed ISIS to establish control over a vast area, governed using state-like structures and systems for providing various services.<sup>18</sup>

Although a robust literature addresses how VNSAs finance themselves and, to a lesser extent, how they use their finances, comparatively few studies explain how and why specific revenue sources might associate with violent or nonviolent activities. One study finds that armed groups are more likely to engage in sexual violence when they use extortion but are less likely to do so when they use smuggling.<sup>19</sup> A different study suggests that VNSAs are more likely to forcibly recruit children if they exploit natural resources

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<sup>14</sup> Shawn Teresa Flanigan, "Nonprofit Service Provision by Insurgent Organizations: The Cases of Hizballah and the Tamil Tigers," *Studies in Conflict & Terrorism*, Vol. 31, No. 6, 2008, p. 503.

<sup>15</sup> Annette Iris Idler and James J. F. Forest, "Behavioral Patterns Among (Violent) Non-State Actors: A Study Complementary Governance," *Stability: International Journal of Security and Development*, Vol. 4, No. 1, 2015, p. 2.

<sup>16</sup> Ana Arjona, "Institutions, Civilian Resistance, and Wartime Social Order: A Process-Driven Natural Experiment in the Colombian Civil War," *Latin American Politics and Society*, Vol. 58, No. 3, Fall 2016.

<sup>17</sup> Idler and Forest, 2015, p. 9.

<sup>18</sup> Aymenn Al-Tamimi, "The Evolution in Islamic State Administration: The Documentary Evidence," *Perspectives on Terrorism*, Vol. 9, No. 4, August 2015; Johnston et al., 2016.

<sup>19</sup> Beth Elise Whitaker, James Igoe Walsh, and Justin Conrad, "Natural Resource Exploitation and Sexual Violence by Rebel Groups," *The Journal of Politics*, Vol. 81, No. 2, April 2019.

for financing.<sup>20</sup> In terms of nonviolent activities, several cases suggest that groups that exploit humanitarian aid and NGO programs are also more likely to provide social services, potentially diverting this aid for their supporters or communities.<sup>21</sup>

The relationship between a group's revenue sources and its activities is especially complicated when it comes to external state support. One prominent study suggests that VNSAs that depend on external state support, as opposed to local communities, are less likely to provide goods and services.<sup>22</sup> This logic would suggest that such groups are less dependent on the local communities to sustain their organizations and are, therefore, less likely provide services to garner good will. Other studies, however, challenge this claim, offering examples of external state support effectively subsidizing local service provision. A recent study on LH, which famously provides many different services in Lebanon, argues that Iranian-provided funds allow the group more flexibility in its activities and minimizes its need to prey on the local population for revenues.<sup>23</sup> Another study argues, more generally, that VNSA financing is dynamic and rarely static, which makes it hard, if not misleading, to distinguish between groups that depend on external versus local support.<sup>24</sup>

In some cases, such as in Colombia and Ecuador, a group's violent and nonviolent activities complement each other.<sup>25</sup> In Palestine, these instruments represent "two different means of reaching the same end: resisting oppression and addressing grievance."<sup>26</sup> Such notable examples as LH and

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<sup>20</sup> Roos Haer, Christopher Michael Faulkner, and Beth Elise Whitaker, "Rebel Funding and Child Soldiers: Exploring the Relationship Between Natural Resources and Forcible Recruitment," *European Journal of International Relations*, Vol. 26, No. 1, 2020.

<sup>21</sup> Mampilly, 2015, p. 226.

<sup>22</sup> Weinstein, 2007.

<sup>23</sup> DeVore, 2012, p. 87.

<sup>24</sup> Mampilly, 2015, p. 14.

<sup>25</sup> Idler and Forest, 2015, p. 9.

<sup>26</sup> Shawn Teresa Flanigan and Cheryl O'Brien, "Service-Seeking Behavior, Perceptions of Armed Actors, and Preferences Regarding Governance: Evidence from the Palestinian Territories," *Studies in Conflict & Terrorism*, Vol. 38, No. 8, 2015, p. 624.



ISIS also appear to use these tools as complements. LH relies on a local, friendly population to provide it a safe haven, a base for operations, and a pool of recruits. To sustain this base of support, LH must continue providing services in southern Lebanon.<sup>27</sup> Although more coercive than LH, ISIS rule also depended on nonviolent activities to bolster its state-building project and governance bona fides, which helped attract foreign fighters and, ultimately, supported the group's violent activities.<sup>28</sup>

Collectively, these studies offer a variety of insights into the relationship between VNSA financing and activities. But like much of the financing literature, many of these studies, especially those on nonviolent activities, tend to focus on specific groups and their distinct strategies rather than try to discern trends in the broader strategic landscape. Drawing on and combining several recent data sources, we developed a series of models that map this landscape and can help better capture the relationship between financing and activities.

## Data and Descriptive Trends

In this chapter, we rely on a variety of data sources, some of which have only recently been released, to evaluate the relationship between a VNSA's financing choices (i.e., mix of revenue sources) and its activities. Although we cannot speak to causal relationships, our models can offer insights into the association between a group's revenue sources and/or its portfolio size and its violent behavior.

In terms of explanatory variables, we drew on the same data sources as in the previous chapters, which provide a series of measures for group characteristics and regional context. Notably, the explanatory variables now also include our measures of revenue sources and financial portfolios, which were the outcome variables in Chapters 2 and 3, respectively. These same

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<sup>27</sup> Flanigan, 2008, p. 502.

<sup>28</sup> Mara Revkin, "ISIS' Social Contract: What the Islamic State Offers Civilians," *Foreign Affairs*, January 10, 2016.

measures are now used to help explain variation in VNSAs' violent and non-violent activities.<sup>29</sup>

To capture these activities, we draw on two datasets. The first is the UCDP-GED, which is particularly common among studies of conflict.<sup>30</sup> This dataset is the most widely used source on violent events over time and across countries. We use these data to capture the annual number of violent events attributed to VNSAs each year. For most groups that operate in only one country at time, this number is simply the sum of their violent events in a given year. Such events may include targeted attacks against civilians, violent engagements with government forces, or even conflict incidents between VNSAs.<sup>31</sup> For transnational groups, we aggregated the total number of events a VNSA was involved in across all countries in a calendar year. In our quantitative models, the number of events serves as our measure of a group's violent activity.

But violent events represent only part of the story; many VNSAs also use their funds to invest in nonviolent activities, such as local goods and service provision. To capture such investments, we drew on the Terrorist and Insurgent Organization Social Services (TIOS) dataset, which reports measures on service provision among 403 different VNSAs from all over the world from 1969 through 2013. Given such an expansive scope, the TIOS data were generated through automated searches for "words and phrases that correlate with service provision" in English-language media articles.<sup>32</sup>

Using these searches, TIOS coders then aggregated the mentions to create distinct variables for different types of service provision, including infrastructure (keywords include *septic* and *reconstruction*), medical (e.g., *clinic*), justice (e.g., *court*), education (e.g., *school*), and financial services (e.g.,

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<sup>29</sup> For more on these explanatory variables and their data sources, see Appendix A.

<sup>30</sup> Sundberg and Melander, 2013; Högbladh, 2019.

<sup>31</sup> A VNSA's inclusion in the UCDP dataset for any given year is dependent on the group meeting a threshold of 25 battle-related deaths for that year. A group's lack of presence in any given year does not mean that it ceased to exist or that its campaign had ended but rather that its activities did not culminate in 25 battlefield deaths that year.

<sup>32</sup> Lindsay L. Heger, Danielle F. Jung, and William A. Wagstaff, *Longitudinal Indicators of Service Provision By Terrorist and Insurgent Organizations (TIOS 2.0)*, codebook, Broomfield, Colo.: One Earth Future Research, March 2018, p. 3.

*microloan*).<sup>33</sup> To ensure that the data do not suffer from significant attribution bias (i.e., that services are wrongly ascribed to a VNSA), the researchers drew random samples of the data and conducted validation exercises.

In terms of coverage, the TIOS data unfortunately omit a large number of groups found in our other datasets. Therefore, we lost many observations and statistical power in our quantitative models on service provision. Given these challenges, readers should be cautious when interpreting our results on service provision, especially when it comes to associations between services and some relatively rare group characteristics, because these findings may be driven by only a few notable groups. Table 4.1 provides summary statistics for our measures of violent and nonviolent activities.

## Financing Violent Activities

We now begin to explore the relationship between financing and violent activities, which are the *raison d'être* for most VNSAs. Drawing on our quantitative models, Figure 4.1 shows the relationship between different revenue sources and violent activity (for more on these estimations, see

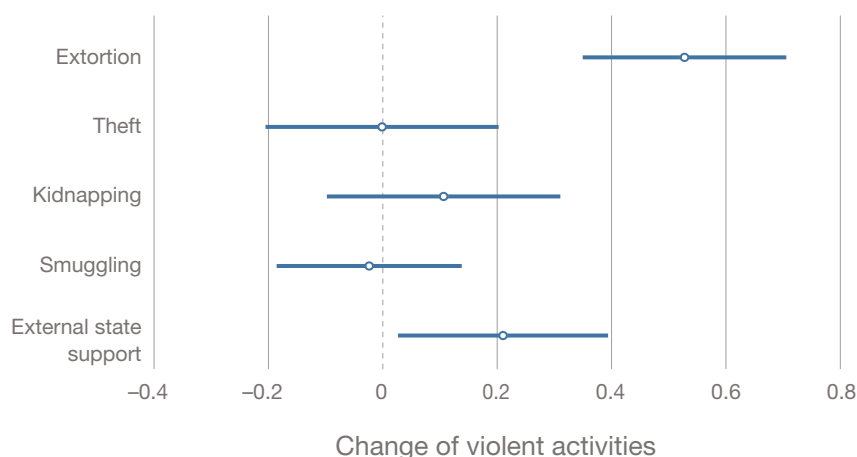
**TABLE 4.1**  
**Descriptive Statistics**

| Variable                 | Number of Observations | Minimum Value | Maximum Value | Mean of Sample |
|--------------------------|------------------------|---------------|---------------|----------------|
| Number of violent events | 2,951                  | 1             | 2,296         | 39.7           |
| Infrastructure           | 1,833                  | 0             | 164           | 2.8            |
| Medical                  | 1,833                  | 0             | 569           | 10.9           |
| Justice                  | 1,833                  | 0             | 14,679        | 248.7          |
| Education                | 1,833                  | 0             | 10,383        | 188.6          |
| Financial                | 1,833                  | 0             | 416           | 11.9           |

NOTE: For more on these datasets, see Appendix A.

<sup>33</sup> In addition to these five services, the data also include measures of religious, security, and social services. For various reasons, we found these measures to suffer greater challenges to their internal validity and therefore decided to exclude them from the analysis. For more on these data and their coding, see Heger, Jung, and Wagstaff, 2018.

**FIGURE 4.1**  
**Revenue Sources and Violent Activities**



SOURCE: RAND Arroyo Center analysis of various data sources.

NOTE: For more on the data and model specifications, see Appendix B.

Appendix B). As the figure reveals, most revenue sources do not have a clear relationship, positive or negative, with violent activity. Two clear results emerge, however: Groups that derive revenues from extortion and external state support are significantly more violent than groups that do not finance themselves with these sources.

All things being equal, VNSAs that use extortion average 70 percent more violent events per year than groups that do not use extortion. This result may reflect some essential difference between such groups, with those that rely on extortion being more invested in violence as a means (or even ends) than groups that depend on other sources. Alternatively, this finding could represent an underlying difference in overall resources. Recall from Chapter 2 that extortion is by far the most common form of revenue source, so this result may partly reflect the difference between groups with revenues versus those without.<sup>34</sup>

<sup>34</sup> According to the data, groups have no observable or consistent revenue sources in 20 percent of the sample. These observations (i.e., group-years) without any revenue sources result, in part, from missing data problems, particularly for more obscure,

Communist Party of Nepal–Maoist (CPN-M) is one such group that has historically relied on extortion to finance its violent activities. According to the RCD data, CPN-M’s only revenue source from 1996 to 2001 was extortion, which typically took the form of a tax on the local population. Refusing to pay the tax could result in death, a sentence that the group often carried out through public execution.<sup>35</sup> This period was one of the group’s most violent, during which it averaged 361 violent events a year from the mid-1990s through 2002. Over this period, CPN-M effectively harnessed its revenues from extortion to form the People’s Liberation Army in 2001, which was a more “centralized military force” that allowed the group to engage in higher levels of organized violence.<sup>36</sup>

In addition to revenue sources, our empirical models also estimated the relationship between different group characteristics and violent activity. Figure 4.2 summarizes these findings. As the figure highlights, the biggest difference in violent activities is that between national (operating in a single state) and transnational (operating across national borders in multiple states) groups. All things being equal, annual violent activity is 58 percent higher among transnational groups than national groups (or those groups operating in a single state). The models also suggest that communist and Islamist groups also tend to be more violent.

AQIM exemplifies this violent trend among transnational groups.<sup>37</sup> According to the data, AQIM’s transnational operations did not really begin

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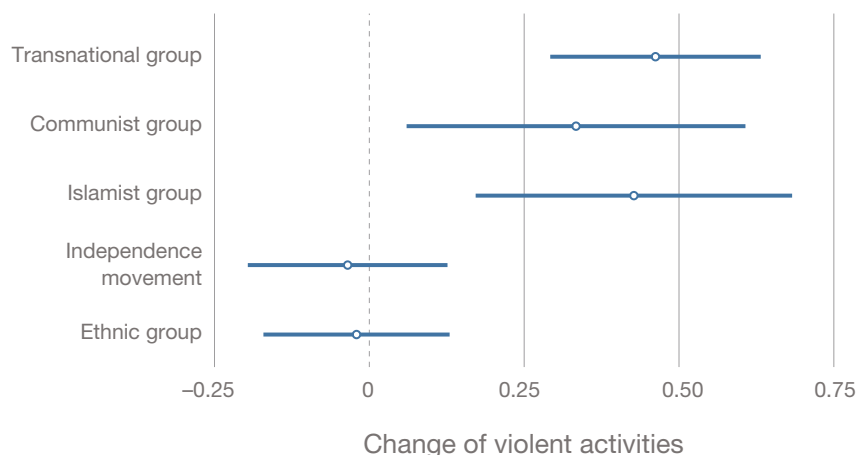
lower-profile groups that generate their revenues locally (and quietly) without broad reporting on their financial activities. For other groups, however, the lack of resources may actually capture reality, especially if a group has largely abandoned operations and persists in name only, which may be more common among older militant groups whose support eroded over time as the group became less relevant. Such groups may remain in the dataset for some number of years even after their revenue sources have dried up.

<sup>35</sup> International Crisis Group, *Nepal’s Maoists: Their Aims, Structure and Strategy*, Asia Report No. 104, October 27, 2005, p. 54.

<sup>36</sup> Aditya Adhikari, *The Bullet and the Ballot Box: The Story of Nepal’s Maoist Revolution*, London: Verso, 2014, p. 104.

<sup>37</sup> AQIM did not begin going by this name until 2007, after it had joined AQ in late 2006. In this report, we refer to the group as AQIM throughout its existence to avoid confusion. Prior to 2007, the group was known as Groupe Salafiste pour la Prédication et le Combat [Salafist Group for Preaching and Combat] (John Leicester and Omar

**FIGURE 4.2**  
**Group Types and Violent Activities**



SOURCE: RAND Arroyo Center analysis of various data sources.

NOTE: For more on the data and model specifications, see Appendix B.

until 2004, when it began conducting violent attacks in Chad and Niger.<sup>38</sup> Every year from 2004 through 2015, AQIM was involved in more violent events than the average national group. Before 2004, AQIM's operations were largely contained in Algeria, although it is likely that the group had already begun operating outside the country.<sup>39</sup> Although AQIM engaged in violence with security forces in Mauritania, Chad, and Mali, the group largely remained focused on its fight in Algeria, where most of its violent

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Sinan, "Al-Qaida Joins Algerians Against France," *Washington Post*, September 15, 2006; Craig S. Smith, "North Africa Feared as Staging Ground for Terror," *New York Times*, February 19, 2007).

<sup>38</sup> These are events recorded in the UCDP-GED that are included in our dataset. AQIM may have been involved in violence in states beyond Algeria prior to 2004, but these are not recorded in the UCDP-GED.

<sup>39</sup> In fact it is quite possible that AQIM was already involved in violent activities outside Algeria but that it was not captured in the UCDP-GED either because it did not meet the UCDP death threshold or because the event was not attributed to the group.

events took place.<sup>40</sup> Through its operations in Mali, Niger, Mauritania, and Chad, AQIM was able to avoid Algeria's security forces, create smuggling streams, kidnap foreigners for ransom, set up training camps, and recruit fighters.<sup>41</sup> In operating transnationally, AQIM gained access to larger revenue streams and recruitment populations, along with more safe zones and training areas than it had in Algeria alone.

Similar to AQIM, al-Shabaab's violent activities have largely focused on one country, Somalia, while its transnational operations support its violent efforts there. Beginning in 2010, al-Shabaab began violent activities outside Somalia, launching attacks in Uganda, Kenya, Djibouti, and Ethiopia.<sup>42</sup> Initially, these transnational operations served as retribution for these countries' involvement in the UN peacekeeping mission in Somalia.<sup>43</sup> But outside Somalia, Kenya is the only country to have suffered regular and sustained al-Shabaab attacks, counting at least 102 related violent events from 2011, when Nairobi sent troops into Somalia, through 2015.<sup>44</sup>

Like AQIM, al-Shabaab has been involved in international smuggling and has engaged in the illicit trade of goods, such as ivory, charcoal, and heroin. But unlike AQIM, al-Shabaab has been able to secure financial support from the diaspora, AQ, and the Eritrean government. Al-Shabaab has

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<sup>40</sup> Site Intelligence Group, "Moktar Belmoktar: A Primer on the al-Qaeda Leader in the Sahara," February 11, 2013; Salima Mellah and Jean-Baptiste Rivoire, "El Para, the Maghreb's Bin Laden," *Le Monde Diplomatique*, February 2005; Emily Hunt, "Al-Qaeda's North African Franchise: The GSPC Regional Threat," webpage, Washington Institute for Near East Policy, September 28, 2005; Sundberg and Melander, 2013; Högladh, 2019.

<sup>41</sup> J. Peter Pham, "Foreign Influences and Shifting Horizons: The Ongoing Evolution of al Qaeda in the Islamic Maghreb," *Orbis*, Vol. 55, No. 2, Spring 2011; Annelies Pauwels, "Competing for Ransom: AQIM vs. Daesh," Paris: European Union Institute for Security Studies, June 2016; Anouar Boukhars, *Mauritania's Precarious Stability and Islamist Undercurrent*, Washington, D.C.: Carnegie Endowment for International Peace, February 2016.

<sup>42</sup> Sundberg and Melander, 2013; Högladh, 2019.

<sup>43</sup> Lauren Ploch Blanchard, "Al Shabaab," Washington, D.C.: Congressional Research Service, IF10170, January 16, 2020.

<sup>44</sup> Blanchard, 2020; Sundberg and Melander, 2013; Högladh, 2019; Jeffrey Gettleman, "Kenyan Forces Enter Somalia to Battle Militants," *New York Times*, October 16, 2011.

also levied taxes and tolls on populations, businesses, and traders within areas under its control, providing a significant source of revenue for the organization.<sup>45</sup> Drawing on these resources, al-Shabaab has managed to sustain armed activities that outpace most nationally focused VNSAs. From 2010 to 2015, al-Shabaab averaged 353 violent events per year.<sup>46</sup> It seems that, as al-Shabaab lost territory inside Somalia, the organization focused more on international smuggling as a means of replacing internally generated revenues, although it was already active in some smuggling prior to territorial setbacks.<sup>47</sup> The evidence further suggests that al-Shabaab's overall rate of violence tends to associate with its ability to extract resources from both local and international sources.<sup>48</sup>

In a series of additional models, we found that increasing financial diversity (i.e., having a greater number of distinct revenue sources) associates with greater violence overall. As Figure 4.3 reveals, this finding holds for both national and transnational groups, although the trend is especially pronounced for national groups. Although transnational groups tend to be more violent at low and moderate levels of portfolio diversity, the data suggest that national groups are more violent as the number of revenue sources increase, overtaking transnational groups at the highest levels of portfolio diversity. However, few groups, national or transnational, ever achieve such portfolio diversity, which suggests that this trend may be driven by several particular groups (e.g., the LTTE).<sup>49</sup> The vast majority of groups fall into the low to moderate range of portfolio diversity, which is consistent with our earlier finding that transnational groups tend to be more violent overall.

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<sup>45</sup> Ido Levy and Abdi Yusuf, "How Do Terrorist Organizations Make Money? Terrorist Funding and Innovation in the Case of al-Shabaab," *Studies in Conflict & Terrorism*, Vol. 44, No. 12, June 2019.

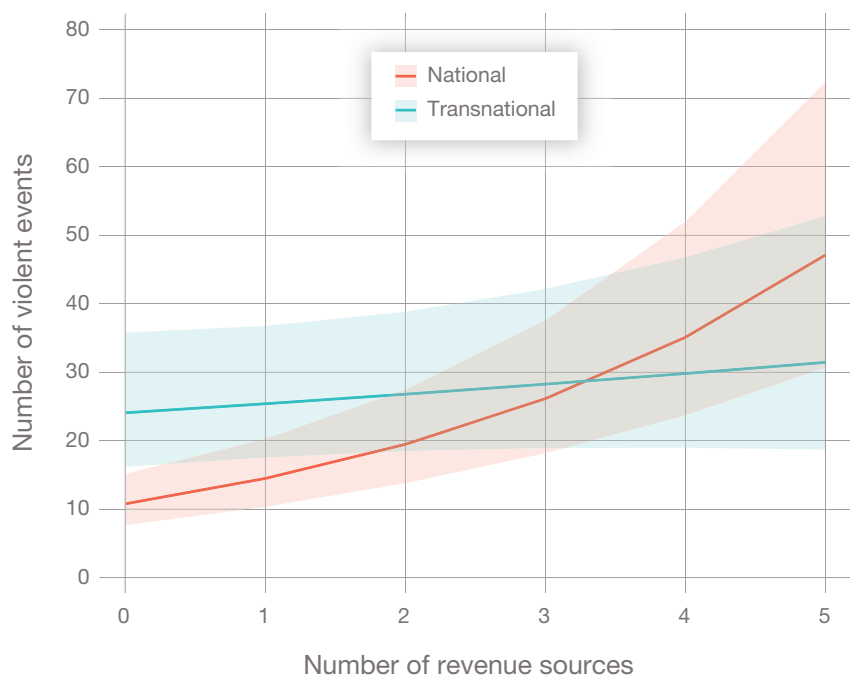
<sup>46</sup> Sundberg and Melander, 2013; Högladh, 2019.

<sup>47</sup> Levy and Yusuf, 2019, pp. 8–9, 13, 15.

<sup>48</sup> Levy and Yusuf, 2019, pp. 1–23.

<sup>49</sup> This uncertainty is also evident in the increasingly large error bars at the far right end of the horizontal axis, which indicate greater uncertainty around these predictions. The overlapping error bars further suggest that, given these data challenges and resulting uncertainty, we cannot statistically distinguish between predicted levels of violence for national and transnational groups at this level of portfolio diversity.



**FIGURE 4.3****Portfolio Diversity and Violent Activities**

SOURCE: RAND Arroyo Center analysis of various data sources.

NOTE: For more on the data and model specifications, see Appendix B.

All things being equal, the models suggest that violent activity is *four times* higher for national groups with the most diverse portfolios compared with those with no discernible revenue sources. National groups with no apparent revenue sources appear to commit relatively few attacks per year. But as their financial portfolios expand, national groups tend to become dramatically more violent. In fact, some of the most violent groups in our data are nationally oriented VNSAs.

The LTTE is one such national group, which built up a diverse portfolio and waged a violent war against the Sri Lankan state. For most of its history, the LTTE was a national organization, focusing its violent activities in Sri Lanka. Over the course of the LTTE's operations, it exploited a variety of revenue streams, inside and outside Sri Lanka, including extortion, smuggling,

piracy, human trafficking, and received some diaspora and state support. According to the data, the LTTE averaged 215 violent events each year from 1990 to 2009. The group's later years were also some of its most violent, when the LTTE engaged in open warfare with the Sri Lankan state. After a ceasefire collapsed in 2006 and until the LTTE's ultimate defeat in May 2009, the group averaged 525 violent events per year.<sup>50</sup> During this period, the Sri Lankan state sought to eliminate the LTTE using air, naval, and ground forces.<sup>51</sup> Drawing on its diverse portfolio of assets, the LTTE developed a capable fighting force, which it used to inflict as much damage to the Sri Lankan state as possible in an effort to slow the campaign against the group.

Although transnational groups also tend to increase their violent activities as their portfolios expand, this change is much more modest than the relationship between revenue and violent activities among national groups. All things being equal, transnational groups with the most diverse portfolios are only 30 percent more violent than transnational groups with no discernible revenue sources. Using these data alone, it is impossible to determine whether this finding suggests transnational groups are less elastic to changes in their revenue base, or simply reflects a ceiling effect on violent activity.

The history and evolution of LH, one of the most financially diverse transnational groups operating today, may offer some lessons about why additional revenue sources do not always translate into greater violence over time.<sup>52</sup> Emerging in the early 1980s, LH was involved in violent events in Lebanon through much of the civil war.<sup>53</sup> During its first decade, LH developed an international wing that was "responsible for planning and executing attacks outside of Lebanon" and across the region.<sup>54</sup> Drawing on support

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<sup>50</sup> Wickremesekera, 2016.

<sup>51</sup> Wickremesekera, 2016; Smith, 2010.

<sup>52</sup> We should note that, while our data cover 2012 to 2015, the UCDP-GED data did not include events from Syria for this period as of 2020. Therefore, LH's involvement in Syria is not captured in our data and represents an undercount of the group's total level of violent activity in later years. For more details, see Högladh, 2019.

<sup>53</sup> Theodor Hanf, *Coexistence in Wartime Lebanon: Decline of a State and Rise of a Nation*, London: I.B. Tauris and Centre for Lebanese Studies, 2015, pp. 315–317.

<sup>54</sup> Stanford Center for International Security and Cooperation, "Hezbollah," webpage, undated a.

from Iran, LH also became a formidable force inside Lebanon, where it used violence against other VNSAs, as well as against the Israeli, U.S., and international forces in the country.<sup>55</sup> But since the late 1990s, LH has shown an overall decline in the total number of armed events, with two notable exceptions: the 2006 war with Israel and involvement in the Syrian Civil War. During its periods of relative calm, however, LH has continued to maintain, if not expand, its diverse revenue portfolio.

There are a number of possible explanations for LH's lower rates of violence during the 2000s. After the Lebanese Civil War, LH appeared to shift a sizable portion of its resources toward service provision and efforts to expand its political representation through parliamentary elections.<sup>56</sup> The reduction of violence also coincides with Israel's withdrawal from southern Lebanon in 2000, which removed one of LH's primary enemies from the country.<sup>57</sup> Although LH continued to engage in sporadic violence with Israel after 2000, the only year of significant violent activity was 2006.<sup>58</sup> After the 2006 war, the Lebanese Armed Forces and UN Interim Force in Lebanon deployed units to southern Lebanon as a buffer between Israeli and LH forces.<sup>59</sup> This deployment may have prevented violent confrontation between LH and Israel, although violent events involving these parties have occurred since 2006.<sup>60</sup>

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<sup>55</sup> Mohanad Hage Ali, "Power Points Defining the Syria-Hezbollah Relationship," paper, Beirut: Carnegie Middle East Center, March 2019; David E. Johnson, *Hard Fighting: Israel in Lebanon and Gaza*, Santa Monica, Calif.: RAND Corporation, MG-1085-A/AF, 2011; Sundberg and Melander, 2013; Högladh, 2019.

<sup>56</sup> Melani Cammett and Sukriti Issar, "Bricks and Mortar Clientelism: Sectarianism and the Logics of Welfare Allocation in Lebanon," *World Politics*, Vol. 62, No. 3, 2010, pp. 382–388.

<sup>57</sup> For the period from 2001 through 2005, the UCDP registers only 6 events in which LH was involved (Sundberg and Melander, 2013; Högladh, 2019).

<sup>58</sup> Johnson, 2011.

<sup>59</sup> "Lebanon: UN Peacekeepers Lay Out Rules of Engagement, Including Use of Force," *UN News*, October 3, 2006.

<sup>60</sup> As of 2020, Data exists in the UCDP-GED for Syria for 2016–2018 (Sundberg and Melander, 2013; Högladh, 2019).

Although LH remains an exceptional case in many ways, as we will discuss further later, the group nonetheless helps illustrate why increased violent activity may not always follow portfolio diversification, especially for some transnational groups. By the mid-2000s, and especially after 2006, LH had gained such prominence in Lebanon and throughout the region that it no longer needed to regularly use violence to achieve its goals. The threat of violence was often sufficient, with Lebanese actors across the political spectrum coming to recognize that LH could no longer be contained within southern Lebanon. Given its newly ascendant position, LH could now afford to invest more in other activities, such as local goods and service provision.

## Financing Nonviolent Activities

Having discussed the relationship between financing and violent events, we now consider the relationship between financing and nonviolent activities. Figure 4.4 summarizes the findings from a series of quantitative models that estimate the relationship between revenue sources and different services. Despite some important differences across services, a general picture emerges. These service variables tend to be skewed for larger groups, which receive more attention and publicity than more obscure groups. Therefore, we log the variables as recommended by the coding team that constructed the underlying counts.<sup>61</sup> For more on these variables' range, see Table 4.1.

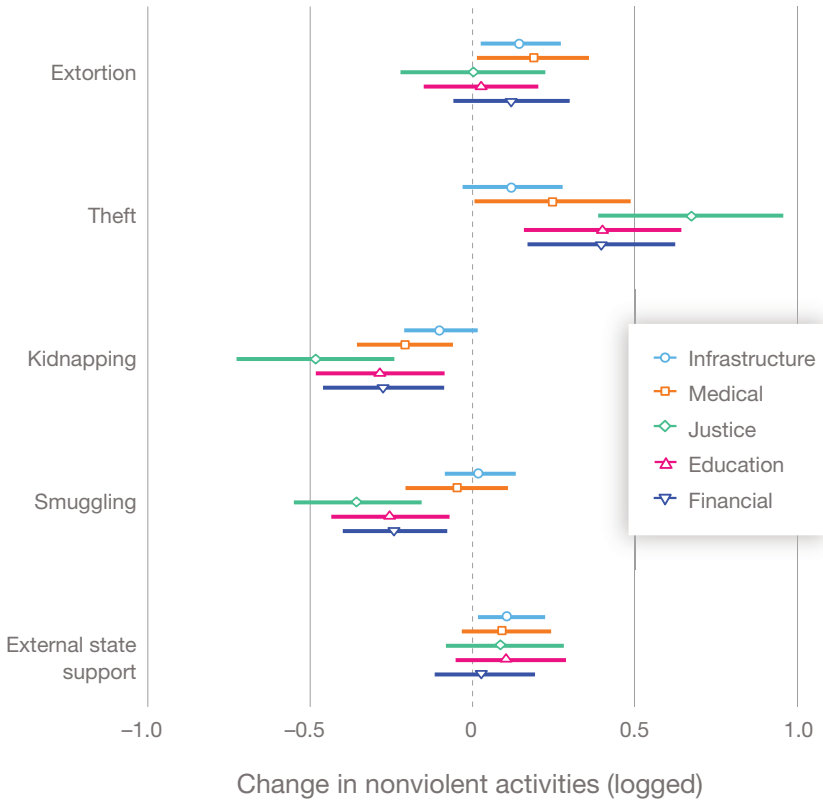
We found that groups that use theft and, to a lesser degree, extortion tend to associate with more service provision. Theft, in particular, associates with medical, educational, financial, and informal justice services. By contrast, groups that rely on kidnapping and, to a lesser degree, smuggling tend to associate with less service provision.

Between 1991 and 2004, the Palestinian National Liberation Movement, commonly known as Fatah, regularly used extortion, such as taxation of local communities and businesses, and theft to generate revenue. Following the 1993 Oslo Accords and the establishment of the Palestinian Author-

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<sup>61</sup> The TIOS dataset was built in an effort to capture service provision by 403 different VNSAs from all over the world from 1969 through 2013 using English-language media articles in LexisNexis.

**FIGURE 4.4**  
**Revenue Sources and Nonviolent Activities**



SOURCE: RAND Arroyo Center analysis of various data sources.  
NOTE: For more on the data and model specifications, see Appendix B.

ity, Fatah gained access to foreign assistance and other government funds, which provided opportunities to embezzle funds to support the group. As the dominant political and armed actor in the Palestinian Territories, Fatah was well positioned to benefit from such revenue sources, and the group has

had a long-standing legacy of corruption and misrule while controlling the Palestinian Authority.<sup>62</sup>

During this period, Fatah not only embezzled government revenues but also provided services within the Palestinian Territories. A 2015 survey of residents in the Palestinian Territories found that, although the Palestinian Authority is the overall preferred provider of services writ large, VNSAs are almost always the second most preferred provider, ahead of tribal or family-based services.<sup>63</sup> Consistent with the findings in Figure 4.4, the survey also found that respondents commonly sought out legal services from Fatah and other VNSAs to resolve issues of theft; violence; and, to a lesser extent, contract disputes.<sup>64</sup> Fatah's provision of legal services is not surprising, given the Palestinian Territories' well-established judicial system and Fatah's history of implementing systems and regulations to help formalize property rights in Palestinian refugee camps.<sup>65</sup>

PIRA, which used theft and extortion as two of its most consistent and long-standing sources of revenue, also leveraged its finances for nonviolent activities. Given PIRA's *raison d'être*—to unite Ireland under one banner and expel British authorities—alternative governance structures complement the group's violent activities by undermining British authority. Working through its political wing, Sinn Féin, PIRA provided “advice centers,” which helped resolve personal concerns, including social security claims and welfare issues. Additionally, advice centers served as dispute resolution centers, and Sinn Féin even controlled local electric and water utility services.<sup>66</sup>

As it expanded into legal enterprises, PIRA also began providing licit and illicit protection services to affiliated businesses. For instance, PIRA

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<sup>62</sup> Manal A. Jamal, “Beyond Fatah Corruption and Mass Discontent: Hamas, the Palestinian Left and the 2006 Legislative Elections,” *British Journal of Middle Eastern Studies*, Vol. 40, No. 3, 2013, p. 283.

<sup>63</sup> Flanigan and O'Brien, 2015, p. 630–631.

<sup>64</sup> Flanigan and O'Brien, 2015, p. 631.

<sup>65</sup> Wael Lafée, “Palestinian Law and the Formation of Regular Courts,” webpage, Jurist, June 19, 2012; Nadya Hajj, *Protection Amid Chaos: The Creation of Property Rights in Palestinian Refugee Camps*, New York: Columbia University Press, 2016, p. 91.

<sup>66</sup> Dingley, 2012, p. 186.

operated a substantial taxi service in Belfast, for which the group also provided security to taxi drivers and insurance services for their vehicles. In addition to these extortionary protection rackets, the organization often owned or extracted fees from insurance companies.<sup>67</sup> PIRA also organized community protection squads to police illegal activities—or at least the illegal activities for which the group did not receive a share of the profits. Sinn Féin also established legal services, including courts through which the organization meted out an array of punishments.<sup>68</sup>

In contrast to VNSAs that depend on theft and extortion, our models suggest that groups that exploit kidnapping and smuggling tend to associate with less service provision, especially related to education, justice, and financial services. India's National Liberation Front of Tripura (NLFT) is one such group. Active along the India-Bangladesh border, the NLFT is an ethnoreligious separatist group that has a long history of kidnapping. Despite the group's nominal goal of establishing an independent Tripura state, the NLFT has done relatively little to provide health, education, or infrastructure services. Rather, the NLFT appears to have dedicated much of its financing from kidnapping to violence, including targeted assassinations, attacks on Indian security forces and authorities, and running training camps in Bangladesh.<sup>69</sup> In fact, its targeted violence against laborers working on development projects has actually slowed infrastructure growth in Tripura.<sup>70</sup> Such dynamics have been found in other contexts as well, even when militants have provided alternative services while also targeting development projects. When the NLFT attempted to establish some alternative governance systems in rural areas, the group reportedly did little to rally the rural communities to its cause. Instead, its brutal tactics of kidnappings,

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<sup>67</sup> Adams, 2018, p. 185–186.

<sup>68</sup> Dingley, 2012, p. 118. For an in-depth analysis of PIRA's financing strategies and disruptive measures taken against the organization, see Appendix F.

<sup>69</sup> "Tripura: Routine Violence," *Economic and Political Weekly*, Vol. 39, No. 32, August 7–13, 2004, p. 3564.

<sup>70</sup> Mahadev Chakravarti, "Insurgency in Tripura: Some Trends," *Economic and Political Weekly*, Vol. 36, No. 25, June 23–29, 2001, p. 2231.

assassinations, and random killings gradually eroded popular support in its areas of operation.<sup>71</sup>

Another example of such predatory behavior comes from Angola, where the Frente da Libertação do Enclave de Cabinda–Forças Armadas de Cabinda (FLEC-FAC) [Front for the Liberation of the Enclave of Cabinda–Armed Forces of Cabinda] has been notorious for its use of hostage-taking and kidnapping for ransom. The FLEC-FAC has used these methods not only to generate revenue but also to draw international attention to the group’s cause—an independent Cabinda and a greater share of the region’s substantial oil resources.<sup>72</sup> However, the FLEC-FAC has dedicated few resources to service provision or parallel governance, despite its secessionist aspirations and Luanda’s neglect of the region. Instead, FLEC-FAC reportedly channels its funds back into its violent activities and high-profile kidnappings, such as the 2010 attack on Togo’s national soccer team.<sup>73</sup>

In contrast with revenue sources, which appear to associate with distinct trends in service provision, few such patterns emerge for group characteristics. Figure 4.5 summarizes the findings on the relationship between group characteristics and different services. Overall, we have found little evidence that ideology, goals, or identity are significantly related to whether a group will associate with more or less service provision. These findings may suggest that group characteristics do not significantly shape VNSAs’ service provision. Alternatively, the small sample size, particularly for some group types, may simply make it difficult to detect relationships.

Across these different models, however, we found one consistent result: Islamist groups significantly correlate with more services. All things being equal, the data suggest that Islamists tend to provide more medical, justice, and educational services than non-Islamist groups. This positive association between Islamism and service provision is broadly consistent with various VNSAs, from Shia groups, such as LH in Lebanon, to Sunni groups, such as Hamas in Gaza.

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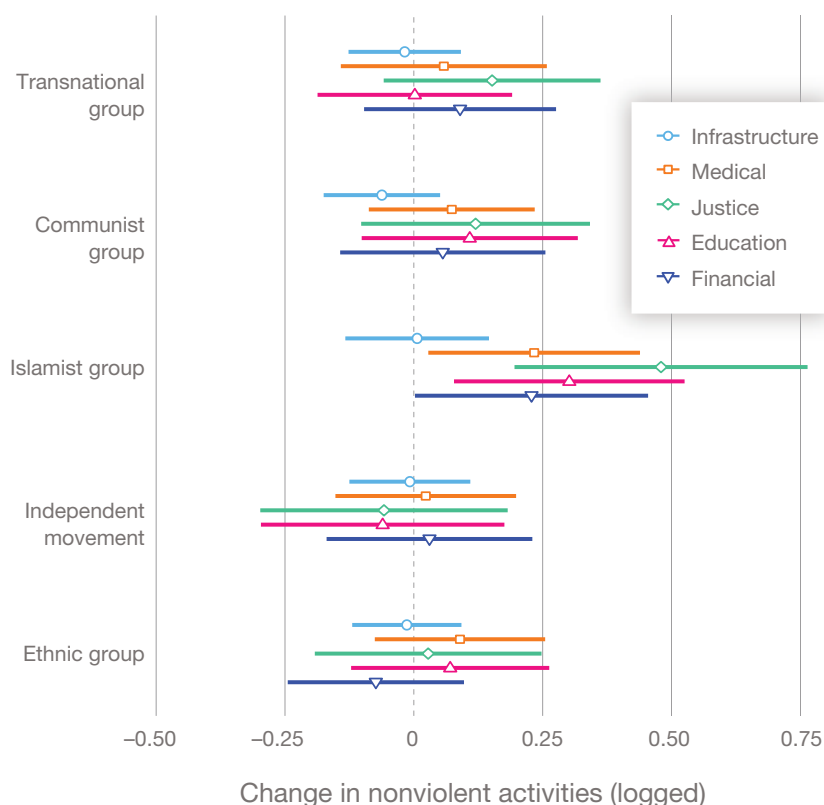
<sup>71</sup> Chakravarti, 2001, p. 2231.

<sup>72</sup> Victor Ojatorotu, “The Paradox of Terrorism, Armed Conflict and Natural Resources: An Analysis of Cabinda in Angola,” *Perspectives on Terrorism*, Vol. 5, Nos. 3–4, September 2011, p. 103.

<sup>73</sup> Ojatorotu, 2011, p. 103.



**FIGURE 4.5**  
**Group Types and Nonviolent Activities**



SOURCE: RAND Arroyo Center analysis of various data sources.

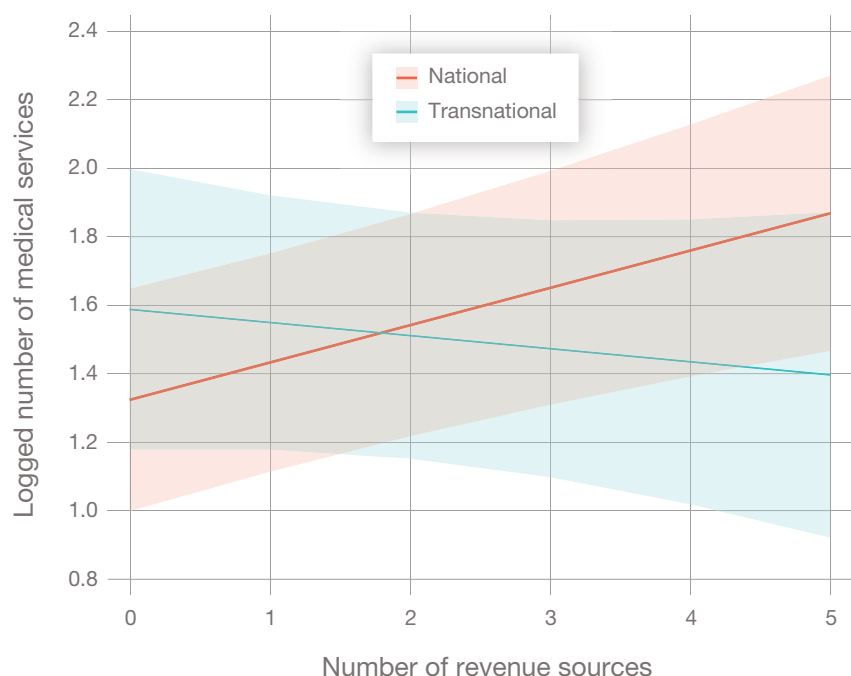
NOTE: For more on the data and model specifications, see Appendix B.

Having discussed the relationships between specific revenue sources and group characteristics on service provision, we now explore whether a group's overall financial portfolio also associates with its investments in nonviolent activities. Earlier in the chapter, we described how VNSAs with more-diverse portfolios tend to be significantly more violent.<sup>74</sup> Surpris-

<sup>74</sup> This result is robust across various model specifications and estimation strategies. See Appendix B for more details.

ingly, no such relationship holds for nonviolent activities—at least, not for most types of services. Our models suggest that VNSAs with more-diverse portfolios (i.e., a greater number of revenue sources) tend to associate with medical and legal services but not with infrastructure, education, or financial services. Moreover, these positive associations appear to be driven by national groups rather than transnational groups (see Figure 4.6). Earlier in the chapter, we described how our findings on violent events also suggest differential relationships of finance and violent activities among national and transnational groups, but the variation in violence tends to be one of magnitude. This stark difference in service provision is notable because it suggests that transnational groups may have an altogether different strategic logic when it comes to nonviolent activities.

**FIGURE 4.6**  
**Portfolio Diversity and Medical Services**



SOURCE: RAND Arroyo Center analysis of various data sources.

NOTE: For more on the data and model specifications, see Appendix B.

All things being equal, national groups with more-diverse portfolios have a significantly stronger association with medical services than national groups with less-diverse portfolios. This finding likely reflects a shrewd calculus among such VNSAs rather than greater benevolence. National groups that grow their revenue base tend to become more state-like, carving out some autonomous space to challenge the incumbent regime. As these groups grow, often by extorting local communities and businesses, they maintain support among the population by reinvesting and providing services to the same communities that they exploited for financing in the first place. Given a group's resource constraints, the choice to invest in these services may pose a governance-violence trade-off, forcing the group to decide how to best spend its finances across violent and nonviolent activities.<sup>75</sup>

The history of the LTTE exemplifies this dynamic. According to the data, from 1990 to 2008, the LTTE managed one of the most diverse financial portfolios of any national VNSA. These resources not only financed the LTTE's violent activities, as we discussed earlier, but also supported the group's efforts to build a parallel state in the areas under its control.<sup>76</sup> Following a 2002 cease-fire with the government, the LTTE even became the de facto governing authority in parts of northern and eastern Sri Lanka.<sup>77</sup> In areas under the group's control, the LTTE provided judicial and security services, running its own courts and police forces, and various social welfare services, including education and health care.<sup>78</sup> The limited state presence in such areas created a "perfect environment for insurgent organizations to

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<sup>75</sup> In our quantitative analysis (see Appendix B), we tried to model this trade-off explicitly by including our measure of violent activity in the regression models on non-violent goods and services. The results suggest that, for some outcome measures (e.g., infrastructure), there may be a substitution effect, such that increasing violent activity associates with a decrease in the provision of infrastructure. This result, while suggestive, is not consistent across different goods and services and should be examined further in future work.

<sup>76</sup> M. R. Narayan Swamy, *The Tigers of Lanka: From Boys to Guerillas*, Sri Lanka: Vijitha Yapa Publications, 2008, p. 213. For an in-depth analysis of LTTE finances, see Appendix G.

<sup>77</sup> Flanigan, 2008, p. 501.

<sup>78</sup> Niels Terpstra and Georg Frerks, "Rebel Governance: the Cases of the LTTE and Hezbollah," Gerda Henkel Foundation, September 28, 2016, p. 3.

use service delivery as a means of gaining community support.”<sup>79</sup> The LTTE also diverted development aid and state-provided services, claiming credit for these goods and services.<sup>80</sup>

Our models, however, suggest an altogether different trend among transnational groups. For most types of services, increasing portfolio diversity among transnational groups has no relationship with service provision, suggesting that these groups do not operate under the same set of incentives as national groups and may not face the same kind of governance-violence trade-off. But for some services (e.g., medical and justice), increasing portfolio diversity actually decreases the association with service provision. This finding may suggest that transnational groups, especially those operating in many countries and with a broad revenue base, do not feel strong ties to local communities, making them less likely to invest in nonstate goods and services. Instead, and as the earlier section on “Financing Violent Activities,” indicates, they devote their resources to terror and the production of violence.

As a transnational terror group, AQIM has consistently drawn on a diverse array of revenue sources and illustrates our finding on service provision. Between 2008 and 2012, the group generated tens of millions of dollars through kidnappings alone, likely making it one of the wealthiest terrorist groups in the world during this period.<sup>81</sup> Yet despite its wealth, there is scant evidence that the group offered substantial services in the Maghreb. Instead, these finances went to attracting recruits, who received generous salaries relative to other employment opportunities in the area.<sup>82</sup> The group’s substantial wealth generated through kidnapping for ransom, along

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<sup>79</sup> Flanigan, 2008, p. 503.

<sup>80</sup> Mampilly, 2015, pp. 112–113, 226.

<sup>81</sup> Between 2008 and 2014, AQIM reportedly generated at least \$91.5 million in revenue, just from kidnapping for ransom. See Sergei Boeke, “Al Qaeda in the Islamic Maghreb: Terrorism, Insurgency, or Organized Crime?” *Small Wars & Insurgencies*, Vol. 27, No. 5, 2016, p. 928; Denise N. Baken and Ioannis Mantzikos, *Al Qaeda: The Transformation of Terrorism in the Middle East and North Africa*, New York: Praeger Security International, 2015, p. 59.

<sup>82</sup> Kai Koenemann, *Rebel Group Funding and Engagement in Rebel Governance: A Comparative Case Study*, Uppsala, Sweden: Uppsala University, 2019, p. 44.

with a smuggling economy and protection rackets, provided AQIM with ample resources to attract recruits from local populations without having to invest in a service-focused hearts-and-minds campaign.<sup>83</sup> Although some reports suggest that AQIM provided limited health care services, periodically distributing medicine to the sick, it is unclear how expansive this practice was.<sup>84</sup>

In 2012, AQIM briefly expanded its provision of goods and services when the group allied with Tuareg separatists and after it seized vast swaths of northern Mali. AQIM's emir, Abdelmalek Droukdel, instructed the group to ensure the provision of health care, water, electricity and other essential services in the new areas of control.<sup>85</sup> The group also imposed Shari'a and implemented harsh punishments for crimes and moral transgressions within *hudud* violations of Islamic law.<sup>86</sup> The group's stringent governance during this period was a departure from AQIM's past hands-off approach to its civil affairs, when, rather than forcing its harsher interpretations of Islamic jurisprudence on local populations, the group largely integrated into existing local governance structures. While the group's leadership appeared to welcome some elements, AQIM's leader, Droukdel, saw others, such as the application of *hudud* punishments, as likely to drive the population away from AQIM.<sup>87</sup> After French forces liberated AQIM-controlled areas in 2013, locals reportedly celebrated AQIM's departure, suggesting that the group's imposition of harsh judicial practices eroded its local support.<sup>88</sup>

By contrast, LH represents a notable exception to our findings. Like AQIM, LH enjoys a diverse financial portfolio and has created a vast trans-

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<sup>83</sup> Koenemann, 2019, p. 44.

<sup>84</sup> Rukmini Callimachi and Martin Vogl, "Candy, Cash—Al-Qaida Implants Itself in Africa," Associated Press, December 4, 2011.

<sup>85</sup> Boeke, 2016, p. 925.

<sup>86</sup> Koenemann, 2019, p. 47. *Hudud* offenses include "fornication, consumption of intoxicants, and theft" (Paul R. Powers, *Intent in Islamic Law: Motive and Meaning in Medieval Sunni Fiqh*, Brill, 2006, p. 170). One example of a *hudud* punishment is the amputation of a hand in cases of theft.

<sup>87</sup> Koenemann, 2019, p. 47.

<sup>88</sup> Andrew Lebovich, "The Local Face of Jihadism in Northern Mali," *CTC Sentinel*, Vol. 6, No. 6, June 2013, p. 9.

national network, operating across the Middle East, Africa, and even parts of South America and Europe.<sup>89</sup> But unlike AQIM, LH has long provided local goods and services in Lebanon, especially health care. Historically, these services were targeted to majority Shia areas that supported LH but, over time, also extended to other areas and confessional groups. The provision of nonstate services in Lebanon is a legacy of the country's 15-year-long civil war, during which VNSAs provided services to the communities under their control.<sup>90</sup> Since the end of the war, Lebanon's fractured political structure has continued to offer opportunities for LH and other actors to use services as a means of expanding their political support. One study, for example, describes how the "Lebanese welfare regime involves minimal state provision and regulation, leaving a wide scope for private, nonstate actors to supply basic service."<sup>91</sup> Through its Islamic Health, Social, and Education Units, LH has been able to provide a "comprehensive human service net" for communities that might otherwise be underserved by the state or might seek essential services from the group's local competitors.<sup>92</sup>

LH's exceptionalism, however, may not be all that exceptional after all when we look deeper at the strategic logic underlying these investments. Although operating transnationally, LH remains focused at its core on expanding power and influence in Lebanon. From Syria to Yemen, LH's activities abroad often garner the most concern and attention among international observers, but the group's fundamental interests reside in Lebanon, where nonstate service provision offers a complementary tool to expand political influence. AQIM and other transnational jihadist groups may have little to no interest in their local communities, reducing their incentive to invest in service provision and freeing up their finances to support their violent activities.

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<sup>89</sup> "Hezbollah: Germany Bans and Raids Islamist Group," BBC News, April 30, 2020; For an in-depth analysis of LH's financing, see Appendix D.

<sup>90</sup> Cammett and Issar, 2010, p. 390.

<sup>91</sup> Cammett and Issar, 2010, p. 390.

<sup>92</sup> Flanigan, 2008, p. 509.

## Conclusions and Implications

VNSAs that use extortion to finance their organizations tend to be more violent than groups whose revenues principally derive from other sources. Whether these relationships reflect an underlying selection problem (e.g., groups predisposed to violence may be more likely to use extortion) is difficult to say, given data limitations. In addition to these differences across revenue sources, the data also reveal how a more diverse financial portfolio associates with a significant increase in violent activity. This finding is especially pronounced among national groups, which dramatically increase their violent output as their mix of revenue sources expands. By contrast, transnational groups' violent activity appears to be less elastic to changes in their financial portfolios.

These findings offer several important implications for policymakers crafting CTF efforts. For national groups, the results suggest that reducing violence crucially depends on disrupting the local revenue base. Small national groups with few distinct revenue sources produce little violence, but building resource bases over time can allow these groups to develop much more sophisticated and lethal organizations that can engage in open warfare with the state. Curtailing such growth early in such groups' development could prove critical. The models, however, do not suggest that a similar intervention would yield comparable results for transnational groups. Even transnational groups with modest financial portfolios tend to be fairly violent. Although cutting off their finances would certainly help, the data suggest that transnational threat networks are able to conduct a relatively large number of attacks even without a diverse resource base. Degrading these groups may depend on more-traditional kinetic activities and counterterrorism operations, which we further discuss in the next chapter.

As for nonviolent activities, we also found different trends among national and transnational groups' proclivities for service provision. As a group's financial portfolio becomes more diverse, national groups tend to invest more in local governance, especially medical services. This trend does not hold for transnational groups. In fact, for some types of services, the relationship between financial diversity and nonviolent activities actually goes the opposite direction, becoming less likely as a transnational network expands its pool of revenue sources. These varying trends likely reflect a

more fundamental strategic difference between national and transnational groups. A national group that grows its revenue base becomes more state-like and, to maintain its support among the population, has to reinvest in its local communities.

For some resource-constrained groups, there may be a governance-violence trade-off. Given this logic, reducing violent activity among national VNSAs may depend on targeting specific revenue streams and/or encouraging substitution into nonviolent activities. But even if successful, this substitution strategy is not without its costs. This strategy may offer short-term security benefits by reducing local violence but can also entail long-term costs if the VNSA can build its popular support through increased investment in local goods and services. This substitution strategy is less likely to pay off with transnational groups, especially those operating in many countries and with a broad revenue base. Such groups typically do not feel the same ties to local communities, making them less likely to invest in nonstate goods and services, even if the costs of violence increase.



## Counter–Threat Financing Efforts

VNSAs have a variety of ways of raising money. Many of these are in themselves security or safety threats, such as kidnapping for ransom and other criminal activities. However, the biggest concern with VNSA revenue raising is that VNSAs then spend the money on activities that run counter to the security and safety of U.S. allies and partners, as well as the United States itself. Those activities range from the partly benign provision of social services to subversion of governments, terrorism, and warfare.

Because finances enable these malign activities, the United States and its partners have developed a variety of ways to counter VNSA revenue raising. These tools include what we term *nonkinetic activities*, such as using legal authorities to bar revenue raising, and what we term *kinetic activities*, including direct attacks against VNSA financiers.

In this chapter, we first discuss the set of CTF methods, then provide illustrations from five case studies, drawing conclusions about the value of and limitations to CTF efforts. The full case studies can be found in Appendixes C through G.

The U.S. Army plays an important role in many aspects of CTF. On the nonkinetic end of actions, the Army helps supply the threat finance intelligence collectors and the CTF analysts to track and monitor VNSA financing. This information serves as an input to actions in which the Army participates as part of the joint force. These include eradication or destruction of VNSA revenue-raising assets, interdiction, and targeting of VNSA actors involved in finance. These actions also include working with security partners to enhance their roles and supporting efforts to improve stability, which makes it harder for VNSAs to raise revenue and operate. Although many of these tasks have been included in the counterterrorism and counterinsur-

gency operations of the first two decades of the 21st century, they remain relevant for strategic competition, as discussed more fully in Chapter 6.

Although the results of our case studies cannot give a complete account of the benefits and limitations of Army involvement in CTF, they can suggest patterns and highlight Army roles. We discuss these more fully at the end of the chapter. There are several broad findings from the cases to note here.

CTF efforts included a mix of nonkinetic and kinetic tools; the Army can play a role in both domains. Population support helped CTF efforts, suggesting an important role for civil affairs. International support also helped, suggesting an important role for the Army's participation in all aspects of security cooperation. Reducing VNSA territorial control contributed notably to undermining a VNSA's finances and power. The U.S. Army is the nation's—and one could credibly say the world's—preeminent ground force, which suggests that, where a VNSA controls territory, Army participation in countering its finances is essential.

In the five cases we reviewed, CTF activities did not, by themselves, lead to victory over the groups. However, CTF activities were an important element of undermining each group's capabilities and operations. Thus, the cases cannot indicate the level of investment the Army should make in the CTF mission but do indicate the importance of the Army being part of that mission.

## Counter-Threat Finance Methods

We start with the range of nonkinetic methods. In many cases, while the United States has the widest and most powerful set of measures, these measures are complemented by international institutions and actions. Likewise, the United States has a wide variety of kinetic methods, and international partners sometimes magnified these methods. Appendix H provides more-complete descriptions and assessments of effectiveness.

### Nonkinetic Disruption Methods

Nonkinetic CTF tools include U.S. and international legal authorities; targeted financial sanctions; designation mechanisms; asset freezes to impede financial access; AML and combating the financing of terrorism (CFT)

standards; investigation, prosecution, and sentencing; and DoD's role in intelligence-sharing and coordination.

### Targeted Financial Sanctions

Targeted financial sanctions involve stopping the target from interacting with the U.S. financial system and freezing any of the target's assets that the U.S. financial system holds. In some cases, this also stops the target from interacting with foreign financial institutions that interact with the U.S. financial system. Because the U.S. financial system is at the heart of many international transactions, regardless of country, these sanctions can damage the target.

There are two major designation schemes involving targeted financial sanctions in the United States. Under the Immigration and Nationality Act, DoS can declare a group to be an FTO; this is implemented by DoS's Counterterrorism Bureau.<sup>1</sup> Under Executive Order (EO) 13224,<sup>2</sup> both DoS and Treasury can declare a person or a group to be a specially designated global terrorist (SDGT).<sup>3</sup> An entity designated an SDGT is placed on Treasury's Specially Designated Nationals list, and Treasury's Office of Foreign Assets Control (OFAC) blocks the entity's assets.<sup>4</sup>

Internationally, the targeted sanctions regime comprises UNSCRs 1267 and 1373 and the international AML/CFT standards FATF has designed (we will discuss these later in more depth). Under UNSCR 1267, countries must

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<sup>1</sup> John W. Rollins, "Foreign Terrorist Organization (FTO)," Washington, D.C.: Congressional Research Service, IF10613, January 15, 2019; Pub. L. 104-132, The Antiterrorism and Effective Death Penalty Act of 1996, April 24, 1996; Immigration and Nationality Act (INA) Section 219 (as codified in U.S.C Title 8, Aliens and Nationality, Ch. 12, Immigration and Nationality, Subch. II, Immigration, Pt. II, Admission Qualifications for Aliens; Travel Control of Citizens and Aliens, § 1189, Designation of Foreign Terrorist Organizations).

<sup>2</sup> EO 13224, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, September 23, 2001.

<sup>3</sup> In Appendix B, we provide two figures that derive from a predictive analysis on the characteristics that determine whether a group will be sanctioned. Because of data limitations (e.g., missing data on group finances), we cannot properly evaluate the effects of sanctions on revenues.

<sup>4</sup> Michael R. Pompeo, "Modernization of Executive Order 13224," press release, U.S. Department of State, September 10, 2019.

freeze the funds or assets of any person or entity designated by the UN Security Council; likewise, under UNSCR 1373, countries are required to prevent financing of terrorism and freeze the funds of anyone committing terrorism.<sup>5</sup>

## AML/CFT Tools

The U.S. AML/CFT effort relies heavily on financial institutions to monitor and report under two legal authorities. First, the USA PATRIOT Act requires all financial institutions to report money laundering.<sup>6</sup> Second, the Bank Secrecy Act (BSA) obligates financial institutions to report on customer relationships and maintain records of financial transactions through filing currency transaction reports and suspicious activity reports.<sup>7</sup> FinCEN oversees and implements AML/CFT policies at Treasury, using the BSA to partner with financial institutions and obligate them to keep records and report suspicious transactions. FinCEN also provides law enforcement with financial intelligence recorded through the BSA and provides analytical support, facilitating information sharing within law enforcement.<sup>8</sup>

Internationally, FATF serves as the international standard setter on AML/CFT regulatory policy, with 37 member jurisdictions and two regional orga-

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<sup>5</sup> FATF, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations*, Paris, June 2019b. The Security Council's designation power comes from Chapter VII of the UN Charter. Recommendation 6 of the FATF standards requires countries to ensure that funds or assets of individuals and entities under UNSCR 1267 and all current and successor resolutions that involve targeted financial sanctions against terrorists are not made directly, or indirectly available to designated persons or entities. This involves UNSCRs 1333 (2000), 1363 (2001), 1390 (2002), 1452 (2002), 1455 (2003), 1526 (2004), 1617 (2005), 1730 (2006), 1735 (2006), 1822 (2008), 1904 (2009), 1988 (2011), and 1989 (2011).

<sup>6</sup> Pub. L. 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), October 26, 2001; Financial Crimes Enforcement Network (FinCEN), "USA PATRIOT Act," webpage, U.S. Department of the Treasury, undated.

<sup>7</sup> Pub. L. 91-508, Financial Recordkeeping and Reports of Currency and Foreign Transactions (Bank Secrecy Act), October 26, 1970; Federal Deposit Insurance Corporation, "Bank Secrecy Act, Anti-Money Laundering, and Office of Foreign Assets Control," Section 8.1 in Federal Deposit Insurance Corporation, *Risk Management Manual of Examination Policies*, December 2004.

<sup>8</sup> FinCEN, undated.

nizations.<sup>9</sup> The FATF issues recommendations, known as the FATF standards, that its members and 200 jurisdictions that are part of FATF-style regional bodies are committed to follow.<sup>10</sup> FATF conducts mutual evaluations and last formally assessed the United States in 2016.<sup>11</sup> It found that the U.S. CFT system was well integrated into U.S. counterterrorism structures, that interagency cooperation and coordination was effective, and that intelligence information-sharing between the intelligence community and law enforcement on terrorist financing matters was conducted effectively.

### Investigation, Prosecution, and Sentencing

The FBI, the U.S. Drug Enforcement Administration (DEA), and the U.S. Department of Homeland Security (DHS) all play roles in the tracking of VNSA financing, money flows and investigations. The FBI does this largely through the Terrorist Financing Operations Section (TFOS), which provides financial expertise and follows the money in terrorist investigations in conjunction with the intelligence community and law enforcement. TFOS is also involved in FBI-led joint terrorism task forces, which fuse agencies from the federal, state, and local levels.<sup>12</sup> Among other agencies, the Treasury's Terrorist Finance Tracking Program (TFTP) identifies and tracks money flows of terrorists.<sup>13</sup> DHS tackles bulk cash smuggling through U.S. Immigration and Customs Enforcement (ICE), and DEA investigates financial transactions resulting from illicit drug activity; stops the manufacture, sale, and use of illegal drugs; and prevents the diversion of funds from illicit drug activity to terrorist ends.<sup>14</sup>

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<sup>9</sup> FATF, "About," webpage, undated a.

<sup>10</sup> In addition to FATF, there are nine FATF-style regional bodies comprising more than 200 jurisdictions. These jurisdictions have committed to follow FATF standards (FATF, "Find a Country," webpage, undated b; FATF, 2019a).

<sup>11</sup> FATF, undated a.

<sup>12</sup> FATF, *Anti-Money Laundering and Counter-Terrorist Financing Measures: United States, Mutual Evaluation Report*, December 2016.

<sup>13</sup> Treasury, "Terrorist Finance Tracking Program," webpage, undated.

<sup>14</sup> Congressional Research Service, *Terrorist Financing: U.S. Agency Efforts and Inter-Agency Coordination*, R33020, August 4, 2005.

Moving along the criminal justice process, the U.S. Department of Justice (DoJ) has the lead responsibility for the prosecution of VNSAs for all forms of material support to terrorism. The National Security Division of the DoJ oversees investigations and prosecutions federally and oversees prosecutions in coordination with U.S. Attorneys' offices. The DoJ works with the intelligence community for use of intelligence in court proceedings.<sup>15</sup>

### Military Intelligence Sharing, Interagency Coordination, and Counterdrug Activities

DoD—and, accordingly, the U.S. Army—is also involved in nonkinetic actions to counter VNSA finance, employing threat finance intelligence analysts to carry out intelligence activities and CTF analysts to track, monitor, and analyze terrorist financing methods and long-term financial transaction behavior and to help plan CTF actions, supporting joint force commands.<sup>16</sup> DoD's CTF activities are defined in DoDD 5205.14, originally issued in 2010.<sup>17</sup> Activities also include coordination with partner nations, collaboration with the intelligence community, and working with civilian agency law enforcement activities through such activities as logistics support.<sup>18</sup> Separately, the National Guard Bureau has counterdrug authorities, first approved by Congress in 1989.<sup>19</sup>

### Kinetic Disruption Methods

DoD carries out a variety of kinetic actions to counter VNSA finance, and many of these actions depend on Army personnel. Although these actions

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<sup>15</sup> FATF, 2016.

<sup>16</sup> Department of Defense Directive (DoDD) 5205.14, *DoD Counter Threat Finance (CTF) Policy*, Washington, D.C.: Under Secretary of Defense for Policy, August 19, 2010, change 3, May 3, 2017.

<sup>17</sup> DoDD 5205.14, 2017.

<sup>18</sup> Wesley J. L. Anderson, *Disrupting Threat Finances: Utilization of Financial Information to Disrupt Terrorist Organizations in the Twenty-First Century*, Fort Leavenworth, Kan.: School of Advanced Military Studies, United States Army Command and General Staff College, 2007; See also DoDD 5205.14, 2017.

<sup>19</sup> Legal authorities are in U.S. Code (U.S.C.), Title 32, National Guard, Ch. 1, Organization, § 112, Drug Interdiction and Counter-Drug Activities.

can take many different forms and may be executed by any number of agencies or units, the common tie is the explicit use of kinetic force against some violent actor or organization. This section describes the institutional structures and the kinetic options. DoD's role has been enhanced and institutionalized in the decade since 2010 with an updated directive, conferences, and the inclusion of CTF in war plans and other official documents.<sup>20</sup> Several recurring themes affect success using kinetic methods: (1) understanding specific social, cultural, and economic factors on the ground and how they interact with the illicit economy; (2) using all relevant interagency and international partnerships; (3) recognizing that kinetic operations should support other government efforts to create alternative development and maintain stability; and (4) committing to sustained, long-term support to a host nation that is capable of leading its own military strategy.

### Institutional Capacities

The U.S. military conducts kinetic operations to support U.S. CTF strategy against VNSAs when other means are insufficient. DoD, through U.S. Special Operations Command (USSOCOM), leads kinetic efforts, with significant contributions from law-enforcement agencies in DHS and DoJ. DoD's CTF roles include providing kinetic support to partner nations,<sup>21</sup> conducting threat-finance intelligence operations,<sup>22</sup> and taking direct military action.<sup>23</sup>

To coordinate these actions, each U.S. geographic combatant command (GCC) maintains dedicated CTF capabilities. Occasionally, the military may establish a threat finance cell, which integrates command and control from relevant domestic and international partners. The ITFC, established in 2005, was the pioneer, bringing together personnel from a variety of federal agencies.<sup>24</sup> The ITFC's success led to the creation of the Afghan Threat Finance Cell in 2008 and later what is now the Counterterrorism Inter-

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<sup>20</sup> DoDD 5205.14, 2017.

<sup>21</sup> DoDD 5205.14, 2017, p. 1.

<sup>22</sup> DoDD 5205.14, 2017, p. 6.

<sup>23</sup> DoDD 5205.14, 2017, p. 5.

<sup>24</sup> David M. Blum and J. Edward Conway, eds., *Counterterrorism and Threat Finance Analysis During Wartime*, Lanham, Md.: Lexington Books, 2015, p. 1.

agency Finance Cell.<sup>25</sup> GCCs can also create joint interagency organizations to combat transnational illicit revenue streams. Two models include U.S. Southern Command's (USSOUTHCOM's) Joint Interagency Task Force (JIATF) South (JIATF-S) and U.S. European Command's Joint Interagency Counter-Trafficking Center (JICTC).<sup>26</sup>

## Activities

Kinetic CTF activities include the eradication or destruction of resources; the interdiction of illicit substances, cash, and other assets; the decapitation of kingpins; and certain aspects of counterinsurgency operations. The United States may conduct these activities itself, build the capacities of host nations to conduct them, or do both. Kinetic operations can be used against most sources of revenue; however, certain sources are more conducive to military action than others. Counternarcotics, for example, is a substantial part of kinetic CTF operations. Activities used for counternarcotics can also be used against other illegal goods and the unauthorized trade of legal goods (e.g., smuggling). Furthermore, the ability to employ kinetic operations depends on the geographic and sociopolitical context of the threat. When the United States conducts activities against VNSAs or supports a partner country's activities against a VNSA, COIN and CTF become intrinsically related.

## Destruction and Eradication

The United States may reduce a VNSA's assets by physically destroying them, often via aerial operations. One example of this was Operation Point Blank, in which the United States bombed ISIS's cash stores, destroying millions of dollars.<sup>27</sup> Eradication is a specific type of destruction that targets narcotics crops, such as marijuana, coca, and poppy. This can be done using forces on the ground, aerial spraying of herbicides, or targeted strikes.<sup>28</sup>

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<sup>25</sup> Blum and Conway, 2015, p. 2.

<sup>26</sup> Detzi and Winkleman, 2016, p. 234.

<sup>27</sup> Steve Warren and Jeff Davis, "Department of Defense Press Briefing by Colonel Warren via Teleconference from Baghdad, Iraq," U.S. Department of Defense, May 13, 2016.

<sup>28</sup> JP 3-07.4, *Counterdrug Operations*, Washington, D.C.: Joint Chiefs of Staff, February 5, 2019.



## Interdiction

Interdiction seeks to disrupt revenue streams by destroying or seizing illicit products, money, processing facilities, or other assets or by killing or capturing traffickers.<sup>29</sup> The U.S. Coast Guard (USCG) leads these efforts for illegal drugs by guarding the coastal waters of the United States and patrolling the 6 million square miles of international waters known as the Transit Zone,<sup>30</sup> where USCG has the authorities to stop and search unauthorized sea vessels, seize illicit substances, and detain traffickers.<sup>31</sup> In addition to their own operations, U.S. agencies support various international interdiction efforts. In the 1990s and early 2000s, the United States implemented air bridge denial programs in Peru and Colombia, which funded and operationally supported the shooting down of unauthorized aircraft suspected of carrying drugs.<sup>32</sup> Other interdiction operations have included actions against opioid facilities in Afghanistan and actions against ISIS's oil supply chain in Syria and Iraq.

## High-Value Targeting

High-value targeting, which can include decapitation or “kingpin” strategies, targets key individuals in VNSAs to be captured or killed. It is a staple of DoD and DEA counternarcotics and counterterrorism operations, although its effects are complex and varied. Use of high-value targeting has had mixed results against targets from drug-trafficking organizations in Mexico and Colombia and Salafi-jihadist groups, such as AQ and ISIS. For example, U.S. forces targeted ISIS financiers specifically, killing two finance ministers, Abu Saleh in 2015 and Haji Iman in 2016, and an oil minister, Abu Sayyaf, in 2015.<sup>33</sup> The DEA, FBI, and U.S. Customs and Border Protection (CBP) also target key financiers of foreign terrorist groups, such as LH,

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<sup>29</sup> U.S. Government Accountability Office, *Colombia: U.S. Counternarcotics Assistance Achieved Some Positive Results, but State Needs to Review the Overall U.S. Approach*, GAO-19-106, December 2018 p. 42.

<sup>30</sup> Gonzalez-Pinto, Juliana, “Interdiction of Narcotics in International Waters,” *University of Miami International and Comparative Law Review*, Vol. 15, No. 3, 2008, p. 444.

<sup>31</sup> JP 3-07.4, 2019, p. I-11.

<sup>32</sup> U.S. Government Accountability Office, 2018, p. 42.

<sup>33</sup> Clarke, 2017, p. 12

which command vast illicit economy networks in the Americas. In 2017, the DEA arrested, extradited, and prosecuted Kassim Tajideen, a prominent financial supporter of LH, for violating U.S. sanctions.<sup>34</sup> In 2018, the DEA arrested another LH financier, Assad Ahmad Barakat, in the Tri-Border Area of South America (where Argentina, Brazil, and Paraguay converge), and extradited him to the United States.<sup>35</sup>

### COIN Operations

Although COIN and CTF are often codependent and difficult to parse, certain COIN activities effectively degrade an organization's finances more than others. This is best exemplified by President Uribe's COIN strategy against the FARC in Colombia during the early to mid-2000s. Uribe deliberately aimed to separate the FARC from three traditional sources of revenue: (1) the towns within which it had historically levied taxes on the population; (2) transit between Colombia and Venezuela, from which the FARC collected provisions and money; and (3) its base camps or strategic rear guards, where it stockpiled its resources and cash. Likewise, because ISIS gained a large share of its revenue from taxing the residents and businesses it ruled over, the counter-ISIS coalition cut the group's finances just by virtue of decreasing its territorial control.

## Case Studies of Efforts to Disrupt Finances

To gain a better understanding of how these disruption methods work in practice, we conducted five detailed case studies of different VNSAs. In this chapter, we provide high-level summaries of lessons learned from the cases. (The full case studies can be found in Appendixes C through G.) For this analysis, we selected the FARC, LH, ISIS-L, PIRA, and the LTTE. These groups represent a diverse sample of VNSAs, varying in their organizational

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<sup>34</sup> DEA, "Top Hizballah Terror Financier Arrested," press release, March 24, 2017.

<sup>35</sup> "Hezbollah 'Financier' Arrested in Brazil," Al Jazeera, September 22, 2018.

characteristics, operational contexts, revenue sources, financing strategies, and patterns of violent and nonviolent activity.<sup>36</sup>

In terms of organizational characteristics and operational contexts, the selected VNSAs capture the major group types discussed in Chapters 2 and 3. The sample includes one group founded on communist ideology (the FARC); two independence movements, one of which was an ethnic-based group (the LTTE), while the other was based on a religious identity (PIRA); and two Islamist groups, one that is Shia (LH), and the other that is Sunni (ISIS-L). In addition to these foundational features, the sample also includes both national and transnational groups. Although the FARC, PIRA, and the LTTE all had at least one year in which they operated transnationally, each of these groups was principally national in orientation. Of our selected VNSAs, only LH sustained transnational operations for most of its history. Collectively, these groups also span across all major regions, representing a diverse set of operational contexts.

Overall, the selected VNSAs offer a useful mix for evaluating the effectiveness of CTF efforts and tools. We should stress, however, that the sample is clearly biased toward more-notable, long-lived groups. On average, our selected groups are ten years older and nearly three times more violent than the average group in the full dataset. The five selected groups also tend to invest more in nonviolent activities, as measured by all major types of service provision. And perhaps most important, the selected groups enjoy much more-diverse financial portfolios—nearly two-and-half times the number of revenue sources—than the average group in our dataset.

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<sup>36</sup> Our selection criteria tried to strike a balance along the following dimensions: (1) geographic representation, for example, one group from each GCC's area of responsibility (AOR); (2) group ideology, for example, communist and Islamist groups; (3) organizational goals, for example, independence movements and terrorist groups; (4) group age, for example, old and new groups; and (5) varying transnational status, for example, a mix of national and transnational group-years. Collectively, these groups represent most, if not all, of the major VNSA types and operational contexts discussed in our report. The one exception, and a key limitation to the potential generalizability of our results, concerns a final condition that we imposed for scoping purposes: We selected only VNSAs that had, at some point in their histories, reached a minimum threshold of violent activity (i.e., at least 25 associated deaths within a given year, according to UCDP). For more on the individual groups and the implications for generalizability, see Appendixes C through G.

These differences are nontrivial and limit the degree to which we can generalize more broadly. However, we prefer this limitation to the alternative, which would involve building a more representative—but less relevant—sample by including more-obscure groups that did not survive for long. Although our quantitative analysis also includes such groups, they are less useful for understanding CTF efforts, in general, and for the U.S. Army, in particular. Therefore, we deliberately biased our sample toward more capable, violent, durable, and well-resourced VNSAs.

Using this sample, we used a process tracing approach that draws on various data and documentation to provide “good snapshots at a series of specific moments” of the outcome of interest.<sup>37</sup> Through these snapshots, we reconstruct the history of each group’s financial development and evaluate the degree to which CTF efforts and tools affected the group’s capacity to sustain its revenue streams. Each case study follows a similar structure. We first describe a group’s initial emergence and its resource base. We then trace the evolution of its revenue streams and financing strategy over time. Finally, we evaluate the effects of any kinetic or nonkinetic instruments used to disrupt the group’s finances.<sup>38</sup>

## The Use of Nonkinetic Tools

The effectiveness of nonkinetic tools is highly variable and depends largely, although not completely, on how well connected the VNSA is to formal institutions. The case where they were least successful was in the CTF efforts against ISIS-L, which was subject to a variety of such measures. DoS has designated the group an FTO; Treasury has listed the group as an SDGT;

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<sup>37</sup> David Collier, “Understanding Process Tracing,” *PS: Political Science & Politics*, Vol. 44, No. 4, October 2011, p. 824.

<sup>38</sup> Like many other methods, the value of the process-tracing approach and of the findings it yields depends on researchers’ careful consideration of all available evidence and the rigorous adjudication of hypotheses. For each case study in Appendixes C through G, we are explicit in the challenges to inference in that case, including any potential data constraints and whether competing or rival hypotheses cannot be falsified.

and the UN Security Council has also so designated it.<sup>39</sup> Additionally, on April 15, 2019, Treasury designated Hamila Adan Ali, a Kenya-based ISIS financier who has transferred funds to ISIS to finance fighters in Libya, Syria, and central Africa.<sup>40</sup>

Libya is also a member of the FATE, and the country passed its AML/CFT Decree Law in October 2017. Furthermore, the internationally recognized Government of National Accord has reportedly continued to cooperate with the United States in investigating terrorist suspects.<sup>41</sup>

These efforts have fallen short, however, for two reasons. The first is the institutional setting in Libya. Libya's security and political crisis, rival governments and armed groups, rampant corruption, and general lack of oversight in financial institutions have degraded the effectiveness of legal measures, designations, and sanctions to disrupt ISIS-L's financing. The second is that ISIS-L's fundraising methods are not all that amenable to legal authorities. ISIS-L largely has avoided operating within the Libyan and international banking systems, aside from looting cash from banks under its control. However, were ISIS-L to increasingly seek to launder its resources through licit businesses, such commercial entities might become more vulnerable to AML/CFT measures.

Some nonkinetic efforts against LH have also had only limited effect, although others have been useful. The challenges LH presents are that it has a major state sponsor—Iran—that has provided enormous amounts of money and that it has a global network of illicit and criminal activities that

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<sup>39</sup> Bureau of Counterterrorism, "Foreign Terrorist Organizations," webpage, U.S. Department of State, undated b; Treasury, Office of Foreign Assets Control, "Sanctions List Search," webpage, undated; Interpol, "Islamic State in Iraq and the Levant–Libya," webpage, April 3, 2020.

<sup>40</sup> Treasury, "Treasury Designates Key Nodes of ISIS's Financial Network Stretching Across the Middle East, Europe, and East Africa," press release, Washington, D.C., April 15, 2019a.

<sup>41</sup> Bureau of Counterterrorism, *Country Reports on Terrorism 2017*, Washington, D.C.: U.S. Department of State, September 19, 2018, p. 147; Bureau of Counterterrorism, *Country Reports on Terrorism 2018*, Washington, D.C.: U.S. Department of State, November 1, 2019, p. 142.

provide a diversified funding portfolio.<sup>42</sup> Accordingly, the fight against it has been worldwide. Although based in Lebanon, LH has been active in the Tri-Border Area in South America. In 2004, the United States helped reinvigorate the 3 + 1 Group on Tri-Border Area security, joining with the three countries to concentrate efforts on a multipronged approach that included strengthening Paraguay's legal system and working with local authorities on the enforcement of immigration and customs laws.<sup>43</sup> The primary objective was to counter LH activity in the area and make it clear that the Tri-Border Area would no longer serve as a lawless frontier for drug traffickers and terrorist groups to cooperate on illicit activities.<sup>44</sup> In 2006, a regional intelligence center was established in Paraguay, created with the intent to share intelligence and information. Overall, the effort has been assessed as "ineffectual," with local governance in the area continuously plagued by corruption.<sup>45</sup>

Targeted sanctions have been frequently employed against LH, its networks, and operatives. The United States has used official terrorist designations and listings to impose financial and immigration sanctions on LH and its supporters. U.S. sanctions blocked assets under U.S. jurisdiction, prohibited U.S. citizens from providing the group with financial or material support or engaging in financial transactions with LH and affiliated parties, denied LH associates entry into the United States, and authorized the deportation of LH-associated individuals.<sup>46</sup> In July 2013, the European Union designated LH as a terrorist organization, essentially blacklisting the group and freezing many of its assets throughout Europe, which has served

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<sup>42</sup> At an on-the-record breakfast meeting in 2020, U.S. Special Representative for Iran Brian Hook estimated Iran's annual contribution to LH at \$700 million (Al-Monitor, "Conversation with Brian Hook," Middle East Mornings Event, Washington, D.C., February 28, 2020).

<sup>43</sup> Philippone, 2012, p. 58.

<sup>44</sup> Sarah Nielsen, "Fighting Terror in the Tri-Border Area," webpage, Wilson Center, December 9, 2019.

<sup>45</sup> Vanessa Neumann and Stuart Page, *The Many Criminal Heads of the Golden Hydra*, New York: Counter Extremism Project, 2018.

<sup>46</sup> Casey L. Addis and Christopher M. Blanchard, *Hezbollah: Background and Issues for Congress*, Washington, D.C.: Congressional Research Service, R41446, 2011, p. 22.

as a financial conduit for the group in the past.<sup>47</sup> These efforts have had modest effects on fundraising.

Probably the most effective nonkinetic effort has been directed not at LH but at its state sponsor, Iran. The U.S. campaign of maximum pressure, introduced in late 2018, is an attempt to put Iran in a stranglehold and force it to operate with far fewer resources. The conventional wisdom, which may prove to be true, is that, if Tehran is struggling, by extension, LH struggles, too. Early reports indicate this has indeed cut LH's revenues.<sup>48</sup>

As with LH, sanctions against the FARC and its leadership had limited effect, but other nonkinetic efforts were more effective. In this case, they enabled kinetic efforts. Designations and sanctions against the group and its leaders, as in the case of ISIS-L, did not help much in the CTF effort because the group and its members were largely disconnected from the formal financial system. However, nonkinetic tools, such as the declaration of the FARC as an FTO, enabled the U.S. government to expand military and financial aid to support the kinetic counterinsurgency operations that the Colombian government undertook against the guerrillas starting in 2002. In addition, the U.S. decertification (or threat of decertification) of Colombia as a U.S. partner in the fight against narcotrafficking seemed to put pressure on the Colombian government to adopt stricter counternarcotics measures, including kinetic ones, which were more likely to disrupt FARC's financial activities.

The British fight against PIRA illustrates both how a portfolio of nonkinetic actions—many of which are ineffective or even counterproductive—is often tried and can be strikingly effective in the right circumstances. Early nonkinetic efforts to target fraud and the harvesting of proceeds from legitimate businesses were unsuccessful. The British Inland Revenue was responsible for preventing the type of tax fraud that PIRA was committing at its building sites, such as using forged tax-exemption certificates, but Inland Revenue was inefficient and ineffective. Occasionally, the British not only failed to counteract PIRA financing but also directly subsidized it, such

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<sup>47</sup> James Kanter and Jodi Rudoren, "European Union Adds Military Wing of Hezbollah to List of Terrorist Organizations," *New York Times*, July 22, 2013.

<sup>48</sup> Ben Hubbard, "Iran's Allies Feel the Pain of American Sanctions," *New York Times*, March 28, 2019.

as when the British Housing Executive awarded PIRA businesses housing contracts for the Andersontown Cooperative, a PIRA asset that contained a wide variety of local businesses, including food suppliers, hotels, construction companies, and pubs. Technical intelligence collection may have helped stop the flow of weapons, but there is no evidence that it had an effect on PIRA's revenue.

Other efforts were highly effective. For example, in 1986, Northern Ireland passed the Emergency Provisions Bill to target the paramilitary-run security companies that had been dominating the region. The bill made it illegal to provide security services, as PIRA had been doing, without a special certificate from the Ulster Secretary. This cut off one source of revenue.

Multilateral action cut off other sources, often in coordination with more-kinetic, although nonmilitary, actions. PIRA had actively raised money from the United States through a charity called the Irish Northern Aid Committee (NORAIID). In 1979, the FBI worked with British Intelligence to set up a six-man team to disrupt PIRA cash flows and used sting operations, arrests, seizures, and criminal prosecutions to target key financiers, including NORAIID founder Michael Flannery. Prosecutions in the United States "severely damaged the infrastructure of support groups in the U.S. and cut their [PIRA's] financial base to such an extent that the U.S. no longer [made] a significant contribution to the IRA's [Irish Republican Army's] war chest."<sup>49</sup> Not long after the United States became an active partner, the Republic of Ireland followed suit. In 1985, after years of facing attacks on its own security guards at its northern border, Dublin passed legislation to seize more than \$3 million of suspected IRA cash from the Bank of Ireland.<sup>50</sup> In another successful nonkinetic measure aimed at popular support, the UK employed tactful countermessaging and counterpropaganda, such as by highlighting the criminal nature of PIRA's activities, to nurture public and international support for the state.

Finally, one of the most successful uses of nonkinetic designations can be seen in the case of the LTTE. But like measures against other groups, unsuccessful nonkinetic measures were tried as well. One of these unsuc-

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<sup>49</sup> Adams, 2018, p. 160.

<sup>50</sup> Clarke, 2015b.



cessful measures included a May 1978 Sri Lankan law called “Proscription of Liberation Tigers of Tamil Eelam and other Similar Organisations,” which made it a crime for anyone to be involved in “contributing or collecting funds or furnishing information or securing other assistance to” the LTTE or similar organizations.<sup>51</sup> It is not clear how effective this law was at deterring individuals from providing the LTTE with money, but the group continued armed activity and raised funds in the months that followed.<sup>52</sup>

Where the LTTE was vulnerable was in its international networks. Following anti-Tamil riots in July 1983, thousands of Sri Lankan Tamils fled the country for refuge abroad. The LTTE leveraged this international diaspora to support its insurgency while also leveraging the Indian Tamils’ sympathies. That same year, the LTTE continued building a smuggling network by acquiring its own boats.<sup>53</sup> The LTTE then faced little international pressure on its financing until the United States listed the group as an FTO in 1997 and as an SDGT in 2001.<sup>54</sup> American designations prohibited actors involved in banking or enterprise in the United States from allowing funds to enter the hands of the LTTE or its members. The designations also enabled the United States to shut down LTTE front organizations.<sup>55</sup> The UK and Australia then listed the LTTE as a terror group in 2001.<sup>56</sup> The UK went on to shut down LTTE front organizations, close down the LTTE’s London office, and freeze LTTE assets in the UK.<sup>57</sup> Terrorist designations

<sup>51</sup> Government of Sri Lanka, “Proscribing of Liberation Tigers of Tamil Eelam and Other Similar Organizations Law,” LawNet: Ministry of Justice, 2016.

<sup>52</sup> Swamy, 2008, pp. 40–41.

<sup>53</sup> For more, see Appendix G.

<sup>54</sup> For the FTO designation, see International Crisis Group, *The Sri Lankan Tamil Diaspora After the LTTE*, Asia Report No. 186, February 23, 2010. For the SDGT designation, see Bureau of Counterterrorism, “Executive Order 13224,” webpage, U.S. Department of State, undated a.

<sup>55</sup> International Crisis Group, 2010.

<sup>56</sup> Suthaharan Nadarajah, “The Tamil Proscriptions: Identities, Legitimacies, and Situated Practices,” *Terrorism and Political Violence*, Vol. 30, No. 2, 2018.

<sup>57</sup> International Crisis Group, 2010; Paul A. Povlock, “A Guerilla War At Sea: The Sri Lankan Civil War,” *Small Wars Journal*, September 9, 2011.

in these countries significantly decreased the total amount of funding the Tamil diaspora willfully donated to the LTTE.

These case studies show that it is not the type of nonkinetic action that determines whether such an action is successful; rather, it is the mix of type of action and group revenue-raising activities. Designations can be completely ineffective or highly effective. Legal authorities can be ignored, or can result in large reductions in revenue. Two important variables appear to be first, how strongly the group is connected to legitimate international institutions, and second, how likely it is that the group's supporters will obey laws against interacting with the group. In the latter instance, negative incentives (the risk of going to jail) and positive incentives (aversion to criminality) are important. And regarding the positive incentives, the right kind of messaging can help as well, as illustrated by British efforts to paint PIRA as more of a criminal than a nationalist group. Finally, nonkinetic actions can be an enabler to kinetic actions, to which we now turn.

## The Use of Kinetic Tools

Like nonkinetic CTF tools, kinetic CTF tools were used in each of the cases we studied. And like nonkinetic tools, they had varying effects. Two negative effects especially stood out. First, using the tools risked alienating the population, creating more sympathy and better financing opportunities for the target group. Second, at times, the tools were costly but simply not effective, leading to a misallocation of resources in CTF efforts. With those caveats, however, kinetic methods appear to be important to reduce VNSA finances. By definition, VNSAs use violent means to reach their goals, and counterviolence is often necessary to stop their activities, including their financing activities.

Efforts against ISIS-L exemplify a case in which kinetic methods are necessary and could even be sufficient. The U.S.-supported campaign to liberate the ISIS-L stronghold, Sirte, was arguably the most effective means of disrupting the group's financing. Almost completely disconnected from the international financial system, ISIS-L primarily financed itself through criminal activity and living off the land. Therefore, removing ISIS-L from that land proved of paramount importance in degrading both its opera-

tional and financing capabilities.<sup>58</sup> The counter-ISIS-L effort also illustrates partnering in these efforts. ISIS-L was effectively dislodged from its proto-state and reverted to a diminished insurgent group through the efforts of a partner ground force, supported with U.S. airpower and U.S. special operations forces conducting an advise, assist, and enable role.

Actions against leaders and gatherings also helped in the effort. The United States conducted targeted decapitation strikes on ISIS-L leadership, with the U.S. air strike that killed Abu Mughirah al-Qahtani in Derna in 2015 being the first successful strike targeting an ISIS leader outside Iraq or Syria.<sup>59</sup> Additionally, the United States conducted an air strike on ISIS-L's training camp in Sabratha on February 19, 2016, killing more than 40 militants. A week later, partially galvanized by the U.S. air strike, local Libyan armed groups ousted ISIS-L from Sabratha—reducing its territory, and thus its revenue-raising capacity—and captured multiple ISIS leaders, including one of the group's "emirs" in Libya.<sup>60</sup>

Efforts against logistics routes were also important. As will be seen in other cases, jamming logistics can be an effective CTF method. Italy undertook considerable efforts to disrupt the flow of Moroccan hashish to Libya, which ISIS-L may have taxed as it passed through Libyan territory. Between April 2013 and February 2016, Italian authorities reportedly interdicted 280 tons of Moroccan hashish, worth approximately \$3.2 billion.<sup>61</sup>

The ISIS-L case stands out as one in which kinetic methods were essentially the only effective means. Removing ISIS-L from its territorial base in Sirte proved of paramount importance in degrading both its operational

<sup>58</sup> Interview with a former U.S. government official, Washington, D.C., May 4, 2020.

<sup>59</sup> Benoît Faucon and Tamer El-Ghobashy, "A Divided Libya Struggles Against Islamic State Attacks," *Wall Street Journal*, February 3, 2016.

<sup>60</sup> Ahmed Elumami and Aidan Lewis, "U.S. Air Raid Hits Islamic State in Libya, 43 Dead," Reuters, February 19, 2016; "Tripoli Forces Announce the Capture of 'Daesh Emir' in Sabratha" [«سلطات طرابلس تعلن القبض على "أمير داعش" في صبراتة»], *Al-Hurra* [«الحرّة»], February 25, 2016.

<sup>61</sup> Rukmini Callimachi and Lorenzo Tondo, "Scaling Up a Drug Trade, Straight Through ISIS Turf," *New York Times*, September 13, 2016.

and financing capabilities.<sup>62</sup> More generally, kinetic methods are used in concert with nonkinetic methods and sometimes fail, badly. In other cases, aggressive kinetic options may not be worth the cost of implementing them.

U.S. efforts to counter the finances of LH present such a situation. Not only is there a case to be made against military actions against a group that is thousands of miles away and that does not represent a strong threat against the domestic territory of the United States, but also LH is embedded in Lebanese society and, since at least 1992, has been in the Lebanese parliament and government.<sup>63</sup> Given the legal and political sensitivities, the preponderance of actions to counter LH's financial network have been undertaken in the nonkinetic sphere.

However, this does not make kinetic actions impossible, especially given LH's worldwide network. These actions are usually a combination of nonkinetic and kinetic: legal authorities and law enforcement actions supporting kinetic activities. For example, law enforcement and intelligence agencies from the United States and the Tri-Border countries put together Operation Double Top following the bombings of the Asociación Mutual Israelita Argentina [Argentine Israelite Mutual Association] (a Jewish community center) in Argentina in 1994. The operation focused on disrupting commercial operations, burning containers, blocking bank accounts, stealing passports, and arresting LH members in the area.<sup>64</sup>

International partners have also proved important, as in the fight against ISIS-L. Although the United States has used a mix of kinetic and nonkinetic CTF tools, Israel—which faces a strong threat to its domestic territory and security from the group—has mostly relied on kinetic means to disrupt LH operations, finances, and logistic networks. For example, in 2006, Israel reportedly conducted a series of strikes against Lebanese financial institu-

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<sup>62</sup> Interview with a former U.S. government official, Washington, D.C., May 4, 2020. This is not to say it ended the financing of ISIS-L. ISIS-L moved to southern Libya, where it continues to raise money, although appreciably less than it was able to raise when controlling a population center.

<sup>63</sup> Kali Robinson, "What Is Hezbollah?" backgrounder, Council on Foreign Relations, May 25, 2022.

<sup>64</sup> Matthew Levitt, *Hezbollah: The Global Footprint of Lebanon's Party of God*, Washington, D.C.: Georgetown University Press, 2013, pp. 102–103.

tions that were alleged to be conducting business for LH, including eight offices of LH's treasury.<sup>65</sup> In some cases, these strikes have proven counter-productive. For example, air strikes against LH targets have actually helped the group. After property is destroyed in LH territory, the group comes in with its construction firm and rebuilds the area, solidifying popular support while generating more hatred toward Israel.

A full range of kinetic methods were used against the FARC in Colombia, including eradication of illicit crops, interdiction, decapitation, and aggressive counterinsurgency operations. Despite the eradication efforts, coca cultivation areas in Colombia expanded, and the impact on FARC finances (or on those of other groups involved in the Colombian drug trade) was negligible and did not "cripple the insurgency."<sup>66</sup> Moreover, during the 1990s, eradication operations alienated the farmers who depended on coca cultivation for their livelihood.<sup>67</sup>

As opposed to eradication, direct military operations aimed to interdict FARC's presence in certain coca cultivation areas were more successful in disrupting the group's finances and also improving security in the country.<sup>68</sup> Interdiction efforts also prevented the organization from selling coca base to local traffickers and resupplying some of its fronts active outside coca cultivation areas. Success against the FARC mounted with a combination of interdiction operations undertaken under Plan Colombia (a U.S.-supported effort developed in 1999 and expanded in 2002) and the aggressive counterinsurgency and decapitation operations carried out in 2002 under President Andrés Pastrana and, subsequently, under President Uribe's Plan Patriota and Democratic Security Policy. Recall that two nonkinetic methods—U.S.

<sup>65</sup> Adam Ciralsky, Lisa Myers, and the NBC News Investigative Unit, "Hezbollah Banks Under Attack in Lebanon," NBC News, July 24, 2006.

<sup>66</sup> Vanda Felbab-Brown, "Narco-Belligerents Across the Globe: Lessons from Colombia for Afghanistan?" working paper, Madrid: Real Instituto Elcano, October 2009b, p. 15. From a peak in 1999, cultivation areas decreased by 2005–2008 from 161,700 hectares to 86,000 hectares, and then to 48,000 hectares in 2012, only to increase again after 2014. For more details, see Angelica Duran-Martinez, *The Politics of Drug Violence: Criminals, Cops and Politicians in Colombia and Mexico*, New York: Oxford University Press, 2018, pp. 93–94.

<sup>67</sup> Felbab-Brown, 2009b, p. 17.

<sup>68</sup> Felbab-Brown, 2009b, p. 20.

designations and the threat of decertification—enabled U.S. assistance and supported aggressive Colombian actions. Notably, the U.S. Army also played a role in improving Colombia's eradication efforts. Civil-military support elements and military information support teams trained Colombians in programs aimed to alleviate discontent either where coca eradication had occurred or was going to be carried out.<sup>69</sup>

British efforts against PIRA illustrate how, sometimes, countering the finances of a group involves trial and error with missteps along the way. Furthermore, *who* conducts the efforts can be important. Eventually weighting efforts against PIRA more toward law enforcement than the military proved effective. In this and other cases, it appears that determining factors included whether the environment was safe enough for law enforcement rather than the military to operate and whether supporting institutions, such as courts, could effectively enable law enforcement to succeed.

Kinetic methods throughout the anti-PIRA campaign included raids, covert intelligence operations, interdictions, killing or capturing suspects, and reestablishing state-run security and public services. Kinetic CTF efforts against illicit trafficking in the border region between Northern Ireland and the Republic of Ireland were largely unsuccessful during the 1970s and early 1980s, in part because of resourcing. British Customs had 19 patrol teams to monitor the 270-mile, 240-entry-point border, which simply was not enough personnel to make an impact.<sup>70</sup> The British Army tried to assist by creating physical blockades along the border, but PIRA often got around them. Other efforts were counterproductive. Indefinite internment, shoot to kill, and overt Army presence often catalyzed conditions for resistance. This was especially deleterious because it magnified the sympathies of diaspora communities that were donating to PIRA.

When the police began to take over counterterrorism responsibilities, and state efforts became more discreet, they also became more effective. One of the UK's greatest successes was its network of human informants that gave it intelligence on PIRA operations. Using assets in regular civilian

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<sup>69</sup> Mark Moyar, Hector Pagan, Wil R. Griego, *Persistent Engagement in Colombia*, MacDill Air Force Base, Fla.: Joint Special Operations University, Report 14-3, July 2014, p. 32.

<sup>70</sup> Adams, 2018, p. 172.

clothes gave the façade of a light footprint and also created a false sense of security among PIRA members. Furthermore, making counterterrorism a domestic police issue helped deprive PIRA of its identity as a political group and, instead, built the perception that it was an organized criminal gang, eroding domestic and international support.

The fight to counter LTTE finances provides a further example of military kinetic operations against logistics being not only necessary but successful. Furthermore, unlike the PIRA case, law enforcement was less effective. However, as in other cases, there were missteps first. In the 1970s, it appears that the Sri Lankan state largely tried to deal with the LTTE and other Tamil militant organizations by using local police forces, but there is little evidence that criminalizing assistance to the group degraded fundraising.<sup>71</sup> Shortly afterward, in 1979 and again in 1983, Sri Lanka used military force. The 1979 effort on the Jaffna Peninsula, where much of the Tamil militancy was ongoing, resulted in the detention, arrest, and torture of hundreds of Tamil civilians but quelled the insurgency. Not so in the 1983 action, when Sri Lankan forces responded to an LTTE ambush of 13 Sri Lankan soldiers. The ambush led to large-scale civil unrest. Sri Lankan security forces failed to quell the unrest and were at times complicit in it, resulting in a significant rise in the numbers of Tamils willing to support or join Tamil militant groups in and out of Sri Lanka and expanding a Tamil diaspora willing to serve as a source of fundraising.<sup>72</sup>

As it evolved, the LTTE built a supply chain that included cargo ships that smuggled in weapons and carried out both licit and illicit trade. In September 2005, the Sri Lankan Navy began searching for, targeting, and sinking LTTE fishing trawlers used to bring supplies from LTTE cargo ships to shore. However, these efforts were not intensely successful and involved the expenditure of a significant amount of resources.<sup>73</sup> Then the tactic changed: In 2006, the Sri Lankan Navy began focusing on targeting LTTE cargo ships. The sinking of LTTE cargo ships caused immense damage to LTTE

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<sup>71</sup> Swamy, 2008, pp. 29–44.

<sup>72</sup> Frances Harrison, “Twenty Years on—Riots That Led to War,” BBC News, July 23, 2003; “Remembering Sri Lanka’s Black July,” BBC News, July 23, 2013; Swamy, 2008, pp. 93–97.

<sup>73</sup> Smith, 2010.

financing and its supply chain for its war effort at a time when the group was already struggling to successfully fundraise and transfer funds from abroad because of American and other terrorist designations.<sup>74</sup> In this case, Sri Lanka's island status provided a useful, although neither necessary nor sufficient, condition for success in the campaign to counter the LTTE. The island status, enabling naval operations, combined with the change in tactics brought about success.

As with nonkinetic actions, these case studies show that it is not the type of kinetic action that determines whether such an action is successful; rather, it is the mix of type of action and group revenue-raising activities. Military actions can be successful and even necessary against logistics chains and groups running quasi-governmental jurisdictions (ISIS-L, the FARC, and the LTTE) but work less well when there may be broad population sympathies and when the group is embedded in that population (PIRA). Furthermore, in our cases, the success of kinetic interdiction efforts was magnified by the geography through which the item being shipped was interdicted (by sea, in the case of the LTTE); by state strength (the UK and the Republic of Ireland cooperating against PIRA and Colombia taking action against the FARC); and the nature of what is being interdicted (large cargo vessels, in the case of the LTTE). Kinetic actions can be expensive and politically fraught, especially if the threat is not necessarily seen as dire, explaining why Israel rather than the United States is conducting more aggressive military actions against LH. Such actions also risk blowback to a greater degree than do nonkinetic actions and so must be carefully designed. But they also work in concert with nonkinetic actions, suggesting that a broad toolkit is useful.

## Conclusions and Implications: Fitting Tools to Task

It is difficult to generalize from these case studies about countering the finances of *all* VNSAs. As we noted in our description of case selection, the selection of these five groups is tilted toward more capable, violent, durable, and well-resourced VNSAs. They are older and nearly three times more violent than the average group we studied and tend to invest more in nonvio-

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<sup>74</sup> Povlock, 2011.



lent activities as well. But because of their level of violence, their integration with the population, and their threat to domestic governing authorities, these VNSAs are also more likely to be the kinds of groups that the Army would be called up to confront, so worthwhile guidance can be drawn from the analysis of CTF efforts against them.

A number of notable patterns stand out from these five case studies. First, in all cases, CTF efforts included a mix of nonkinetic and kinetic tools. Second, these efforts involved learning, with a variety of false starts and experimentation. Third, population support—or, at least, not alienating the population—opened up opportunities for tools to work. Alienating the population provided an easier environment for the groups to operate in and resulted in new recruits in some cases. Fourth, international support helped both when financing was coming from abroad and from local sources—for example, the FARC raised money largely from domestic activities, yet U.S. support to the government of Colombia was helpful. In fact, in all five cases, international coalitions of varying sizes conducted the CTF campaigns. Finally, there was no set formula. In retrospect, the most effective tools struck at each group's vulnerabilities, but the most effective tools were not obvious from the start, except perhaps in the ISIS-L case.

The cases also suggest the following about the use of specific tools and methods in future CTF efforts that the U.S. Army may be asked to conduct:

- When money is coming from legitimate actors in legitimate economies (such as from foreign sources in developed economies), legal authorities blocking financing can be effective.
- Security cooperation to raise the effectiveness of local governments can magnify the effects of nonkinetic actions and appears to be necessary to such efforts.
- Attacking VNSA logistics can take advantage of a weak point, especially when larger modes of transportation are used.
- International partnerships against a VNSA's finances are important.
- When a group relies on territorial control or even covert influence in a territory, reducing that territorial control or influence is essential.
- Nonkinetic actions are more often an adjunct to kinetic actions but can magnify the effects of kinetic actions; nonetheless, at some point, military action against a group will become part of the CTF effort.

One other point can be made from the case studies and from examples beyond our five case studies: CTF actions can have unintended negative consequences. In the realm of nonkinetic actions, repeated use of financial sanctions could encourage target groups and even target countries to construct ways to work around sanctions in ways that ultimately erode the long-term power of the United States. As one of the architects of modern financial sanctions has noted, the U.S. ability to wage financial warfare “derives from the centrality and stability of New York as a global financial center, and the importance of the dollar as a reserve currency . . . . If the U.S. economy loses its predominance, or the dollar sufficiently weakens, our ability to wage financial warfare could wane.”<sup>75</sup> Likewise, in kinetic actions, careful research on Afghanistan poppy growing suggests that eradication efforts in government-controlled areas would shift cultivation to Taliban-dominated provinces with the potential of actually raising poppy-related Taliban revenues.<sup>76</sup> Furthermore, eradication efforts could shift loyalty of farmers from the national government to the Taliban and empower the farmers least likely to respect rule of law.<sup>77</sup> This dynamic may have benefited the Taliban and may have assisted the group’s ability to finance its successful effort to defeat the Western-backed government.<sup>78</sup> The main lesson of both of these examples is that alternatives matter—taking an action could lead to other target behaviors or to lead those not targeted to take actions that could be counterproductive to the CTF mission.

Building on the empirical findings of Chapters 2 through 4 and the findings of this chapter, we now turn to implications for the U.S. Army and the joint force.

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<sup>75</sup> Juan C. Zarate, “The Coming Financial Wars,” *Parameters*, Vol. 43, No. 4, Winter 2013–2014, p. 90.

<sup>76</sup> Jeffrey Clemens, “An Analysis of Economic Warfare,” *American Economic Review*, Vol. 103, No. 3, May 2013, p. 526.

<sup>77</sup> Jeffrey Clemens, “Opium in Afghanistan: Prospects for the Success of Source Country Drug Control Policies,” *Journal of Law and Economics*, Vol. 51, No. 3, August 2008, pp. 427, 429.

<sup>78</sup> Jonathan Landay, “Profits and Poppy: Afghanistan’s Illegal Drug Trade a Boon for Taliban,” Reuters, August 16, 2021.

## Conclusions, Implications, and Recommendations

Here, we briefly summarize our major findings and discuss the implications for countering the finances of VNSAs. We provide recommendations for the U.S. Army and the joint force, focusing on opportunities to expand doctrine, improve organizational efficiency, increase training, and support personnel involved in CTF efforts.<sup>1</sup>

To develop these recommendations, we drew on our analysis in this report; conversations with subject-matter experts, including serving Regular Army and U.S. Army Reserve officers with deep experience in CTF; and the broader literature on CTF analysis. As shown in the quantitative analysis and the case studies, CTF has numerous dimensions, including intelligence, law enforcement, financial analysis, and operations. Ultimately, the goal is to defeat an adversary using all available tools. When combating a state adversary, an important issue is the depth of that adversary's industrial base. With a VNSA, the equivalent might be their financial depth, which enables their operations. As one Army intelligence officer told us: "It is nice to kill tanks. It is better to kill the logistical node supplying tanks."<sup>2</sup>

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<sup>1</sup> Although CTF is fundamentally an interagency and international problem, the purpose of this research was to support decisions concerning the U.S. Army and, by extension, the joint force for which the U.S. Army is organizing, training, and equipping its soldiers. As Chapter 5 and the related case studies in the appendixes make clear, interagency and international actors play crucial and indispensable roles in the CTF effort.

<sup>2</sup> Conversation with Army intelligence officer, June 2020.

## Conclusions and Implications

In Chapter 2, we described different patterns and trends that can help inform better indicators for tracking and disrupting VNSA revenue flows. Revenue sources vary systematically across different types of groups. Communists, for example, tend to exploit a variety of local revenue streams, including extortion and theft, while Islamists disproportionately depend on external state support. In terms of operational context, some revenue sources are more common in particular regions, which should inform the mix of surveillance tools and financial indicators used to track and disrupt these revenue streams across and within AORs.

For policymakers, the chapter suggested that CTF efforts should be tailored to group type. Targeted CTF efforts, which may focus on disrupting a single revenue stream, are less likely to strike a decisive blow to many communist groups' finances. Under such conditions, a broader CTF approach, which tracks multiple streams or degrades a group's financial infrastructure, may be preferable. For Islamist groups, however, a targeted approach may be more useful, especially if it can disrupt external state support, which is common among these groups. Although challenging, such efforts to disrupt external support also offer some advantages, expanding the range of potential instruments and targets, including the state sponsor. The results on regional variation also suggest that, while some GCCs can focus on developing indicators and tools for disrupting revenue streams that dominate in their areas (e.g., smuggling in USSOUTHCOM), other GCCs (e.g., U.S. Central Command, U.S. Indo-Pacific Command) confront more-varied environments in which no single revenue source dominates. Under such conditions, it may be especially important for commanders to invest in broader surveillance tools, build linkages with interagency elements capable of nonmilitary effects against VNSAs, and build better linkages with partner-nation law enforcement and border security.

Chapter 3 further delved into VNSA financing, focusing on how strategies evolve over time. Macro-level trends reveal important shifts in how VNSAs have financed their organizations in the post-Cold War period. As groups age, they learn and adapt, changing their financial portfolios by moving away from risky revenue streams. The data also strongly suggest

that transnational networks tend to have more-diverse portfolios, which could offer a potential resilience against disruption.

For policymakers, this chapter has important implications for managing CTF efforts in a dynamic threat environment. CTF efforts should anticipate VNSA adaptation and get ahead of these tactical shifts by developing tools for tracking and disrupting alternative (and safer) revenue sources that may become more attractive to a group over time. Given the speed at which new technologies proliferate and groups evolve, CTF efforts cannot afford to simply react but should plan for and prepare countermeasures against the next resource available to VNSAs. Such advance planning is especially important for sustaining gains against transnational threat networks. When these VNSAs lose territory, their financial portfolios appear to shrink, providing further evidence that degrading transnational threat networks critically depends on denying these organizations a space in which to conduct operations abroad. After suffering such losses, however, transnational groups are likely to adapt, in part by focusing on safer revenue streams that are harder to disrupt. CTF efforts should prepare to shift resources to track these new revenue sources.

Having explored trends in VNSA financing, Chapter 4 investigated how groups spend their resources on violent and nonviolent activities. VNSAs with more-diverse financial portfolios tend to be more violent, especially those using extortion and external state support. Although transnational groups are generally more violent than national groups, this overall trend is driven by groups with less diverse resource bases. As their financial portfolios expand, national groups tend to increase their violent activity at a greater rate than do transnational groups. National groups also appear to be more inclined to spend on local goods and services as their portfolios expand.

Given this logic, policymakers should carefully consider how CTF efforts affect not only violence but also other local power dynamics. Reducing violent activity among national VNSAs, in particular, may depend on targeting specific revenue streams and encouraging substitution of nonviolent activities. Unfortunately, this substitution strategy is less likely to pay off with transnational groups, whose degradation often requires more-kinetic tools. And even if successful, this substitution strategy is not without its costs. This strategy may offer short-term security benefits by reducing local vio-

lence but can also entail long-term costs if the VNSA can build its popular support through increased investment in local goods and services. International actors may accept this trade-off because it reduces the violent threat that a group poses, but local partners tend to be less willing to countenance the growth of a future challenger. Such a preference divergence could very well undermine CTF efforts, which often depend on motivated partners whose interests broadly align with those of the U.S. government and other international actors.

There is no easy formula for degrading finances, as we showed in Chapter 5. Drawing on our five case studies, we described how the mission involves finding the right tools for the task. The choice of tools is diverse, including nonkinetic methods (such as sanctions, AML laws, and other law enforcement authorities) and kinetic methods (such as disrupting smuggling networks, killing or capturing VNSA leaders, and engaging in combat operations against VNSAs). Common elements across cases include the use of legal authorities to block access to the legitimate economy, working with effective local governments and international partners, striking at VNSA logistics, reducing VNSA governance of territory, and coordinating nonkinetic and kinetic actions.

For policymakers, this chapter highlighted some of the challenges and perils of crafting coherent CTF efforts. Our findings suggest that degrading finances often involves a mix of nonkinetic and kinetic tools and of false starts and learning on the part of the CTF forces. Policymakers should not expect to get it right from the beginning and need to be willing to adapt, just as the enemy does. And because no one tool works best in all cases, maintaining a broad portfolio of CTF capabilities provides much-needed flexibility, especially as the mission set evolves.

Among the tools mentioned, integrated threat finance cells deserve special notice. These were created for the United States' two largest military engagements of the 21st century in the form of the ITFC and the Afghan Threat Finance Cell and may well be created again should the United States end up in another major engagement.

In both cases, efforts involved civilian agencies and military personnel, fusing specialized knowledge with the ability to act quickly on findings. The ITFC, created in 2005, not only brought about better interagency integra-

tion but also spurred a sense of urgency and mission.<sup>3</sup> The Afghan Threat Finance Cell, created in 2008, was even larger, with personnel embedded in military commands across Afghanistan, and was co-led by the DEA in recognition of the special challenge of the poppy economy.<sup>4</sup>

The Afghan Threat Finance Cell also can show the constraints on CTF actions of all types. The cell succeeded in uncovering massive corruption in the Afghan banking system that threatened U.S. and allied efforts to support Afghanistan.<sup>5</sup> But at the same time, the Afghan government had hampered its own anticorruption units, limiting the cell's freedom of action.<sup>6</sup> This supports one of the ideas running throughout our case studies: that a strong local partner is important to a CTF effort.

Collectively, these chapters offer new insights into VNSA financing, from how groups generate revenues, to the use of those revenues, to efforts to counter and disrupt revenue streams. Drawing on a variety of quantitative and qualitative data, we have provided a broader analysis of VNSA financing than is typically found in existing studies, which tend to focus on individual groups or specific types of revenue streams. Such a narrow scope makes it hard to map broader trends across different types of groups or contexts or to detect VNSA financing patterns and identify potential vulnerabilities.

Our research and analysis, however, leave many important questions unresolved. Most notably, data constraints limited our ability to evaluate how CTF tools affect the volume or amount of funds each VNSA collects annually.<sup>7</sup> No publicly available dataset provides consistent or reliable estimates on the volume of VNSAs' revenues over time. Any such estimates tend

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<sup>3</sup> Leslie Ireland, "21st Century Intelligence—The Need for a One-Team-One-Fight Approach," *Prism*, Vol. 7, No. 1, 2017, p. 49.

<sup>4</sup> Ireland, 2017, p. 50.

<sup>5</sup> Ireland, 2017, p. 51.

<sup>6</sup> Brian George, "The Kabul to Dubai Pipeline: Lessons Learned from the Kabul Bank Scandal," Ch. 9 in Matthew T. Page and Jodi Vittori, eds., *Dubai's Role in Facilitating Corruption and Global Illicit Financial Flows*, Washington, D.C.: Carnegie Endowment for International Peace, 2020, p. 91.

<sup>7</sup> Note that all our measures of revenue sources represent binary variables, indicating whether—not how much—a group derives revenues from that source in a given year.

to be scattered across a handful of groups and cover only a limited number of years, making broad, quantitative analysis all but impossible. There are also no systematic data on the use of kinetic and nonkinetic tools targeting VNSA revenue streams. Although some of these data are too sensitive to be released publicly (e.g., the use of cyber tools to disrupt groups), there are other sources of data (e.g., seized documents and ledgers) that could be declassified and used to help answer critical questions on the effectiveness of CTF.

These unanswered questions are not academic but have immediate relevance and implications for the U.S. Army and the joint force, which have played and continue to play an important role in the whole-of-government CTF effort. DoD has conducted CTF for decades but has institutionalized it in a new, more formal way, starting with the Iraq war. Directive-Type Memorandum 08-034 established DoD CTF policy in 2008, followed by DoDD 5205.14 in 2010, a commander's handbook, conferences, and integration in war plans.<sup>8</sup> Although USSOCOM has been the coordinator and lead for synchronizing efforts, the U.S. Army has played an important role in Iraq, Afghanistan, and elsewhere.<sup>9</sup> Across these conflicts, CTF has targeted various VNSAs or, as the 2017 National Security Strategy describes, “transnational threat groups, from jihadist terrorists to transnational criminal organizations.”<sup>10</sup>

The shift in strategy to competition with great powers, especially Russia and China, does not mean CTF will no longer play a role in future conflicts, but it may require a reevaluation of the priorities, structures, and tools used in these efforts. Already, the United States is using a variety of nonkinetic tools against these strategic competitors, especially sanctions and designations.<sup>11</sup> In addition, Russia is known to use criminal networks

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<sup>8</sup> Gordon England, “DoD Counterthreat Finance (CTF) Policy,” memorandum to the secretaries of the military departments et al., Washington, D.C., DTM 08-034, December 2, 2008; DoDD 5205.14, 2017.

<sup>9</sup> As an example, one of the experts with whom we spoke for this research was an Army military intelligence officer active in Iraq during one so-called surge. Among other tasks, his Army unit addressed the financing of Shia militias in Baghdad.

<sup>10</sup> White House, 2017, pp. 2–3.

<sup>11</sup> Treasury, 2020d; Treasury, 2020c.



toward achieving its policy ends.<sup>12</sup> And the United States has embarked on a course of economic pressure more generally against China. Although all efforts are aimed at deterring war with China and Russia, as detailed in the 2018 National Defense Strategy, CTF is already part of that deterrence and is likely to play a role should deterrence fail.<sup>13</sup> Accordingly, in the next sections, we discuss recommendations for the U.S. Army and the joint force.

## Recommendations for the U.S. Army

Countering the finances of VNSAs requires a broad skill set, and very few people will have all the necessary skills. As our quantitative models show, VNSAs differ significantly in their financing strategies and activities, varying widely across contexts and group types. Tracking such heterogeneous groups and these distinct resources presents a daunting task for the inter-agency. **The U.S. Army can fulfill its Title 10 mission by ensuring a steady supply of soldiers and Army civilians with the necessary skills and knowledge and, potentially, by expanding that supply.** Currently, this mission is being handled in part by contractors, but it is relatively easy to shed contractors. It is more difficult to shed a core group of soldiers and Army civilians, even if they are in place to lead contractors. Ensuring an appropriate supply may involve changes in personnel policies that would allow service members in threat finance to have attractive promotion opportunities.

We spoke with experts working in the field who considered a Military Occupational Specialty unnecessary but did consider an Additional Skill Identifier (ASI) to be useful.<sup>14</sup> As of 2020, there is an existing ASI, T1, “Counter Threat Finance Analyst.”<sup>15</sup> Information provided about this ASI confirms that the skill is applicable to many different areas of specialty, including business intelligence, criminal investigation, and intelligence.

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<sup>12</sup> Galeotti, 2017.

<sup>13</sup> DoD, 2018.

<sup>14</sup> One other suggestion included a new civilian job code (conversation with U.S. Army officer involved in CTF, February 2020).

<sup>15</sup> Army Credentialing Opportunities On-Line, “ASI T1 Counter Threat Finance Analyst,” webpage, May 29, 2020.

Our conversations with specialists suggested that this ASI is not widely pursued. **The U.S. Army could consider encouraging soldiers to pursue the T1 ASI** to create a reasonable number of people who can work in CTF when needed. It will be important to not limit it to just personnel in military intelligence. Rather, **military police, finance officers, infantry soldiers, information technology specialists, and others can be encouraged to build the skill.**

The need for this wide variety of skills is reflected in DoDD 5205.14, mentioned in Chapter 5. One part of the CTF effort is threat finance intelligence, which comes under the domain of the Under Secretary of Defense for Intelligence and Security (the Under Secretary of Defense for Intelligence when the directive was written).<sup>16</sup> In this domain, the Defense Intelligence Agency is responsible for providing the threat finance intelligence capability, including threat finance intelligence analysts. Beyond intelligence is the need to take action to halt VNSA finance activities. In this area, combatant commanders are responsible for creating a CTF capability that “integrates intelligence and operations, analyzes financial intelligence, and coordinates the execution” of CTF activities.<sup>17</sup> Further activities include efforts to “deny, disrupt, destroy, or defeat operations” that provide funding to VNSAs.<sup>18</sup> So, while threat finance intelligence analysts provide the intelligence input into countering VNSA financing, the skills CTF analysts require range from analysis of information to planning operations.

A critical element for building any skill is a training course. Regular and updated training is especially important, given the dynamic threat environment, in which VNSAs learn and adapt over time. In the past, the Defense Intelligence Agency ran a training course on illicit finance and CTF, but this course was reported to have ended in 2019.<sup>19</sup> **It is important for the Army to express support for the continuation of such a course to its partners in DoD and the U.S. government more broadly. If others are unable to offer such a course on threat finance in the future, the Army should consider**

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<sup>16</sup> DoDD 5205.14, 2017, p. 6.

<sup>17</sup> DoDD 5205.14, 2017, p. 9.

<sup>18</sup> DoDD 5205.14, 2017, p. 9.

<sup>19</sup> Interviews with subject-matter experts, February and June 2020.

offering one itself. In either case, the Army should commit to sending select personnel to participate.

Course content should include information about the legitimate financial sector because VNSAs use it; illicit means of raising and moving money; database organization, especially from unstructured data; and analysis. The courses should also provide general knowledge on trends in VNSA financing and how strategies vary across group types, the operational context, and associations with violent and nonviolent activity. Specific topics can include forensic accounting, AML, knowledge of special operations, data science and data cleaning, statistical analysis, network analysis, and cyber and cryptocurrencies. **The course should also include interagency collaboration** because CTF almost always involves Treasury and DoS, as well as communication skills.<sup>20</sup>

To further augment skills, **the Army could consider placing personnel with Treasury or agencies that work CTF**, perhaps as a joint duty assignment. This is certainly nonstandard, at least as of mid-2020, but would expose personnel not only to different parts of the CTF process but also to the various data sources used in that effort.

Equipping people for CTF is not complicated and would likely take place during assignments with the joint force. However, there may be costs; as with training, **the U.S. Army could consider funding, at least in part, the equipment necessary for the CTF effort**. To a first approximation, information-processing systems, software, and databases are the main equipment. Databases would include open-source business research tools and more-specialized intelligence tools. Computing power and connectivity are both important. Given that CTF activities in the field often involve ingesting large amounts of information quickly as a result of actions against targets, technology to process and analyze such information would be important. Examples include equipment to scan hard copies into files that are readable, rather than just images; software to read a variety of file formats beyond the standard Microsoft Office suite; strong antivirus software for the necessary task of scanning captured hard drives and memory sticks;

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<sup>20</sup> We drew this list from Blum and Conway, 2015, and from discussions with subject-matter experts in February and June 2020.

and software to reshape data into a form that can be further analyzed, create network diagrams and other visualizations, and conduct statistical tests.

**The Reserve Component and National Guard Bureau can also be force multipliers.** They already have people who may have the necessary skills, such as police officers, bankers, computer programmers, and accountants. Furthermore, the National Guard can operate in the United States through its Title 32 authorities and outside the United States through its Title 10 authorities.<sup>21</sup> **Ensuring that Guard and Reserve personnel have access to any CTF training could help create a large number of trained soldiers that can be deployed when operations demand threat finance specialists.**

Ultimately, succeeding at CTF requires personnel not just in headquarters but in the field who understand how groups are financed and who know useful financial information when they see it, ranging from captured ledgers to recognizing a bank identification code when one appears on a document. The U.S. Army can ensure that such personnel are available to the joint force.

## Recommendations for the Joint Force

**Joint doctrine should expand and update its discussion of the role of local partners in CTF efforts and consider ways to better use partners' capabilities to complement U.S. efforts.** Although these topics are already addressed to some degree in various strategic documents,<sup>22</sup> the details remain insufficient, especially in light of the recent focus on burden-sharing and maximizing the return from an economy of force.<sup>23</sup> The joint force will undoubtedly have a critical role to play in future CTF efforts, especially in terms of kinetic activities, but the role of partners has grown in recent years.

As the joint force continues to transition away from the large-footprint missions that have defined much of what was originally known as the Global

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<sup>21</sup> Carter, 2012.

<sup>22</sup> DoDD 5205.14, 2017; JP 3-25, 2016.

<sup>23</sup> In addition to these publicly releasable sources of policy guidance and doctrine, we also reviewed U.S. material that is designated For Official Use Only. Although these restricted-release documents provide additional details on DoD and interagency roles, they do not dramatically expand the depth of the discussion on U.S. partner nations, which vary in important ways.

War on Terrorism, it will no longer have the same kinds of U.S. assets on the ground that allowed it to stand up sophisticated threat finance cells that could support all phases of the targeting cycle. Instead, the joint force will have to increasingly rely on partners to fill some key roles, such as providing intelligence on threat networks. This shift—which represents a change in degree rather than kind—will entail a number of challenges but also potential opportunities, introducing complicated trade-offs that have yet to be fully explored.<sup>24</sup> It is important to update doctrine to reflect this new reality. Along with these doctrinal updates, expanding the role of partners will depend on additional training, exercises, and educational opportunities—all of which will require additional resources but could allow partners to assume a greater share of the burden.

**In terms of organization, the joint force should consider evaluating the long-standing CTF structure, which places USSOCOM in a position of leading synchronization, and explore whether there are potential gains from reorganizing or redefining roles.** Although this organizational structure initially caused some controversy, USSOCOM has been the joint force lead for synchronizing efforts since at least 2008, when it was named in a directive-type memorandum as the DoD lead agent.<sup>25</sup> In late 2019, the DoD Office of the Inspector General began a study to evaluate how four GCCs plan and execute “counter threat finance activities to affect adversaries’ ability to use financial networks to negatively affect U.S. interests.”<sup>26</sup> Such a study could offer valuable lessons on what types of activities work

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<sup>24</sup> One potential benefit from a reduced footprint is the impact it may have on some groups’ predation and exploitation of U.S. and humanitarian logistics supply chains. Large stabilization missions, like that in Afghanistan, not only entail a large military footprint but often require support from contractors and other private actors to support ground logistics. These services can create opportunities for local VNSAs, which exploit such actors and use extortion and other means to extract rents. A similar dynamic can play out in humanitarian missions when these groups divert aid for their profit. For more on this topic, see Nathan Nunn and Nancy Qian, “US Food Aid and Civil Conflict,” *American Economic Review*, Vol. 104, No. 6, June 2014.

<sup>25</sup> England, 2008.

<sup>26</sup> DoD, Office of the Inspector General, “Evaluation of Combatant Command Counter Threat Finance Activities (Project No. D2020-DEVOPD-0026.000),” memorandum to Under Secretary of Defense for Policy et al., Alexandria, Va., October 28, 2019.

across these different AORs, but this one was not explicitly designed to consider USSOCOM's lead role within the joint force.<sup>27</sup>

Given the intersection of kinetic and nonkinetic activities and the fact that transnational threat networks often cross areas of responsibility, USSOCOM's lead position provides some clear advantages. At the same time, however, placing a functional combatant command in this position can also result in turf issues and other coordination challenges.<sup>28</sup> Such an organizational structure ultimately depends on a good working relationship and clear lines of communication between USSOCOM and the GCCs.

Threats have evolved since the original directive-type memorandum, and the U.S. force posture has changed. With strategic priorities having shifted to focusing on strategic competition, there may be opportunities for the joint force to evaluate lessons learned from past efforts and consider how they might apply to this changing threat environment, especially in light of the increasing importance of cyber capabilities. Although USSOCOM may very well remain the best choice to lead CTF efforts, an evaluation should answer this question and consider how best to structure USSOCOM's role and responsibilities, given the changing operational environment. Given the focus on strategic competition and the transnational and cross-AOR challenges it entails, such an evaluation may very well conclude that USSOCOM's authorities need to be expanded and roles redefined. Ultimately though, this question remains unanswered.

**As for personnel, CTF cells may need to further augment their staffs with computer scientists and other technical analysts to better counter cybercrimes and the exploitation of other emerging technologies.** DoD policy requires that the GCCs maintain a CTF entity (e.g., unit or cell) that is tailored to the specific threat environment and operational conditions in that AOR.<sup>29</sup> Basic skill requirements for staffing the entity include language

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<sup>27</sup> Given the timing of this Inspector General evaluation and the onset of the COVID-19 crisis, it is not clear whether this study has been (or even will be) completed as designed.

<sup>28</sup> Robert McBrien, "Financial Tools and Sanctions: Following the Money and the Joumaa Web," Ch. 12 in Michelle Hughes and Michael Miklaucic, eds., *Impunity: Countering Illicit Power in War Transition*, Washington, D.C.: National Defense University, 2016.

<sup>29</sup> Carter, 2012.

capability, knowledge of VNSA financing techniques, analytic capabilities, and operational planning capabilities, although other skills will be useful.

During peacetime or periods of relatively low-level conflict, this in-theater entity is not sufficiently staffed to meet surge capacity and requires support from financial analysts. This entity is also not necessarily designed or resourced to meet emerging threats that may exploit new technologies, which would require additional staffing support. Given the convergence between some terrorist and criminal groups, which have learned from each other and even shared their tools and methods at times, military personnel are too often asked to master many different areas and technologies. War-time surge skill requirements for staffing include strong cultural knowledge; knowledge of the legal system; and, especially, business and real estate legal systems, along with the ability to surge people with specific skills for which a need is discovered as the threat finance team learns more about the operating environment.

Until the joint force can develop its own organic capabilities—to the extent such development is even worth the opportunity cost—it should look to further incorporate more interagency actors who can leverage their distinct skills and experiences from working related problem sets. For example, a law enforcement agent who has worked counternarcotics in South America can offer important lessons in disrupting an Islamist group trading in opium in Central and South Asia. Leveraging these interagency capabilities can help the joint force respond with greater agility to VNSA financing in a dynamic threat environment.





## Data Sources and Variable Construction

This appendix provides additional information on the data sources we used throughout our quantitative analysis. For each of these datasets, we discuss the data structure (e.g., coding rules, aggregation methods) and any changes or modifications we made to create the variables used in the estimations found in Appendix B. We conclude this section with a broader discussion on data limitations and challenges, including missing data problems and other potential concerns for our analysis. At the end of the appendix, Table A.1 lists the groups that are included in our analysis and describe their coverage across the different datasets.

### Data Sources and Measures

#### Rebel Contraband Dataset

The RCD includes 31 individual resources (including illicit drugs),<sup>1</sup> which are organized around four types of exploitation: extortion, theft, booty

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<sup>1</sup> These 31 resources are animal products, bauxite, cannabis (includes marijuana and hemp), cassiterite, charcoal, coal, cobalt, coca, cocoa, coffee, coltan, copper, diamonds (alluvial), diamonds (primary), gold, iron, mercury, oil, opium, rubber, tea, timber, tin, titanium, wolframite, zinc, agricultural products (not otherwise listed), drugs (unknown drug type), gems (unknown gem type), minerals (unknown minerals or not otherwise listed), and other (resources not listed otherwise). For more, see Walsh et al., 2017, pp. 3–4. Coltan is a combination of columbite (a mineral rich in niobium) and tantalite (a mineral rich in tantalum) that is used as an input in electronic devices (Klaus J. Schulz, Nadine M. Piatak, and John F. Papp, “Niobium and Tantalum,” Ch. M in

futures, and smuggling. The RCD provides its own criteria for what behavior qualifies as each one of these exploitation types. We used the RCD's data to build out nine variables: extortion, booty futures, theft, smuggling, human trafficking, humanitarian aid, piracy, kidnapping for ransom, and other illicit activities. Four of these nine variables—human trafficking, humanitarian aid, piracy, and other illicit activities—are directly carried over from the RCD. The other five variables required the aggregation of two or more variables from the RCD.

For extortion, theft, and smuggling there were additional criminal values that were included in their aggregation. The kidnapping for ransom variable in our dataset is an aggregation of the RCD's kidnapping for ransom and international kidnapping for ransom variables.<sup>2</sup> Our definitions of extortion, booty futures, theft, smuggling, human trafficking, humanitarian aid, piracy, kidnapping for ransom, and other illicit activities come from the RCD's definitions and are as follows:

- *Extortion* occurs when a VNSA “uses violence or the threat of violence to earn money directly or indirectly from the production of natural resources,” on a regular basis or when a VNSA taxes much of the economic activity that occurs in a particular area.<sup>3</sup>
- *Theft* occurs when a VNSA steals a resource to sell it or engages in the regular illicit seizure of goods that it “does not have an ongoing relationship or contact with the producers” of.<sup>4</sup> This definition also includes “large-scale theft, such as multiple bank robberies, stealing large numbers of vehicles or other valuable goods” and “credit card fraud.”<sup>5</sup>

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Klaus J. Schulz, John H. DeYoung, Jr., Robert R. Seal II, and Dwight C. Bradley, editors, *Critical Mineral Resources of the United States—Economic and Environmental Geology and Prospects for Future Supply*, Reston, Va.: U.S. Geological Survey, 2017).

<sup>2</sup> Walsh et al., 2018.

<sup>3</sup> Walsh et al., 2018; Walsh et al., 2017, pp. 5, 8.

<sup>4</sup> Walsh et al., 2018; Walsh et al., 2017, p. 6.

<sup>5</sup> Walsh et al., 2018; Walsh et al., 2017, p. 8.

- *Smuggling* occurs when a VNSA “earns income by directly engaging in or protecting those who” illicitly transport legal or illegal resources.<sup>6</sup>
- *Kidnapping for ransom* occurs when a VNSA “kidnaps people in exchange for payments,” whether or not these individuals are citizens of the country in which the conflict is occurring.<sup>7</sup>
- *Booty futures* occurs when a VNSA “earns income by promising another actor exploitation rights over the natural resource in the event that the rebel group gains formal control over the territory.”<sup>8</sup>
- *Human trafficking* occurs when a VNSA “engages in or sponsors criminal smuggling of people, often across international borders.”<sup>9</sup>
- *Humanitarian aid* occurs when a VNSA “requires aid organizations to pay it in order to deliver aid or to continue operations in a particular area, or the group steals humanitarian aid before it can be delivered to its intended recipients.”<sup>10</sup>
- *Piracy* occurs when a VNSA “engages in or sponsors piracy (meaning the theft, ransoming, etc. of sea vessels, not the violation of intellectual property rights).”<sup>11</sup>
- *Other illicit activities* occur when a VNSA uses an illicit means of gathering revenues that is not captured in any of the other categories in this list.<sup>12</sup>

## Dangerous Companions Dataset

The DCD’s data include information on state support for VNSAs on an annual basis from 1922 through 2010. Given the limits of our other datasets, especially the RCD, we include data only from 1990 through 2010 and focus on financial support in our analysis. We used the DCD’s information on

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<sup>6</sup> Walsh et al., 2018; Walsh et al., 2017, p. 7.

<sup>7</sup> Walsh et al., 2018; Walsh et al., 2017, p. 8.

<sup>8</sup> Walsh et al., 2018.

<sup>9</sup> Walsh et al., 2018; Walsh et al., 2017, p. 8.

<sup>10</sup> Walsh et al., 2018; Walsh et al., 2017, p. 8.

<sup>11</sup> Walsh et al., 2018; Walsh et al., 2017, p. 8.

<sup>12</sup> Walsh et al., 2018; Walsh et al., 2017, p. 9.

state support and paired it with the UCDP-ESD to build out our variable on external state support.<sup>13</sup>

The DCD includes a confidence variable on a four-tier scale. We have excluded all cases where the confidence level was given a “4,” which indicates that the only evidence for financial support was that “[o]ne state accuses another state of supporting a group, but it cannot provide official documentation beyond allegations.”<sup>14</sup>

## Uppsala Conflict Data Program Datasets

### External Support Dataset

The UCDP-ESD includes data on external support to VNSAs from 1975 through 2009. We leveraged the UCDP-ESD’s data on external financial support to VNSAs to build variables for financial support from states, diasporas, state elements, charities, VNSAs, corporations, political parties or civil society groups, and individuals. The state support variable has been paired with the data from the DCD. We dropped all instances of support that were either alleged, not financial, or that took place prior to 1990.

### Georeferenced Event Dataset

The UCDP-GED (version 19.1) contains data on violent events across the globe. For our purposes, we dropped instances of state-on-state violence and aggregated the total number of events a VNSA was involved in and the countries in which a VNSA participated in violence during a calendar year. We also used this dataset to build out our country and region variables.<sup>15</sup>

## Foundations of Rebel Group Emergence

The FORGE dataset provides information on the origins and formative features of VNSAs, including their ideology, organizational goals, identity structure, and other relevant group details. VNSAs can be coded as holding a communist, leftist, right-wing, nationalist, antisystem, religious, or other

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<sup>13</sup> San-Akca, 2016.

<sup>14</sup> San-Akca, 2016.

<sup>15</sup> Sundberg and Melander, 2013; Högbladh, 2019.

ideology. If a VNSA is coded as being religious, it may be coded as Catholic, Protestant, Orthodox, other Christian, Sunni Muslim, Shia Muslim, Hindu, Buddhist, or other. Additionally, a group might be coded as holding an ethnic identity.

## Terrorist and Insurgent Organization Social Services Dataset

The TIOS dataset was built in an effort to capture service provision by 403 different VNSAs from all over the world from 1969 through 2013. TIOS was created by searching through English-language media articles in the LexisNexis database to find “words and phrases that correlate with service provision.”<sup>16</sup> TIOS captures a variety of types of services, including religion, infrastructure, health, education, finance, security, and society.<sup>17</sup> The TIOS data include some groups that do not exist in any of the other datasets we used but also lacks many of the VNSAs observed in the other datasets.

## Data Limitations and Challenges

We limited our analysis to the VNSAs and years that were included in the RCD. We made this choice because the RCD was the source for the majority of our funding-stream variables. The RCD built its VNSA list using the UCDP’s 2016 Dyadic Dataset version 5.0. This means that, if a VNSA does not meet the UCDP’s criteria for inclusion in its datasets, it will not appear in the RCD. The UCDP’s inclusion criteria require that at least one of a VNSA’s dyads results in at least 25 “battle-related deaths.”<sup>18</sup> This criterion excludes a significant number of smaller actors, who may very well be active and involved in violence but fail to suffer or cause enough casualties to be included.<sup>19</sup> Additionally, it appears that what constitutes a battlefield-related death

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<sup>16</sup> Heger, Jung, and Wagstaff, 2018, p. 3.

<sup>17</sup> Heger, Jung, and Wagstaff, 2018.

<sup>18</sup> Uppsala Universitet, Department of Peace and Conflict Research, “UCDP Definitions,” webpage, undated.

<sup>19</sup> Uppsala Universitet, Department of Peace and Conflict Research, undated.

is determined by the individual coder and is supposed to occur between more conventional forces.<sup>20</sup> This coding has resulted in some extremely violent organized criminal actors being largely left out of the UCDP's datasets.

Additionally, the RCD is constrained by how the UCDP built its actor identifier system. For instance, the UCDP treats AQ franchises independent from its leadership as individual actors but does not treat ISIS franchises the same way. This creates a system in which ISIS as an actor is involved in conflicts all over the globe, which is true, but is organized as a single actor; reality is better reflected as the group comprising a number of franchises across the globe. Thus, where possible, we created new identifiers for a number of ISIS franchises in an effort to treat AQ and ISIS franchises the same way.<sup>21</sup>

Our dataset is limited to the period stretching from 1990 through 2015. However, we lack data on state support from 2011 through 2015. We were unable to find an existing dataset to fill these gaps, and our analysis on external support from states is therefore limited to the period from 1990 through 2010.

There are additional types of data that we would have preferred to include but were unable to do so because of a lack of available data covering a significant number of groups and because of constraints on our ability to gather this information ourselves. Valuable data fitting this description that we were not able to incorporate include volume of funds collected annually by each VNSA overall and per resource type and the exact countries in which VNSAs conduct their financing activities.

Additionally, there are potential missing data issues with some datasets. The RCD, in particular, includes numerous VNSAs that are coded as having no revenue streams, many of which must have had some financial sources, given their lifespan and activities.<sup>22</sup> Such omissions likely reflect the challenge of observing or detecting funding sources, particularly for smaller or more-obscure groups located in areas that receive less public reporting. This

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<sup>20</sup> Uppsala Universitet, Department of Peace and Conflict Research, undated.

<sup>21</sup> This was done to create Actor Identifiers for Islamic State–Philippines, Islamic State–Khorasan, Islamic State–West Africa, and Islamic State–Russia. Similarly, we used Bayt al-Maqdis's existing UCDP identifier and applied it to all Islamic State events in Egypt to create Islamic State–Sinai.

<sup>22</sup> One example is a lack of a revenue stream for the Kurdish Democratic Party of Iran.

missing-data problem could introduce bias into our results, skewing our findings toward more-prominent groups.

And while FORGE has served as a useful database for categorizing armed groups by goal, ideology, and identity based on how the VNSA was at its origin, it does not capture changes that occurred over time. We chose to use this dataset as there was no equivalent that could provide us with annualized data on group goals, identities, or ideologies. Further analysis would be bolstered by annualized information.

**TABLE A.1**  
**VNSAs and Their Coverage Across Datasets**

| VNSA Name                                                         | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|-------------------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| ASG                                                               | 23  | 24          | 22   | 20  | 15          | 25    |
| Al-Aqsa Martyrs' Brigades                                         | 3   | 7           | 14   | 5   | 3           | 7     |
| Al-Gama'a al-Islamiyya                                            | 6   | 9           | 24   | 9   | 6           | 11    |
| Al-Ittihad Al-Islami                                              | 7   | 5           | 0    | 7   | 3           | 8     |
| Al-Mahdi Army                                                     | 5   | 6           | 11   | 6   | 3           | 7     |
| Al-Shabaab                                                        | 8   | 9           | 0    | 5   | 2           | 10    |
| All Burma Students' Democratic Front                              | 5   | 5           | 0    | 5   | 4           | 6     |
| All Tripura Tiger Force                                           | 8   | 14          | 15   | 21  | 5           | 21    |
| Alliance des Forces Démocratiques pour la Libération du Congo     | 2   | 2           | 0    | 2   | 2           | 2     |
| Alliance for the Re-Liberation of Somalia/Union of Islamic Courts | 3   | 4           | 0    | 3   | 3           | 4     |
| Alliance of Democratic Forces                                     | 21  | 15          | 0    | 15  | 8           | 21    |
| Alliance Touareg Nord Mali pour le Changement                     | 3   | 3           | 0    | 3   | 3           | 3     |
| Ansar al-Islam                                                    | 5   | 10          | 13   | 10  | 4           | 11    |
| AQ in the Arabian Peninsula                                       | 7   | 7           | 10   | 2   | 1           | 7     |
| AQIM                                                              | 17  | 18          | 15   | 13  | 11          | 18    |



**Table A.1—Continued**

| VNSA Name                                                     | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|---------------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| Armed Forces Revolutionary Council                            | 3   | 4           | 0    | 4   | 3           | 4     |
| Armed People for the Liberation of Rwanda                     | 5   | 5           | 23   | 5   | 0           | 5     |
| Armée Islamique du Salut                                      | 6   | 8           | 14   | 8   | 6           | 10    |
| Autonomous Province of Western Bosnia                         | 3   | 3           | 0    | 3   | 0           | 3     |
| Baloch Ittehad                                                | 2   | 1           | 0    | 8   | 2           | 8     |
| Baloch Republican Army                                        | 7   | 9           | 0    | 5   | 7           | 16    |
| Balochistan Liberation Army                                   | 12  | 12          | 10   | 9   | 5           | 14    |
| Balochistan Liberation Front                                  | 2   | 4           | 0    | 21  | 0           | 25    |
| Bougainville Revolutionary Army                               | 7   | 8           | 0    | 8   | 0           | 8     |
| Bundu Dia Kongo                                               | 2   | 4           | 0    | 19  | 2           | 19    |
| Chechen Republic of Ichkeria                                  | 14  | 14          | 0    | 14  | 12          | 14    |
| Cocoyes                                                       | 3   | 3           | 0    | 8   | 3           | 8     |
| Comité National de Redressement                               | 3   | 3           | 0    | 6   | 3           | 6     |
| Committee of National Revival for Peace and Democracy         | 3   | 4           | 0    | 4   | 3           | 5     |
| Communist Party of India–Marxist-Leninist: Peoples' War Group | 15  | 14          | 0    | 15  | 14          | 15    |

Table A.1—Continued

| VNSA Name                                                                                 | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|-------------------------------------------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| CPI-M                                                                                     | 11  | 12          | 24   | 7   | 5           | 12    |
| CPN-M                                                                                     | 11  | 13          | 16   | 11  | 11          | 13    |
| CPP                                                                                       | 26  | 26          | 24   | 21  | 18          | 26    |
| Congrès National pour la Défense du Peuple                                                | 3   | 4           | 0    | 15  | 3           | 16    |
| Conseil National pour la Défense de la Démocratie                                         | 5   | 5           | 0    | 0   | 5           | 5     |
| Conseil National pour la Défense de la Démocratie-Forces pour la Défense de la Démocratie | 6   | 7           | 0    | 10  | 6           | 11    |
| Conselho Nacional de Resistencia Timorene                                                 | 3   | 8           | 0    | 10  | 3           | 10    |
| Convention of Patriots for Justice and Peace                                              | 3   | 3           | 0    | 3   | 1           | 4     |
| Croatian Republic of Bosnia-Herzegovina                                                   | 2   | 4           | 0    | 4   | 2           | 5     |
| Democratic Karen Buddhist Army—Brigade 5                                                  | 3   | 5           | 0    | 1   | 0           | 5     |
| Devrimci Halk Kurtulus Partisi-Cephesi                                                    | 2   | 14          | 24   | 21  | 2           | 23    |
| Ejército Popular de Liberación                                                            | 2   | 1           | 18   | 21  | 2           | 21    |
| ELN                                                                                       | 24  | 26          | 0    | 21  | 0           | 26    |
| Eritrean Islamic Jihad Movement—Abu Suhail faction                                        | 7   | 5           | 0    | 14  | 3           | 14    |

**Table A.1—Continued**

| VNSA Name                                                 | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|-----------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| Eritrean People's Liberation Front                        | 2   | 2           | 24   | 2   | 2           | 2     |
| Ethiopian People's Revolutionary Democratic Front         | 2   | 2           | 0    | 2   | 2           | 2     |
| Euskadi ta Azkatasuna                                     | 2   | 17          | 24   | 21  | 2           | 22    |
| FARC                                                      | 26  | 26          | 24   | 21  | 20          | 26    |
| Fatah                                                     | 18  | 18          | 24   | 21  | 9           | 23    |
| FLEC-FAC                                                  | 16  | 19          | 21   | 21  | 8           | 25    |
| Forces Armées pour la République Fédérale                 | 2   | 4           | 0    | 5   | 2           | 5     |
| Forces Démocratiques de Libération du Rwanda              | 12  | 14          | 0    | 11  | 7           | 19    |
| Forces of the Caucasus Emirate                            | 9   | 9           | 0    | 4   | 3           | 9     |
| Frente da Libertação do Enclave de Cabinda–Renovada       | 12  | 8           | 16   | 12  | 4           | 13    |
| Frente farabundo Martí para la Liberación Nacional        | 2   | 3           | 24   | 2   | 2           | 3     |
| Front de Libération de l'Aïr et l'Azaouad                 | 2   | 3           | 0    | 5   | 2           | 5     |
| Front Patriotique Rwandais                                | 5   | 5           | 0    | 5   | 5           | 5     |
| Front pour la Restauration de l'Unité et de la Démocratie | 4   | 5           | 0    | 4   | 4           | 5     |

Table A.1—Continued

| VNSA Name                                                                        | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|----------------------------------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| Front Uni National pour un Cambodge Indépendent, Neutre, Pacifique et Coopératif | 3   | 2           | 0    | 8   | 3           | 8     |
| Front Uni pour le Changement Démocratique                                        | 2   | 3           | 0    | 2   | 2           | 3     |
| Gerkan Aceh Merdeka                                                              | 9   | 15          | 24   | 17  | 9           | 18    |
| Groupe Islamique Armé                                                            | 11  | 13          | 22   | 12  | 11          | 13    |
| Hamas                                                                            | 22  | 26          | 24   | 21  | 11          | 26    |
| LH                                                                               | 23  | 20          | 24   | 21  | 11          | 26    |
| Hizb-i Islami-yi Afghanistan                                                     | 24  | 19          | 0    | 21  | 0           | 26    |
| Hizb-i Islami-yi Afghanistan—Khalis faction                                      | 2   | 3           | 0    | 7   | 0           | 7     |
| Hizb-i Wahdat                                                                    | 6   | 9           | 0    | 12  | 6           | 13    |
| Hizbul Islam                                                                     | 2   | 2           | 0    | 2   | 1           | 2     |
| Islamic Movement of Uzbekistan                                                   | 14  | 10          | 15   | 13  | 2           | 16    |
| Islamic State                                                                    | 12  | 12          | 10   | 5   | 6           | 12    |
| Islamic State—Khorasan <sup>a</sup>                                              | 1   | 1           | 0    | 0   | 0           | 0     |
| Islamic State—Libya <sup>b</sup>                                                 | 1   | 1           | 0    | 0   | 0           | 0     |

Table A.1—Continued

| VNSA Name                                  | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|--------------------------------------------|-----|-------------|------|-----|-------------|-------|
| Islamic State–Russia <sup>c</sup>          | 1   | 0           | 0    | 0   | 0           | 0     |
| Islamic State–Sinai <sup>d</sup>           | 2   | 2           | 0    | 0   | 0           | 0     |
| Islamic State–West Africa <sup>e</sup>     | 1   | 1           | 0    | 0   | 0           | 0     |
| Islamic State–Yemen <sup>f</sup>           | 1   | 0           | 0    | 0   | 0           | 0     |
| Jam'iyyat-i Islami-yi Afghanistan          | 7   | 12          | 0    | 12  | 0           | 16    |
| Jama'atu Ahlis Sunna Lidda'awati wal-Jihad | 7   | 7           | 0    | 9   | 1           | 14    |
| Jana Samhati Samiti/Shanti Bahini          | 2   | 9           | 0    | 8   | 3           | 9     |
| Jondullah                                  | 5   | 9           | 0    | 9   | 4           | 11    |
| Junbish-i Milli-yi Islami                  | 3   | 10          | 0    | 19  | 3           | 19    |
| Justice and Equality Movement              | 9   | 8           | 0    | 8   | 5           | 9     |
| Kachin Independence Organization           | 26  | 10          | 0    | 21  | 3           | 26    |
| Kamajors                                   | 2   | 5           | 0    | 0   | 2           | 5     |
| Kangleipak Communist Party                 | 2   | 10          | 8    | 20  | 2           | 23    |
| Karen National Union                       | 22  | 25          | 24   | 21  | 15          | 25    |
| Karen National Progressive Party           | 8   | 15          | 0    | 16  | 3           | 20    |

Table A.1—Continued

| VNSA Name                                                            | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|----------------------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| Khmer People's National Liberation Front                             | 2   | 2           | 0    | 2   | 2           | 2     |
| Khmer Rouge                                                          | 9   | 9           | 24   | 9   | 9           | 9     |
| Kurdish Democratic Party                                             | 2   | 9           | 24   | 2   | 2           | 9     |
| Kurdish Democratic Party of Iran                                     | 7   | 7           | 0    | 7   | 3           | 7     |
| Liberians United for Reconciliation and Democracy                    | 4   | 4           | 0    | 5   | 4           | 5     |
| Lord's Resistance Army                                               | 26  | 24          | 11   | 21  | 16          | 26    |
| LTTE                                                                 | 20  | 20          | 24   | 21  | 18          | 21    |
| Maoist Communist Centre                                              | 10  | 10          | 18   | 15  | 10          | 15    |
| Military Junta for the Consolidation of Democracy, Peace and Justice | 2   | 2           | 0    | 2   | 2           | 2     |
| Mong Tai Army                                                        | 3   | 6           | 0    | 6   | 3           | 7     |
| Moro Islamic Liberation Front                                        | 24  | 22          | 23   | 21  | 15          | 26    |
| Moro National Liberation Front                                       | 11  | 7           | 24   | 4   | 2           | 14    |
| Moro National Liberation Front–Nur Misuari faction                   | 3   | 4           | 0    | 2   | 2           | 4     |
| Mouvement des Forces Démocratiques de Casamance                      | 22  | 22          | 0    | 21  | 9           | 24    |

Table A.1—Continued

| VNSA Name                                                    | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|--------------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| Mouvement des Nigériens pour la Justice                      | 2   | 2           | 0    | 4   | 2           | 4     |
| Mouvement Patriotique de Côte d'Ivoire                       | 2   | 2           | 0    | 1   | 1           | 2     |
| Mouvement Populaire Ivoirien du Grand Ouest                  | 2   | 2           | 0    | 2   | 2           | 2     |
| Mouvement pour la Démocratie et la Justice au Tchad          | 5   | 5           | 12   | 13  | 4           | 13    |
| Mouvement pour la Démocratie et le Développement             | 7   | 6           | 18   | 7   | 4           | 7     |
| Mouvement pour la Libération du Congo                        | 4   | 4           | 0    | 4   | 4           | 4     |
| Mujahideen e Khalq Organization                              | 8   | 12          | 24   | 12  | 7           | 14    |
| Muttahida Qaumi Movement                                     | 7   | 10          | 23   | 21  | 3           | 22    |
| Myanmar Nationalities Democratic Alliance Army               | 3   | 4           | 0    | 20  | 1           | 23    |
| National Democratic Alliance                                 | 6   | 7           | 0    | 16  | 6           | 16    |
| National Democratic Front of Bodoland                        | 18  | 19          | 0    | 21  | 12          | 22    |
| National Democratic Front of Bodoland–Ranjan Daimary faction | 2   | 5           | 0    | 3   | 1           | 6     |
| National Guard and Mkhedrioni                                | 2   | 2           | 0    | 3   | 2           | 3     |
| National Patriotic Front of Liberia                          | 4   | 7           | 24   | 8   | 1           | 8     |
| National Socialist Council of Nagaland–Isaac-Muivah faction  | 9   | 22          | 13   | 21  | 7           | 25    |

**Table A.1—Continued**

| VNSA Name                                               | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|---------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| National Socialist Council of Nagaland–Khaplang faction | 3   | 18          | 14   | 21  | 3           | 25    |
| Ninjas                                                  | 7   | 4           | 0    | 11  | 4           | 11    |
| NLFT                                                    | 12  | 21          | 18   | 21  | 10          | 24    |
| Ntsiloulous                                             | 5   | 7           | 0    | 5   | 3           | 8     |
| Ogaden National Liberation Front                        | 22  | 21          | 23   | 21  | 12          | 26    |
| Oromo Liberation Front                                  | 25  | 25          | 24   | 21  | 17          | 26    |
| Palestinian National Authority                          | 7   | 9           | 0    | 0   | 4           | 12    |
| Palipehutu                                              | 2   | 3           | 0    | 2   | 2           | 3     |
| Palipehutu- Forces Nationales de Libération             | 12  | 13          | 0    | 16  | 11          | 16    |
| Partî Jiyanî Azadî Kurdistan                            | 7   | 11          | 0    | 7   | 5           | 12    |
| Partiya Karkeran Kurdistan                              | 26  | 26          | 24   | 21  | 20          | 26    |
| Patani insurgents                                       | 13  | 16          | 24   | 21  | 7           | 26    |
| Patriotic Union of Kurdistan                            | 7   | 15          | 24   | 7   | 5           | 15    |
| People's Revolutionary Party of Kangleipak              | 2   | 11          | 0    | 21  | 2           | 21    |
| People's Liberation Army of Manipur                     | 8   | 22          | 19   | 21  | 8           | 26    |



**Table A.1—Continued**

| VNSA Name                                        | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|--------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| PIJ Movement                                     | 19  | 26          | 24   | 21  | 9           | 26    |
| Provisional Irish Republican Army                | 8   | 7           | 24   | 16  | 2           | 16    |
| Rassemblement Congolais pour la Démocratie       | 4   | 6           | 0    | 4   | 4           | 6     |
| Rassemblement des Forces Démocratiques de Guinée | 2   | 2           | 0    | 2   | 2           | 2     |
| Reform and Jihad Front                           | 3   | 4           | 10   | 0   | 3           | 4     |
| Republic of Abkhazia                             | 2   | 7           | 0    | 2   | 2           | 7     |
| Republic of Armenia                              | 2   | 2           | 0    | 0   | 0           | 2     |
| Republic of Artsakh                              | 8   | 23          | 0    | 21  | 5           | 26    |
| Republic of South Ossetia                        | 17  | 4           | 0    | 18  | 3           | 18    |
| Resistência Nacional Moçambicana                 | 4   | 9           | 0    | 3   | 3           | 9     |
| Restoration Council of the Shan State            | 18  | 18          | 0    | 21  | 12          | 25    |
| Revolutionary Movement Túpac Amaru               | 4   | 7           | 24   | 8   | 4           | 8     |
| Revolutionary United Front                       | 11  | 11          | 17   | 11  | 10          | 11    |
| Rohingya Solidarity Organization                 | 4   | 6           | 0    | 5   | 2           | 9     |
| Seleka                                           | 5   | 5           | 0    | 5   | 1           | 10    |

Table A.1—Continued

| VNSA Name                                         | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|---------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| Sendero Luminoso                                  | 21  | 25          | 24   | 21  | 13          | 25    |
| Serbian Republic of Bosnia-Herzegovina            | 4   | 4           | 0    | 5   | 0           | 5     |
| Serbian Republic of Krajina                       | 4   | 3           | 0    | 5   | 3           | 5     |
| Shan State Progress Party                         | 3   | 5           | 0    | 0   | 0           | 5     |
| Somali National Movement                          | 2   | 2           | 0    | 2   | 2           | 2     |
| Somali Patriotic Movement                         | 2   | 6           | 0    | 2   | 2           | 6     |
| Somali Reconciliation and Restoration Council     | 2   | 2           | 0    | 4   | 2           | 4     |
| South Sudan Defence Movement/Army                 | 2   | 2           | 0    | 1   | 0           | 2     |
| South Sudan Liberation Movement/Army              | 2   | 2           | 0    | 0   | 0           | 2     |
| Sudan Liberation Movement/Army                    | 9   | 9           | 0    | 8   | 6           | 9     |
| Sudan Liberation Movement/Army–Unity              | 2   | 3           | 0    | 5   | 2           | 6     |
| Sudan People’s Liberation Movement/Army           | 15  | 15          | 0    | 15  | 15          | 15    |
| Supreme Council of the Islamic Revolution in Iraq | 6   | 7           | 0    | 7   | 6           | 8     |
| Taliban                                           | 15  | 17          | 19   | 17  | 9           | 22    |
| Tehrik-i-Taliban Pakistan                         | 9   | 9           | 0    | 4   | 2           | 9     |

**Table A.1—Continued**

| VNSA Name                                               | RCD | UCDP<br>GED | TIOS | DCD | UCDP<br>ESD | FORGE |
|---------------------------------------------------------|-----|-------------|------|-----|-------------|-------|
| Uganda People's Army                                    | 3   | 4           | 0    | 3   | 3           | 4     |
| Unidad Revolucionaria Nacional Guatemalteca             | 6   | 7           | 15   | 6   | 6           | 7     |
| Union des Forces pour la Démocratie et le Développement | 2   | 2           | 0    | 4   | 2           | 4     |
| UNITA                                                   | 13  | 14          | 24   | 13  | 11          | 14    |
| United Liberation Front of Assam                        | 21  | 24          | 24   | 21  | 18          | 25    |
| United National Liberation Front                        | 16  | 20          | 21   | 20  | 9           | 25    |
| United Somali Congress/Somali National Alliance         | 6   | 10          | 0    | 6   | 6           | 10    |
| United Somali Congress/Somali Salvation Alliance        | 2   | 6           | 0    | 2   | 2           | 6     |
| United Tajik Opposition                                 | 12  | 7           | 19   | 7   | 6           | 12    |
| United Wa State Army                                    | 18  | 12          | 0    | 1   | 1           | 21    |
| Ushtria Clirimtare e Kosovës                            | 2   | 4           | 19   | 8   | 2           | 8     |
| Zviadists                                               | 2   | 2           | 0    | 2   | 2           | 2     |

<sup>a</sup> This observation did not originally exist in the UCDP datasets or the RCD. The RCD had separate observations for the Islamic State in Afghanistan and Pakistan. We created our own actor identifier for this VNSA and had all Islamic State events from Afghanistan and Pakistan for the UCDP-GED and the RCD filter into this identifier.

<sup>b</sup> This observation did not originally exist in the UCDP datasets or the RCD. The RCD had separate observations for ISIS-L. We created our own actor identifier for this VNSA and had all Islamic State events from Libya for the UCDP-GED and the RCD filter into this identifier.

Table A.1—Continued

<sup>c</sup> This observation did not originally exist in the UCDP datasets or the RCD. The RCD had separate observations for the Islamic State in Russia. We created our own actor identifier for this VNSA and had all Islamic State events from Russia for the UCDP-GED and the RCD filter into this identifier.

<sup>d</sup> This observation did not originally exist in either the UCDP dataset or the RCD. We built Islamic State–Sinai by combining Islamic State attacks from Egypt with those of Bayt al-Maqdis. We have used UCDP’s actor identifier for Bayt al-Maqdis to integrate these two.

<sup>e</sup> This observation did not originally exist in the UCDP datasets or the RCD. The RCD had separate observations for Islamic State in Nigeria, Cameroon, Niger, and Chad. We created our own actor identifier for this VNSA and had all Islamic State events from Nigeria, Cameroon, Niger, and Chad for the UCDP-GED and the RCD filter into this identifier. A separate identifier is maintained in the UCDP for Jamaatu Ahlis Sunna Liddaawati wal-Jihad (Boko Haram), which remains active but is distinct from the recording of Islamic State events in the region.

<sup>f</sup> This observation did not originally exist in the UCDP datasets or the RCD. The RCD had separate observations for Islamic State in Yemen. We created our own actor identifier for this VNSA and had all Islamic State events from Yemen for the UCDP-GED and the RCD filter into this identifier.

# Technical Discussion of Quantitative Analysis

This appendix provides a technical discussion of the quantitative results found in Chapters 2, 3, and 4. We also include results on the effectiveness of sanctions, which supports Chapter 5’s discussion on nonkinetic CTF instruments. Throughout the main report, we offered a series of figures that derive from the estimations included in this appendix. For each set of models, we briefly discuss the estimation strategy (e.g., ordinary least squares [OLS], logistic regression, count models) and interpret our results. We also discuss potential threats to inference and how we address these challenges (e.g., fixed effects, first-differencing, lagged structures). Across all models, the unit of analysis is the group-year.

## Analysis of Revenue Sources and Financing Strategies

Table B.1 reports the results from a series of logistics regressions that support the figures and discussion found in Chapter 2. Each column in the table associates with a different revenue source (as a binary variable), which represents the outcome measure for that estimation. The first five columns correspond with the major revenue sources discussed in the body of the report: extortion, smuggling, kidnapping, theft, and external state support. The last two columns represent two additional revenue sources, fraud and human trafficking, that are less common among VNSAs and for which the results may be particularly sensitive or fragile because they are driven by

**TABLE B.1**  
**Revenue Sources and Group Characteristics**

|                       | Extortion           | Smuggling           | Kidnapping          | Theft              | External Support   | Fraud                | Human Trafficking   |
|-----------------------|---------------------|---------------------|---------------------|--------------------|--------------------|----------------------|---------------------|
| Transnational group   | 0.615<br>(0.383)    | 0.886**<br>(0.410)  | 0.350<br>(0.346)    | -0.085<br>(0.390)  | 0.208<br>(0.304)   | 0.413<br>(0.682)     | 1.912**<br>(0.778)  |
| Independence movement | 0.272<br>(0.530)    | -0.536<br>(0.428)   | 0.773**<br>(0.385)  | 0.491<br>(0.481)   | -0.331<br>(0.375)  | -0.577<br>(0.998)    | 0.518<br>(0.647)    |
| Communist group       | 1.825***<br>(0.521) | 0.678<br>(0.634)    | 1.441***<br>(0.465) | 1.150*<br>(0.623)  | 0.462<br>(0.459)   | -1.817<br>(1.346)    | 0.110<br>(1.628)    |
| Islamist group        | 0.345<br>(0.428)    | 1.363***<br>(0.456) | 1.416***<br>(0.444) | 0.184<br>(0.536)   | 1.032**<br>(0.476) | -1.327***<br>(0.489) | -1.386<br>(1.387)   |
| Ethnic group          | -0.507<br>(0.410)   | 0.352<br>(0.423)    | -0.615<br>(0.382)   | -0.740*<br>(0.404) | 0.376<br>(0.361)   | 0.212<br>(0.904)     | 1.630<br>(1.031)    |
| Age                   | 0.019<br>(0.031)    | -0.040<br>(0.040)   | 0.019<br>(0.034)    | -0.057<br>(0.049)  | 0.016<br>(0.032)   | 0.246***<br>(0.051)  | 0.278<br>(0.178)    |
| Age squared           | -0.0002<br>(0.0005) | 0.001<br>(0.001)    | -0.002**<br>(0.001) | 0.001<br>(0.001)   | -0.0004<br>(0.001) | -0.005***<br>(0.001) | -0.006**<br>(0.003) |

Table B.1—Continued

|              | Extortion           | Smuggling           | Kidnapping           | Theft                | External Support   | Fraud                 | Human Trafficking    |
|--------------|---------------------|---------------------|----------------------|----------------------|--------------------|-----------------------|----------------------|
| Middle east  | −1.359**<br>(0.553) | −0.438<br>(0.637)   | −0.715<br>(0.842)    | 0.501<br>(0.623)     | 0.605<br>(0.731)   | −0.896<br>(1.343)     | 2.459**<br>(1.164)   |
| Asia         | 1.172*<br>(0.607)   | −0.485<br>(0.672)   | 0.778<br>(0.893)     | −1.047<br>(0.642)    | −0.262<br>(0.759)  | −4.338**<br>(1.840)   | 1.558<br>(1.218)     |
| Africa       | −0.394<br>(0.686)   | −1.281*<br>(0.711)  | −0.544<br>(0.856)    | 0.329<br>(0.701)     | 0.084<br>(0.749)   | −6.675***<br>(1.865)  | −0.825<br>(1.022)    |
| Americas     | 0.575<br>(0.742)    | 1.579*<br>(0.953)   | 3.465***<br>(1.308)  | 1.473<br>(0.950)     | −0.121<br>(0.839)  | −20.027***<br>(1.570) | 0.639<br>(1.334)     |
| Europe       | −0.027<br>(0.612)   | 0.752<br>(0.662)    | 1.336<br>(0.827)     | 0.972<br>(0.694)     | 0.547<br>(0.785)   | −0.426<br>(1.382)     | 0.791<br>(1.141)     |
| Constant     | −1.289**<br>(0.619) | −1.475**<br>(0.752) | −3.877***<br>(1.134) | −2.219***<br>(0.696) | −1.448*<br>(0.759) | −2.027<br>(1.445)     | −9.722***<br>(2.972) |
| Observations | 1,282               | 1,282               | 1,282                | 1,282                | 1,286              | 1,282                 | 1,282                |

NOTE: Results are from a series of logit models that include year fixed effects and robust standard errors clustered on country. *P*-values correspond with the following significance levels: \**p* < 0.1; \*\**p* < 0.05; \*\*\**p* < 0.01. Piracy and aid diversion are so uncommon—and largely driven by only a handful of groups—that empirical estimations are fragile, with several covariates perfectly predicted. Therefore, these model results have not been reported.

only a handful of distinct groups. We report these results here but caution the reader that they should be interpreted with care.

The explanatory variables include all the organizational characteristics and regional variables discussed in Chapter 2. For completeness, we also include controls for whether a group is transnational and the measures of group age and its quadratic term. The latter measures are the focus of Chapter 3, and we further discuss them in Table B.2 and the corresponding discussion.

Each model includes year fixed effects and robust standard errors clustered on the group. Although we also considered group and country fixed effects, many of these estimations either did not converge or produced unstable results. These problems largely derive from the unbalanced nature of our panel data. Although some groups have many years of observations, others may appear only once or twice in the data. For most groups, there are any number of years for which some data—either the outcome measure or covariates—are missing. Moreover, because our organizational characteristics are fixed and because regional indicators are slow-moving, these variables are highly collinear with group identifiers, which results in them being dropped from models that include group fixed effects.

Table B.2 draws on the same data and variables but now estimates OLS and Poisson regressions, which support the discussion of portfolio diversity found in Chapter 3. The outcome measure for these models—the number of distinct revenue sources—is a count variable, with a theoretical maximum of nine but only reaches five in practice.

We used OLS and Poisson regressions to estimate the relationships between organizational characteristics, regional variables, and time-varying measures (i.e., transnational, age, and age squared) and the a group's financial portfolio. The coefficients also tend to be robust to estimations using negative binomial models, with the exception being the models that use country and group fixed effects, which produce unstable results. The results visualized in the figures for Chapter 3 all derive from the final column, which is a Poisson regression that also includes an interaction term that captures the relationship of age conditional on whether a group is transnational.

One note worth emphasizing: Our transnational variable is based on whether a VNSA has engaged in armed activity in more than one country in a given year. Therefore, the variable does not account for groups that may be



**TABLE B.2**  
**Portfolio Diversity and Group Characteristics**

|                       | OLS                  | OLS with<br>Country Fixed<br>Effects | OLS with<br>Group Fixed<br>Effects | Poisson             | Poisson with<br>Interaction<br>Term |
|-----------------------|----------------------|--------------------------------------|------------------------------------|---------------------|-------------------------------------|
| Transnational group   | 0.487**<br>(0.201)   | 3.800***<br>(0.236)                  | 0.120**<br>(0.056)                 | 0.349***<br>(0.062) | 0.518***<br>(0.098)                 |
| Independence movement | 0.145<br>(0.217)     | −0.037<br>(0.256)                    |                                    | 0.110*<br>(0.056)   | 0.115**<br>(0.057)                  |
| Communist group       | 0.632**<br>(0.320)   | 0.280<br>(0.266)                     |                                    | 0.428***<br>(0.081) | 0.436***<br>(0.081)                 |
| Islamist group        | 0.461<br>(0.283)     | 0.622**<br>(0.295)                   |                                    | 0.335***<br>(0.079) | 0.330***<br>(0.080)                 |
| Ethnic group          | −0.163<br>(0.183)    | −0.146<br>(0.191)                    |                                    | −0.123**<br>(0.061) | −0.125**<br>(0.061)                 |
| Age                   | −0.002<br>(0.022)    | −0.021<br>(0.017)                    | −0.010<br>(0.015)                  | 0.0003<br>(0.007)   | 0.002<br>(0.007)                    |
| Age squared           | −0.00003<br>(0.0004) | 0.0004<br>(0.0003)                   | −0.001**<br>(0.0003)               | −0.0001<br>(0.0001) | −0.0001<br>(0.0001)                 |

**Table B.2—Continued**

|                     | OLS                | OLS with<br>Country Fixed<br>Effects | OLS with<br>Group Fixed<br>Effects | Poisson              | Poisson with<br>Interaction<br>Term |
|---------------------|--------------------|--------------------------------------|------------------------------------|----------------------|-------------------------------------|
| Age x transnational |                    |                                      |                                    |                      | −0.010**<br>(0.004)                 |
| Middle East         | −0.247<br>(0.542)  | −0.121<br>(0.577)                    | −0.201<br>(0.357)                  | −0.220<br>(0.136)    | −0.202<br>(0.137)                   |
| Asia                | 0.059<br>(0.411)   | −1.205***<br>(0.262)                 | 0.429<br>(0.281)                   | −0.0003<br>(0.126)   | −0.010<br>(0.127)                   |
| Africa              | −0.461<br>(0.390)  | −5.608***<br>(0.590)                 | 0.717**<br>(0.353)                 | −0.455***<br>(0.136) | −0.466***<br>(0.137)                |
| Americas            | 1.166**<br>(0.532) | −1.593***<br>(0.449)                 | −0.975***<br>(0.355)               | 0.526***<br>(0.134)  | 0.505***<br>(0.136)                 |
| Europe              | 0.632<br>(0.426)   | −1.034*<br>(0.585)                   | 0.175<br>(0.231)                   | 0.354**<br>(0.141)   | 0.343**<br>(0.142)                  |
| Observations        | 1,282              | 1,282                                | 1,282                              | 1,282                | 1,282                               |

NOTE: Results are from a series of OLS and Poisson regression models. All models include year fixed effects and clustered standard errors. *P*-values correspond with the following significance levels: \**p* < 0.1; \*\**p* < 0.05; \*\*\**p* < 0.01.

active outside their countries or regions of focus but are not overtly violent (as defined by UCDP). Thus, it is highly likely that our variable undercounts transnational organizations. Many groups, such as the LTTE,<sup>1</sup> have had an expansive international presence but did not participate in significant violence outside their target countries.

Finally, Table B.3 provides the results for our first-difference models, which estimate the relationship between a group gaining or losing its transnational status and the change in its number of revenue sources. The omitted category is no change in status, which can either represent a group remaining national or transnational in that year. These models were estimated using OLS and clustered standard errors.

## Analysis of Violent and Nonviolent Activities

Tables B.4 and B.5 report the results on violent activities. Both tables include organizational characteristics, regional indicators, and the time-varying

**TABLE B.3**  
**Portfolio Diversity and the Change in**  
**Transnational Status**

|                           | OLS               | OLS<br>with Year<br>Fixed Effects |
|---------------------------|-------------------|-----------------------------------|
| Lose transnational status | -0.049<br>(0.037) | -0.061*<br>(0.036)                |
| Gain transnational status | -0.065<br>(0.050) | -0.065<br>(0.050)                 |
| Constant                  | 0.010<br>(0.013)  | 0.007<br>(0.031)                  |
| Observations              | 1,107             | 1,107                             |

NOTE: Results are from first-difference models estimated using OLS and include clustered standard errors. *P*-values correspond with the following significance levels: \**p* < 0.1; \*\**p* < 0.05; \*\*\**p* < 0.01.

<sup>1</sup> See Appendix G.

**TABLE B.4**  
**Violent Events and Revenue Sources**

|                   | Poisson              | Poisson with<br>Country Fixed<br>Effects | Negative<br>Binomial | Negative<br>Binomial with<br>Country Fixed<br>Effects |
|-------------------|----------------------|------------------------------------------|----------------------|-------------------------------------------------------|
| Extortion         | 0.494**<br>(0.209)   | 0.420*<br>(0.223)                        | 0.530***<br>(0.137)  | 0.679***<br>(0.191)                                   |
| Theft             | 0.095<br>(0.219)     | -0.185<br>(0.256)                        | 0.004<br>(0.171)     | -0.248<br>(0.196)                                     |
| External support  | 0.280<br>(0.217)     | 0.288<br>(0.210)                         | 0.214<br>(0.141)     | 0.184*<br>(0.106)                                     |
| Kidnapping        | 0.107<br>(0.135)     | 0.350<br>(0.224)                         | 0.111<br>(0.133)     | 0.336*<br>(0.190)                                     |
| Smuggling         | 0.107<br>(0.116)     | 0.421***<br>(0.152)                      | -0.019<br>(0.128)    | 0.185<br>(0.157)                                      |
| Human trafficking | -0.870***<br>(0.269) | -0.763**<br>(0.318)                      | -0.279<br>(0.452)    | -2.609***<br>(0.358)                                  |
| Fraud             | -0.257<br>(0.244)    | -0.435*<br>(0.247)                       | -0.146<br>(0.289)    | -0.456***<br>(0.162)                                  |

Table B.4—Continued

|                       | Poisson            | Poisson with<br>Country Fixed<br>Effects | Negative<br>Binomial | Negative<br>Binomial with<br>Country Fixed<br>Effects |
|-----------------------|--------------------|------------------------------------------|----------------------|-------------------------------------------------------|
| Aid diversion         | 0.491**<br>(0.199) | 0.468<br>(0.355)                         | 0.384*<br>(0.228)    | 0.861***<br>(0.294)                                   |
| Piracy                | 0.165<br>(0.291)   | 0.087<br>(0.517)                         | 0.446<br>(0.351)     | 0.246<br>(0.490)                                      |
| Age                   | −0.022<br>(0.020)  | −0.083***<br>(0.021)                     | −0.015<br>(0.017)    | −0.073***<br>(0.017)                                  |
| Age squared           | 0.0003<br>(0.0003) | 0.001***<br>(0.0004)                     | 0.0003<br>(0.0003)   | 0.001***<br>(0.0003)                                  |
| Transnational group   | 0.295*<br>(0.157)  | 2.141***<br>(0.369)                      | 0.461***<br>(0.132)  | 1.612***<br>(0.313)                                   |
| Independence movement | −0.062<br>(0.186)  | −0.217<br>(0.274)                        | −0.032<br>(0.132)    | −0.081<br>(0.174)                                     |
| Communist group       | 0.375<br>(0.337)   | 0.937***<br>(0.342)                      | 0.334<br>(0.259)     | 0.665**<br>(0.259)                                    |

**Table B.4—Continued**

|                | Poisson  | Poisson with<br>Country Fixed<br>Effects | Negative<br>Binomial | Negative<br>Binomial with<br>Country Fixed<br>Effects |
|----------------|----------|------------------------------------------|----------------------|-------------------------------------------------------|
| Islamist group | 0.380    | 0.329                                    | 0.427**              | 0.081                                                 |
|                | (0.255)  | (0.277)                                  | (0.209)              | (0.186)                                               |
| Ethnic group   | −0.014   | 0.052                                    | −0.018               | 0.169                                                 |
|                | (0.149)  | (0.219)                                  | (0.139)              | (0.158)                                               |
| Middle East    | −0.205   | −1.707**                                 | 0.072                | −1.348**                                              |
|                | (0.305)  | (0.734)                                  | (0.334)              | (0.545)                                               |
| Asia           | −0.002   | −2.537***                                | −0.124               | −2.815***                                             |
|                | (0.331)  | (0.910)                                  | (0.332)              | (0.570)                                               |
| Africa         | 0.001    | −3.246***                                | 0.188                | −3.563***                                             |
|                | (0.371)  | (0.899)                                  | (0.345)              | (0.573)                                               |
| Americas       | −0.107   | −5.972***                                | −0.029               | −5.414***                                             |
|                | (0.386)  | (1.124)                                  | (0.383)              | (0.812)                                               |
| Europe         | 0.919*** | −2.052***                                | 0.846***             | −2.591***                                             |

**Table B.4—Continued**

|                         | Poisson  | Poisson with<br>Country Fixed<br>Effects | Negative<br>Binomial | Negative<br>Binomial with<br>Country Fixed<br>Effects |
|-------------------------|----------|------------------------------------------|----------------------|-------------------------------------------------------|
|                         | (0.291)  | (0.731)                                  | (0.303)              | (0.564)                                               |
| Violent events (lagged) | 0.002*** | 0.002***                                 | 0.006***             | 0.004***                                              |
|                         | (0.0002) | (0.0003)                                 | (0.0004)             | (0.001)                                               |
| Constant                | 2.441*** |                                          | 2.120***             |                                                       |
|                         | (0.479)  |                                          | (0.416)              |                                                       |
| Observations            | 861      | 861                                      | 861                  | 861                                                   |

NOTE: Results are from a series of Poisson regressions and negative binomial models. All models include year fixed effects and robust standard errors clustered on country. *P*-values correspond with the following significance levels: \**p* < 0.1; \*\**p* < 0.05; \*\*\**p* < 0.01.

**TABLE B.5**  
**Violent Events and Portfolio Diversity**

|                       | Poisson             | Poisson with<br>Interaction<br>Term | Poisson with<br>Country Fixed<br>Effects | Negative<br>Binomial | Negative<br>Binomial with<br>Interaction<br>Term | Negative<br>Binomial with<br>Country Fixed<br>Effects |
|-----------------------|---------------------|-------------------------------------|------------------------------------------|----------------------|--------------------------------------------------|-------------------------------------------------------|
| Number of revenues    | 0.302***<br>(0.063) | 0.372***<br>(0.080)                 | 0.314***<br>(0.075)                      | 0.230***<br>(0.052)  | 0.294***<br>(0.058)                              | 0.360***<br>(0.060)                                   |
| Age                   | -0.025<br>(0.018)   | -0.026<br>(0.016)                   | -0.059***<br>(0.023)                     | -0.008<br>(0.016)    | -0.012<br>(0.015)                                | -0.059***<br>(0.019)                                  |
| Age squared           | 0.0003<br>(0.0003)  | 0.0003<br>(0.0003)                  | 0.001*<br>(0.0005)                       | 0.0001<br>(0.0003)   | 0.0002<br>(0.0003)                               | 0.001***<br>(0.0003)                                  |
| Transnational group   | 0.403**<br>(0.165)  | 0.866***<br>(0.268)                 | 2.149***<br>(0.338)                      | 0.422***<br>(0.118)  | 0.798***<br>(0.173)                              | 1.774***<br>(0.272)                                   |
| Independence movement | 0.089<br>(0.223)    | 0.154<br>(0.229)                    | -0.101<br>(0.276)                        | 0.066<br>(0.138)     | 0.122<br>(0.142)                                 | 0.100<br>(0.183)                                      |
| Communist group       | 0.344<br>(0.325)    | 0.392<br>(0.310)                    | 0.867***<br>(0.327)                      | 0.217<br>(0.284)     | 0.272<br>(0.290)                                 | 0.669**<br>(0.285)                                    |
| Islamist group        | 0.122<br>(0.268)    | 0.205<br>(0.256)                    | 0.335<br>(0.306)                         | 0.133<br>(0.208)     | 0.179<br>(0.205)                                 | -0.041<br>(0.253)                                     |



**Table B.5—Continued**

|                          | Poisson             | Poisson with<br>Interaction<br>Term | Poisson with<br>Country Fixed<br>Effects | Negative<br>Binomial | Negative<br>Binomial with<br>Interaction<br>Term | Negative<br>Binomial with<br>Country Fixed<br>Effects |
|--------------------------|---------------------|-------------------------------------|------------------------------------------|----------------------|--------------------------------------------------|-------------------------------------------------------|
| Ethnic group             | −0.246<br>(0.206)   | −0.228<br>(0.205)                   | −0.108<br>(0.245)                        | −0.168<br>(0.139)    | −0.190<br>(0.134)                                | −0.068<br>(0.224)                                     |
| Revenues x transnational |                     | −0.201**<br>(0.093)                 |                                          |                      | −0.240***<br>(0.073)                             |                                                       |
| Middle East              | 0.191<br>(0.143)    | 0.228<br>(0.147)                    | 0.539<br>(0.500)                         | −0.119<br>(0.211)    | −0.036<br>(0.190)                                | 0.470<br>(0.374)                                      |
| Asia                     | 0.223<br>(0.220)    | 0.271<br>(0.215)                    | 0.356<br>(0.395)                         | −0.166<br>(0.240)    | −0.117<br>(0.235)                                | 0.373<br>(0.326)                                      |
| Africa                   | 0.098<br>(0.151)    | 0.227<br>(0.157)                    | −0.572<br>(0.532)                        | −0.064<br>(0.222)    | 0.023<br>(0.217)                                 | −0.675*<br>(0.379)                                    |
| Americas                 | −0.406**<br>(0.191) | −0.358*<br>(0.189)                  | −3.815***<br>(0.690)                     | −0.606**<br>(0.259)  | −0.625**<br>(0.254)                              | −3.375***<br>(0.634)                                  |
| Europe                   | 0.509***<br>(0.185) | 0.504**<br>(0.200)                  | −0.921*<br>(0.513)                       | 0.323<br>(0.226)     | 0.330<br>(0.231)                                 | −1.405***<br>(0.458)                                  |

**Table B.5—Continued**

|                         | Poisson              | Poisson with<br>Interaction<br>Term | Poisson with<br>Country Fixed<br>Effects | Negative<br>Binomial | Negative<br>Binomial with<br>Interaction<br>Term | Negative<br>Binomial with<br>Country Fixed<br>Effects |
|-------------------------|----------------------|-------------------------------------|------------------------------------------|----------------------|--------------------------------------------------|-------------------------------------------------------|
| Violent events (lagged) | 0.002***<br>(0.0002) | 0.002***<br>(0.0002)                | 0.001***<br>(0.0002)                     | 0.005***<br>(0.0004) | 0.005***<br>(0.0004)                             | 0.003***<br>(0.001)                                   |
| Constant                | 2.922***<br>(0.298)  | 2.674***<br>(0.337)                 |                                          | 2.757***<br>(0.312)  | 2.630***<br>(0.320)                              |                                                       |
| Observations            | 1,054                | 1,054                               | 1,054                                    | 1,054                | 1,054                                            | 1,054                                                 |

NOTE: Results are from a series of Poisson regressions and negative binomial models. All models include year fixed effects and robust standard errors clustered on country. *P*-values correspond with the following significance levels: \**p* < 0.1; \*\**p* < 0.05; \*\*\**p* < 0.01.

measures described earlier. In addition to these covariates, which now play the role of control variables, we also include measures to capture groups' revenue sources. In Table B.4, these measures are represented by binary variables for the five most-common revenue sources. Table B.5 includes the count variable for number of revenues. Because our outcome measure—the number of violent events—is a count variable, we used Poisson and negative binomial models across both tables. As before, all models include year fixed effects and clustered standard errors. The results visualized in the figures for Chapter 4 derive from the third column in Table B.4 and the fifth column in Table B.5.

Tables B.6 and B.7 report the results on nonviolent activities. Across these tables, we used the same five indicators for services that we described in Chapter 4. Given their skewed distribution, we transformed these variables by taking the log. Each model was estimated using OLS with year fixed effects and clustered standard errors. Note that, compared with the earlier tables of results, the number of observations has significantly decreased because of missing data, making it impossible to use group or country fixed effects. This reduction also implies that these results are more fragile and, in some cases, may depend on only a handful of prominent groups.

As with the models on violent activities, both of these tables include the variables for organizational characteristics, regional indicators, and the time-varying measures described earlier. Table B.6 includes the binary variables for the five most common revenue sources. Table B.7 includes the count variable for number of revenues. We also included a measure for the number of articles written on a given group that year, which helps control for the fact that more-prominent groups may simply garner much more attention overall, inflating the number of mentions for that service. Finally, we included a measure for the number of violent events conducted that year, which helps us evaluate whether there are strategic complementarities between violent and nonviolent activities.

**TABLE B.6**  
**Service Provision and Revenue Sources**

|                   | Infrastructure | Medical | Justice   | Education | Financial |
|-------------------|----------------|---------|-----------|-----------|-----------|
| Extortion         | 0.149*         | 0.187*  | 0.002     | 0.027     | 0.121     |
|                   | (0.081)        | (0.106) | (0.146)   | (0.114)   | (0.120)   |
| Theft             | 0.124          | 0.247*  | 0.672***  | 0.401***  | 0.397***  |
|                   | (0.078)        | (0.134) | (0.132)   | (0.137)   | (0.105)   |
| External support  | 0.121*         | 0.105   | 0.100     | 0.118     | 0.038     |
|                   | (0.063)        | (0.109) | (0.094)   | (0.095)   | (0.089)   |
| Kidnapping        | −0.097         | −0.208* | −0.483*** | −0.284*** | −0.273*** |
|                   | (0.063)        | (0.110) | (0.136)   | (0.105)   | (0.085)   |
| Smuggling         | 0.025          | −0.048  | −0.353*** | −0.252**  | −0.238**  |
|                   | (0.084)        | (0.118) | (0.124)   | (0.123)   | (0.110)   |
| Human trafficking | −0.021         | 0.149   | 0.194     | 0.394     | 0.168     |
|                   | (0.471)        | (0.273) | (0.443)   | (0.665)   | (0.623)   |
| Fraud             | 0.357***       | 0.273   | 0.301**   | 0.263***  | 0.343**   |
|                   | (0.109)        | (0.173) | (0.136)   | (0.096)   | (0.145)   |

Table B.6—Continued

|                       | Infrastructure | Medical  | Justice  | Education | Financial |
|-----------------------|----------------|----------|----------|-----------|-----------|
| Aid diversion         | 0.315***       | 0.814*** | 1.386*** | 1.291***  | 0.753***  |
|                       | (0.092)        | (0.148)  | (0.187)  | (0.169)   | (0.156)   |
| Piracy                | 0.669          | 1.200*** | 0.308    | 0.511     | 1.063***  |
|                       | (0.432)        | (0.208)  | (0.329)  | (0.494)   | (0.388)   |
| Age                   | 0.002          | −0.006   | 0.001    | −0.012    | −0.003    |
|                       | (0.008)        | (0.011)  | (0.019)  | (0.012)   | (0.010)   |
| Age squared           | −0.00003       | 0.0002   | 0.00002  | 0.0003    | 0.0001    |
|                       | (0.0002)       | (0.0002) | (0.0004) | (0.0002)  | (0.0002)  |
| Transnational group   | −0.015         | 0.060    | 0.154    | 0.004     | 0.092     |
|                       | (0.072)        | (0.125)  | (0.134)  | (0.118)   | (0.145)   |
| Independence movement | −0.005         | 0.025    | −0.055   | −0.058    | 0.032     |
|                       | (0.071)        | (0.122)  | (0.157)  | (0.187)   | (0.157)   |
| Communist group       | −0.059         | 0.076    | 0.122    | 0.110     | 0.058     |
|                       | (0.061)        | (0.105)  | (0.099)  | (0.124)   | (0.131)   |
| Islamist group        | 0.009          | 0.235    | 0.480*** | 0.303*    | 0.230     |
|                       | (0.067)        | (0.156)  | (0.172)  | (0.160)   | (0.202)   |

**Table B.6—Continued**

|                           | Infrastructure         | Medical                | Justice                | Education              | Financial              |
|---------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Ethnic group              | −0.011<br>(0.065)      | 0.091<br>(0.130)       | 0.030<br>(0.196)       | 0.072<br>(0.177)       | −0.071<br>(0.146)      |
| Violent events            | −0.001**<br>(0.0002)   | −0.0002<br>(0.0003)    | −0.0004<br>(0.0003)    | −0.0004<br>(0.0003)    | −0.0004<br>(0.0003)    |
| Lagged dependent variable | 0.505***<br>(0.056)    | 0.599***<br>(0.044)    | 0.768***<br>(0.029)    | 0.818***<br>(0.025)    | 0.612***<br>(0.037)    |
| Article count             | 0.0001***<br>(0.00002) | 0.0001***<br>(0.00002) | 0.0001***<br>(0.00002) | 0.0001***<br>(0.00002) | 0.0001***<br>(0.00002) |
| Middle East               | −0.141<br>(0.185)      | 0.278<br>(0.264)       | −0.313<br>(0.306)      | 0.556**<br>(0.244)     | 0.613***<br>(0.235)    |
| Asia                      | −0.307*<br>(0.163)     | −0.065<br>(0.253)      | −0.094<br>(0.296)      | 0.659**<br>(0.256)     | 0.596**<br>(0.233)     |
| Africa                    | −0.256<br>(0.177)      | 0.158<br>(0.270)       | −0.131<br>(0.323)      | 0.661**<br>(0.258)     | 0.502*<br>(0.273)      |
| Americas                  | −0.204<br>(0.183)      | 0.310<br>(0.312)       | 0.367<br>(0.325)       | 0.966***<br>(0.282)    | 1.058***<br>(0.272)    |

**Table B.6—Continued**

|              | Infrastructure | Medical | Justice | Education | Financial |
|--------------|----------------|---------|---------|-----------|-----------|
| Europe       | 0.125          | 0.449   | −0.199  | 0.888***  | 0.510**   |
|              | (0.178)        | (0.276) | (0.313) | (0.276)   | (0.250)   |
| Constant     | 0.350*         | 0.131   | 0.672*  | −0.096    | −0.179    |
|              | (0.219)        | (0.306) | (0.381) | (0.409)   | (0.326)   |
| Observations | 480            | 480     | 480     | 480       | 480       |

NOTE: Results are from a series of OLS regressions using different measures for (logged) services. All models include year fixed effects and robust standard errors clustered on country. *P*-values correspond with the following significance levels: \**p* < 0.1; \*\**p* < 0.05; \*\*\**p* < 0.01.

**TABLE B.7**  
**Service Provision and Portfolio Diversity**

|                       | Infrastructure | Medical  | Justice  | Education | Financial |
|-----------------------|----------------|----------|----------|-----------|-----------|
| Number of revenues    | 0.089***       | 0.109*** | 0.055    | 0.042     | 0.050     |
|                       | (0.031)        | (0.034)  | (0.040)  | (0.037)   | (0.037)   |
| Age                   | 0.002          | 0.011    | 0.014    | 0.001     | 0.018*    |
|                       | (0.007)        | (0.009)  | (0.014)  | (0.010)   | (0.009)   |
| Age squared           | −0.00001       | −0.00004 | −0.0002  | 0.0001    | −0.0002   |
|                       | (0.0001)       | (0.0001) | (0.0003) | (0.0002)  | (0.0002)  |
| Transnational group   | 0.096          | 0.264    | 0.383**  | 0.172     | 0.094     |
|                       | (0.090)        | (0.165)  | (0.174)  | (0.175)   | (0.184)   |
| Independence movement | −0.014         | −0.052   | −0.022   | 0.041     | −0.007    |
|                       | (0.066)        | (0.099)  | (0.140)  | (0.163)   | (0.126)   |
| Communist group       | −0.105*        | −0.136   | −0.042   | −0.046    | −0.160    |
|                       | (0.059)        | (0.119)  | (0.129)  | (0.146)   | (0.167)   |
| Islamist group        | −0.013         | 0.093    | 0.089    | 0.138     | −0.036    |
|                       | (0.072)        | (0.127)  | (0.153)  | (0.166)   | (0.166)   |



**Table B.7—Continued**

|                           | Infrastructure | Medical   | Justice   | Education | Financial |
|---------------------------|----------------|-----------|-----------|-----------|-----------|
| Ethnic group              | −0.073         | 0.063     | −0.048    | −0.019    | −0.101    |
|                           | (0.072)        | (0.144)   | (0.209)   | (0.192)   | (0.168)   |
| Violent events            | −0.0004***     | −0.0002   | 0.0001    | 0.00005   | −0.0001   |
|                           | (0.0001)       | (0.0002)  | (0.0002)  | (0.0002)  | (0.0003)  |
| Lagged dependent variable | 0.465***       | 0.586***  | 0.789***  | 0.816***  | 0.623***  |
|                           | (0.046)        | (0.038)   | (0.025)   | (0.022)   | (0.032)   |
| Article count             | 0.0001***      | 0.0001*** | 0.0001*** | 0.0001*** | 0.0001*** |
|                           | (0.00002)      | (0.00002) | (0.00001) | (0.00001) | (0.00002) |
| Middle East               | −0.064         | 0.247     | 0.032     | 0.542**   | 0.714***  |
|                           | (0.285)        | (0.239)   | (0.273)   | (0.275)   | (0.206)   |
| Asia                      | −0.349         | −0.157    | −0.283    | 0.325     | 0.444*    |
|                           | (0.287)        | (0.237)   | (0.270)   | (0.287)   | (0.227)   |
| Africa                    | −0.293         | 0.038     | −0.211    | 0.344     | 0.352     |
|                           | (0.300)        | (0.250)   | (0.291)   | (0.291)   | (0.229)   |
| Americas                  | −0.328         | 0.064     | −0.054    | 0.497*    | 0.728***  |
|                           | (0.294)        | (0.264)   | (0.275)   | (0.270)   | (0.227)   |

**Table B.7—Continued**

|                          | Infrastructure | Medical  | Justice | Education | Financial |
|--------------------------|----------------|----------|---------|-----------|-----------|
| Europe                   | 0.551          | 0.539**  | 0.138   | 0.786***  | 0.665***  |
|                          | (0.344)        | (0.219)  | (0.258) | (0.287)   | (0.185)   |
| Revenues x transnational | −0.066         | −0.147** | −0.115* | −0.082    | −0.010    |
|                          | (0.043)        | (0.059)  | (0.067) | (0.070)   | (0.074)   |
| Constant                 | 0.440          | 0.266    | 0.691** | 0.070     | −0.195    |
|                          | (0.304)        | (0.281)  | (0.326) | (0.380)   | (0.265)   |
| Observations             | 591            | 591      | 591     | 591       | 591       |

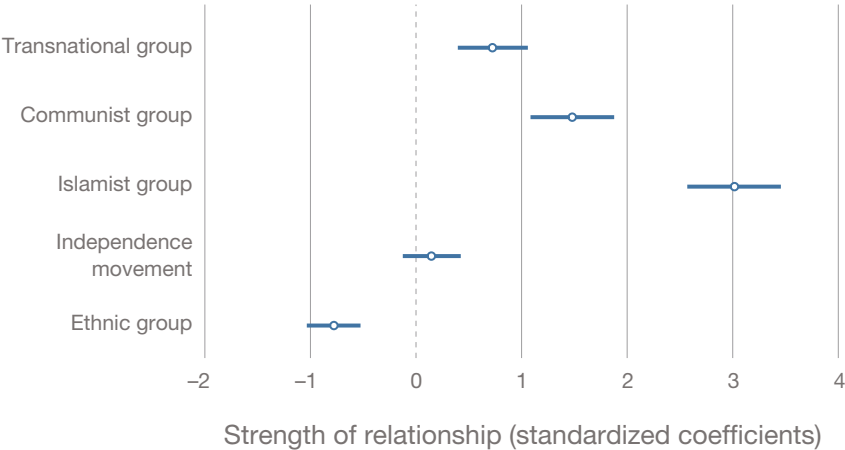
NOTE: Results are from a series of OLS regressions using different measures for (logged) services. All models include year fixed effects and robust standard errors clustered on country. *P*-values correspond with the following significance levels: \**p* < 0.1;

\*\**p* < 0.05; \*\*\**p* < 0.01.

# Analysis of Sanctions

Finally, Figures B.1 and B.2 are explanatory figures on the relationship between group characteristics and the probability that a group is sanctioned. The figures suggest that groups are more likely to be sanctioned if they are transnational, communist, and Islamist. By contrast, they are less likely to be sanctioned if they are an ethnic group. Organizational age appears to have a more complicated, nonlinear relationship.

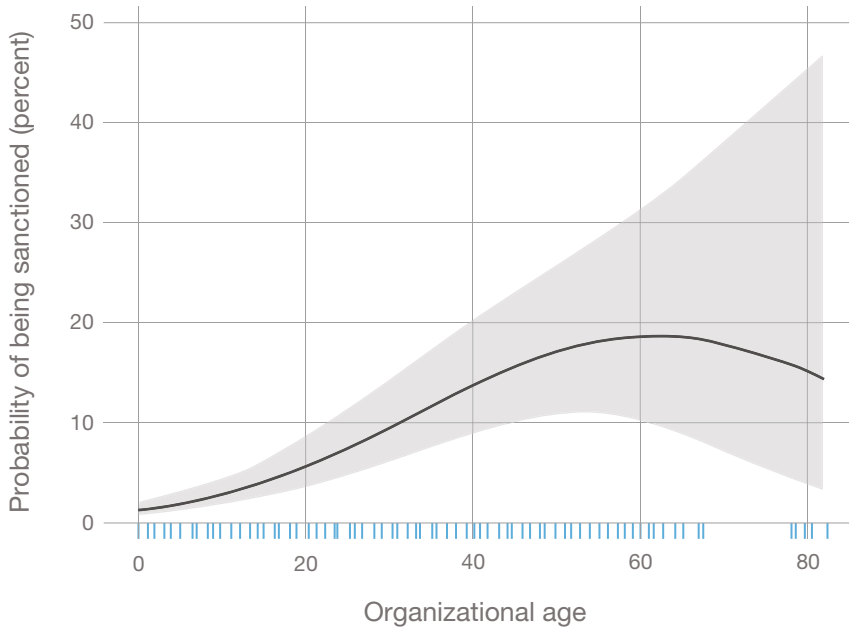
**FIGURE B.1**  
**Group Characteristics and the Probability of Being Sanctioned**



SOURCE: RAND Arroyo Center analysis of various data sources.  
NOTE: These predicted probabilities are derived from a logistic regression.

**FIGURE B.2**

**Organizational Age and the Probability of Being Sanctioned**



SOURCE: RAND analysis of various data sources. These predicted probabilities are derived from a logistic regression.

NOTE: Blue tick marks on the x-axis show the distribution of organizational age for VNSAs in our sample.

## The Revolutionary Armed Forces of Colombia

This appendix supports the discussion in Chapter 5 on the effectiveness of CTF efforts. In this appendix, we summarize the major effects of various disruptive tools applied to the FARC. This case study presents the group's origins, ideology, financing streams, evolution, and both the kinetic and nonkinetic tactics applied to countering the FARC and its finances by the Colombian government, the United States, and—where applicable—the international community.

### Emergence and Resource Base

The FARC was established in 1964 in Colombia as a Marxist-Leninist guerrilla organization.<sup>1</sup> The group said that it aimed to defend the rights of poor farmers, overthrow the Colombian government, and replace it with one

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<sup>1</sup> The organization was initially founded in May 1964 in the community of Marquetalia in the state of Tolima, Colombia, and was known as El Bloque Sur [the Southern Bloc]. The organization changed its name to “Fuerzas Armadas Revolucionarias de Colombia” (FARC) [Revolutionary Armed Forces of Colombia] at the “Second Guerrilla Conference,” which took place in 1966. However, the group considered the first date (1964, not 1966) as the year when the organization was established. For more details, see Leech, 2011; Angel Rabasa and Peter Chalk, *Colombian Labyrinth: The Synergy of Drugs and Insurgency and Its Implications for Regional Stability*, Santa Monica, Calif.: RAND Corporation, MR-1339-AF, 2001; and Felbab-Brown, 2009b, pp. 23–24. Also see Ernesto Cardenas, Kristian Skrede Gleditsch, and Luis Carlos Guevara, “Network Structure of Insurgent Groups and the Success of DDR Processes in Colombia,” *Small Wars & Insurgencies*, Vol. 29, No. 4, 2018, p. 756.

based on left-wing ideology.<sup>2</sup> The organization was considered to be “Latin America’s oldest, largest, most capable, and best-equipped insurgency.”<sup>3</sup> The conflict between the FARC and the Colombian government lasted slightly more than 50 years, killed approximately 250,000 people, and displaced 6 million.<sup>4</sup> It ended with a peace agreement signed in September 2016 between the Colombian government and the guerrillas, who demobilized in the first eight months of 2017.<sup>5</sup> During the lifespan of the insurgency, the FARC gained control over 60 to 70 percent of “the world’s most-productive coca crops.”<sup>6</sup>

The pro-Soviet FARC and other leftist guerrilla organizations, such as the pro-Cuban ELN and the pro-Chinese Ejército Popular de Liberación [Popular Liberation Army] in Colombia, were set up in the 1960s in the aftermath of a ten-year civil war period (1948–1958) known as *La Violencia*, in which some 200,000 people died.<sup>7</sup> In 1958, a government known as the National Front, based on a power-sharing agreement between the Conservative and Liberal parties, brought the civil war to an end, and the two

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<sup>2</sup> John A. Gentry, and David E. Spencer, “Colombia’s FARC: A Portrait of Insurgent Intelligence,” *Intelligence and National Security*, Vol. 25, No. 4, 2010, p. 454; Susan Virginia Norman, “Narcotization as Security Dilemma: The FARC and Drug Trade in Colombia,” *Studies in Conflict & Terrorism*, Vol. 41, No. 8, 2018, p. 640; Robert Gaddis, “Building a Strategic Special Operations Partnership: U.S. SOF in Colombia,” *Special Warfare*, July–September 2018, p. 69.

<sup>3</sup> Jerrold M. Post, “Revolutionary Armed Forces of Colombia (FARC),” Ch. 11 in Michael T. Kindt, Jerrold M. Post, and Barry R. Schneider, eds., *The World’s Most Threatening Terrorist Networks and Criminal Gangs*, Palgrave Macmillan, 2009, p. 235; Leech, 2011, p. 2.

<sup>4</sup> J. Weston Phippen, “Who Will Control Colombia’s Cocaine Without FARC?” *The Atlantic*, July 1, 2016.

<sup>5</sup> The group started to demobilize in early 2017 after signing a peace agreement with the Colombian government in September 2016. A revised peace agreement was signed in November 2016. For details, see “Colombia Signs New Peace Deal with Farc,” BBC News, November 24, 2016. See also “Colombia’s Farc Concludes Weapons Disarmament,” BBC News, August 16, 2017.

<sup>6</sup> Phippen, 2016.

<sup>7</sup> Buscaglia and Ratliff, 2001; Zachary Toll, “Terrorism in Colombia: The Revolutionary Armed Forces of Colombia and National Liberation Army,” *Journal of Mason Graduate Research*, Vol. 4, No. 1, 2017, pp. 16–17; Leech, 2011; Cook, 2011, p. 20.

parties agreed to alternate into power every four years.<sup>8</sup> In this context, the poor and those living in rural areas often perceived that they were being left behind, especially when it came to land ownership and agrarian reform,<sup>9</sup> and that the National Front provided representation mostly to urban elites.<sup>10</sup> Consequently, such organizations as the FARC drew support from the poor and those living in rural areas, where the government had little institutional presence and provided little to no security.<sup>11</sup>

FARC's goals were not rooted in ethnosectarian identity but driven by the class divisions that ran alongside and were reinforced by the urban-rural divide. To overthrow the Colombian government and advance its goals related to land ownership and agrarian reform, the FARC relied on terrorist tactics. In the initial stages, the FARC was structured along strict hierarchical lines and acted locally within Colombia.<sup>12</sup> In the late 1960s and 1970s, the group expanded "its military presence to rural regions throughout the country."<sup>13</sup> In 1982, the organization emphasized that it operated as an irregular guerrilla army by adding to its name the initials "EP" for *Ejército del Pueblo* [People's Army].<sup>14</sup> FARC-EP soldiers belonged to units—fighting blocks—called *fronts* overseen by a secretariat, which represented "the rebel group's governing body."<sup>15</sup>

Initially, the FARC "engaged in ambushes of military units and raids on farms," aiming to capture military equipment, secure food and supplies, settle scores with informants, and kidnap landowners.<sup>16</sup> In the first years after its emergence, FARC's resource base was a mix of revenues from kid-

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<sup>8</sup> Thomas E. Skidmore, Peter H. Smith, and James N. Green, *Modern Latin America*, New York: Oxford University Press, 2014, p. 201; Leech, 2011.

<sup>9</sup> Toll, 2017, pp. 16–17; Felbab-Brown, 2009a, p. 78.

<sup>10</sup> Skidmore, Smith, and Green, 2014, pp. 201–202; Leech, 2011, pp. 9–10, 18–21.

<sup>11</sup> Gaddis, 2018, p. 69.

<sup>12</sup> Cardenas, Gleditsch, and Guevara, 2018, p. 756; Leech, 2011, p. 17.

<sup>13</sup> Leech, 2011, p. 22.

<sup>14</sup> Leech, 2011.

<sup>15</sup> Phippen, 2016.

<sup>16</sup> Rabasa and Chalk, 2001, p. 24.

napping for ransom, bank robberies, extortion, and cattle theft.<sup>17</sup> Despite its limited membership (around 1,000 to 2,000 members since its inception until 1982<sup>18</sup>) and narrow resource-base, during the 1970s the organization was known to provide social services and governance functions, such as maintaining law and order, in the areas where it operated. To pay for these services, the guerrillas had set in place a “progressive income taxation system” (de facto extortion), under which the poor were exempted from the tax.<sup>19</sup>

During the first decade of its existence, the FARC made the decision to not engage in the drug business because it was perceived as “counterrevolutionary.”<sup>20</sup> The FARC enforced coca eradication in the areas under its control, which created a strong dislike of the group among the local population, many of whom depended on the coca economy for their livelihood and “deeply resented FARC’s interference.”<sup>21</sup> Consequently, FARC’s financial base was not very solid prior to 1982, and the organization was struggling to increase its ranks and maintain control over territory in the areas where it prohibited the coca economy.<sup>22</sup>

Furthermore, as the FARC did not have a “conventional political presence” at national level in the late 1960s and 1970s, it ended up “marginalized and politically ineffective.”<sup>23</sup> Realizing the challenges associated with the coca cultivation prohibition, the FARC gradually started to tolerate, tax, and

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<sup>17</sup> Bandala, 2012, pp. 199, 203.

<sup>18</sup> Leech places the size of the guerrilla at around 3,000 fighters in the early 1980s (Leech, 2011).

<sup>19</sup> Leech, 2011, pp. 38-40.

<sup>20</sup> Bandala, 2012, p. 204. In the 1960s and 1970s, Colombian traffickers were involved in growing and smuggling marijuana to the United States. In the later 1970s and early 1980s, trafficking groups in Medellin and Cali gradually became involved in the coca business.

<sup>21</sup> Felbab-Brown, 2009b, p. 10.

<sup>22</sup> Marc Chernick, “Economic Resources and Internal Armed Conflicts: Lessons from the Colombian Case,” in Cynthia J. Arnson and I. William Zartman, eds., *Rethinking the Economics of War: The Intersection of Need, Creed, and Greed*, Washington, D.C.: Woodrow Wilson Center Press, 2005, p. 190; also see Felbab-Brown, 2009b, p. 10.

<sup>23</sup> Leech, 2011, p. 23.



regulate both cultivation and processing in the 1980s,<sup>24</sup> ultimately “running their own drug labs and forming partnerships with the traffickers,”<sup>25</sup> including selling cocaine directly to Mexican cartels.<sup>26</sup>

## Evolution of Financing Strategy

### Transition to Drug Trafficking

The 1982 Seventh Guerrilla Conference marked a turning point for FARC’s military and financial strategy. Aware of the need to raise its profile on the national political scene, the FARC adopted a more aggressive military strategy “by actively seeking out large-scale confrontations with the state and to expand its areas of operation to medium-sized cities” outside rural areas.<sup>27</sup> To support this new offensive military approach and in light of the financial and recruitment challenges it was facing at the time, the FARC leadership decided “to support coca cultivation in territory under their control by encouraging farmers to grow coca and then charging them a tax for doing so.”<sup>28</sup> Furthermore, to increase support among the people and boost recruitment, the organization rebranded itself as a People’s Army<sup>29</sup> (EP) and opened recruitment to women.<sup>30</sup>

The transition to taxing the narcotics trade allowed the FARC to use the funds for operational purposes and become a full-fledged insurgen-

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<sup>24</sup> For details, see Rabasa and Chalk, 2001, and Felbab-Brown, 2009b, p. 10.

<sup>25</sup> Ken Ellingwood, “Why Mexico Is Not the New Colombia When It Comes to Drug Cartels,” *Los Angeles Times*, September 25, 2010.

<sup>26</sup> Miroff, 2017.

<sup>27</sup> Leech, 2011, p. 25; Cook, 2011, p. 21.

<sup>28</sup> Nagle, 2012, p. 1.

<sup>29</sup> Francisco Gutiérrez Sanín, and Francy Carranza Franco, “Organizing Women for Combat: The Experience of FARC in the Colombian War,” *Journal of Agrarian Change*, Vol. 17, No. 4, October 2017, p. 770.

<sup>30</sup> Sanín and Franco, 2017, pp. 770–771.

cy.<sup>31</sup> Realizing the potential the drug trade generated, the FARC leadership started to focus on deliberately targeting and occupying territories where coca was cultivated.<sup>32</sup> With the explosive growth in cocaine trafficking into the United States throughout the 1980s,<sup>33</sup> the FARC expanded its taxation and protection provision system beyond coca growers to include drug producers and smugglers.<sup>34</sup> Revenues from the drug trade, kidnapping, and extortion during the 1980s were estimated to amount to approximately \$250 million, although what period this estimate covers is uncertain.<sup>35</sup>

Although in the early 1980s, the FARC had some 2,000 soldiers operating across 15 fronts (operational units consisting of at least 96 combatants each) in southeastern Colombia,<sup>36</sup> its ranks kept growing during the 1980s and 1990s,<sup>37</sup> and new FARC fronts opened in those parts of Colombia that thrived economically.<sup>38</sup> Relying primarily on income from the drug trade, the organization had somewhere between 5,000 to 7,000 combatants and

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<sup>31</sup> Jesús Alberto Ruiz Mora, "Learning Through Our Mistakes: The Legacy of Marxism in Colombian Counter-Insurgency Strategy," *Journal of Military and Strategic Studies*, Vol. 17, No. 4, 2017, p. 239.

<sup>32</sup> Nagle, 2012, p. 1.

<sup>33</sup> Leech, 2011, pp. 56–57.

<sup>34</sup> Otis, 2014, p. 3.

<sup>35</sup> Buscaglia and Ratliff, 2001; Thomas A. Marks, *Sustainability of Colombian Military/Strategic Support for "Democratic Security,"* Carlisle, Pa.: U.S. Army War College, Strategic Studies Institute, July 2005, p. 2. It is unclear whether this amount represented the yearly income of the FARC in the 1980s or the group's total income between 1982 and 1990.

<sup>36</sup> Marks, 2005, p. 2; Gaddis, 2018, p. 69.

<sup>37</sup> Gentry and Spencer, 2010, p. 456; Candidate No. 303, *Financing Insurgency or Financing Terrorism: The FARC, Their Sources of Revenue and The Effects of These*, bachelor's thesis, Oslo and Akershus University College of Applied Sciences, May 2013, pp. 20–21.

<sup>38</sup> Paul E. Saskiewicz, *The Revolutionary Armed Forces of Colombia—People's Army (FARC-EP): Marxist-Leninist Insurgency or Criminal Enterprise?* thesis, Monterey, Calif.: Naval Postgraduate School, 2005, pp. 31–32.

had expanded to more than 25 fronts by 1990.<sup>39</sup> By 2000, it had some 15,000 to 20,000 soldiers active across 60 fronts.<sup>40</sup>

After the end of the Cold War and with the demise of the Cali and Medellín cartels in the early and mid-1990s, FARC's involvement in drug trafficking deepened.<sup>41</sup> Together with the right-wing paramilitary organization Autodefensas Unidas de Colombia (AUC) [United Self-Defenses of Columbia],<sup>42</sup> the FARC filled the void the two cartels had left in the drug trade in the second half of the 1990s.<sup>43</sup> By the end of the 1990s, FARC's portfolio of revenues expanded beyond taxation and protection of coca growers and cocaine processing labs located in territories under the group's control to include direct control over coca plantations and drug production laboratories.<sup>44</sup> In the words of Vanda Felbab-Brown, "the presence of coca cultivation in a particular locale is frequently a magnet for the FARC and other groups to seek to dominate that territory and control the drug trade in the area."<sup>45</sup>

In this vein, the FARC made a "push into coca-rich Southern Colombia" throughout the 1990s, especially in the departments of Putumayo, Caquetá, and Guaviare.<sup>46</sup> It also worked to drive small and medium-size independent

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<sup>39</sup> Saskiewicz, 2005, p. 31; Saskiewicz, 2005, places this number at 27 in 1989, while Spencer places the number of fronts at 43 in 1990; David E. Spencer, *From Vietnam to El Salvador: The Saga of the FMLN Sappers and Other Guerrilla Special Forces in Latin America*, Westport, Conn.: Praeger, 1996; also see Marks, 2005.

<sup>40</sup> Spencer, 1996; Ruiz Mora, 2017, p. 239.

<sup>41</sup> Norman, 2018, p. 639.

<sup>42</sup> Annette Idler, *Borderland Battles: Violence, Crime, and Governance at the Edges of Colombia's War*, New York: Oxford University Press, 2019, p. 27.

<sup>43</sup> Dan Restrepo, Frank O. Mora, Brian Fonseca, and Jonathan D. Rosen, "The United States and Colombia: From Security Partners to Global Partners in Peace," Washington, D.C.: Center for American Progress, February 2, 2016, p. 1; Clarke, 2016, p. 2.

<sup>44</sup> June S. Beittel and Liana W. Rosen, *Colombia's Changing Approach to Drug Policy*, Washington, D.C.: Congressional Research Service, R44779, November 30, 2017, p. 1.

<sup>45</sup> Felbab-Brown, 2009b, p. 6. For a discussion of the role of coca as a "motivator for taking new territory," see Cook, 2011, p. 22.

<sup>46</sup> Saskiewicz, 2005, pp. 43, 51–52.

traffickers out of business and out of its territories,<sup>47</sup> becoming one of the most important actors in Colombian drug trafficking and, arguably, morphing into a hybrid insurgent-criminal organization with a dual set of goals: political and financial.<sup>48</sup>

In the second half of the 1990s, successful coca eradication efforts in Peru and Bolivia translated into additional demand for Colombian coca crops and an increase in cultivation areas in the country.<sup>49</sup> Internally, FARC's leadership decided to "institute self-financing for each of FARC's operational units," or fronts, in the mid-1990s. This decision encouraged rent-seeking behavior and deepened the reliance of the fronts on the drug trade in the territories they controlled.<sup>50</sup> The organization further expanded its involvement in the drug trade between 1998 and 2005.<sup>51</sup> With FARC's direct involvement in production and distribution of cocaine, it has been estimated that its revenues from kidnapping and extortion started to decline during this period, with an "average of 50–65 percent of all FARC fronts' financing" coming from drug-related activities.<sup>52</sup>

As a result of the increase in organizational capabilities from drug trade revenues, the FARC felt emboldened to carry out large-scale offensives to seize control of Caquetá and Putumayo departments in southeast-

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<sup>47</sup> Felbab-Brown, 2009a, pp. 98–99.

<sup>48</sup> Phippen, 2016. For details on the debate regarding FARC's political and financial goals, see Leech, 2011, pp. 63–66; Bandala, 2012, p. 201; Paul Rexton Kan, "Coke Zero: FARC's End and the Future of Colombian Cocaine," *Small Wars Journal*, August 7, 2016; and Phillip A. Hough, "Guerrilla Insurgency as Organized Crime: Explaining the So-Called 'Political Involution' of the Revolutionary Armed Forces of Colombia," *Politics and Society*, Vol. 39, No. 3, 2011, p. 381.

<sup>49</sup> Saskiewicz, 2005, p. 31, p. 54.

<sup>50</sup> Felbab-Brown, 2009b, pp. 5–6. *Rent seeking* "is an economic concept that occurs when an entity seeks to gain added wealth without any reciprocal contribution of productivity." For more details, see Christina Majaski, "Rent Seeking," webpage, Investopedia, August 28, 2019. In the context of this case study, rent-seeking behavior means that individual FARC fronts were incentivized to generate income from exploiting various links in the drug production and supply chain (without directly contributing to the productivity of the process).

<sup>51</sup> Saskiewicz, 2005, pp. 96–97.

<sup>52</sup> Buscaglia and Ratliff, 2001.

ern Colombia in 1996 and 1998.<sup>53</sup> The FARC ultimately failed, but in the process, the government abandoned control of more than 150 municipalities to the guerrillas, where the insurgents started to behave as the de facto government.<sup>54</sup> In the same year, Colombian President Pastrana reopened peace negotiations with the FARC and granted the organization control over a demilitarized zone the size of Switzerland, known as *zona de despeje* [clearing zone].<sup>55</sup> The FARC took advantage of the demilitarized zone “to imprison hostages, recruit new combatants, resupply their mobile columns and military fronts, increase their coca growing capacity and stage attacks on government forces.”<sup>56</sup>

In 1999, the Colombian government cooperated with the U.S. government to develop a six-year counternarcotics security initiative called Plan Colombia, which began implementation in December 2000.<sup>57</sup> However, in the summer of 2002, after the events of 9/11, the U.S. government decided to expand the scope of Plan Colombia beyond counternarcotics and allow U.S. military aid to be used to conduct counterinsurgency operations against the guerrillas.<sup>58</sup> In 2002, incoming Colombian President Uribe took advantage of this scope expansion of U.S. military aid and set into motion Plan Patriota, an intensive counterinsurgency effort aimed at disrupting the relationship between the guerrillas and the communities in which they operated.<sup>59</sup> In this context, 2002 marks the beginning of FARC’s decline.<sup>60</sup> During Uribe’s

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<sup>53</sup> Leech, 2011.

<sup>54</sup> Gaddis, 2018, p. 70.

<sup>55</sup> Ellingwood, 2010.

<sup>56</sup> Gaddis, 2018, p. 202.

<sup>57</sup> Ruiz Mora, 2017, p. 241.

<sup>58</sup> Saskiewicz, 2005, p. 88-89; Jorge E. Delgado, “Colombian Military Thinking and the Fight Against the FARC-EP Insurgency, 2002–2014,” *Journal of Strategic Studies*, Vol. 38, No. 6, 2015, p. 828.

<sup>59</sup> Gaddis, 2018, p. 72; Ruiz Mora, 2017, p. 241.

<sup>60</sup> Jeremy McDermott, “The FARC and the Drug Trade: Siamese Twins?” webpage, Insight Crime, May 26, 2014.

tenure, levels of violence associated with left-wing organizations (including the FARC) and the number of kidnappings significantly declined.<sup>61</sup>

## External State Sponsorship

Colombia's battle against the FARC faced one more challenge, starting in the late 1990s. From 1998—when Hugo Chávez came to power in Venezuela—to 2002, relations between the FARC and Venezuela started to strengthen, including future promises of military and financial aid to the guerrillas.<sup>62</sup> In the context of the direct confrontation with the right-wing paramilitary group AUC over trafficking routes and ideology,<sup>63</sup> FARC combatants after 1998 often found a safe haven in Venezuela “where injured and fatigued FARC-soldiers would come to recuperate from battle.”<sup>64</sup> The presence of a safe haven in Venezuela also came in handy for the FARC in 2002 when peace negotiations with the Colombian government failed. In the estimation of the Colombian Ambassador to the Organization of American States, Luís Alfonso Hoyos, the FARC had 75 encampments holding some 1,500 combatants on Venezuelan territory by 2008.<sup>65</sup> Furthermore, by the end of 2002, when Uribe became the new President of Colombia and when relations between Colombia and Venezuela became very tense,<sup>66</sup> Venezuelan President Chávez increased his support for the FARC.<sup>67</sup> Besides the use of Venezuelan territory as safe haven, Venezuelan support consisted of financial assistance and the promise of surface-to-air missile systems and man-portable air defense systems.<sup>68</sup>

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<sup>61</sup> Ministerio de Defensa Nacional de Colombia, *Política Nacional de Defensa de la Libertad Personal 2011–2014*, July 2011, pp. 19–20.

<sup>62</sup> Miguel Goncalves, “Conditional Convenience: Venezuelan Support for FARC Since Hugo Chávez,” *Yale Review of International Studies*, January 2014.

<sup>63</sup> Candidate No. 303, 2013, p. 29.

<sup>64</sup> “Colombia in the 21st Century,” webpage, Encyclopædia Britannica, undated.

<sup>65</sup> Candidate No. 303, 2013, p. 29.

<sup>66</sup> Idler, 2019, p. 123.

<sup>67</sup> Goncalves, 2014.

<sup>68</sup> Goncalves, 2014. It is unclear the extent to which Venezuela delivered on the promises it made to FARC's leadership.

Between 2008 and 2010, relations between Venezuela and the FARC began to decline, marking the end of FARC's safe haven in the neighboring country.<sup>69</sup> A 2008 raid the Colombian military conducted against a FARC encampment in Ecuador,<sup>70</sup> which escalated political tensions in the region at the time, apparently played a role in tempering Venezuelan support for the FARC.<sup>71</sup>

## Estimating FARC Revenues

During the 2000s, the FARC gained most of its revenues through cocaine trafficking. Estimates of revenues range anywhere from \$100 million to more than \$1 billion per year, but a precise estimate is not possible. For example, a 2001 Colombian army raid on the 16th Front, located on the triple frontier with Venezuela and Brazil and part of FARC's Eastern Bloc, seized internal FARC documents that provided details regarding the production, processing, and transport of approximately four tons of cocaine worth \$4 million. Financing from the drug trade drove the growth of FARC's Eastern Bloc (which included 23 fronts, including the 16th Front) to some 6,000 combatants in 2002, "making it the most powerful military division of the rebel army."<sup>72</sup>

In 2005, the DEA estimated that the FARC controlled some 70 percent of the Colombian cocaine trade, and that Colombia was the source of 80 to 90 percent of the cocaine shipped to the United States.<sup>73</sup> In this context, in the second half of the 2000s, some sources placed FARC's drug trafficking revenues at approximately \$100 million per year, representing some 50 percent of the group's overall income, while others placed the guerrilla group's

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<sup>69</sup> Goncalves, 2014.

<sup>70</sup> Gentry and Spencer, 2010, p. 459; Nigel Inkster, and James Lockhart-Smit, *Los Documentos de las FARC: Venezuela, Ecuador y el Archivo Secreto de 'Paul Reyes'*, London: International Institute for Strategic Studies, 2011.

<sup>71</sup> "Colombia in the 21st Century," undated.

<sup>72</sup> McDermott, 2014.

<sup>73</sup> DoJ, "High-Ranking Member of Colombian FARC Narco-Terrorist Organization Extradited to U.S. On Drug Charges," press release, Washington, D.C., March 10, 2005.

monthly income at \$105 million.<sup>74</sup> Bandala cited five different estimates that placed the group's annual revenues anywhere from \$94 million in 2003 to \$1 billion.<sup>75</sup> Other estimates placed FARC's earnings from the drug trade at \$200 million,<sup>76</sup> while others placed the organization's overall income in August 2011 at anywhere between \$80 and \$350 million.<sup>77</sup> An April 2016 *Economist* report mentioned that, as of 2012, FARC assets were worth some \$10.5 billion.<sup>78</sup> Hence, given the lack of consensus and these rather wide discrepancies in data, it is difficult to accurately estimate the value of total FARC income, its breakdown across various sources, and its variation in time.

In 2012, in the context of opening a new round of peace negotiations with the government, the FARC announced a suspension of its kidnapping-for-ransom activities. Some analysts have interpreted the announcement as a sign that the FARC did not actually need the revenues from kidnapping for ransom to survive as an organization, with narcotrafficking representing its most important source of revenue. Furthermore, in 2012, the group was

also increasingly involved in illegal mining of gold and coltan deposits throughout Colombia, earning an estimated one million dollars per month through racketeering related to mining activities involving charging illegal miners for the use of backhoes and other mining equipment.<sup>79</sup>

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<sup>74</sup> Felbab-Brown, 2009b, pp. 14–15.

<sup>75</sup> Bandala, 2012, pp. 205–206. Based on the information provided in Bandala, 2012, the year of the \$1 billion estimate is unclear, which makes the comparison difficult to judge.

<sup>76</sup> McDermott, 2014.

<sup>77</sup> Nagle, 2012, p. 1.

<sup>78</sup> The Camstoll Group, "Sanctions Intelligence Update — FARC: Peace Accord and the Enduring Illicit Finance Threat," May 2017.

<sup>79</sup> Nagle, 2012, p. 1. Also see FATF, *Emerging Terrorist Financing Risks*, Paris, October 2015, p. 41. Coltan is a combination of columbite (a mineral rich in niobium) and tantalite (a mineral rich in tantalum) that is used as an input in electronic devices (Schulz, Piatak, and Papp, 2017).



In 2014, Insight Crime reported that the FARC was still heavily involved in the drug trade, taxing the main participants along the cocaine production and supply chain, including “airplanes that [transport] the drugs from its territory,” while also directly transporting cocaine itself.<sup>80</sup> By 2014, the FARC had become a deeply fragmented organization and its various fronts engaged in transnational illicit activities: The 57th Front was known to move cocaine into Panama; the 48th and 29th Fronts shipped drugs into Ecuador; the 33rd Front crossed cocaine into Venezuela; and the 16th Front transported drugs into Venezuela and Brazil.<sup>81</sup>

## Other Sources of Revenue

To store and invest some of the funds received from illicit activities, the FARC relied on the legal economy and made use of legal businesses, such as agricultural and transport cooperatives, security companies, and businesses operating in the cattle and food industries. Most likely through intermediaries, the FARC apparently made investments through the Colombian and Panamanian stock exchanges.<sup>82</sup> The FARC also apparently stowed the cash that was not spent on military operations and could not be placed into the financial system in secret underground storage facilities, known as *cale-tas* [hideouts].<sup>83</sup>

In general, the FARC relied on kidnappings, violence, and the threat of violence and kidnappings to complement and support its financing strategy. Violence was used to make inroads into and gain control over coca rich territories in southeastern Colombia. Kidnappings of farmers and violence against coca growers were used to ensure that they paid their *vacuna* [revolutionary taxes] to the guerrillas.<sup>84</sup> The FARC’s violent expansion into territories where coca was cultivated increased the group’s control over the drug trade, ultimately translating into additional revenues from both taxation

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<sup>80</sup> Phippen, 2016.

<sup>81</sup> McDermott, 2014.

<sup>82</sup> Bandala, 2012, p. 203.

<sup>83</sup> Bandala, 2012, p. 204. Also see Cook, 2011, p. 26.

<sup>84</sup> Candidate No. 303, 2013, p. 22.

and direct exploitation of the entire cocaine production and supply chain within Colombia.

## Reliance on Violent Versus Nonviolent Means of Coercion

The guerrillas also used the threat of violence to prevent farmers from switching from coca cultivation to legal subsistence crops in the context of development aid programs that the Colombian government implemented with U.S. government support and financing. Finally, peace negotiations with the government restarted in 2012. In 2014, once the FARC had reached an agreement with the Colombian state regarding the compensation FARC members were to receive in exchange for giving up involvement in narco trafficking,<sup>85</sup> the guerrillas exploited the provisions of the peace agreement to their advantage. They urged coca growers to increase coca cultivation to receive additional compensation from the government in the context of the demobilization.<sup>86</sup>

President Juan Manuel Santos's 2015 decision to end aerial fumigation of coca crops with the chemical herbicide glyphosate because of its negative effect on human health also contributed to the expansion of coca cultivation areas throughout Colombia.<sup>87</sup> A 2016 DEA assessment confirmed that, besides encouraging coca growers to continue to grow coca and expand coca plantations, the FARC continued to be involved in drug trafficking during the peace negotiations, despite the provisions included in the peace agreement.<sup>88</sup>

Besides the threat and use of violence and kidnappings as coercive tools to support and reinforce its financing strategies, the FARC also relied on non-coercive tools, such as building schools and hospitals in an attempt to win the hearts and minds of the local population, with social projects usually being

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<sup>85</sup> Otis, 2014, p. 1.

<sup>86</sup> Camstoll Group, 2017.

<sup>87</sup> Sergio Guzmán, "4 Reasons Trump's Frustration About Cocaine May Make Him Pick a Fight with One of the US's Best Friends," *Business Insider*, July 20, 2019.

<sup>88</sup> Camstoll Group, 2017.

implemented in the organization's traditional strongholds.<sup>89</sup> Some of the guerrillas' revenues from taxation have supported the provision of local services though the *juntas de acción comunal* [communal action committees],<sup>90</sup> but it is hard to gauge the extent of FARC's involvement in providing services and governance functions in the absence of hard evidence.<sup>91</sup>

## Efforts to Disrupt Finances

Both kinetic and nonkinetic instruments were employed over time to disrupt the FARC and to target its financial activities. With some FARC fronts located in and controlling coca-rich territories and cocaine production labs, it is often difficult to disentangle the kinetic measures aimed to disrupt the group's financial activities from those directed toward the overall weakening of the organization. In practice, some kinetic disruption tools, such as interdiction, decapitation, and counterinsurgency operations, had a dual effect, simultaneously weakening the organization and disrupting its finances, with the latter reinforcing organizational weakness. However, despite the weakening and disruption of the organization, neither the United States nor the Colombian government was able to disrupt the flow of cocaine to the United States and other parts of the world because other Colombian and Mexican VNSAs stepped in to fill the void left by the fragmentation and diminishing profile of the FARC.

Most of the kinetic efforts against the FARC had been carried out by the Colombian government, with varying degrees of support from the United States. The U.S. government contributed financial and military support and provided training and intelligence to Colombian security forces across several decades.<sup>92</sup> Most nonkinetic instruments targeting the FARC and its finances had been mainly deployed and reinforced by the U.S. government and took the form of FTO designations, economic sanctions, decertification

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<sup>89</sup> Alex McDougall, "State Power and Its Implications for Civil War Colombia," *Studies in Conflict & Terrorism*, Vol. 32, No. 4, 2009; Leech, 2011, p. 24.

<sup>90</sup> For details, see Leech, 2011, pp. 23–24.

<sup>91</sup> McDougall, 2009.

<sup>92</sup> Gaddis, 2018, p. 72.

of Colombia as partner in the fight against narcotrafficking, and extradition requests to have FARC members involved in narcotrafficking stand trial in the United States. However, most FARC members did not have financial accounts or assets in the United States and relied on direct transactions performed through the international financial system only in a limited fashion. This meant that some of the nonkinetic tools deployed—such as FTO designations—were unlikely to directly disrupt FARC’s finances. Their main contribution was to allow the U.S. government to expand military and financial aid after 9/11 to support the kinetic counterinsurgency operations that the Colombian government undertook against the guerrillas starting in 2002. In addition, Colombia’s decertification (or threat of decertification) as a U.S. partner in the fight against narcotrafficking seemed to put pressure on the Colombian government to adopt stricter counternarcotics measures, including kinetic ones, which were more likely to disrupt FARC’s financial activities.

Overall, between 2001 and 2017, when the group demobilized, the combination of nonkinetic measures (such as FTO designations and the threat of decertification) and kinetic measures (such as decapitation, interdiction, and aggressive COIN operations) yielded stronger results than did coca eradication measures. Mainly as a result of the kinetic efforts deployed against its members, the group lost control over territory, including coca cultivation regions and cocaine production labs, and trafficking routes.<sup>93</sup>

## Kinetic Instruments

For more than 50 years, the Colombian government (often with support from the United States, especially after 2001) used the entire set of kinetic tools available to disrupt the FARC and its finances: illicit crop eradication, interdiction, decapitation, and aggressive counterinsurgency operations.

Eradication efforts were not an effective disruption tool when it came to FARC’s finances.<sup>94</sup> The Colombian government started eradication operations in 1994 against coca and poppy fields. After 2001, U.S. government

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<sup>93</sup> Saskiewicz, 2005, p. 91.

<sup>94</sup> The failure of eradication efforts can be generalized beyond the FARC because it also did not disrupt the finances of other leftist guerrilla movements, such as the ELN, or

support, through Plan Colombia, revamped eradication measures. Despite these efforts, coca cultivation areas in Colombia expanded,<sup>95</sup> and the impact on FARC finances (or on those of other groups involved in the Colombian drug trade) was negligible and did not “cripple the insurgency.”<sup>96</sup> Moreover, during the 1990s, eradication operations alienated the farmers who depended on coca cultivation for their livelihood.<sup>97</sup> In response, the farmers became more susceptible to supporting the FARC,<sup>98</sup> including by providing the organization with intelligence while denying the Colombian government intelligence on the group.<sup>99</sup>

Furthermore, because the Colombian government did not follow its eradication efforts with any financial support for the farmers or licit crop substitution programs to make up for the lost revenue, the coca growers’ support for the FARC only grew stronger.<sup>100</sup> Moreover, because of Colombia’s geography and poor infrastructure, farmers in rural areas would usually incur high transportation costs and would often witness their legal crops and fruits go bad by the time they reached markets located in faraway urban areas. However, when it came to coca leaves, the FARC and other trafficking organizations would pick up the harvest directly from the growers,<sup>101</sup> increasing the profitability of coca cultivation for the farmers.

The Colombian government understood these challenges and, with U.S. support, adapted after 2001. In the context of Plan Colombia, which the Colombian presidency considered a “Marshall Plan” for southern Colom-

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the right-wing paramilitaries known as the AUC. For more details, see Felbab-Brown, 2009a, p. 70.

<sup>95</sup> From a peak in 1999, cultivation areas decreased from 161,700 hectares to 86,000 hectares by 2005–2008, and then to 48,000 hectares in 2012, only to increase again after 2014. For more details, see Duran-Martinez, 2018, pp. 93–94.

<sup>96</sup> Felbab-Brown, 2009b, p. 15.

<sup>97</sup> Felbab-Brown, 2009b, p. 17.

<sup>98</sup> Felbab-Brown, 2009a, p. 87.

<sup>99</sup> Felbab-Brown, 2009a, p. 71; Felbab-Brown, 2009b, p. 18.

<sup>100</sup> Felbab-Brown, 2009b, p. 17.

<sup>101</sup> Phippen, 2016.

bia's coca-rich regions,<sup>102</sup> eradication and interdiction efforts were supported by the implementation of alternative development programs.<sup>103</sup> Alternative development programs provided a lump sum to farmers who decided to eradicate coca and replace it with legitimate crops. However, the farmers complained that the financial support received was not sufficient to cover their family's basic needs during the crop cultivation transition period.<sup>104</sup>

According to Felbab-Brown, by 2009, support for the FARC still remained strong in "the coca areas with intense eradication and no legal alternatives," where the locals continued to refrain from providing intelligence on the FARC and to join the organization as "active combatants."<sup>105</sup> Moreover, as mentioned in the previous section, in certain areas of Colombia, in an effort to prevent farmers from doing so, the FARC threatened farmers who wanted to switch to legitimate crops with violence. Finally, prior to 2015, eradication through aerial spraying with glyphosate also destroyed legitimate crops, such as banana and yucca plantations, and contaminated fishponds, deepening the negative impact of eradication on livelihoods in rural areas of Colombia.<sup>106</sup>

As opposed to eradication, direct military operations aimed to interdict FARC's presence in certain coca cultivation areas were more successful in disrupting the group's finances and improving security in the country.<sup>107</sup> Interdiction efforts also prevented the organization from selling coca base to local traffickers and resupplying some of its fronts active outside coca cultivation areas. The White House Office of National Drug Control Policy estimated that, as the result of these efforts, FARC's income from the drug trade "fell by approximately US\$115 million a year to a still-sizeable US\$65 million" in 2007, with evidence showing that some FARC soldiers were struggling with lack of ammunition and basic supplies.<sup>108</sup> However, as

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<sup>102</sup> Delgado, 2015, p. 844.

<sup>103</sup> Gaddis, 2018, p. 70.

<sup>104</sup> Buscaglia and Ratliff, 2001.

<sup>105</sup> Felbab-Brown, 2009b, p. 18.

<sup>106</sup> Buscaglia and Ratliff, 2001.

<sup>107</sup> Felbab-Brown, 2009b, p. 20.

<sup>108</sup> Felbab-Brown, 2009b, p. 15.

mentioned in the previous section, the widely divergent estimates of FARC's revenues from the drug trade for the 2000s mean that the Office of National Drug Control Policy's assessment is also to be taken with a grain of salt.

Improvements in Colombian military's tactics and strategy and in the resources available for carrying out the military operations against the FARC translated into the successful weakening of the group between 2002 and 2008,<sup>109</sup> when FARC's ranks had dwindled to some 8,000 combatants from some 20,000 in the early 2000s.

This weakening came as a result of the combined interdiction operations undertaken under Plan Colombia and the aggressive counterinsurgency and decapitation operations carried out in 2002 under President Pastrana and, subsequently, under President Uribe's Plan Patriota and Democratic Security Policy. When the peace process with the FARC collapsed in early 2002, President Pastrana ordered the military to retake the demilitarized "clearing zone" it had granted to the FARC in 1998.<sup>110</sup> By April 2002, the counterinsurgency operation was successful, the guerrillas were driven out of their safe haven,<sup>111</sup> and the Colombian government regained control over the clearing zone.<sup>112</sup> By losing control over the clearing zone, FARC also lost control of coca growing areas.<sup>113</sup> However, criminal gangs known as *BACRIMs* gradually filled the void left by the FARC in coca growing areas in the coming years, with little to no effect on the flow of drugs out of Colombia.<sup>114</sup>

Uribe's Plan Patriota focused on the areas where the FARC was most active and had a strong presence. One of the areas prioritized was the state of Cundinamarca, which surrounds Bogota, Colombia's capital, and which

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<sup>109</sup> Felbab-Brown, 2009b, p. 20.

<sup>110</sup> Delgado, 2015, p. 827.

<sup>111</sup> Gaddis, 2018, p. 72.

<sup>112</sup> Michael Evans, ed., "War in Colombia: Guerrillas, Drugs and Human Rights in U.S.-Colombia Policy, 1988–2002," homepage, National Security Archive, Electronic Briefing Book No. 69, May 3, 2002.

<sup>113</sup> Gaddis, 2018, p. 72.

<sup>114</sup> BACRIM stands for *bandas criminales* [criminal gangs] and were the successors of the disbanded AUC.

was systematically cleared of guerrilla presence in 2003.<sup>115</sup> The 22nd Front, which was responsible for many of the kidnappings taking place in Bogota and the surrounding areas, was destroyed.<sup>116</sup> By the end of 2006, the homicide rate went down by 45 percent,<sup>117</sup> while the number of kidnapped persons went down from 1,708 to 759. By 2008, the number of kidnapped individuals went down to 197.<sup>118</sup>

Given the successes recorded in the early years of Plan Patriota, the Colombian government increased interoperability across the military services to synchronize the various counterinsurgency efforts and prioritized striking high-value targets (HVTs)—middle- to senior-level FARC front leaders. Intelligence efforts in support of the Colombian government’s kinetic activities to target and strike HVTs were expanded in 2007 when a joint intelligence and operations center was created. The intelligence fusion center led to some major successes in targeting FARC front commanders (these were de facto decapitations) and brought access to additional intelligence that led to new successful targeting operations of FARC middle- and senior-level leaders.<sup>119</sup> The center’s activities also led to the successful 2008 raid on the FARC encampment across the border with Ecuador and the killing of Raul Reyes, FARC’s second in command. These kinetic operations led to significant disruptions of FARC operations and to the overall weakening of the group.<sup>120</sup>

The Colombian government encountered challenges in its attempt to “win hearts and minds” during the implementation of Plan Patriota in the coca-growing regions in southeastern Colombia, which represented “the most important insurgent stronghold.”<sup>121</sup> The government was, however, able to regain control over some 90 percent of the previously insurgent-

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<sup>115</sup> Marks, 2005, p. 14.

<sup>116</sup> Saskiewicz, 2005, p. 89.

<sup>117</sup> Delgado, 2015, p. 828.

<sup>118</sup> Bandala, 2012, p. 213.

<sup>119</sup> Gaddis, 2018, p. 73.

<sup>120</sup> Gaddis, 2018, p. 74; Mark P. Sullivan and June S. Beittel, *Latin America: Terrorism Issues*, Washington, D.C.: Congressional Research Service, RS21049, August 2014, p. 3.

<sup>121</sup> Delgado, 2015, p. 846.



controlled territory and to drive the ranks of the guerrilla group down to some 8,000 to 7,000 fighters,<sup>122</sup> with security improving significantly during this time. From 2000 to 2014, counterinsurgency operations translated into a decrease in the average attack intensity values for both the FARC and ELN,<sup>123</sup> and “the number of attacks committed by the FARC decreased.”<sup>124</sup>

However, one of the less fortunate aspects of Uribe’s Plan Patriota was the false positives scandal,<sup>125</sup> which involved the murder of some 3,000 innocent civilians who—between 2005 and 2008—were presented as neutralized guerrilla fighters. Former Colombian soldiers stated that

the war is being measured in liters of blood; a commander who does not have results in deaths per month will be sanctioned accordingly and that will be reflected in his military record; . . . [and] a battalion that has no casualties or battles in ninety days will cause the commander to be thrown out of the Army for his negligence or operational failure.<sup>126</sup>

After August 2010, Uribe’s successor, President Santos, continued his predecessor’s counterinsurgency efforts and targeting to decapitate the FARC.<sup>127</sup> In his first year as president, Santos intensified the HVT program, successfully carrying out two high-profile killings:<sup>128</sup> Víctor Julio Suárez Roja, also known as “Mono Jojoy,” FARC’s military strategist and commander, in September 2010, and FARC’s “supreme leader,” Alfonso Cano,

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<sup>122</sup> Gaddis, 2018, p. 75.

<sup>123</sup> According to Toll, determining attack intensity values (A) is a method of standardizing results across various groups (in this case the FARC and ELN) by taking into account fatalities per quarter (F), injuries per quarter (I), hostages taken per quarter (H), and total terrorist attacks per quarter (T) according to the following formula:  $A = (F + I + H) / T$ . For more details, see Toll, 2017, p. 20.

<sup>124</sup> Toll, 2017, p. 22.

<sup>125</sup> Leech, 2011, pp. 140–141.

<sup>126</sup> As quoted in International Federation for Human Rights (FIDH), *Colombia. The War Is Measured in Litres of Blood*, June 2012, p. 10.

<sup>127</sup> Delgado, 2015, p. 842.

<sup>128</sup> Delgado, 2015, pp. 829–830.

in 2011.<sup>129</sup> Santos used the decapitation and crippling of the organization to reopen the peace negotiations with the FARC in 2012 and, ultimately, to sign a peace agreement with the guerrillas in 2016.<sup>130</sup>

## Nonkinetic Instruments

The main nonkinetic tools used to disrupt FARC finances were a DoS designation of the FARC as an FTO in 1997 and as an SDGT in 2001; the inclusion of key FARC individuals on the list of “Tier II” persons designated under the Foreign Narcotics Kingpin Designation Act (Kingpin Act); extradition to the United States of FARC members charged with involvement in narcotrafficking,<sup>131</sup> and the yearly certification process of Colombia as a partner cooperating with the United States in fighting narcotrafficking.

The FARC is one of the few VNSAs that the U.S. government has sanctioned “as both a terrorist and narcotics trafficking group.”<sup>132</sup> In 2017, “150 FARC-related entities and individuals [were] included on US sanctions lists.”<sup>133</sup> In October 1997, pursuant to amendments to the Immigration and Nationality Act made via the Antiterrorism and Effective Death Penalty Act of 1996, the FARC was designated as an FTO.<sup>134</sup> Although the guerrilla group demobilized in 2017, it remains included on the DoS’s current list of FTOs because some breakaway commanders and military factions continue their involvement in criminal activities and continue to carry out acts of violence that challenge the Colombian government.<sup>135</sup>

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<sup>129</sup> Gaddis, 2018, p. 74.

<sup>130</sup> Idler, 2019, p. 10; Toll, 2017, p. 17.

<sup>131</sup> Foreign Narcotics Kingpin Designation Act (Kingpin Act), December 3, 1999. Extradited narcotraffickers stand trial in U.S. court and, once found guilty, usually spend decades in U.S. federal prisons, where conditions are stricter than in Colombia.

<sup>132</sup> Camstoll Group, 2017.

<sup>133</sup> Camstoll Group, 2017.

<sup>134</sup> Otis, 2014, p. 9; Treasury, “Treasury Sanctions Colombian Narcotics Trafficker with Ties to the FARC and La Oficina de Envigado,” press release, Washington, D.C., October 18, 2018; Pub. L. 104-132, 1996.

<sup>135</sup> Bureau of Counterterrorism, undated b; Camstoll Group, 2017.

In October 2001, both the FARC and the right-wing paramilitary group AUC were named as SDGTs under President George W. Bush's EO 13224.<sup>136</sup> The FARC's designation as an FTO and SDGT provided the U.S. government with the legal justification to expand counternarcotics aid provided under Plan Colombia to support counterinsurgency operations, de facto merging these two lines of effort.<sup>137</sup> In May 2003, under the Kingpin Act, the FARC was designated a Specially Designated Narcotics Trafficker.<sup>138</sup> Furthermore, in February 2004, 19 FARC leaders, commanders, and members of its secretariat (its governing body) were included on Treasury's OFAC list of "Tier II" persons designated under the Kingpin Act, in an effort to apply economic sanctions against foreign narcotics trafficking kingpins. As a result of these FARC members' inclusion on the OFAC list, U.S. individuals and companies are prohibited from doing business with any of the 19 designated persons.<sup>139</sup>

However, with the exception of one FARC leader—Alonso Olarte Lombana—no other FARC leaders have been known to hold bank accounts and assets in their own names in the United States, which were blocked under the Kingpin Act.<sup>140</sup> However, many of their associates and partners who had been running front companies and money laundering operations on behalf of the FARC held assets in their own names and, therefore, had been added over time to OFAC's sanctions list.<sup>141</sup>

For example, Mercurio Internacional, SA, was one such OFAC-designated FARC money launderer.<sup>142</sup> In addition, the U.S. government sanctioned sev-

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<sup>136</sup> Treasury, "Treasury Takes Action Against FARC/AUC Narco-Terrorist Leaders in Continued Effort to Halt Narcotics Trafficking," press release, Washington, D.C., February 19, 2004.

<sup>137</sup> Duran-Martinez, 2018, p. 93.

<sup>138</sup> Thomas R. Howes, hearing on the Basta Amendment to H.R. 487, written testimony for the Financial Services Committee, Subcommittee on Monetary Policy and Trade, U.S. House of Representatives, July 17, 2014, p. 17.

<sup>139</sup> Treasury, 2004.

<sup>140</sup> Howes, 2014, p. 15.

<sup>141</sup> Howes, 2014, p. 1.

<sup>142</sup> Howes, 2014, p. 15.

eral individuals and companies in Colombia and in Switzerland in 2014 and 2015 for their roles in drug trafficking and money laundering activities carried out in collaboration with or in support of the FARC, including providing the group with access to the international financial system.<sup>143</sup>

It is also worth mentioning that a 2016 Colombian money laundering case revealed a rather complex scheme to launder the illicit proceeds FARC derived from drug trafficking through a series of “shell companies, cattle dealers, and a telephone-remittance service company.”<sup>144</sup> The Colombian congress passed legislation in 2007 that made terrorist financing a crime;<sup>145</sup> in the following years the government declared FARC’s deprivation of financial resources to be a strategic objective. In this vein, the government prioritized the dismantling of FARC’s economic and financial structures between 2011 and 2017, and the Colombian government used asset forfeiture legislation “to forfeit assets of individuals convicted of TF [Terrorist Financing] or the administration of resources related to terrorist activity.”<sup>146</sup> The assets FARC forfeited from 2011 to March 2017 “amounted to USD 376,701,578.”<sup>147</sup> Although there is no explicit analysis of the impact these asset forfeitures had on FARC’s operational ability, the organization started and completed peace negotiations with the Colombian government during this time, with this nonkinetic measure likely being a secondary result of kinetic activities.

Besides the U.S. government’s imposition of economic sanctions against the FARC and the Colombian government’s AML and asset forfeiture activities, both governments have often cooperated to extradite FARC members charged with narco-trafficking to the United States.<sup>148</sup> However, similar

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<sup>143</sup> Camstoll Group, 2017.

<sup>144</sup> Grupo de Acción Financiera de Latinoamérica, *Mutual Evaluation Report of the Fourth Round—Republic of Colombia*, Washington, D.C.: International Monetary Fund, 2018, p. 48.

<sup>145</sup> Bandala, 2012.

<sup>146</sup> International Monetary Fund, “Colombia: Financial Sector Assessment Program—Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism,” Country Report No. 2018/314, November 15, 2018, p. 76.

<sup>147</sup> Grupo de Acción Financiera de Latinoamérica, 2018, p. 68.

<sup>148</sup> For more details on the evolution of extradition of narco-traffickers from Colombia to the United States, see Felbab-Brown, 2009a, p. 75.

to terrorist designation and economic sanctions, this nonkinetic tool did not seem to have had a significant effect on disrupting FARC's finances. Since 2002, some key FARC members—such as Eugenio Vargas Perdomo, alias “Carlos Bolas” (narcotrafficker and arms dealer on the international black market); Anayibe Rojas Valderrama, alias “Sonia” (head of finances for FARC's powerful 14th Front, arrested in February 2004);<sup>149</sup> and Ricardo Palmera, alias Simón Trinidad (one of the highest-ranking FARC members ever captured, arrested in 2004)<sup>150</sup>—have been extradited to the United States, where they stood trial, were found guilty, and were imprisoned. However, the drug trafficking activities of the organization continued despite these extraditions. Furthermore, in recent years, in the context of the peace process with the FARC, the Colombian government has refused extradition requests on the premise that the proceeds of drug trafficking were used by the guerrillas to fund the insurgency, making it a political crime, unless it can be proven that the funds were used for personal enrichment and not to further the rebel cause.<sup>151</sup>

Conversely, nonkinetic tools, such as the certification process (or, better said, the threat of or actual decertification) of Colombia as a U.S. partner in the fight against narcotrafficking, were more likely to disrupt FARC's finances than economic sanctions and the extradition of some key commanders. In keeping with the Foreign Assistance Act of 1961,<sup>152</sup> the President notifies Congress each year “which countries have been determined to be major drug-transit countries, and which countries have been determined to be major illicit drug producing countries.”<sup>153</sup> The same law mandates that

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<sup>149</sup> McDermott, 2014; DoJ, 2005.

<sup>150</sup> “Colombia Refuses to Extradite FARC Rebel to US for First Time,” *The Guardian*, December 1, 2015; Leech, 2011.

<sup>151</sup> “Colombia Refuses to Extradite . . .,” 2015; Grupo de Acción Financiera de Latinoamérica, 2018, p. 22.

<sup>152</sup> For the most up-to-date version of the Foreign Assistance Act of 1961, please see Pub. L. 87–195, Foreign Assistance Act of 1961, September 4, 1961, as amended, as amended by Pub. L. 117–103, March 15, 2022.

<sup>153</sup> Sec. 491, paragraph (h) of Pub. L. 87–195, 1961, as amended 2022, p. 139.

50 percent of U.S. foreign assistance to any country “be withheld until the president determines whether the country should be ‘certified.’”<sup>154</sup>

When the United States stops or threatens to stop the flow of aid to Colombia (as it did in 1996 and 1997 and, most recently, in 2017<sup>155</sup>), the Colombian government tends to respond by adopting and implementing stronger measures (including tougher kinetic activities against organizations involved in drug-trafficking, such as the FARC). Over the past few decades, the certification process has acted as tool to pressure the Colombian government, galvanizing it into action to disrupt narcotrafficking activities.

## Alternative Explanations

Alongside the kinetic and nonkinetic tools discussed in the previous sections, the peace process and the erosion of support for the guerrillas among the local population, especially as a result of the kidnappings and lack of progress toward achieving the group’s political goals, are alternative factors that could have had an impact on disrupting the guerrilla group’s finances.

Although the peace negotiations and the promise of reintegration into society played a role in the demobilization process and in bringing the conflict to an end, the impact on the group’s finances is less clear. On the one hand, the FARC renounced most of its kidnapping for ransom activities in early 2012 as a gesture of goodwill in the context of the reopening of peace negotiations with the government. On the other hand, the group continued its drug trafficking operations after it had closed the narcotrafficking chapter of negotiations with the government and had agreed to end these

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<sup>154</sup> International information programs, U.S. Department of State, “Fact Sheet: Major Illicit Drug-Producing and -Transit Countries,” webpage, November 2, 2000; also see sec. 490, paragraph (a) of Pub. L. 87–195, 1961, as amended 2022, p. 136.

<sup>155</sup> In 1996 and 1997, Colombia was decertified under President Bill Clinton (Rabasa and Chalk, 2001, p. 20) once the “narco-cassette” scandal broke out. The scandal was the result of leaked cassette recordings revealing that the Cali Cartel had made significant contributions to the election campaign of Colombian President Ernesto Samper Pizano. As a result of coca cultivation areas in Colombia expanding since 2015, President Donald Trump threatened to decertify Colombia in 2017. For more details, see Guzmán, 2019.

activities. Given the extradition requests the U.S. government made in 2018, some former FARC members continued to engage in narcotrafficking after the signing of the peace agreement and in violation of the provisions of the respective agreement.<sup>156</sup>

As mentioned earlier, the FARC is likely to have renounced kidnapping for ransom in 2012 because it did not actually need the revenues from kidnapping in the context of the revenues from narcotrafficking. At the same time, many Colombians, including those in rural areas, had suffered enough at the hands of the guerrillas, and the continuation of kidnapping for ransom was eroding the group's support without making a significant contribution to the organization's coffers. Furthermore, the improved security climate in the country as a result of President Uribe's Democratic Security Policy and Plan Patriota reduced levels of violence overall and greatly decreased kidnappings by driving the guerrillas out of the territories they previously controlled.<sup>157</sup>

Alternative development programs initiated under Plan Colombia are likely to have also played an important role in disrupting FARC's finances in some coca cultivation areas. A 2018 U.S. Government Accountability Office (GAO) report revealed that, among the three main pillars of Plan Colombia—eradication, interdiction, and alternative development—the last seemed to have had the most impact on reducing coca cultivation areas.<sup>158</sup> According to the GAO report and other accounts, farmers in coca cultivation areas had grown tired of the violence associated with the drug trade over the years, and most would prefer to make a decent living in the legal economy, without having to deal with guerrillas or any other drug trafficking organizations.<sup>159</sup>

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<sup>156</sup> Rafael Bernal, "Fight Over US Extradition Leads to Resignations of Top Colombian Officials," *The Hill*, May 17, 2019.

<sup>157</sup> Leech, 2011, p. 112.

<sup>158</sup> U.S. Government Accountability Office, 2018.

<sup>159</sup> U.S. Government Accountability Office, 2018; Felbab-Brown, 2009a, p. 103.

## Conclusions and Implications

FARC's demobilization and the end of the longest insurgency in South America could be counted as a success story. However, although the conflict came to an end and although the organization ceased to exist as a left-wing guerrilla movement, the trafficking in drugs that fueled the insurgency for more than 30 years continues in the hands of other VNSAs, most of which lack a political orientation and are mostly motivated by financial gain. In essence, the Colombian government, in cooperation with the U.S. government, defeated the FARC and degraded the left-wing organization to remnants devoid of any ideological objective and mainly driven by profit. In FARC's case, the overall weakening of the organization and the disruption of its main sources of income—kidnappings for ransom and control over coca cultivation areas, cocaine production labs, and trafficking corridors—took place simultaneously and reinforced each other.

Although strong and determined Colombian leadership played an important role starting in 2002, the ability of the Colombian and U.S. governments to cooperate with each other for almost 20 years significantly affected the outcome. The trust generated between the two parties, together with safeguards the U.S. Congress put in place, meant that U.S. financial and military assistance was used strictly to target the guerrillas and drug trafficking organizations and not political rivals.

The professionalization of Colombian security forces, including the fight against corruption within the ranks of military and police,<sup>160</sup> contributed to the effectiveness with which the kinetic tools were deployed against the FARC and allowed the government to regain territorial control and improve security in the country. The targeted application of kinetic tools (i.e., decapitation, counterinsurgency, and interdiction operations) based on intelligence from fusion centers—such as the joint intelligence and operations center—proved to be highly successful.

Nonkinetic tools, such as FTO designation and economic sanctions, are less likely to work unless the VNSA has a transnational presence or relies substantively on the legal international financial system. The threat of U.S. decertifications, followed by withdrawal of financial or military aid, is likely

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<sup>160</sup> Bandala, 2012, p. 210.



to be effective against countries that depend on U.S. support because these put pressure on governments to step up counternarcotics efforts. In a similar vein, while the FTO designation by itself could come across as rather toothless, it allows the U.S. government to use financial and military aid to support kinetic operations, such as decapitation, interdiction, and counterinsurgency, to disrupt VNSA finances.

To conclude, kinetic tools, such as decapitation, counterinsurgency, and interdiction operations are more likely to be effective when used in combination with nonkinetic tools, such as FTO designations and the certification process. A group with transnational operations that uses the international financial system to launder illicit proceeds and deposit assets is also likely to find that SDGT designation and economic sanctions have a disruptive impact and render day-to-day operations more difficult, costly, and time consuming because the organization and its members have to undertake additional steps to evade a more complex set of measures targeting their finances. Finally, alternative development programs based on long-term substantial funding that support the livelihoods of peasants until legal crops become financially viable are likely to allow subsistence farmers to leave behind illicit crop cultivation, limiting the availability of some of the raw materials that fuel the drug trade.



## Lebanese Hezbollah

This appendix supports Chapter 5's discussion on the effectiveness of CTF efforts. In the appendix, we summarize the major effects of various disruptive tools applied to LH. This case study will follow the group's origins, ideology, financing streams, evolution, and both the kinetic and nonkinetic tactics applied to countering LH and its finances by Israel, the United States, and the international community.

### Emergence and Resource Base

The driving impetus behind the formation of LH was the Israeli invasion of Lebanon in 1982, coupled with Iran's desire to project force beyond its own borders and capitalize on the early momentum of the 1978–1979 Islamic Revolution. In 1983, Iran dispatched an estimated 1,500 Islamic Revolutionary Guard Corps members to the Bekaa valley to organize the nascent group and provide it with training.<sup>1</sup> When LH was initially founded in 1983, it was described as “less an organization than a cabal,” a characterization that mostly remained accurate until the mid-1980s, when it sought to develop more-robust capabilities.<sup>2</sup> For nearly the first ten years of its tenure, LH was almost exclusively committed to expelling the Israeli Defense Forces from southern Lebanon. However, the group gained instant notoriety for its role

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<sup>1</sup> Hala Jaber, *Hezbollah: Born with a Vengeance*, New York: Columbia University Press, 1997, p. 20.

<sup>2</sup> Augustus Richard Norton, *Hezbollah: A Short History*, Princeton, N.J.: Princeton University Press, 2007, pp. 33–34.

in the 1983 truck bomb attacks against American and French components of the Multinational Force in Lebanon's forces at its Beirut barracks.<sup>3</sup>

LH draws its political support primarily from the Shia communities in the country's capital city, Beirut, and its surrounding environs, southern Lebanon, the Bekaa Valley, and the Hirmil Region. LH also receives support and is influenced by powerful actors in the region, including Syria and Iran, the latter of which was the "principal moving force" behind the group's creation.<sup>4</sup> Accordingly, LH looks to the teachings of the late Ayatollah Ruholla Khomeini for inspiration, and even a cursory glance at LH's founding charter from its 1985 open letter addressed to the "Downtrodden in Lebanon and in the World" reveals language heavily colored by the Iranian revolution.<sup>5</sup> LH's ideological links to Iran have helped shape the group's stance on the nature of conflict, the ideal character of the nation-state, how to relate to other Muslims, and its overall approach to dealing with the West.<sup>6</sup>

From an ideological perspective, LH divides the world into two primary spheres—the *mustad'afin* [oppressed] and the *mustakbirin* [oppressors].<sup>7</sup> This dichotomy attempts to convey the dualism and millenarianism of the Shia community, which views itself as a perpetual underdog in its struggle to achieve equality and justice.<sup>8</sup> In LH's worldview, oppression takes many forms, including economic, cultural, political, and social, and transcends both nationality and religion.<sup>9</sup> The central tenets of LH's charter include the obligations to struggle against secularism, injustice, and the oppression of

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<sup>3</sup> Daniel Helmer, "Hezbollah's Employment of Suicide Bombing During the 1980s: The Theological, Political, and Operational Development of a New Tactic," *Military Review*, July–August 2006, pp. 75–79.

<sup>4</sup> Kenneth M. Pollack, *The Persian Puzzle: The Conflict Between Iran and America*, New York: Random House, 2004, p. 201.

<sup>5</sup> Norton, 2007, p. 35.

<sup>6</sup> Sami G. Hajjar, *Hizballah: Terrorism, National Liberation, or Menace?* Carlisle, Pa.: U.S. Army War College, Strategic Studies Institute, August 2002, p. 10.

<sup>7</sup> Augustus Richard Norton, *Hizballah of Lebanon: Extremist Ideals vs. Mundane Politics*, Council on Foreign Relations, 1999, p. 12.

<sup>8</sup> Amal Saad-Ghorayeb, *Hizbu'llah: Politics and Religion*, London: Pluto Press, 2002, pp. 16–17.

<sup>9</sup> Hajjar, 2002, p. 11.

the *ummah* [community of believers] by foreign imperialists, especially the United States and Israel.

## Group Identity

LH militants and their Iranian handlers have always adhered to an ideological worldview stemming from the shared experience of clerical training and religious study. This ideological fervor encompassed three uncompromising elements, including a belief in Shia Islam; the principle of *wilayat al-faqih* [rule or guardianship by the jurist]; and a duty to practice *jihad* [struggle in the name of Allah].<sup>10</sup> From the beginning, LH militants were dogmatic in their devotion to the austere version of Shia Islam being exported by Ayatollah Khomeini and his inner circle. Nevertheless, Islamic Revolutionary Guard Corps units provided the movement with ideological guidance to reinforce these beliefs and urged LH's core membership to adhere to strict Islamic behavior while adopting an anti-Zionist platform that still defines the group to this day.<sup>11</sup> This "ideological indoctrination" was a deliberate campaign aimed at recruiting and training Shia throughout the Bekaa Valley.<sup>12</sup>

LH's ideology has been described as "a fiery mix of revolutionary Khomeinism, Shia nationalism, celebration of martyrdom, and militant anti-Zionism, occasionally accompanied by crude, neo-fascist anti-Semitism."<sup>13</sup> Its ideological approach is epitomized by the group's longtime Secretary General, Hassan Nasrallah, whose ability to preach in various terms—religious, nationalist, Arab, anti-Israeli—is an effective means to

<sup>10</sup> Joseph Alagha, *The Shifts in Hizbullah's Ideology: Religious Ideology, Political Ideology, and Political Program*, Leiden: Amsterdam University Press, 2006, pp. 13–15.

<sup>11</sup> Magnus Ranstorp, "The Hizballah Training Camps of Lebanon," Ch. 15 in James J. F. Forest, ed., *The Making of a Terrorist*, Vol. II: *Training*, Santa Barbara, Calif.: Praeger, 2005, p. 249.

<sup>12</sup> Magnus Ranstorp, *Hizb'Allah in Lebanon: The Politics of the Western Hostage Crisis*, New York: St. Martin's Press, 1997, pp. 34–35.

<sup>13</sup> Adam Shatz, "In Search of Hezbollah," *New York Review of Books*, April 29, 2004.

rally supporters to LH's cause.<sup>14</sup> As LH expert Augustus Richard Norton has observed, "ideological currents have shifted dramatically in the last two decades in favor of [LH], which offers an ideological vision that many Shia now find persuasive."<sup>15</sup>

## Organizational Structure

LH is rare among insurgent groups. It has existed for nearly 40 years and can claim between 20,000 and 25,000 supporters. Over the course of much of its tenure, LH has boasted a core fighting force of anywhere from 500 to 4,000 members.<sup>16</sup> Its military wing is known as al-Muqawama al-Islamiyy [Islamic Resistance]. It has evolved from "a loose network of militias" to encompass a political wing, a social services wing, a media wing, a military wing, and a religious wing.<sup>17</sup> A truly complex organization—"half political party and half armed militia, part local organization and part international movement"—it has grown in sophistication, professionalism, and lethality.<sup>18</sup>

To prevent against Israeli targeted assassinations of its top members, LH restructured its organization in early 1992. The group layered its leadership, a measure that was deemed necessary following the assassination of LH cofounder and the group's longtime secretary general, Abbas al-Musawi, and his family in the southern Lebanese village of Jibshit in February 1992.<sup>19</sup> Politically, the group is designed more like a vertical organization. The highest level is the *Majlis al-Shura* [Consultative Council, also referred as Shura Council], which comprise 17 clerics who maintain close ties with

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<sup>14</sup> Judith Palmer Harik, *Hezbollah: The Changing Face of Terrorism*, London: I.B. Tauris, 2004, p. 71.

<sup>15</sup> Norton, 2007, p. 17.

<sup>16</sup> Kim Cragin "Hizballah: The Party of God," in Brian A. Jackson, John C. Baker, Kim Cragin, John Parachini, Horacio R. Trujillo, and Peter Chalk, *Aptitude for Destruction*, Vol. 2: *Case Studies of Organizational Learning in Five Terrorist Groups*, Santa Monica, Calif.: RAND Corporation, MG-332-NIJ, 2005, p. 38.

<sup>17</sup> Cragin, 2005, p. 43.

<sup>18</sup> International Crisis Group, "Hizballah: Rebel Without a Cause?" July 30, 2003, p. 1.

<sup>19</sup> Magnus Ranstorp, "Hezbollah's Future?" *Jane's Intelligence Review*, February 1, 1995.

Iran. In turn, the Shura Council selects LH's operational leadership, which consists of the secretary-general, his deputy, and five of the nine members of the *Shura al-Tanfiz* [Executive Committee], which is different from the 15-member Politburo.<sup>20</sup> The Politburo is the main supervisory body of the organization, responsible for coordinating party committees devoted to security, social services, and religious activities.<sup>21</sup> Under these bodies are three regional commands and the military affairs, social affairs, and the trade union organizations.

In stark contrast with its political wing, LH's military wing functions horizontally, with squads of seven to ten men. Squads use an elaborate system of communication and operate with a high degree of tactical autonomy. The command-and-control structure includes "fighting clerics" who derive authority from the Shura Council, linking back to Iran.<sup>22</sup> Although the clerics may derive their authority from the Shura Council, they are not a part of it (and are not part of the Politburo) and, thus, do not hold political positions within the group. Referring to the group's organizational structure, Cragin wrote, "the parallel (but separate) religious, political, and military structures in LH—from the very top to the very bottom of the organization—have made it easier for the group to translate strategic decisions into tactical practice."<sup>23</sup>

## Goals and Objectives

LH is a subnational group striving to control territory within Lebanon while retaining an austere Shia Islamist influence to its politics. LH has several primary objectives, although the group is well aware that some are more quixotic than others. In an ideal world, LH seeks to create a wider Islamic community and to export the Islamic Revolution abroad. Over the years, it has announced its intention to jettison the Israelis from Jerusalem and holds the restoration of the rights of Muslims everywhere as a sacred duty. But

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<sup>20</sup> Harik, 2004, p. 54

<sup>21</sup> Hajjar, 2002, p. 10.

<sup>22</sup> Cragin, 2005, p. 53.

<sup>23</sup> Cragin, 2005, p. 53.

LH's decision to participate in Lebanese parliamentary elections for the first time in 1992 is a clear indication that the group was "coming to terms with its sociopolitical setting."<sup>24</sup>

With Israel's unilateral withdrawal from southern Lebanon in 2000, LH reached a crossroads. Resisting occupation was at the core of LH's doctrine, as spelled out in its 1985 open letter. Two years prior to Israel's withdrawal, Nasrallah and LH Deputy Secretary General Na'im Qaseem hinted that the 1985 open letter was obsolete and that it should no longer be considered as "an authoritative guide to the party's positions."<sup>25</sup> When asked about his views on an Islamic state in Lebanon, Nasrallah replied: "We believe the requirement for an Islamic state is to have an overwhelming popular desire, and we're not talking about fifty percent plus one, but a large majority. And this is not available in Lebanon and probably never will be."<sup>26</sup> That Nasrallah and the LH leadership grasp this reality is reflected in the group's political strategy, which works within the framework of a multisectarian Lebanon.<sup>27</sup> Nevertheless, LH believes that it is a religious duty to establish an Islamic state in Lebanon because this is the only form of government suited to achieving justice, equality, and freedom until the return of the divinely anointed Hidden Imam (Mahdi).<sup>28</sup>

## Evolution of Financing Strategy

LH's earliest sources of funding, and the primary reason the group has evolved into the organization it is today, nearly four decades after it was founded, came from Iran's state sponsorship. Long-standing estimates put the figure at between \$200 million and \$350 million annually. However, as

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<sup>24</sup> Augustus Richard Norton, "Walking Between Raindrops: Hezbollah in Lebanon," *Mediterranean Politics*, Vol.3, No.1, Summer 1998, p. 93.

<sup>25</sup> Norton, 2007, p. 46.

<sup>26</sup> Norton, 2007, p. 46.

<sup>27</sup> Saad-Ghorayeb, 2002, p. 49.

<sup>28</sup> Hajjar, 2002, p. 11. For background information on the concept of the Hidden Imam, see Fouad Ajami, *The Vanished Imam: Musa al-Sadr and the Shia of Lebanon*, Ithaca, N.Y.: Cornell University Press, 1986.



we will discuss in more detail later, the DoS Coordinator for Counterterrorism, Nathan A. Sales, revealed in late November 2018 that the figure is far higher, at around \$700 million per year.<sup>29</sup> Although LH owes its existence to this largesse, it was never content as an organization to rely on a sole source of funding. Over time, the group developed a sophisticated global network of criminal activities that served as an adequate complement to the money it received from Iran. The more U.S. authorities have targeted Iran's coffers, the more LH has had to rely on its criminal networks to keep the money flowing.

## Early Sources of Financing

Over the course of its long relationship with LH, Iran has delivered money to the terrorist group in bulk cash deliveries, money bundled alongside weapon shipments, and via Iranian-linked charities. Even with its domestic economy restricted as a result of sanctions, Iran continues to finance LH and a variety of other proxy groups throughout the region, including in Iraq, Yemen, and Syria. Because Iran is limited in what it can do to strike back at its adversaries from a conventional military standpoint, supporting proxy groups, such as LH, to engage in asymmetric warfare is cost-effective for Tehran.<sup>30</sup> The relationship between Iran and LH is based on a mutual animosity for the state of Israel and a shared understanding of the most important tenets of the Islamic Revolution. Tehran's financial backing ensures that LH will remain a potent force capable of threatening Israel's peace and security. Still, despite Iran's generous financing, LH has managed to maintain a significant degree of autonomy, which has increased over time.<sup>31</sup> The civil war in Syria has had a profound effect on LH, offering its

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<sup>29</sup> Nathan Sales, "Tehran's International Targets: Assessing Iranian Terror Sponsorship," webpage, Washington, D.C.: Washington Institute for Near East Policy, November 13, 2018.

<sup>30</sup> Daniel Byman, "The Lebanese Hezbollah and Israeli Counterterrorism," *Studies in Conflict and Terrorism*, Vol. 34, No. 12, 2011, p. 936.

<sup>31</sup> Graham E. Fuller, "The Hezbollah-Iran Connection: Model for Sunni Resistance," *Washington Quarterly*, Vol. 30, No. 1, Winter 2006–2007, p. 143.

fighters critical battlefield experience but also requiring more resources to continue its involvement in the Syrian Civil War for about a decade.<sup>32</sup>

## How Lebanese Hezbollah's Financing Evolved Over Time

LH's funding stream derives from a combination of state sponsorship, a global network of organized criminal activities, donations from the transnational Lebanese diaspora, and legitimate businesses. Because LH enjoys the benefits of foreign patronage, the organization can focus on fund-raising in other areas, including expatriate remittances; front companies; and criminal activities, including cigarette smuggling, film piracy, and credit card fraud. The group has also trafficked conflict diamonds and smuggled narcotics. In 2011, an investigation into the Lebanese Canadian Bank revealed that LH maintained extensive ties to the South American cocaine trade.<sup>33</sup>

### Diaspora Support

A transnational Lebanese diaspora enables LH to operate on nearly every continent, with well-established diaspora communities in Africa and Latin America, including the Tri-Border Area, where Paraguay, Brazil, and Argentina converge.<sup>34</sup> LH has also established a presence in Uganda, South Africa, Malaysia, Thailand, and Singapore.<sup>35</sup> Investigations of Iran-backed LH attacks against Israeli and Jewish targets in Argentina in 1994 and 1996 prove that support in Latin America extends beyond finances and includes training and logistics.<sup>36</sup> Elements of the Lebanese diaspora living in Africa, including in Guinea, Sierra Leone, Liberia, Benin, and Senegal, maintain close connections to LH.<sup>37</sup> Reporting suggests that LH raises hundreds of

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<sup>32</sup> Colin P. Clarke, "A Glass Half Empty? Taking Stock of Hezbollah's Losses in Syria?" *Jerusalem Post*, October 15, 2017a.

<sup>33</sup> Jo Becker, "Beirut Bank Seen as Hub of Hezbollah Financing," *New York Times*, December 13, 2011.

<sup>34</sup> Jeffrey Goldberg, "In the Party of God," *New Yorker*, October 28, 2002.

<sup>35</sup> Ranstorp, 2005, p. 247.

<sup>36</sup> Ranstorp, 2005, pp. 246–247.

<sup>37</sup> Levitt, 2007, pp. 141–142.

thousands of dollars annually in West Africa, soliciting donations from wealthy supporters.<sup>38</sup> An estimated 120,000 Lebanese émigrés live throughout the region, many of whom are involved in import-export businesses.<sup>39</sup>

## Charities

Like other Islamic groups, LH has relied heavily on the use of charities to organize funding. The Martyrs Foundation has provided financial and operational support to the group.<sup>40</sup> Shortly after the 9/11 attacks, Paraguayan antiterrorism authorities discovered hundreds of receipts in Assad Barakat's Casa Apollo electronics shop linked to LH's Martyrs Foundation.<sup>41</sup> As Matthew Levitt has observed, the Martyrs Foundation is "a massive entity that openly concedes to supplying charitable funds to the families of [LH] suicide bombers."<sup>42</sup> In an attempt to evade scrutiny, the Martyrs Foundation operates in different countries under different auspices. The organization was known as the al-Shahid Social Relief Institution in Germany; the U.S. affiliate was known as the Goodwill Charitable Organization, responsible for sending donations from supporters directly to LH in Lebanon.<sup>43</sup>

## Fraud

LH's connections abroad provide the group with a broad array of ways to make money through various frauds, schemes, and scams. The group's members have been implicated in mortgage fraud, food stamp fraud, and credit card fraud. LH has also engaged in telecommunications fraud, which

<sup>38</sup> Matthew Levitt, "The Hezbollah Threat in Africa," Washington Institute for Near East Policy, PolicyWatch 823, January 2, 2004.

<sup>39</sup> Angel Rabasa, Peter Chalk, Kim Cragin, Sara A. Daly, Heather S. Gregg, Theodore W. Karasik, Kevin A. O'Brien, and William Rosenau, *Beyond al-Qaeda, Part 2: The Outer Rings of the Terrorist Universe*, Santa Monica, Calif.: RAND Corporation, MG-430-AF, 2006, p. 147.

<sup>40</sup> Thanassis Cambanis, *A Privilege to Die: Inside Hezbollah's Legions and Their Endless War Against Israel*, New York: Simon and Schuster, 2010, p. 195.

<sup>41</sup> Levitt, 2013, p. 83.

<sup>42</sup> Levitt, 2013, p. 154.

<sup>43</sup> Levitt, 2013, p. 233.

involved selling long distance telephone access through services obtained fraudulently and by cloning the identification of mobile phone subscribers.<sup>44</sup>

LH's fraud network in the United States spanned Michigan, California, Florida, Georgia, Illinois, Kentucky, Missouri, New York, North Carolina, and West Virginia.<sup>45</sup> Beyond the United States, the group perpetrated fraud in Canada, Lebanon, Brazil, Paraguay, and China. Not only is the group's transnational reach impressive, but the talent on its payroll is too. With the help of Iran, LH has cultivated cyber talent among its members, training computer hackers who successfully breached the networks of more than 138 different financial institutions, from New Zealand to Switzerland.<sup>46</sup>

### Legal Businesses

To help launder the vast sums of money LH earns through illicit means, the organization operates myriad businesses to store and transfer finances and to build a paper trail to obfuscate its funding activities from law enforcement. Like most of LH's enterprises, these businesses span the globe. With the help of Iran, LH maintains front companies throughout sub-Saharan Africa, in countries including Angola and the DRC. In addition, Treasury has targeted businesses in the Gambia, Sierra Leone, the British Virgin Islands, and Lebanon.<sup>47</sup> In the United States, front companies included Sigma Distribution, Inc., and Byblous Distribution Investment, Inc., the latter of which was a perfume distribution company. Other front companies included Arosfram, a food import company, and Tajco Company, LLC, a property developer in Lebanon. Still, perhaps one of LH's most valuable assets is Jihad al-Binaa (JAB) [Construction Jihad], widely recognized as the group's reconstruction and humanitarian assistance wing.

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<sup>44</sup> Rachel Ehrenfeld, *Funding Evil: How Terrorism Is Financed and How to Stop It*, Chicago: Bonus Books, 2003, p. 141.

<sup>45</sup> Colin P. Clarke, "Hezbollah Has Been Active in the United States for Decades," *National Interest*, August 26, 2017b.

<sup>46</sup> Levitt, 2013, pp. 318–323.

<sup>47</sup> Levitt, 2013, pp. 318–323.

## Money Laundering

The Lebanese Canadian Bank has been accused of helping LH launder its profits.<sup>48</sup> In 2011, the Obama administration accused the Lebanese Canadian Bank of laundering money in connection to a complex smuggling ring that involved cocaine shipped from Latin America through West Africa and to Europe. The scheme also allegedly involved purchasing used automobiles in the United States and selling them in West Africa, especially Benin. As part of the scheme, LH smuggled bulk cash, which was hidden in the cars' tires or moved by airplane.<sup>49</sup> The proceeds of the scheme were also sent through courier and security networks controlled by LH or individuals affiliated with LH to the group's finance committee in Lebanon.<sup>50</sup> LH has also laundered money through *hawala* dealers;<sup>51</sup> money service businesses, such as Western Union; and charities.

## Smuggling, Trafficking, and Counterfeiting

LH is a one-stop shop when it comes to smuggling, trafficking, and counterfeiting. Among the group's most high-value criminal activities are the smuggling of gemstones and narcotics, but its members also profit from cigarette smuggling, fake pharmaceuticals, and knockoff technologies. The group has also been known to make, sell, and use counterfeit passports and national identity cards and to counterfeit currency, with Iranian assistance.<sup>52</sup> Over time, LH has earned more than \$1 million by transporting and selling untaxed cigarettes throughout the United States, profiting from a sophisti-

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<sup>48</sup> Becker, 2011.

<sup>49</sup> Becker, 2011; McBrien, 2016; FATF, *Terrorist Financing in West Africa*, Paris, October 2013b.

<sup>50</sup> Jessica Hume, "U.S. Seizes \$150 Million From Hezbollah-Linked Lebanese Canadian Bank," *Toronto Sun*, August 21, 2012. As noted in Shelley, 2014, pp. 181, 214.

<sup>51</sup> The *hawala* system is an informal method of transferring money via trusted networks. The method does not require the physical transport of any money but rather is built around the trust of those participating in the transactions. These networks can allow faster and less expensive transfers of money internationally than the international banking system. For more information, see Patrick M. Jost and Harjit Singh Sandhu, *Hawala: The Hawala Alternative Remittance System and Its Role in Money Laundering*, Lyon: Interpol General Secretariat, 2000.

<sup>52</sup> Levitt, 2013, p. 338.

cated smuggling ring based in North Carolina.<sup>53</sup> LH has made millions of dollars from the illegal diamond trade and uses both individual Lebanese merchants and private-sector companies to facilitate its illicit activities.<sup>54</sup> Diamonds are mined in Sierra Leone and transported through Liberia and Guinea.<sup>55</sup> LH operatives are also active in the DRC, where members have exploited the country's vast natural resources, including diamonds, gold, uranium, and tanzanite.<sup>56</sup> The same networks LH uses to transport diamonds and licit goods can also be used to transport narcotics. In recent years, West Africa has emerged as a critical hub in the global cocaine trade, with South American cocaine transiting through the region before being shipped abroad to Western Europe and parts of Asia, including Russia. Lebanese networks, and specifically LH, are among the main players involved in the import and smuggling of cocaine from West Africa across the Sahel and on to Europe.<sup>57</sup> LH has also dealt methamphetamine and, in the past several years, has been receptive to a burgeoning relationship with Mexican drug cartels.<sup>58</sup>

## Efforts to Disrupt Finances

Multiple countries have targeted LH's finances, most prominently the United States and Israel. But going after LH's funding stream alone has proven insufficient to counter the group's finances. Therefore, the United

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<sup>53</sup> "18 Accused of Cigarette Smuggling to Fund Hezbollah," *Los Angeles Times*, July 22, 2000.

<sup>54</sup> Martin Ewi, "A Decade of Kidnappings and Terrorism in West Africa and the Trans-Sahel Region," *African Security Review*, Vol. 19, No. 4, 2010, p. 68.

<sup>55</sup> Gail Wannenburg, "Organised Crime in West Africa," *African Security Review*, 2005, Vol. 14, No. 4, p. 10.

<sup>56</sup> Douglas Farah, "Digging Up Congo's Dirty Gems," *Washington Post*, December 30, 2001, pp. A1, A16.

<sup>57</sup> Eric Denécé and Alain Rodier, "The Security Challenges of West Africa," in Philipp Heinrigs and Marie Trémolières, eds., *Global Security Risks and West Africa: Development Challenges*, OECD Publishing, 2012.

<sup>58</sup> Eric Halliday, "Transnational Organized Crime and National Security: Hezbollah, Hackers, and Corruption," *Lawfare* blog, July 2, 2019.

States and its allies have sought to look beyond LH and consider the roles of Iran; Syria; the Lebanese diaspora; and, at times, segments of the Lebanese government and the Lebanese economy. Targeting Iran directly, by extension, squeezes LH.

Although the United States has used a mix of kinetic and nonkinetic CTF tools, Israel has mostly relied on kinetic force to disrupt LH operations and logistic networks. For example, in 2006, Israel reportedly conducted a series of strikes against Lebanese financial institutions that were alleged to be conducting business for LH, including eight offices of LH's treasury.<sup>59</sup> In some cases, kinetic action has proven counterproductive, with air strikes actually helping the group. After property is destroyed in LH territory, the group returns with its construction firm and rebuilds the area, solidifying popular support while generating more hatred for Israel. Rather than targeted assassinations, finely tuned economic sanctions against LH's global financial network could pay dividends with fewer negative consequences.

## Nonkinetic Activities

In the immediate aftermath of 9/11, as the United States worked to assess the global terrorist threat, LH was a close second to AQ in terms of priorities. To meet the threat, especially from LH's robust war chest, the United States engaged in security cooperation and partner capacity-building programs to help its allies in areas where their performance was less than optimal. In 2004, the United States helped reinvigorate the 3 + 1 Group on Tri-Border Area security, joining with Argentina, Brazil, and Paraguay to concentrate efforts on a multipronged approach that included strengthening Paraguay's legal system and working with local authorities on the enforcement of immigration and customs laws.<sup>60</sup> The primary objective was to counter LH activity in the area and make it clear that the Tri-Border Area would no longer serve as a lawless frontier for drug traffickers and terrorist groups to cooperate on illicit activities.<sup>61</sup> In 2006, a regional intelligence center was established in Paraguay, created to share intelligence and information. Overall,

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<sup>59</sup> Ciralsky et al., 2006.

<sup>60</sup> Philippone, 2012.

<sup>61</sup> Nielsen, 2019.

the effort has been assessed as “ineffectual,” with local governance in the area continuously plagued by corruption.<sup>62</sup> Despite the increased scrutiny, LH continues to launder money and use the Tri-Border Area as a base of operations in Latin America.<sup>63</sup>

Targeted sanctions have frequently been employed against LH, its networks, and its operatives. The United States has used official terrorist designations and listings to impose financial and immigration sanctions on LH and its supporters, blocking assets under U.S. jurisdiction, prohibiting American citizens from providing the group with financial or material support or engaging in financial transactions with LH and affiliated parties, denying LH associates entry into the United States, and authorizing the deportation of LH-associated individuals.<sup>64</sup> In June 2004, Treasury designated Assad Ahmad Barakat, LH’s treasurer in South America, as a “key terrorist financier” and someone “who has used every financial crime in the book, including his businesses, to generate funding” for LH.<sup>65</sup> Taking Barakat out was important because of the outsized role he played in LH’s financing networks; however, because the group boasts such a deep bench, it has been able to recover from sanctions against key nodes in its network with relative ease.<sup>66</sup>

LH maintains an active media arm, Al-Manar television station, which is available throughout the world via satellite. In March 2006, Treasury designated the Al-Manar television operation, Al-Nour radio, and the Lebanese Media Group (the parent company to both Al-Manar and Al-Nour radio), as SDGT entities. In addition to supporting LH, Al-Manar has also aided the PIJ and al-Aqsa Martyrs Brigade. DoS placed Al-Manar on the Terrorist Exclusion List back in December 2004, in effect barring individuals who

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<sup>62</sup> Neumann and Page, 2018.

<sup>63</sup> Ian Talley, “Hezbollah Said to be Laundering Money in South American Tri-Border Region,” *Wall Street Journal*, May 15, 2018.

<sup>64</sup> Addis and Blanchard, 2011, p. 22.

<sup>65</sup> Juan Zarate, *Treasury’s War: The Unleashing of a New Era of Financial Warfare*, New York: PublicAffairs, 2013, p. 118.

<sup>66</sup> Christian Leuprecht, Olivier Walther, David B. Skillikorn, and Hillary Ryde-Collins, “Hezbollah’s Global Tentacles: A Relational Approach to Convergence with Transnational Organised Crime,” *Terrorism and Political Violence*, Vol. 29, No. 5, 2017.



engage in a variety of actions involving Al-Manar from entering the United States. LH's global media reach allows the group to promote its image and spread awareness of its activities, which in turn, increases its popular support. Such a sophisticated media enterprise is expensive to operate and, therefore, requires considerable funding.

Another successful kinetic action was Operation Double Top, put in place following the bombings of the Asociación Mutual Israelita Argentina in Argentina in 1994. The operation brought together law enforcement and intelligence agencies from the United States and the Tri-Border countries. The operation focused on disrupting commercial operations, burning containers, blocking bank accounts, stealing passports, and arresting LH members in the area.<sup>67</sup> Operation Bathwater was sought to clamp down on LH activities based in Michigan. The operation was a result of federal and local collaboration, with information developed in January 1999 by U.S. Secret Service agents working with the Detroit Joint Terrorism Task Force. Focused on the financial element of LH's criminal enterprise in the United States, Bathwater uncovered the largest credit card fraud scheme in the country at the time.<sup>68</sup>

In July 2013, the European Union designated LH as a terrorist organization, essentially blacklisting the group and freezing many of its assets throughout Europe, which has served as a financial conduit in the past.<sup>69</sup> The move came after years of prodding by both the United States and Israel, which realize the importance of collaboration in countering terrorists' finances. As Philippone has noted,

success against Hezbollah's crime network will take significant inter-agency efforts and the ability of multiple organizations to share information and work together. Continuous legislative pressure will be needed to push law enforcement, intelligence and other government agencies to work together against a common enemy.<sup>70</sup>

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<sup>67</sup> Levitt, 2013, pp. 102–103.

<sup>68</sup> Levitt, 2013, pp. 317–318.

<sup>69</sup> Kanter and Rudoren, 2013.

<sup>70</sup> Philippone, 2012, p. 59.

## Kinetic Activities

Kinetic activities are an obvious complement to nonkinetic activities. Given the legal and political sensitivities of kinetic strikes against an organization like LH, especially for the United States, the vast majority of actions to counter LH's financial network will be nonkinetic. Still, successful kinetic operations have been conducted against LH that could provide a partial blueprint for similar future operations. In the mid-1990s the FBI launched Operation Smokescreen, overseen by its International Terrorism Operations Section and focused on recruiting sources and surveilling and monitoring the group's communications. The operation was largely successful and resulted in criminal charges for 26 individuals accused of contraband cigarette trafficking, money laundering, racketeering, wire fraud, conspiracy, visa and marriage fraud, and material support to a terrorist group. More than 500 bank and credit card accounts were investigated as part of the financial analysis of the network.<sup>71</sup>

Operation CoPlan Pink Poppy, launched in October 1998 with assistance from intelligence agents in the Philippines, was primarily concerned with identifying members of AQ's network in Southeast Asia. The operation followed a French request that the Philippine government look into connections between AQ and LH.<sup>72</sup> Because of a dearth of funding, the operation was terminated in 2000. However, after the 9/11 attacks, it was restarted under the name Operation Kamikaze and targeted a well-known LH operative named Pandu Yudhawinata, one of the group's key facilitators, especially for its network in Southeast Asia.

## Recent Evolution

Under the Trump administration, U.S. efforts to combat LH's financial activities increased significantly. Some of these efforts were a continuation of initiatives that began during previous administrations, while others were entirely new in scope and scale. In 2015, the U.S. Congress passed the Hezbollah International Finance Prevention Act (HIFPA), which led to the

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<sup>71</sup> Levitt, 2013, p. 157.

<sup>72</sup> Levitt, 2013, p. 119.

shuttering of hundreds of LH-linked accounts in Lebanon—some linked to individuals and others to institutions.<sup>73</sup> Specifically, the bill called for official U.S. policy to

(1) prevent Hezbollah’s global logistics and financial network from operating to curtail funding of its domestic and international activities; and (2) use diplomatic, legislative, and executive avenues to combat Hezbollah’s criminal activities to block that organization’s ability to fund its global terrorist activities.<sup>74</sup>

A follow-on bill in 2018 added several important amendments to HIFPA, including sanctions aimed at foreign persons who knowingly assist in or provide support for fundraising or recruitment activities for LH; agencies of foreign governments that provide LH with financial support, arms, or other assistance; and LH’s networks relating to its narcotics trafficking and other transnational criminal activities.<sup>75</sup>

During a briefing at the Washington Institute for Near East Policy in November 2018, the DoS Coordinator for Counterterrorism, Nathan A. Sales, publicly announced that Iran provided LH with approximately \$700 million per year, a figure far higher than most had previously believed.<sup>76</sup> With that money, Iran has helped LH develop an arsenal of more than 150,000 rockets and missiles. The external state support is just part of LH’s operating budget, however, because the group continues to maintain a worldwide network of companies and middlemen that assist with weapon procurement and securing critical dual-use equipment for the organization.

There are some signs that the U.S.-led CTF campaign has weakened the group. Perhaps in response to having its funds squeezed, LH launched an online fundraising effort called the “Equip a Mujahid” campaign, which

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<sup>73</sup> “Attacking Hezbollah’s Financial Network: Policy Options,” hearing before the Committee on Foreign Affairs, House of Representatives, 115th Cong., 1st Sess., Washington, D.C., June 8, 2017.

<sup>74</sup> Pub. L. 114-102, Hizballah International Financing Prevention Act of 2015, December 18, 2015.

<sup>75</sup> Pub. L. 115-272, Hizballah International Financing Amendments Act of 2018, October 25, 2018.

<sup>76</sup> Sales, 2018.

used crowdsourcing to solicit donations.<sup>77</sup> To insulate its finances against disruptions in the broader network, LH has deliberately diversified its portfolio to include businesses linked to rental cars, food processing, fishing, farming, and the pharmaceutical industry.<sup>78</sup>

Lebanon's Central Bank has played a critical role in cracking down on LH financing networks. The HIFPA act and its follow-on amendments have moved to limit the group's ability to launder money in Lebanon and placed LH-linked facilitators under further scrutiny.<sup>79</sup> In August 2019, the Jammal Trust Bank—based in Lebanon but with branches in Africa and Europe—was targeted for sanctions for its role in aiding LH.<sup>80</sup> The same month, LH financier Kassim Tajideen, was sentenced to five years in prison for his role in facilitating transactions for the group. Tajideen was investigated by DoJ's Hezbollah Financing and Narcoterrorism Team.<sup>81</sup> The Counter Hezbollah International Partnership is another pillar in the U.S. government's broader strategy to crack down on the group and is used to share information and build partner capacity to facilitate the use of financial tools against LH networks.<sup>82</sup>

Things have not always gone smoothly, however, as evidenced by inter-agency infighting within the U.S. government.<sup>83</sup> Even as the United States has enjoyed success in constricting LH's broader ability to finance its orga-

<sup>77</sup> Yaya J. Fanusie, "Hezbollah Fundraising Underscores Its Financial Crisis," webpage, Foundation of Defense for Democracies, April 25, 2017.

<sup>78</sup> Sales, 2018.

<sup>79</sup> "U.S. Stresses Lebanon Must Cut Hezbollah from Financial System," Reuters, January 23, 2018.

<sup>80</sup> "Lebanon's Jamaal Trust Bank forced to close by U.S. Sanctions," Reuters, September 19, 2019; see also, Matthew Levitt, "Hezbollah Prioritizes Its Own Interests, Putting Lebanon at Risk," webpage, Washington Institute for Near East Policy, PolicyWatch 3195, October 3, 2019.

<sup>81</sup> DoJ, Office of Public Affairs, "Lebanese Businessman Tied by Treasury Department to Hezbollah Is Sentenced to Prison for Money Laundering Scheme Involving the Evasion of U.S. Sanctions," press release, Washington, D.C., August 8, 2019.

<sup>82</sup> Treasury, "Treasury Launches the Counter-Hizballah International Partnership (CHIP) to Thwart Illicit Financial Activity," October 18, 2019.

<sup>83</sup> Daniel Byman, "Hezbollah, Drugs, and the Obama Administration: A Closer Look at the Damning Politico Piece," *Lawfare* blog, January 30, 2018; see also, Matthew

nization, several challenges remain that will be difficult to overcome. For example, LH will likely continue to retain its ability to position itself within Lebanon's government, including the Health Ministry, to access funds and move money around. Nevertheless, the U.S. government, especially through Treasury, has remained on the offensive, designating more than 150 LH-linked entities and individuals, more than 40 of them in 2018.<sup>84</sup> To consider any successes against LH, it is critical to look at the campaign to target the broader supporting architecture of the Iran Threat Network. Placing Iran's financial network under pressure forces LH to react by relying more closely on criminal means. With new laws, authorities, and sanctions in place, the U.S. government has been able to respond with more agility to LH's changing strategy.<sup>85</sup>

## Conclusions and Implications

Overall, the United States and its allies have done an admirable job of degrading LH's finances over time. One of the most significant challenges is that, given how long the group has operated and the sheer amount of money it has received from Iran over the years, LH's war chest is robust. Moreover, its global network of illicit and criminal activities means that it has long maintained a diversified funding portfolio that is the envy of most modern terrorist groups in terms of its scope and scale. Countering LH's finances requires a truly global approach, given the group's footprint stretching from the Middle East to Latin America and beyond. Targeting LH's financial network in Lebanon is a necessary, but not sufficient, approach to limiting its ability to make, move, and spend funds.

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Levitt, "In Search of Nuance in the Debate Over Hezbollah's Criminal Enterprise and the U.S. Response," Lawfare Research Paper Series, Vol. 5, No. 3, March 20, 2018.

<sup>84</sup> Sales, 2018; see also Boaz Ganor and Miri Halperin Wernli, "The Infiltration of Terrorist Organizations Into the Pharmaceutical Industry: Hezbollah as a Case Study," *Studies in Conflict & Terrorism*, Vol. 36, No. 9, 2013, p. 702.

<sup>85</sup> Tom Keatinge and Kerstin Danner, "Assessing Innovation in Terrorist Financing," *Studies in Conflict & Terrorism*, Vol. 44, No. 6, 2019.

The most successful approach to mitigating LH's financing seems to be a comprehensive strategy that uses both kinetic and nonkinetic activities. Aggressive tactics undertaken by the Trump administration caused significant damage to the group's ability to access sources of financing—the “maximum pressure” campaign implemented biting sanctions that aimed not only at LH's worldwide network but also at the group's primary patron, Iran and the Iran Threat Network.<sup>86</sup> The U.S. campaign of maximum pressure attempted to put Iran in a stranglehold and force it to operate with far fewer resources. The conventional wisdom, which may prove to be true, is that if Tehran is struggling, LH also struggles.

The implications for the United States Army and other interagency actors for the counter-LH financing effort flow from this case study:

- First, in terms of working across the interagency, it is crucial for the U.S. Army to learn from previous efforts to counter groups with capabilities similar to LH. One geographic AOR that could be informative is USSOUTHCOM, which has a history of dealing with a range of VNSAs, including transnational criminal organizations.<sup>87</sup> LH is one of the most unusual nonstate entities there is, a true hybrid, a terrorist group with a global criminal network and legitimate connections to Lebanon's governing system. By working closely with USSOUTHCOM to harness best practices and lessons learned, the U.S. Army could gain leverage by thinking about LH beyond the traditional counterterrorism lens and analyzing the group as more of a transnational criminal organization because that is the way it behaves in the threat finance realm. USSOUTHCOM would, naturally, have an intimate understanding of LH because the group remains active throughout Latin America, especially in Venezuela.<sup>88</sup>
- Second, it is crucial to view LH in the broader context of the Iran Threat Network because such a significant portion of LH's financial flexibility, although not all, is connected to Iran's activities around

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<sup>86</sup> Mona Alami, “Hezbollah Revels in Trump's Defeat and Anticipates Easing of US Pressure,” *Middle East Eye*, November 13, 2020.

<sup>87</sup> Rabasa et al., 2017.

<sup>88</sup> Colin P. Clarke, “Hezbollah Is in Venezuela to Stay,” *Foreign Policy*, February 9, 2019.

the globe.<sup>89</sup> Kinetic and nonkinetic actions against Iran, including crushing sanctions as part of the maximum pressure campaign, have a trickle-down effect on LH's finances and give it less room to maneuver.

- Third, while *whole-of-government approach* and *interagency coordination* are terms that can be used loosely and that are often tacked on to a list of policy recommendations *pro forma*, both concepts are critical for countering LH's financing. As outlined in this case study, Treasury has been indispensable in working to shut down LH's illicit operations and disrupt its financial network with sanctions and in conducting targeted actions against specific individuals that play prominent roles in raising money for the group.
- Fourth, and finally, the U.S. Army should continue to engage in security cooperation and building partner capacity activities with Lebanon, where possible, but also other countries that exist within the wider orbit of countries LH takes advantage of to make money. This includes countries in West Africa and Latin America, where U.S. efforts to counter corruption, strengthen the rule of law, increase transparency through good governance initiatives, and conduct defense institution-building (and ministerial capacity-building) could serve as a force multiplier to kinetic efforts to counter LH and similar groups.

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<sup>89</sup> Ariane M. Tabatabai and Colin P. Clarke, "Iran Seeks to Cement Legitimacy of Shia Militias," webpage, Foreign Policy Research Institute, May 19, 2019.





## The Islamic State in Libya

This appendix supports Chapter 5's discussion on the effectiveness of CTF efforts. In this appendix, we summarize the major effects of various disruptive tools applied to Libya's ISIS-L. This case study will follow the group's origins, ideology, financing streams, evolution, and both the kinetic and nonkinetic tactics applied to countering ISIS-L and its finances by Libya, the United States, and the international community.

### Emergence and Resource Base

ISIS-L was arguably one of the Islamic State's most successful efforts to export its state-building project outside its core area of operation in Iraq and Syria. The organization formally emerged in Libya in 2014 out of the governance and security vacuum of the post-Gaddafi era and was inextricably tied to the violent fallout of the other 2011 Arab uprisings. ISIS-L established its stronghold in Sirte—the hometown of the country's long-time dictator, Muammar Gaddafi—and expanded to control more than 150 miles of Mediterranean coastline.

Following the 2011 toppling of the Gaddafi regime by NATO-backed revolutionary forces, newly armed and empowered Libyans, particularly those with Salafi ideological proclivities, looked to support anti-regime uprisings elsewhere in the Arab world. Therefore, thousands of Libyans and substantial amounts of arms plundered from Gaddafi regime stockpiles flooded into Syria to support the anti-Assad opposition.<sup>1</sup> By 2014, hundreds

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<sup>1</sup> Frederic Wehrey, "When the Islamic State Came to Libya," *The Atlantic*, February 10, 2018.

of battle-hardened Libyan fighters, many of whom had fought as part of ISIS's Libyan Battar Brigade, began returning to Libya. On October 3, 2014, in the eastern city of Derna, the Youth of Islam Shura Council formally gave *bay'a* [a pledge of allegiance] to ISIS's self-proclaimed caliph, Abu Bakr al-Baghdadi.<sup>2</sup>

Fighters returning from Syria formed the backbone of ISIS-L in Derna, although the group also recruited members from other Libyan Salafi-jihadi groups, such as AQ-linked Ansar al-Shari'a in Libya. However, after tit-for-tat assassinations, scuffles over turf, and eventual open clashes with another rival Salafi group, the Mujahideen of Derna Shura Council (MDSC), ISIS-L was ousted from its initial Libyan base in June 2015.<sup>3</sup> The organization had already expanded to other areas on the Libyan coast, such as Benghazi in the east, Sabratha in the west, and Sirte—Gaddafi's hometown and former loyalist stronghold—in central Libya. After its expulsion from Derna, ISIS-L reestablished itself in Sirte, exploiting grievances of former regime members and Gaddafi loyalists whom the post-revolution Libyan system had marginalized. With former regime loyalists, al-Gaddafi tribesmen,<sup>4</sup> and local Salafi-jihadis as its foundation, ISIS-L erected Sirte as its capital and the group's stronghold in North Africa.

Following ISIS's Derna affiliate's pledging of *bay'a* in 2014, then-ISIS leader Abu Bakr al-Baghdadi declared three *wilayat* [provinces] in Libya—Wilayat Tarabulus in the west, Wilayat Barqa in the east, and Wilayat Fezzan in the south. He also dispatched prominent leaders and veteran fighters to

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<sup>2</sup> Wilson and Pack, 2019, p 24; Cameron Glenn, Mattisan Rowan, John Caves, and Garrett Nada, "Timeline: The Rise, Spread, and Fall of the Islamic State," webpage, Wilson Center, October 28, 2019. *Bay'a* is a political and religious term, meaning a profession of loyalty; individuals and groups wishing to formally join ISIS must pledge *bay'a* to the group's leader—at the time, Abu Bakr al-Baghdadi.

<sup>3</sup> *Salafi* characterizes an adherent of an ideological strain in Sunni Islam that seeks to emulate, as purer, the thinking and practices of Muhammad and the earliest generations of Muslims. It is often seen in combination with *jihadist*, as in a Salafi-jihadist group. Jihadists believe that violent struggle against non-Muslims and Muslims they judge as apostate is an important religious duty. ISIS-L can be considered a Salafi-jihadist group.

<sup>4</sup> The Gaddafa are the prominent Libyan Arab tribe from which Muammar Ghaddafi and his family hailed. The tribe largely resides in the Sirte region and also has a presence in the southern city of Sabha and in Chad.

Libya to help establish the branch's organizational structure, which was largely modeled after that of the ISIS core in Syria and Iraq, replete with governors, *hisba* police [religious enforcers], Shari'a (Islamic law) courts, and various administrative bureaus, including financial institutions.<sup>5</sup> The imposition of Salafi-jihadi ideology through governance and jurisprudence was particularly important to the group because it portrayed a sense of ISIS expanding its state-building project beyond the confines of Iraq and Syria.<sup>6</sup>

In addition to ISIS members from the Levant and Gulf, foreign fighters from North, Sahelian, and sub-Saharan Africa bolstered ISIS-L's ranks. Terrorism scholar Aaron Zelin estimates that between 2,600 and 3,500 foreigners traveled to Libya to join ISIS.<sup>7</sup> Foreign members generally dominated ISIS-L's leadership echelons. For instance, Iraqi national Abu Mughirah al-Qahtani—also known as Abu Nabil al-Anbari—served as ISIS-L's first governor until his death in a U.S. airstrike in Derna in November 2015.<sup>8</sup> Nevertheless, Libyans, both hard-core ISIS supporters and those simply living in Sirte while it was under ISIS domination conducted much of ISIS-L's day-to-day administrative operations.<sup>9</sup>

<sup>5</sup> Issandr El Amrani, "How Much of Libya Does the Islamic State Control?" *Foreign Policy*, February 18, 2016.

<sup>6</sup> Cook, Haid, and Trauthig, 2020, p. 12; Wilson and Pack, 2019, p. 27.

<sup>7</sup> Aaron Y. Zelin, "The Others: Foreign Fighters in Libya," policy note, Washington, D.C.: Washington Institute for Near East Policy, 2018, p. 3. Estimates of ISIS-L's peak strength in Sirte generally range between 4,000 and 5,000 fighters. Correspondingly, foreigners accounted for roughly 50 to 80 percent of ISIS-L fighters.

<sup>8</sup> Mohamed Eljarh, "Islamic State in Libya," in Katherine Bauer, ed., *Beyond Iraq and Syria: Examining Islamic State Provinces*, Washington, D.C.: Washington Institute for Near East Policy, 2016, p. 8.

<sup>9</sup> "ISIS Leader Reveals *How* Bay'a Occurred," [قيايدي بتنظيم داعش يكشف كيف تمت ببيعة], *Akhbar Al-An* [أخبار الآن], YouTube, August 25, 2017. In Sirte, ISIS-L exploited a preexisting Salafi-jihadi presence, local grievances, and a sense of abandonment in post-Gaddafi Libya to establish itself in the city. For instance, rather than immediately and totally abolishing local institutions, ISIS-L initially sought to co-opt local security actors and judges, encourage them to pledge *bay'a* to al-Baghdadi, and integrate them into ISIS-L *hisba* and Shari'a court structures. Therefore, ISIS-L was able to build its protostate in Sirte by absorbing local actors and institutions, engender popular support, and bolster its Salafi-jihadi credentials through displays of governance and stringent ideological enforcement. See Cook, Haid, and Trauthig, 2020, p. 12.

From its protostate in Sirte and presence in Benghazi and Sabratha, ISIS-L planned and conducted attacks across much of northern Libya. On January 7, 2016, ISIS-L perpetrated the deadliest suicide bombing in Libyan history, driving a truck bomb into the police academy in Zliten, 300 km west of Sirte, killing 65 and wounding hundreds more.<sup>10</sup> In another spectacular attack, ISIS-L launched a failed attempt to capture the Tunisian border town of Ben Gardane, staging the operation from Sabratha and largely deploying Tunisian foreign fighters.<sup>11</sup> Additionally, ISIS-L conducted multiple attacks targeting vital oil infrastructure in the country's Oil Crescent region, where most of the country's oil exporting ports are located. However, unlike in Iraq and Syria, ISIS-L was not able to control lucrative oil equities and effectively exploit oil resources for financial gain.<sup>12</sup>

Instead, ISIS-L relied primarily on theft and extortion to generate revenue. In particular, when the group took control of Sirte in February 2015, it plundered an estimated \$4 million from local banks.<sup>13</sup> Additionally, ISIS-L taxed local businesses and individuals living under its control in Sirte, providing a reliable revenue stream. In addition to local businesses and citizenry, ISIS-L reportedly extorted human smuggling and drug trafficking routes that ran through its territory. At its height, the group controlled roughly 150 miles of Mediterranean coastline from which human smugglers ferried refugees and African migrants to Europe. When moving migrants through ISIS-controlled areas, ISIS-L would exact tolls on the human smugglers; moreover, the 2016 Global Terrorism Index reported instances of ISIS-L even conducting attacks on displacement camps in Libya to increase the number of migrants looking to cross over to Europe, profiting from the taxation on smugglers.<sup>14</sup> Additionally, ISIS-L may have taxed drug traffickers who passed through the group's territory while transporting Moroccan

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<sup>10</sup> "Dozens Killed in Bomb Attack on Libyan Police Academy," Al Jazeera, January 7, 2016.

<sup>11</sup> Zelin, 2018, p. 10.

<sup>12</sup> Center for the Analysis of Terrorism, *ISIS Financing: 2015*, Philadelphia: University of Pennsylvania, May 2016, p. 28.

<sup>13</sup> Center for the Analysis of Terrorism, 2016, p. 28.

<sup>14</sup> Institute for Economics and Peace, *Global Terrorism Index 2016: Measuring and Understanding the Impact of Terrorism*, 2016, p. 85.

hashish by ship to Libya and from there overland to Egypt and eventually into European markets.<sup>15</sup> Between plundered bank reserves, tax collection, and various forms of extortion, ISIS-L was reportedly able to fund a multi-million-dollar monthly budget, which financed governance, public services, and military operations.<sup>16</sup>

On top of generating revenue through local forms of taxation and extortion, ISIS-L also benefitted from funding provided directly by the ISIS core. As Brett McGurk, the former Special Presidential Envoy for what was, at the time, called the Global Coalition to Counter ISIL, attested to Congress in February 2016, the ISIS core “provided financial support from its base in Iraq and Syria to its branches in Libya, Sinai, Yemen, and Saudi Arabia.”<sup>17</sup> The ISIS core transferred much of these funds to its provinces through the *hawala* system or via smugglers.<sup>18</sup> Furthermore, ISIS-L’s relative wealth and prominence among the group’s other provinces and affiliates—prior to its liberation from ISIS-L, the ISIS core and analysts alike generally regarded Sirte as the group’s likely fallback stronghold—allowed it to support other affiliates financially. In particular, ISIS’s Wilayat Sinai (the Egyptian Sinai Peninsula) representative in Libya reportedly transferred hundreds of thousands of dollars from Libya to Wilayat Sinai. Additionally, the eastern Wilayat Barqa and Wilayat Sinai were reportedly coordinating to exploit overland smuggling routes, and possibly to develop an oversea route, as a means of jointly generating revenue; indeed, the overland Libya-Egypt hashish trafficking routes may have provided both wilayat with a means of financing.<sup>19</sup>

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<sup>15</sup> Callimachi and Tondo, 2016.

<sup>16</sup> Wilson and Pack, 2019, p. 27.

<sup>17</sup> Brett McGurk, “From Iraq and Syria to Libya and Beyond: The Evolving ISIL Threat,” testimony before the Committee on Foreign Affairs, U.S. House of Representatives, 114th Cong., 2nd Sess., February 10, 2016, p. 9.

<sup>18</sup> McGurk, 2016, p. 9.

<sup>19</sup> Katherine Bauer, “Financing,” in Katherine Bauer, ed., *Beyond Iraq and Syria: Examining Islamic State Provinces*, Washington, D.C.: Washington Institute for Near East Policy, 2016.

## Evolution of Financing Strategy

From its earliest days in Libya, ISIS-L's financing largely relied on controlling territory, extorting local populations and businesses, and reaping dividends from trafficking and smuggling economies operating in the group's territory. However, as counter-ISIS operations expelled the group out of Sirte and other urban centers, ISIS-L had to adapt its financing strategy to its new reality of being without territorial control. Dispersing into Libya's vast desert, the group began to integrate into local smuggling economies, conduct kidnappings for ransom, and extort local populations to generate revenue and sustain its activities.

For more than a year, ISIS-L was able to operate out of Sirte without considerable opposition from other Libyan armed factions. However, beginning in May 2016, a coalition of militias, predominantly from the western city of Misrata, named al-Bunyan al-Marsous (BAM) launched a campaign to oust ISIS-L from its stronghold in Sirte. Supported by U.S. airpower and Special Operations Forces, BAM battled ISIS-L for nearly eight months, declaring victory in Sirte on December 6, 2016.<sup>20</sup>

Following its territorial defeat, ISIS-L underwent a drastic reorganization, transitioning from a protostate with a developed bureaucratic structure to an insurgent group operating cells throughout the country. Additionally, the group has suffered a high attrition rate. From a 2015–2016 peak of approximately 5,000 fighters, ISIS-L was estimated to have had as few as 100 at the end of 2019.<sup>21</sup> Many were killed defending Sirte and Benghazi. However, U.S. Africa Command (USAFRICOM) maintained a steady pace

<sup>20</sup> By the time BAM had liberated Sirte, ISIS-L had already lost its base in Sabratha. The remaining ISIS fighters in Benghazi were embroiled in a two-year-long fight with eastern-based strongman Hifter and his self-titled Libyan National Army (LNA) and Libyan Arab Armed Forces (LAAF) and were predominantly confined to the city's Sabri and Ganfouda neighborhoods. On January 5, 2017, the last remnants of ISIS fled Benghazi and reportedly reconstituted in central Libya around the town of Bani Walid. See "What's Hifter's Relation to ISIS' Withdrawal from Benghazi?" [ما علاقة حفتر بانسحاب مقاتلي تنظيم الدولة من بنغازي؟], Arabi21 [ <عربي 12> ], January 7, 2017.

<sup>21</sup> Aaron Y. Zelin, "The Islamic State in Libya Has Yet to Recover," webpage, Washington Institute of Near East Policy, December 6, 2019.

of airstrikes against the group, conducting four in September 2019 and killing 43 fighters, reportedly knocking out nearly one-third of ISIS-L's overall strength.<sup>22</sup> This campaign has not been active since the September 2019 airstrikes.<sup>23</sup>

Unable to control any urban areas, ISIS-L dispersed to the desert and primarily operated its cells in central and southern Libya. Libyan journalist Sami Zaptia reported that, after losing its stronghold in Sirte, ISIS-L attempted to “move south and sent emissaries to southern localities, such as Ubari, Temessa, and Zweila, with large quantities of cash to prepare the ground and establish contacts with local groups.”<sup>24</sup> Much of the cash ISIS-L reportedly used to pay local groups and establish contacts in southern Libya may have been reserves from the initial cash infusion ISIS-L received when it plundered several banks in Sirte in 2015. Indeed, a 2019 UN report stated that ISIS-L still maintained “substantial financial resources” from this initial seizure from which it could still draw.<sup>25</sup> Moreover, ISIS-L purportedly attempted to connect with smuggling networks operating in southern Libya, possibly to establish a protection racket as a means of financing.<sup>26</sup>

The group is no longer able to generate millions of dollars in revenue through the local extortion measures it exploited in Sirte. Yet, given its dramatically reduced and dispersed presence, ISIS-L arguably no longer requires such wealth. To fund its diminished operations, which have still featured shocking and deadly terrorist attacks, ISIS-L has predominantly reverted to establishing checkpoints to extort civilians in southern and central Libya, conducting kidnapping for ransom, and benefiting from the country's pervasive smuggling and trafficking industry. Arguably, being

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<sup>22</sup> Shawn Snow, “Esper Says US Forces Combating ISIS in Libya ‘Continue to Mow the Lawn,’” *Military Times*, November 14, 2019.

<sup>23</sup> Airwars, “Military Claims,” undated.

<sup>24</sup> Sami Zaptia, “ISIL Exploiting Divisions and Smuggling Networks,” *Libya Herald*, March 9, 2018.

<sup>25</sup> UN Analytical Support and Sanctions Monitoring Team, *Twenty-Fourth Report of the Analytical Support and Sanctions Monitoring Team Submitted Pursuant to Resolution 2368 (2017) Concerning ISIL (Da'esh), Al-Qaida and Associated Individuals and Entities*, New York: UN Security Council, S/2019/570, July 15, 2019, p. 9.

<sup>26</sup> Zaptia, 2018.

pushed out of Sirte and Benghazi and into southern Libya facilitated ISIS-L's transition to a quasi-criminal insurgent group, as the country's southern region is largely ungoverned and an epicenter for migrants, human smugglers, and myriad varieties of traffickers.

Because of periodic USAFRICOM airstrikes and clashes with local militias, ISIS-L has assumed a relatively lower, less bellicose profile in southern Libya. Moreover, the group likely lacks the strength to muscle its way into a dominant position in an already well-established smuggling and trafficking economy. The group has still conducted attacks on municipalities and rival armed groups, particularly those affiliated with Hifter's LNA/LAAF. However, as Figure E.1 shows, the number of non-battlefield killings by ISIS-L has fallen dramatically since the group's ouster from Sirte—from 290 deaths in 2016 to only nine in 2019. Additionally, of the 87 recorded ISIS-L-related incidents between March 1, 2018, and October 31, 2019, nonviolent activities accounted for more than one-half. For incidents relating to attacks, kidnappings, or establishing checkpoints, the latter two accounted for 47 such incidents—17 and 30 incidents, respectively.<sup>27</sup> Especially in areas of southern Libya, ISIS-L may be establishing checkpoints as a means of extorting money from smugglers and traffickers. Additionally, ISIS-L is conducting kidnapping for ransom to generate funds, targeting both Libyans and foreigners. Indeed, the group reportedly received a €1 million (\$1.16 million) payment for release of Turkish oil workers kidnapped in southern Libya.<sup>28</sup>

Furthermore, ISIS-L may still be involved in Libya's drug trafficking economy. ISIS cells operate in areas south of Sirte, which are hotspots for the trafficking of tramadol—an opioid pain reliever. Given that ISIS regularly establishes checkpoints in that area, it is possible that the group is generating revenue by taxing drug traffickers operating there. However, Mark Micallef, an investigative journalist specializing in North African trafficking and smuggling, has stated that “to date there is scant evidence that jihadi groups are in a position to engage in the transportation or sale of drugs on a

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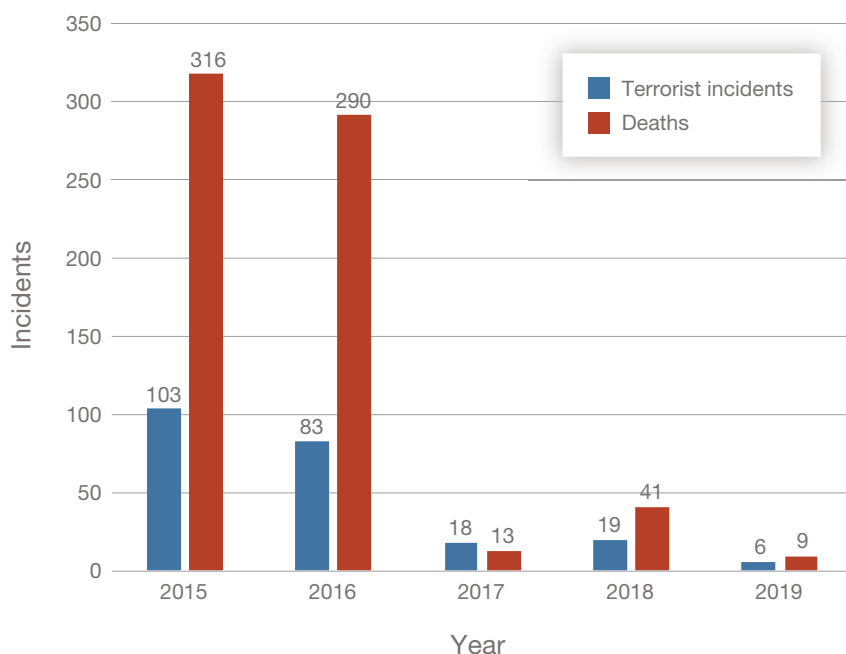
<sup>27</sup> Inga Kristina Trauthig, *Islamic State in Libya: From Force to Farce?* London: International Centre for the Study of Radicalisation, 2020, p. 16.

<sup>28</sup> UN Analytical Support and Sanctions Monitoring Team, 2019, p. 9. The U.S. dollar amount is based on the euro-to-U.S.-dollar exchange rate from June 23, 2018, the day the Turkish nationals were released.



FIGURE E.1

## ISIS-L–Perpetrated Terrorist Incidents



SOURCE: Armed Conflict Location & Event Data Project, data files on ISIS-L terrorist activity, as of May 3, 2020.

NOTE: The data in the chart represent events categorized as explosions or remote violence, strategic development, and violence against civilians. The data do not include battle-related incidents and the targeting of combatants, such as the LNA/LAAF or BAM forces.

large scale” and that “ISIS . . . has curtailed its ability to muscle its way into a competitive drug trafficking market.”<sup>29</sup>

In addition to its ongoing extortion and protection rackets, and similar to ISIS core practices in Iraq, the UN stated that ISIS-L is “reportedly investing some of its resources in small and medium-sized enterprises and in money transfer businesses in coastal cities, including Tripoli, Misratah

<sup>29</sup> Mark Micallef, *Shifting Sands—Libya’s Changing Drug Trafficking Dynamics on the Coastal and Desert Borders*, Lisbon: European Monitoring Centre for Drugs and Drug Addiction, 2019, p. 27.

and Khums.”<sup>30</sup> ISIS-L is also dealing in antiquities, which it allegedly plundered from the eastern Libyan archeological sites.<sup>31</sup> Therefore, it appears that ISIS-L maintains cash reserves and revenue flows that are more than sufficient to sustain its current low-level insurgency in southern Libya.

## Efforts to Disrupt Finances

At its peak strength, ISIS-L’s financing largely relied on taxing locals and extorting the local economy—both licit business and illicit trades. Through these revenue sources in areas under its control, ISIS-L was able to fund operations and modes of governance arguably unmatched by any other ISIS affiliates outside Iraq and Syria. Therefore, separating ISIS-L from its territory was the most effective means of disrupting the group’s finances.

Even in its fledgling stage, territorial control was part and parcel of ISIS-L’s financing strategy, and reducing its hold on territory was, therefore, an effective means of disrupting the group’s finances. ISIS’ first major presence in Libya emerged in the eastern city of Derna, from which MDSC expelled the group in June 2015. ISIS-L and MDSC had originally agreed to share control of Derna, each group dominating different neighborhoods. However, the arrangement proved unsustainable, in part because the two groups competed for sources of revenue. Indeed, it was competition for control of Derna’s Jamhuriyya Bank and other local businesses that precipitated all-out clashes between the two extremist groups, culminating in ISIS-L’s expulsion from the city and loss of these early revenue sources.<sup>32</sup>

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<sup>30</sup> UN Analytical Support and Sanctions Monitoring Team, 2019, p. 9. In November 2018, Iraqi officials dismantled a prominent ISIS financing cell, known as the Rawi Network, which maintained a portfolio worth approximately \$280 million, invested in money exchanges, real estate, fish hatcheries, hashish farms, and car dealerships. See “Based in Karbala . . . Nas Discloses Details of the ‘Al-Rawi Network’ Implicated in Funding ‘Daesh’” [مقرها كربلاء.. “ناس” يكشف تفاصيل “شبكة الراوي” المتورطة بتمويل “داعش”], *Nas News*, October 13, 2018.

<sup>31</sup> Barbie Latza Nadeau, “Italian Mob Trades Weapons for Looted Art from ISIS in Libya,” *Daily Beast*, October 18, 2016.

<sup>32</sup> Interview with a think tank researcher, Washington, D.C., May 5, 2020.

Moreover, while not directly intended as a CTF effort, the U.S.-supported campaign to liberate Sirte was arguably the most effective means of disrupting the group's financing. As one former U.S. official stated, ISIS-L primarily financed itself through criminal activity and living off the land. Therefore, removing ISIS-L from that land proved of paramount importance in degrading both its operational and financing capabilities.<sup>33</sup> Partnering with an effective surrogate ground force, supported with U.S. airpower and U.S. special operations forces conducting an advise, assist, and enable role, ISIS-L was effectively dislodged from its protostate and reverted to a diminished insurgent group.

ISIS-L extracted and extorted considerable revenue from the populace it controlled and the businesses and economies operating within its territory. By losing its Libyan stronghold, ISIS-L also lost access to these sources of revenue. Furthermore, the counter-ISIS campaign in Sirte inflicted considerable casualties on the group, with many of its leaders killed in defense of the city. The loss of high-ranking, experienced commanders and bureaucrats likely also had a detrimental effect on ISIS-L's financing.

The United States has also conducted targeted decapitation strikes on ISIS-L leadership. Indeed, the U.S. air strike that killed Abu Mughirah al-Qahtani in Derna in 2015 was the first successful strike targeting an ISIS leader outside Iraq or Syria.<sup>34</sup> Additionally, the United States conducted an air strike on ISIS-L's training camp in Sabratha on February 19, 2016, killing more than 40 militants. A week later, partially galvanized by the U.S. air strike, local Libyan armed groups ousted ISIS-L from Sabratha and captured multiple ISIS leaders, including the group's emir [leader] of the Sabratha protoprovince.<sup>35</sup>

ISIS-L planned and staged its failed attempt to capture the Tunisian border town of Ben Gardane from its base in Sabratha. According to Aaron Zelin, much of the operation's planning took place in the home of Adel al-

<sup>33</sup> Interview with a former U.S. government official, Washington, D.C., May 4, 2020.

<sup>34</sup> Faucon and El-Ghobashy, 2016.

<sup>35</sup> Elumami and Lewis, 2016; "Tripoli Forces Announce the Capture of 'Daesh Emir' in Sabratha," 2016; "Deterrence Force Arrests 'Daesh' Emir in Sabratha 'Mohammed Sa'ad al-Tajouri'" [قوة الردع تعتقل أمير "داعش" في صبراتة "محمد سعد التاجوري"], Democratic Arabic Center [المركز الديمقراطي العربي], February 25, 2016.

Ghandri, who also served as the Sabratha mini-province's treasurer. Following the group's ouster from Sabratha in February 2016, it appears that al-Ghandri was on the lam for more than two years before Tunisian security forces reportedly apprehended him in April 2018.<sup>36</sup>

Italy also undertook considerable efforts to disrupt the flow of Moroccan hashish to Libya, which ISIS-L may have taxed as it passed through its territory. Between April 2013 and February 2016, Italian authorities reportedly interdicted 280 tons of Moroccan hashish, worth approximately \$3.2 billion.<sup>37</sup> Although the predominant smuggling route passed through areas at times controlled by ISIS-L, exactly how much of the 280 interdicted tons would have passed through ISIS-L territory is unknown. It is also uncertain how much revenue the group would have generated by taxing smugglers passing through its territory. Nevertheless, it is likely that ISIS-L's finances suffered from losing the opportunity to tax such a large amount of hashish.

In the post-Sirte period, the United States continued to coordinate with Libya's UN-recognized Government of National Accord, based in Tripoli, to conduct counterterrorism efforts, including precision strikes.<sup>38</sup> Additionally, USAFRICOM had maintained a small contingent of service members to support counterterrorism activities and promote security partnerships, among other things. However, after Hifter launched his offensive to capture Tripoli on April 4, 2019, USAFRICOM suspended its presence in Libya, limiting the United States' ability to cooperate with Libyan partners on counterterrorism issues.<sup>39</sup>

Regarding nonkinetic efforts to disrupt ISIS-L's financing, DoS has designated the group an FTO; Treasury has listed the group as an SDGT; and the UN Security Council has designated it for sanctions.<sup>40</sup> Additionally, in

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<sup>36</sup> Zelin, 2018, p. 10; "Issue of Mnehla's Events Reveal . . . Terrorist Adel al-Ghandri Arrested Inside a Clinic" [ . . . قضية أحداث المنهله تكشف ], *Assabah News* [أخبار الصباح], April 19, 2018.

<sup>37</sup> Callimachi and Tondo, 2016.

<sup>38</sup> Bureau of Counterterrorism, 2019, p. 141.

<sup>39</sup> USAFRICOM, "Declining Security in Libya Results in Personnel Relocation, Agility Emphasis," press release, Stuttgart, April 7, 2019.

<sup>40</sup> Bureau of Counterterrorism, undated b; Treasury, Office of Foreign Assets Control, undated; Interpol, 2020.

April 15, 2019, Treasury designated Halima Adan Ali as an SDGT. At the time, Ali was a Kenya-based ISIS financier who had transferred funds to ISIS fighters in Libya, Syria, and central Africa.<sup>41</sup>

Libya is also a member of the FATF, and the country passed its AML/CFT Decree-Law in October 2017. Furthermore, the Government of National Accord has reportedly continued to cooperate with the United States in investigating terrorist suspects.<sup>42</sup> Nevertheless, given Libya's security and political crisis, rival governments and armed groups, rampant corruption, and general lack of oversight in financial institutions, it is unlikely that such nonkinetic measures have significantly disrupted ISIS-L's financing. It is possible, however, that if ISIS-L seeks to increasingly launder its resources through licit businesses, such commercial entities may become more vulnerable to AML/CFT measures.

Regardless, in addition to Libya's institutional factors that inhibit effective nonkinetic disruptive measures, ISIS-L's financing strategy did not lend itself to such efforts in the first place. Given that the group largely avoided operating within the Libyan and international banking system, aside from looting cash in banks under its control, ISIS-L was insulated from would-be AML/CFT efforts and other nonkinetic disruptive measures. Indeed, one individual interviewed for this case study stated that the AML/CFT portion of the counter-ISIS effort in Libya was "trivial" and that the most effective means of disrupting ISIS-L's finances was to "bomb them or shoot them," emphasizing the central role kinetic measures played in degrading ISIS-L.<sup>43</sup> Counterinsurgency and counterterrorism operations have greatly reduced ISIS-L's operational capacity. Diminished financial resources may have impacted ISIS-L's ability to perpetrate terrorist attacks. However, the precipitous decline in ISIS-L's terrorist activity is more likely due to the group's drastic reduction in manpower.

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<sup>41</sup> Treasury, 2019a.

<sup>42</sup> Bureau of Counterterrorism, 2018, p. 147; Bureau of Counterterrorism, 2019, p. 142.

<sup>43</sup> Interview with a former U.S. government official, Washington, D.C., May 4, 2020.

## Conclusions and Implications

From its stronghold in Sirte, ISIS-L generated millions of dollars in revenue with which it operated a protostate and conducted or coordinated hundreds of attacks in Libya and its neighbors. The group's high-profile attacks, coupled with a fear of Libya serving as a fallback stronghold for ISIS outside Iraq and Syria, prompted a robust U.S. air campaign and a ground campaign carried out by U.S.-supported partner forces to defeat ISIS-L territorially in Libya. In addition to expelling ISIS-L from all its territorial holdings, kinetic counter-ISIS efforts effectively disrupted ISIS-L's major modes of financing. Nonkinetic measures were largely ineffectual or immaterial to the nature of ISIS-L financing.

However, despite effective kinetic measures, ISIS-L reportedly maintains financial means sufficient to sustain its presence and operations in southern Libya. BAM and the U.S. air campaign may have driven ISIS-L from its stronghold in Sirte, and other rival Libyan armed groups expelled the group from Derna, Benghazi, and Sabratha. Nevertheless, ISIS-L persists as an insurgency, and its financing strategies have adapted to the group's new reality.

Intermittent U.S. air strikes have greatly reduced ISIS-L's manpower and may deter high-profile attempts to seize territory, which would expose the group both to U.S. airpower and the ire of local Libyan armed groups. Yet, air strikes alone are likely insufficient to eradicate ISIS-L's residual presence. As evidenced by the group's defeat in Sirte, the most effective disruptive measure was, arguably, partnering with a capable ground force to clear ISIS-L out of its territorial holdings. Such an approach is not directly applicable to ISIS-L's disposition today, as the group is spread across the country and not concentrated in urban areas. Nevertheless, improving governance and security through institutional capacity-building and building partner capacity efforts may be an effective means of disrupting ISIS-L's finances. However, given the nature of Libya's current security landscape, dominated by myriad nonstate armed actors, significant security sector reform will likely have to precede effective partner capacity-building initiatives.

Libya's weak-to-nonexistent governance, fractured security landscape, and ongoing violence make for an environment in which ISIS-L and other VNSAs exploit both licit and illicit businesses and thrive financially. Such

an environment also undermines the effectiveness of AML/CFT efforts for all VNSAs in Libya. The lack of border security, the vast ungoverned spaces, and the minimal economic alternatives preclude any long-term measures that may effectively restrict and, eventually, eradicate the factors so conducive to ISIS-L's financing strategy. Continued kinetic efforts may prevent ISIS-L from reemerging territorially. However, without effective partner capacity-building and considerable institutional reforms across Libya's sociopolitical spectrum, ISIS-L and myriad VNSAs will continue to survive and even thrive, further destabilizing an already fragile Libya.





## Provisional Irish Republican Army

This appendix supports Chapter 5's discussion on the effectiveness of CTF efforts. In this appendix, we summarize the major effects of various disruptive tools applied to the PIRA. This case study will follow the group's origins, ideology, financing streams, evolution, and both the kinetic and non-kinetic tactics applied to countering PIRA and its finances by the United Kingdom and the international community.

### Emergence and Resource Base

PIRA was an ethnonationalist secessionist movement with a Marxist-Leninist political wing known as Sinn Féin. PIRA was founded in 1969 as an Irish nationalist secessionist organization intent on uniting the United Kingdom's Northern Ireland with the Republic of Ireland and was a more violent alternative to the existing IRA, henceforth known as the Official IRA. The Official IRA traces its roots back to 1790, when Anglo-Protestants consolidated control over the majority of land in Ireland, thereby subjugating the Irish Catholic population.<sup>1</sup> For hundreds of years since, the IRA's main goal has been to win independence from the English.

The modern military struggle began in 1916 with the Easter Rising, when several Irish nationalist militias united under the IRA banner and launched an armed revolt against the British.<sup>2</sup> After years of fighting, Ireland and the UK agreed in 1921 to establish the semiautonomous Irish Free

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<sup>1</sup> Clarke, 2015a.

<sup>2</sup> English, 2003, p. 3.

State (renamed Ireland in 1937), comprising 26 Catholic-majority southern counties. In 1949, the southern state became the fully autonomous Republic of Ireland. The six Protestant-majority counties in the north forged Northern Ireland in 1921 and remain a part of the UK today. The IRA viewed the partition as an unacceptable defeat, and immediately shifted to fighting for the reunification of Ireland's 32 counties under an independent Irish state.<sup>3</sup> The subsequent maltreatment of Catholics in Northern Ireland bolstered the IRA's cause and fueled violence for decades.<sup>4</sup>

Domestic and international social dynamics in the 1960s shaped the Official IRA's fate. Republicans in the north—those who supported a united, independent Ireland—drew inspiration from the Black civil rights movement and the anti-Vietnam War protests in the United States and attempted to mirror their more-pacifist tactics.<sup>5</sup> Ironically, it was this pivot to pacifism that set the conditions for the emergence of the more militant PIRA. The Catholics' peaceful protests were met with violent responses from Protestant civilians and paramilitaries. The police turned a blind eye to these attacks, or even directly participated in them. The Official IRA no longer protected its support base, causing dissidence within the organization. On August 14, 1969, Belfast, the capital of Northern Ireland, erupted with violence between Republicans and British-loyalist paramilitaries. On this day, PIRA launched a renewed military and political campaign against the UK, plunging Northern Ireland into a three-decade-long bloody civil conflict known as The Troubles.<sup>6</sup>

Within just a few years, PIRA had 1,000 volunteers, the majority of whom were former Official IRA members. Moreover, nine out of 11 Official IRA commanders in Belfast joined PIRA, giving the new group a strong foundational leadership.<sup>7</sup> The elected 12-person Executive Council and the appointed seven-person General Army Council led the organization. Initially, they chose to adopt the conventional military structure of the British

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<sup>3</sup> English, 2003, p. 45.

<sup>4</sup> English, 2003, p. 3.

<sup>5</sup> English, 2003, p. 92.

<sup>6</sup> English, 2003, p. 108.

<sup>7</sup> English, 2003, p. 114.

Army, with companies, battalions, and brigades, although this later evolved to better suit the threat environment.<sup>8</sup>

PIRA's immediate stated goal was to restore protection over Catholics in the north. In addition, PIRA said it wanted to uplift Catholic communities by returning their sense of pride. To this end, PIRA launched a series of retaliatory strikes against local Protestant communities that they blamed for the violence and against the British Army, with which the Catholics had previously maintained a good relationship.<sup>9</sup> Targeting the British Army reflected PIRA's recommitment to its ultimate goal: the expulsion of the British from Ireland and the reunification of all 32 Irish counties.<sup>10</sup> PIRA outlined a three-phased approach for achieving this goal: first, the defense of Catholic communities; next, retaliatory violence against their local enemies; and last, a sustained guerilla campaign against the British.<sup>11</sup> The organization had several absolute terms for the cessation of violence, including ending British violence against Irish people, abolishing Northern Ireland's government, releasing Irish political prisoners, compensating victims of British violence, and allowing independent Irish elections.<sup>12</sup> Additionally, PIRA wanted to convert Ireland into a socialist republic.<sup>13</sup>

PIRA's relationships with the Republic of Ireland and the UK made it an inherently transnational group, although its early kinetic operations were locally focused. In addition to fighting state personnel, they fought pro-UK (loyalist) paramilitaries, such as the Ulster Volunteer Force, and competing Republican factions, such as the Official IRA.<sup>14</sup> As PIRA's capability grew, the group began launching attacks against British assets abroad, mainly on the English mainland, but also on British foreign territories, such as Gibraltar.

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<sup>8</sup> English, 2003, p. 114.

<sup>9</sup> English, 2003, p. 121.

<sup>10</sup> English, 2003, p. 123.

<sup>11</sup> English, 2003, p. 125.

<sup>12</sup> English, 2003, p. 127.

<sup>13</sup> English, 2003, p. 131.

<sup>14</sup> English, 2003, p. 132.

PIRA also started empowering Sinn Féin. The two organizations denied their connection—PIRA so as not alienate its conservative supporters and Sinn Féin to preserve its political legitimacy. However, they were run by the same people. One of PIRA's first tasks was launching two newspapers—*An Phoblacht* [*The Republic*] in Dublin and *Republican News* in Belfast—to serve as strategic messaging platforms.<sup>15</sup> Sinn Féin also managed “advice centers” in its support areas, which provided contact with the population and served as cash collection and distribution hubs.<sup>16</sup> As PIRA aged, Sinn Féin's political campaign became a greater priority. By the late 1980s, 80 percent of PIRA's revenue went to Sinn Féin, while 20 percent went to military operations.<sup>17</sup>

## Early Sources of Revenue

### Humanitarian Aid

PIRA suffered from a severe lack of resources in its formative years. PIRA's leaders knew they needed to start making money if they wanted to survive, so raising revenue became the organization's main effort. One of their first and most successful sources came from 3,000 miles across the Atlantic Ocean. Irish Americans living in the United States outnumbered Irish living in Ireland and harbored a passionate affection for the land of their ancestry. PIRA used several former Official IRA contacts who had previously emigrated to the United States to set up fake charities in the United States and to establish trafficking networks into Ireland.<sup>18</sup>

The most lucrative of these charities was NORaid. Its founder was Michael Flannery, leader of the U.S. Irish republican organization Clan na Gael and an Official IRA veteran.<sup>19</sup> The charity claimed to raise money to support Catholic victims of civil violence in Northern Ireland. In reality,

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<sup>15</sup> English, 2003, p. 115.

<sup>16</sup> Dingley, 2012, p. 191.

<sup>17</sup> Jodi Vittori, *Terrorist Financing and Resourcing*, New York: Palgrave Macmillan, 2011, p. 71.

<sup>18</sup> English, 2003, p. 115.

<sup>19</sup> English, 2003, p. 117.

Flannery either sent money directly to PIRA or took advantage of relatively lax weapon-purchasing laws in the United States to buy and ship arms to Ireland.<sup>20</sup> NORAIID's largest fundraising event of the year was an annual dinner held at each chapter around the country. Guests included leaders of the Irish National Caucus (an Irish American lobby group), prominent politicians looking to capitalize on the Irish American constituency, and IRA veterans. Each dinner brought in between \$20,000 and \$30,000 dollars.<sup>21</sup> British intelligence estimates that NORAIID supplied more than 50 percent of PIRA's revenue in the 1970s.<sup>22</sup>

Part of the reason the organization was so successful was that it brought together several powerful institutions in the United States that had high numbers of Irish American members, including police unions, dockworker unions, and the Ancient Order of Hibernians (the oldest Irish Catholic fraternal organization in America).<sup>23</sup> NORAIID used these connections for more than just donations. For example, money transfers were made via human-courier cash shipments at least bimonthly, often by Irish American New York police officers posing as tourists.<sup>24</sup> Once in Ireland, the carriers dispersed the cash between two organizations: the office of PIRA's newspaper, *An Phoblacht*, in Dublin and the headquarters of an PIRA-supporting organization called the Green Cross in Belfast.<sup>25</sup> Dock workers were also a great asset because they provided insider access to ports.

NORAIID also functioned as a small lobby, advocating for U.S. support of a United Ireland.<sup>26</sup> It maintained relationships with prominent politicians, such as Tip O'Neill, the Democratic Speaker of the House of Representatives at the time, and the Congressional Friends of Ireland committee, a bipartisan group of 136 Senators and Representatives who served as a

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<sup>20</sup> Adams, 2018, p. 152.

<sup>21</sup> Adams, 2018, p. 152.

<sup>22</sup> Adams, 2018, p. 152.

<sup>23</sup> Adams, 2018, p. 152.

<sup>24</sup> Adams, 2018, p. 158.

<sup>25</sup> Adams, 2018, p. 157.

<sup>26</sup> Adams, 2018, p. 152.

“powerful force behind Americans’ support for the IRA.”<sup>27</sup> As violence grew in Northern Ireland, donations to NORAID also grew. In 1981, PIRA prisoners in Maze Prison launched a hunger strike that resulted in the deaths of ten men. One of the deceased was Bobby Sands, who had been elected to Parliament while in prison just a month prior to his death following 66 days on hunger strike. The international visibility and public uproar caused an immediate surge in donations to NORAID, resulting in the organization’s highest yearly earnings in history.<sup>28</sup> In the same year, PIRA began demanding more-sophisticated weapons from its U.S. suppliers, including surface-to-air missiles to use against British helicopters.<sup>29</sup> This reflected the direct connection between U.S. public sentiment and PIRA capabilities.

### External State Support

PIRA also benefited early on from external state support. Libyan dictator Gaddafi gave \$3.2 million to PIRA in 1972, which was likely critical to the group’s survival in its nascency. PIRA maintained a periodic financial relationship with Gaddafi through the 1970s and 1980s. The group accepted weapons and cash when they were offered but knew it could not depend on the mercurial dictator.<sup>30</sup> Additionally, the Republic of Ireland provided limited monetary support to PIRA. In 1970, the Irish government knowingly sent money directly to PIRA under the auspices of charitable donations to Catholic victims of the 1969 violence.<sup>31</sup> Ireland did not continue to be a significant direct source of revenue for PIRA because the republic had to balance conflicting political objectives, although it did provide a haven from which to handle financial logistics.

### Theft

PIRA’s most consistent revenue stream throughout its existence was theft and armed robbery. Although most of the VNSAs operating in Northern

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<sup>27</sup> Adams, 2018, p. 152.

<sup>28</sup> Adams, 2018, p. 157.

<sup>29</sup> Adams, 2018, p. 166.

<sup>30</sup> Clarke, 2015a.

<sup>31</sup> English, 2003, p. 116.

Ireland engaged in theft, PIRA was the most effective.<sup>32</sup> It stole money and goods for resale from banks, post offices, private businesses, and companies transporting imports through the border region.<sup>33</sup> This provided consistent funding to the group, especially in the 1980s. However, as PIRA shifted toward a political solution, it moved away from overt, violent theft to improve its image.<sup>34</sup>

By 1972, PIRA had modernized its arsenal. Thanks to U.S. donors and suppliers, the group owned advanced weapons, including several Armalite AR-16 5.56 mm rifles with 20-round magazines, and a heavy M-60 machine gun. This was a big step for the group—boosting not only its credibility with others but also its internal morale. As the graffitied walls of Derry explained: “God made Catholics, but the Armalite made them equal.”<sup>35</sup> The new resources and legitimacy helped the group launch its first major international campaign in 1974, known as the Campaign of Terror, when they planted bombs all over London.<sup>36</sup>

## Evolution of Financing Strategy

PIRA had started preparing for self-sufficiency back in 1981 and began to build what would soon become a “formalized financial empire in the Irish isle.”<sup>37</sup> This made it independent from external support and less vulnerable to CTF measures that targeted specific streams. As PIRA grew, it started to incur new expenses, including full-time salaries for its members; more-advanced weapons; more-sophisticated attacks; and expensive political activities, such as funding campaigns and social-welfare services.<sup>38</sup> This in turn drove the group to continue diversifying and expanding its finances.

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<sup>32</sup> Clarke, 2015a.

<sup>33</sup> Dingley, 2012, p. 195.

<sup>34</sup> Clarke, 2015a.

<sup>35</sup> Adams, 2018, p. 159.

<sup>36</sup> Adams, 2018, p. 165.

<sup>37</sup> Vittori, 2011, p. 68.

<sup>38</sup> Dingley, 2012, p. 195.

In the late 1970s, PIRA started using the vast wealth it had acquired to expand its political strategy while maintaining armed pressure on the British. PIRA leader Gerry Adams, perhaps anticipating a military stalemate, explained in a 1977 speech that this dual-pronged approach was necessary to achieve long-term success. PIRA called the strategy “the ballot paper and the Armalite” or, more commonly, “the ballot and the bullet.”<sup>39</sup> According to historian James Adams, this strategy gave PIRA “a firm grip on the system they [were] attempting to undermine and eventually overthrow.”<sup>40</sup> However, it also strained PIRA finances. The British government estimated that PIRA needed three times as much money to support Sinn Féin’s activities as it did to support military operations.<sup>41</sup> The new financial burden forced PIRA to diversify its revenue streams. This took the group from a resource-starved movement, to an economic, military, and political powerhouse that brought in \$7 million a year.<sup>42</sup>

## Declining External Support

Despite its high impact early on, external support to PIRA in the 1980s and 1990s gradually became less significant. Funding from Libya, which had always been sporadic and unreliable, completely dried up in the 1990s.<sup>43</sup> NORAID’s contributions had been on a dramatic decline since the late 1970s (despite the brief peak in 1981), drying up completely in the early 1990s as well. One of the reasons for this was that NORAID had begun openly supporting PIRA, and as the group’s attacks got deadlier, including a 1983 bombing that killed an American tourist, Americans became less eager to donate.<sup>44</sup> Additionally, as PIRA became more political, it lost the approval of key hardliner financiers, such as NORAID founder Michael Flannery, and staunchly anticommunist supporters, such as the trade unions and con-

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<sup>39</sup> Adams, 2018, p. 175.

<sup>40</sup> Adams, 2018, p. 179.

<sup>41</sup> Adams, 2018, p. 179.

<sup>42</sup> Clarke, 2015b, p. 28.

<sup>43</sup> Parkman and Peeling, 2007, p. 58.

<sup>44</sup> Adams, 2018, p. 157.



gressional committees.<sup>45</sup> This did not have an immediate impact on PIRA operations, as the group had already developed multiple lucrative finance streams of its own.

## Smuggling

Insufficient and uncoordinated law enforcement in the border area between Northern Ireland and the Republic of Ireland fostered a haven for smugglers.<sup>46</sup> The division of authority and competing interests between the two states provided a variety of opportunities to PIRA, including exploitable tax laws, easy access to international ports and resources, and freedom of movement in both the United Kingdom and Ireland. The geography along the border compounded these advantages. Rolling hills punctuated by sheer cliffs and hundreds of narrow entry ports known only to locals made the territory almost impossible to sufficiently patrol. PIRA smuggled both legal and illegal goods, including livestock, grain, and animal antibiotics.<sup>47</sup> The limited officers the British did have stationed on the border often came under PIRA rifle and mortar attack, which partially degraded their capabilities.<sup>48</sup> These conditions not only facilitated PIRA financing but also, as James Adams has noted, fostered the perception among locals that PIRA's authority was superior to the state's.<sup>49</sup>

## Fraud

One difference between Northern Ireland and Ireland that PIRA exploited was the large discrepancy between luxury taxes—15 percent versus 35 percent, respectively. PIRA bought luxury items in bulk in Northern Ireland, drove them south of the border, and resold them for lower than their local market price. According to British estimates, PIRA smuggled \$24,000 color

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<sup>45</sup> Adams, 2018, p. 156.

<sup>46</sup> Adams, 2018, p. 172.

<sup>47</sup> Clarke, 2015a.

<sup>48</sup> Adams, 2018, p. 172.

<sup>49</sup> Adams, 2018, p. 175.

television sets into the south in 1983.<sup>50</sup> PIRA also took advantage of trade policies between Northern Ireland and the Ireland. In the 1980s, the South Armagh branch used a farm that straddled the border between the countries to export agricultural goods from Ireland to Northern Ireland, earn an export subsidy from the European Economic Community, smuggle the goods back south, and then repeat the process.<sup>51</sup>

The PIRA also began to encroach on quasi-legitimate business opportunities that the Official IRA and other VNSAs had already been exploiting for years. Since the 1970s, the Official IRA had been conducting various forms of tax fraud on building sites that it managed. Common methods included using forged tax-exemption certificates, reporting nonexistent subcontractors, and forcing working employees to collect unemployment benefits. This allowed the organization to collect a 30 percent income tax rather than giving it to the government. PIRA also started doing this, avoiding conflict with other VNSAs by agreeing to stay in assigned geographical territories. PIRA even had an agreement with an adversary paramilitary group, Ulster Defense Association (UDA) that allowed PIRA building sites in UDA territories in exchange for a cut of the profits.<sup>52</sup> This was the first of many business relationships among adversarial paramilitaries that were good for profits but came at the cost of angering their respective bases.

## Extortion

PIRA also upgraded its extortion practices. In the 1970s, PIRA would demand small sums of payment from local businesses in exchange for protection and collect what it called *revolutionary taxes* in Republican neighborhoods.<sup>53</sup> Starting in the 1980s, paramilitaries started legitimate, tax-paying security firms.<sup>54</sup> They no longer had to directly threaten local business owners, who knew the dangerous repercussions of not hiring one of these

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<sup>50</sup> Adams, 2018, p. 172.

<sup>51</sup> Parkman and Peeling, 2007, p. 58.

<sup>52</sup> Adams, 2018, pp. 180–181.

<sup>53</sup> Clarke, 2015a.

<sup>54</sup> Adams, 2018, p. 183.

firms, which made it more difficult for law enforcement to combat the practice. This method was so effective that, from 1979 to 1986, the number of security firms in Belfast went from seven to more than 60. This market was dominated by PIRA's adversary loyalist paramilitaries. However, just as they did for building sites, PIRA and UDA came to a mutually beneficial profit-sharing agreement, under which the UDA could run security for Catholic businesses in exchange for giving a cut to PIRA. This allowed each group to develop specialized skills and maximize efficiency, while avoiding disruptive fighting.<sup>55</sup> Occasionally, PIRA also provided paid protection over illicit businesses. Even though the organization did not deal drugs and was even notorious for kneecapping drug dealers, it "licensed" select dealers to operate in PIRA territories as long as the dealers paid PIRA for protection.<sup>56</sup>

## Taking Over or Establishing Legitimate Businesses

When PIRA expanded into licit markets, it attempted to establish a monopoly over a specific service and control as many aspects of that service as possible. Additionally, the group exploited business opportunities not only for financial profit but also for their political and military strategic potential.

A clear illustration of this is PIRA's complete takeover of the transportation industry in Catholic neighborhoods in Belfast. In 1972, PIRA launched a campaign against the public transportation system. They stoned and fire-bombed city buses until they could no longer run through Catholic neighborhoods.<sup>57</sup> Simultaneously, they began to order black taxis from London. Within three months, they owned and operated 600 taxis and two front companies, employed 18 people full time, and ran the sole transportation service in Catholic areas. They also purchased multiple fuel stations, two garages, and shares in a tire company, so that they could maximize profits on repairs. Employees had to pay PIRA security and insurance companies. By 1986, PIRA had 700 taxis and 800 drivers, each of whom paid weekly and annual fees directly to PIRA. Its transportation companies alone claimed assets of more than \$1.5 million. PIRA made these profits all while keep-

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<sup>55</sup> Adams, 2018, p. 185.

<sup>56</sup> Dingley, 2012, p. 197.

<sup>57</sup> Adams, 2018, p. 186.

ing prices low for its customers, because it knew this was a good way to increase support for its political platform. Additionally, the transportation service gave PIRA a way to inconspicuously move personnel, weapons, and resources all over the city. As one security officer said at the time, PIRA “made the different terrorist groups acceptable parts of the society that they have set out to destabilize.”<sup>58</sup>

In 1972, PIRA started making money by selling its own commodities, including wooden figures, Celtic motifs, and fake guns, which they made from prison.<sup>59</sup> They also distilled and sold their own vodka.<sup>60</sup> At first this was a low-profit stream, but it nevertheless helped the organization cover expenses as it was getting started. Eventually, PIRA would develop a complex network of front companies that would become a key political operation: the Andersontown Cooperative. PIRA hired two lawyers to help it establish the Andersontown Cooperative Industrial and Provident Society in 1972. The cooperative bought and established a wide variety of local businesses, including food suppliers, hotels, construction companies, and pubs. Ironically, the cooperative was partially financed through contracts it won from the unknowing British Housing Executive, which was trying to win favor in Catholic communities by subsidizing local businesses. The British thereby gave thousands of dollars to PIRA in its critical early years. Seemingly licit businesses also gave PIRA the opportunity to get bank loans, hundreds of thousands of dollars of which it received from the Allied Irish Bank.<sup>61</sup> The cooperative lasted for around ten years but never actually turned a profit for PIRA. In fact, by 1982, it was \$90,000 in debt. James Adams has contended that terrorists are not actually good at navigating the licit economy. He explains, “[t]errorists are extremely good at using their muscle to beg, to steal or to borrow but do not operate as well in a semi-legitimate way . . . [w]hen they have to file accounts and turn in a regular profit, they are less effective.”<sup>62</sup> However, this did not necessarily mean that the cooperative

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<sup>58</sup> Adams, 2018, p. 188.

<sup>59</sup> Adams, 2018, p. 188.

<sup>60</sup> Dingley, 2012, p. 196.

<sup>61</sup> Adams, 2018, p. 189.

<sup>62</sup> Adams, 2018, p. 191.

was a failure because this was as much a political strategy as an economic one. Adams explained that “wherever possible, the IRA tried to turn their money-making schemes to political advantage.”<sup>63</sup> One way they did this was by using the cooperative to keep prices low, pass benefits to the community, and reserve houses for Catholic tenants. This enhanced sympathy in their support base and supported their political identity. Additionally, it gave them a vast network of human intelligence.<sup>64</sup>

Another political-economic venture was PIRA’s ownership of drinking clubs. Many paramilitaries ran illegal pubs, known as *shebeens*, all over Northern Ireland. The VNSA operators would take a portion of the pub’s profits and demand money for protective services. Additionally, the pubs provided social venues (with discounted alcohol) for PIRA and its sympathizers to meet.<sup>65</sup> PIRA also ran international pubs in friendly cities, from Cork, Ireland, to Boston, Massachusetts.<sup>66</sup>

## Theft

In 1984, Protestant and Catholic groups expanded their economic cooperation to include armed robberies. For example, if PIRA allowed the UDA to rob a business in its territory, PIRA would dispose of the stolen goods, and the groups would divide the profits. Given that these groups were being paid to provide security for businesses in Northern Ireland, they began targeting more banks and businesses in Ireland.<sup>67</sup> Still, in 1984, Northern Ireland reported 622 armed robberies, in which \$1.2 million were stolen.

## Kidnap for Ransom

PIRA conducted several high-profile kidnappings for ransom in the late 1970s and early 1980s. It targeted wealthy businessmen and their families and made anywhere from \$77,000 to \$1.1 million per kidnapping. PIRA

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<sup>63</sup> Adams, 2018, p. 190.

<sup>64</sup> Adams, 2018, p. 189.

<sup>65</sup> Adams, 2018, p. 191.

<sup>66</sup> Clarke, 2015a.

<sup>67</sup> Adams, 2018, p. 186.

ended this practice after a failed attempt to get payment for a kidnapped thoroughbred horse in 1981.<sup>68</sup>

## Counterfeiting

PIRA also began counterfeiting its own goods, such as videos, compact disks, computer games, cigarette lighters, and jeans.<sup>69</sup> At first, it did this in Ireland and Northern Ireland. As the organization grew, its counterfeiting got so advanced that it established its own factories in Eastern Europe and Turkey and used trafficking routes through China.<sup>70</sup>

## Consulting

In the 1990s, PIRA engaged in a new type of financing: consulting abroad. PIRA maintained several embassies in countries with like-minded groups or governments, such as Cuba and FARC-controlled territory in Colombia. PIRA sent operatives to Colombia to advise FARC on how to expand a rural insurgency into an urban campaign. In exchange, they were paid \$3 million dollars.<sup>71</sup>

## Efforts to Disrupt Finances

The British used a variety of kinetic and nonkinetic methods to combat PIRA financing over the course of their three-decade campaign. Kinetic methods included raids, covert intelligence operations, interdictions, killing or capturing suspects, and reestablishing state-run security and public services. Nonkinetic methods included creating new legislation (or better employing existing legislation), indefinitely interning terrorist suspects, forming interagency CTF task forces, improving intelligence collection and

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<sup>68</sup> Clarke, 2015a.

<sup>69</sup> Clarke, 2015a.

<sup>70</sup> Dingley, 2012, p. 196.

<sup>71</sup> Dingley, 2012, p. 198.

dissemination, coordinating with international partners, freezing terrorist assets, and counter-messaging.

In the first 20 years of the UK's campaign, lack of coordination among domestic security agencies and between international partners crippled counterterrorism efforts. British civil services and law enforcement agencies had conflicting priorities and lacked mechanisms for sharing intelligence or coordinating approaches. Meanwhile, the United States and Ireland were willing havens for terrorist financing operations. Additionally, the British state's militaristic approach often caused counterproductive blowback. Once the British prioritized CTF as an integral part of counterterrorism, streamlined their own efforts, empowered local police, and coordinated with international partners, they achieved success.

Kinetic CTF efforts against illicit trafficking in the border region were largely unsuccessful during the 1970s and early 1980s. British Customs had 19 patrol teams to monitor the 270-mile, 240-entry-point border, which simply was not enough personnel to have an effect.<sup>72</sup> The British Army tried to assist by creating physical blockades along the border, but PIRA often got around them. In 1983, the Irish customs office made 8,200 seizures or detections of crimes, which was three times as many as it had made in 1979; however, this was only 10 percent of the estimated number that PIRA was committing. Furthermore, there were few prosecutions and only minimal repercussions for those convicted, which served as a poor deterrent.<sup>73</sup> In 1981, a border officer wrote a memorandum about the issues with British CTF efforts. He said that inattention to the area, poor cooperation among British civil services and law enforcement agencies, and a lack of effort from the British Army were permitting individuals to move cash and assets for terrorists with impunity. He warned, "ignore the sources of income to the terrorist and the problem grows in direct relation to the terrorist's ability to exploit society to his financial benefit."<sup>74</sup>

Early nonkinetic efforts to target fraud and laundering were also unsuccessful. The British Inland Revenue was responsible for preventing the type

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<sup>72</sup> Adams, 2018, p. 172.

<sup>73</sup> Adams, 2018, p. 173.

<sup>74</sup> Adams, 2018, p. 173.

of tax fraud that PIRA was committing at its building sites, but Inland Revenue was inefficient and ineffective. Moreover, when the fraudulent behavior first started, Inland Revenue decided that the minimal profit paramilitaries were making from fraud, about \$250,000 a year, was not large enough to warrant an investigation. However, after ten years of unchallenged criminal behavior, paramilitaries were making \$60 million dollars a year from their building sites. Many blamed Inland Revenue for simply accepting fake documents and not even attempting to enforce the law.<sup>75</sup> James Adams argues that part of the issue was that the civil services were more concerned about preventing violent blowback than creating enduring counterterrorism practices. Therefore, there was little coordination with law enforcement agencies or with the military, which were more concerned about the latter.<sup>76</sup> The same was true of efforts to combat PIRA's taxi business. In its early years, it was simply allowed to operate without repercussions. Eventually, the government forced taxi drivers to be licensed and insured through legitimate external companies; however, all this did was force drivers to pay insurance to both the state and PIRA. The government did not successfully retake control of transportation until it first improved security in Catholic neighborhoods in the late 1980s, which allowed the buses to start running again.<sup>77</sup>

Occasionally, the British not only failed to counteract PIRA financing but also directly subsidized it. A complete failure to share intelligence about the Andersonstown Cooperative led to the British government's awarding PIRA business housing contracts. The government finally caught on to the scheme and began sending law enforcement to empty houses in the area to await PIRA members escorting new Catholics tenants. Law enforcement would arrest PIRA members on sight, until it became too risky and expensive for PIRA to keep running the business, which PIRA then gave up. Several court cases and subsequent media articles about the nature of the cooperative damaged its reputation such that it could no longer get contracts for

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<sup>75</sup> Adams, 2018, p. 181.

<sup>76</sup> Adams, 2018, p. 182.

<sup>77</sup> Adams, 2018, p. 188.



business. This, in addition to poor internal management, brought about the end to the cooperative.<sup>78</sup>

Police also started cracking down on illegal PIRA-run drinking clubs, conducting a series of raids in 1977 that shut down a large number of the pubs. The police also started regularly inspecting the clubs and their finances, although it was not always easy to trace where profits ended up. Nevertheless, the illegal clubs were almost all gone by 1986. Although this effort was successful, it also led PIRA to an even more lucrative resource. Once its own clubs started closing, PIRA began to force legal pub owners to allow PIRA-run slot machines in their venues. Just one machine could earn \$40,000 in a year, meaning this turned out to be one of PIRA's most fruitful revenue streams.<sup>79</sup>

In 1977, Margaret Thatcher came up with a new strategy called the Way Ahead, which transitioned counterterrorism responsibilities from the military to the police. One of the main lines of effort was recruiting informers and offering imprisoned PIRA members lighter sentences to turn in other PIRA members. This had several negative effects on the British campaign. First, prisoners released from British custody became highly vulnerable to torture and death. Second, it made prisoners either unwilling to testify, apt to recant testimonies, or likely to be deemed untrustworthy witnesses in courts. A series of trials from 1982 to 1985 based on the testimonies of captured terrorists were failures.<sup>80</sup> Another policy that created intense blowback was the indefinite internment of terrorist suspects without trial throughout the 1970s, especially after dozens of prisoners died while in custody. This not only undermined counterterrorism efforts broadly but also, according to Colin P. Clarke, made police in the border region afraid to stop terrorists from moving resources and money between Northern Ireland and Ireland.<sup>81</sup> After their failures in court, the British transitioned to a more straightforward but no less controversial policy: Shoot to kill. Instead of focusing on capturing and flipping terrorists, the British military started shooting sus-

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<sup>78</sup> Adams, 2018, p. 190.

<sup>79</sup> Adams, 2018, p. 192.

<sup>80</sup> Clarke, 2015a.

<sup>81</sup> Clarke, 2015a.

pected terrorists who were caught in the act. This exacerbated tensions and did not have a clear CTF impact.<sup>82</sup>

One disruption method that the British found successful was police infiltration of PIRA networks via human assets. An example of this was a covert British business called Four Square Laundry, which offered door-to-door laundry services in a Catholic neighborhood. This allowed British authorities to gather information on households in the neighborhood, such as how many people were in each house and which houses had clothing with blood stains or explosive residue.<sup>83</sup> The British had also successfully embedded many informants within PIRA's ranks, providing invaluable intelligence. PIRA quickly caught on to the infiltration but had difficulty picking out which individuals were informants. To mitigate the potential damage, PIRA leadership decided to overhaul its command structure. In 1977, it transitioned from a conventional military hierarchy to the cell structure common to many terrorist organizations. It called the cells *active service units*, each of which had four members with some sort of specialized skill or purpose.<sup>84</sup> For example, PIRA established several active service units exclusively dedicated to armed robbery.<sup>85</sup> Later, PIRA also created a financing management cell, the Finance Department, which oversaw the organization's increasingly complex finances.<sup>86</sup> The department had two to four specialized employees, usually accountants and bank managers, to help advise on how best to manage and invest profits.<sup>87</sup> This was especially useful as PIRA attempted to fund both a military force and a political party.<sup>88</sup>

For the British to have success in CTF, it was critical that the United States be a cooperative partner. The UK had been pressuring the United States for years with little success, given the strength of the Irish voting base in the United States. When U.S. politicians started getting involved in sup-

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<sup>82</sup> Clarke, 2015a.

<sup>83</sup> Clarke, 2015a.

<sup>84</sup> Adams, 2018, p. 194.

<sup>85</sup> Clarke, 2015a.

<sup>86</sup> Clarke, 2015b, p. 30.

<sup>87</sup> Dingley, 2012, p. 190.

<sup>88</sup> Dingley, 2012, p. 190.

porting NOROID, the British launched a counterpropaganda campaign, focusing on PIRA's communist platform and terrorist tactics, to degrade American support. However, it was not until the 1979 assassination of Lord Mountbatten that American law enforcement started taking action.<sup>89</sup> In 1979, the FBI worked with British Intelligence to set up a six-man team to disrupt PIRA cash flow in the United States. They used sting operations, arrests, seizures, and criminal prosecutions to target key financiers, including NOROID founder Michael Flannery. According to James Adams, a series of court cases in the United States prosecuting PIRA traffickers "severely damaged the infrastructure of support groups in the US and cut their [PIRA's] financial base to such an extent that the US no longer [made] a significant contribution to the IRA's war chest."<sup>90</sup> Court cases further degraded Irish-American popular support for PIRA, which in turn made NOROID even less money.<sup>91</sup>

Starting in the 1980s, the British began to implement CTF-specific measures at home. This necessitated closing the communication gap among its own agencies. To this end, the UK created the C13 Anti-Racketeering Squad in 1982, made up of 20 Royal Ulster Constabulary (RUC) officers who focused on prosecuting racketeers and, when possible, turning them into informants in exchange for lesser sentences. C13 was the first unit established specifically for tracking PIRA's financiers, as opposed to its kinetic operatives.<sup>92</sup> After the 1984 PIRA bombing of the Grand Hotel Brighton, the British increased their intelligence effort in an effort called the Terrorist Intelligence Gathering Evaluation and Review. This was meant to streamline military and police efforts. Additionally, the House of Commons Select Committee commissioned a report on threat finance. It examined Inland Revenue's efforts in the 1980s to assess causes of success and failure and provide future recommendations.<sup>93</sup>

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<sup>89</sup> Adams, 2018, p. 155.

<sup>90</sup> Adams, 2018, p. 160.

<sup>91</sup> Adams, 2018, p. 171.

<sup>92</sup> Clarke, 2015a.

<sup>93</sup> Clarke, 2015a.

In 1986, Northern Ireland passed the Emergency Provisions Bill to target the paramilitary-run security companies that had been dominating the country. The bill made it illegal to provide security services without a special certificate from the Ulster Secretary. To augment this effort, Northern Ireland passed the Prevention of Terrorism Act in 1989. Part of the act created the Northern Ireland Terrorist Finance Unit, consisting of financial and research experts who assisted the RUC's C13 squad. This allowed the RUC to overcome legislative restraints on areas regarding value-added taxes, income taxes, and Social Security fraud. According to Clarke, the Terrorist Finance Unit brought together various relevant agencies to create a "coordinating interagency model of policing."<sup>94</sup> Because of the success of the model, the UK also created the Joint Action Group on Organized Crime of the Metropolitan Police in 1992 to coordinate the CTF efforts of 25 different agencies.<sup>95</sup> The British also improved coordination among relevant agencies to combat smuggling and trafficking. In 1990, they launched Operation Whiplash in Belfast and Operation Christo at the border area. These operations focused on targeting the movement of VNSA cash and resources. The operations not only directly diminished PIRA funds but also had the second-order effect of forcing PIRA to dedicate more of its already strained resources to internal security.<sup>96</sup>

Not long after the United States became an active counterterrorism partner, the Republic of Ireland followed suit. In 1985, after years of facing attacks on its own security guards at its northern border, Dublin passed legislation to seize over \$3 million of suspected PIRA cash from the Bank of Ireland.<sup>97</sup> This money was allegedly intended for a Sinn Fein campaign in May 1985, and the loss of money led to infighting in PIRA about whether or not to divert military funds to campaign funds. It exacerbated budding fissures between militants and politicians in PIRA, leading to four pro-militant leaders being kicked out of PIRA's ruling council.<sup>98</sup> This highlighted the

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<sup>94</sup> Clarke, 2015a

<sup>95</sup> Clarke, 2015a.

<sup>96</sup> Clarke, 2015a.

<sup>97</sup> Clarke, 2015a.

<sup>98</sup> Adams, 2018, p. 179.

importance of international coordination in CTF campaigns. Another successful example of international CTF coordination was a 1993 operation between MI5 and the FBI to arrange the sale of sophisticated bomb-making technology to PIRA members in the United States. Instead of arresting the terrorists, the security services allowed the sale to go through and monitored the individuals as they brought the technology back to the UK. This gave authorities visibility on PIRA trafficking routes.<sup>99</sup> According to Clarke, PIRA ranks had become “riddled with informers and double agents” by the 1990s.<sup>100</sup> This helped the British target and diminish almost every type of PIRA finance stream, forcing the group into a hand-to-mouth existence.<sup>101</sup>

Although the degree to which external states or groups support terrorist groups is partially a matter of chance, the UK employed tactful counter-messaging and counterpropaganda to nurture public and international support for the state. One method of doing this was to specifically emphasize CTF efforts, which inherently highlights terrorists’ criminal activities. This helps erode the terrorists’ critical narrative that they are fundamentally a political group. Margaret Thatcher made this part of her 1977 strategy, when she said “crime is crime is crime. It is not political.”<sup>102</sup> The UK also accentuated PIRA’s communist platform, which threatened American and Irish interests. Patterns in the degradation of support for PIRA among Irish and Irish American communities provide evidence that these counter-messaging strategies are effective. Furthermore, because elected politicians are beholden to their constituents, targeted counter-messaging can also indirectly affect state policy. U.S. and Irish counterterrorism efforts in the 1980s illustrate this. PIRA was also aware of the importance of seizing the narrative. That is why it tried to transition out of overt and violent criminal activity in its later years. However, this was not enough to preserve its financial support base.

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<sup>99</sup> Clarke, 2015a.

<sup>100</sup> Clarke, 2015a.

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<sup>102</sup> Clarke, 2015a.

## Conclusions and Implications

In 1998, the British government and PIRA signed the Good Friday Agreement to cease all violence. By the early 2000s, PIRA had decommissioned. Although a small dissident group, known as the Real IRA, claims to continue the military campaign against the British, violence in Northern Ireland has decreased to nearly negligible levels, and the government has reestablished legal authority. As part of the agreement, a democratically elected governing body in Northern Ireland was established, and Sinn Féin was awarded more seats in the Parliament of the UK (although the group abstains from taking its seats in the latter to this day). The 30-year British counterterrorism campaign provides ample lessons for how to conduct CTF as part of a larger counterterrorism strategy.

Foremost, the PIRA case study suggests that CTF can be a critical aspect of counterterrorism. PIRA expertly diversified its revenue streams, amassing impressive wealth and protecting itself from dependence on one source. This allowed PIRA to conduct sophisticated operations against the British for 30 years. It took nearly 20 years for the state to realize that it could not target kinetic operatives exclusively if it wanted to have enduring strategic success. A good example of this shift in prioritization was the joint-action operation between MI5 and the FBI, which allowed PIRA to acquire more-sophisticated equipment—a short-term loss—in exchange for information on trafficking routes—a long-term gain. Furthermore, the UK's struggles with CTF highlight how many agencies and authorities terrorist financing can touch and how critical it is to ensure these agencies have mechanisms for communicating, sharing intelligence, and coordinating activities. Otherwise, counterfinance efforts may be insufficient, or even counterproductive.

The UK's harmonization of its domestic efforts was a necessary but not sufficient step for CTF success. It was also critical that external actors—the United States, Libya, and Ireland—ceased permitting material support to terrorists from inside their borders. This highlights the importance of being aware of all external stakeholders in a counterterrorism campaign, assessing their interests, using leverage when possible, employing targeted counter-messaging, and exploiting opportunities for coordination. If the sources of terrorist financing and logistics go unchecked, CTF efforts have little chance of success.

Although PIRA's diversification and expansion of its revenue streams made the group exceptionally wealthy and powerful, they also created vulnerabilities. The group's broad ambitions and divided interests created strategic inconsistencies, infighting, and financial inefficiency.<sup>103</sup> Furthermore, the deadlier attacks and communist political convictions eventually alienated the Republic of Ireland and the United States, which not only ceased offering support but also started assisting British counterterrorism efforts. The state can use these vulnerabilities to its advantage by aiming to emphasize inconsistencies with key sponsors, thereby alienating them from the group, or putting pressure on key financial nodes that may sway terrorist groups toward peaceful solutions.

When PIRA integrated itself into the licit economy, it essentially acted as a mini-state. This undermined faith in the British state. This case study suggests that, when the state needs to reestablish a monopoly on violence and services, targeted counterinsurgency tactics may be necessary. For example, PIRA controlled all transportation services in Republican neighborhoods because the British could not protect their own buses. The British military and police had to occupy these neighborhoods forcibly to reestablish and maintain security, allowing the buses to come back in. The state should employ counterinsurgency and other highly militarized tactics with caution because they can also cause counterproductive blowback. For example, indefinite internment, shoot to kill, and overt Army presence often catalyzed conditions for resistance. This is especially deleterious to CTF when the terrorist group receives large donations from sympathizing diaspora communities. When the police began to take over counterterrorism responsibilities, and state efforts became more discreet, they also became more effective. One of the UK's greatest successes was the network of human informants that provided intelligence on PIRA operations. Using assets in regular civilian clothes gave the façade of a light footprint, while also creating a false sense of security among PIRA members. Furthermore, making counterterrorism a domestic police issue can deprive terrorist groups of their identity as political groups and, instead, build the perception that they are organized criminal gangs. This can erode both public and international

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<sup>103</sup> Adams, 2018, p. 197.

support, especially when a group is engaging in crimes that are harmful to the communities it is claiming to represent.

The military can be useful in rural areas that have insufficient personnel and resources. The border area between Northern Ireland and the Republic of Ireland is a perfect example of this. Having more Army stations and guards could have deterred trafficking and increased the interception of cash. Furthermore, this would not elicit the same blowback that having highly visible soldiers in a major city might.

This case study suggests that nonkinetic mechanisms, such as joint task forces, legislation, and intelligence sharing, may be at the heart of CTF strategy but that kinetic operations may also be necessary. Domestic law enforcement agencies should take the lead on this to reinforce the authority of the local government and not effect negative blowback. The military should provide the manpower and firepower when it is needed to retake control of certain areas or where the risk of blowback is low. Finally, none of this should happen unless the state has secured the necessary cooperation of key international partners that have the potential to spoil CTF efforts.



## Liberation Tigers of Tamil Eelam

This appendix supports Chapter 5's discussion on the effectiveness of CTF efforts. In this appendix, we summarize the major effects of various disruptive tools applied to Sri Lanka's LTTE. This case study will follow the group's origins, ideology, financing streams, evolution, and both the kinetic and nonkinetic tactics applied to countering the group and its finances by Sri Lanka, India, and the international community.

### Emergence and Resource Base

The LTTE was the most dominant among numerous Tamil VNSAs that fought the Sri Lankan state in the series of conflicts known as the Eelam Wars.<sup>1</sup> These wars took their name from that of the independent Tamil state that many Tamils and a number of Tamil VNSAs supported creating:

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<sup>1</sup> The Tamils are an ethnolinguistic minority population in Sri Lanka that had experienced an uptick in discriminatory policies within Sri Lanka since the nation gained independence from the UK in 1948. Following independence, the Sinhalese majority exerted political influence to change the country's national language, national religion, and name from Ceylon to Sri Lanka to reflect the Sinhalese Buddhist religious and ethnolinguistic majority. Additionally, Sri Lankan Tamils were the subject of anti-Tamil riots in 1956, 1958, 1977, and 1983, largely at the hands of Sinhalese mobs. Jayshree Bajoria, "The Sri Lankan Conflict," backgrounder, Council on Foreign Relations website, May 18, 2009; Vinod F. Khobragade, "Indian Approach Towards Sri Lankan Conflicts," *Indian Journal of Political Science*, Vol. 69, No. 4, October–December 2008. See Dagmar Hellmann-Rajanayagam, "The Tamil Militants-Before the Accord and After," *Pacific Affairs*, Vol. 61, No. 4, Winter 1988–1989.

Tamil Eelam. The Eelam Wars are often divided into four periods based on respites in the conflict between Sri Lanka and Tamil VNSAs.<sup>2</sup>

In the early 1970s, Chetti Tanabalasingham and Velupillai Prabhakaran founded the Tamil New Tigers (TNT) as Tamil independence-oriented militancy was ramping up in Sri Lanka.<sup>3</sup> At this time, TNT was a small group that was mostly financed through robberies and contributions from local sympathizers. From 1974 through 1976, TNT carried out a number of bombings, robberies, and attempted assassinations. The group gained initial fame after it carried out the July 1975 assassination of Alfred Duriappah, the mayor of Jaffna, capital of the Northern Province.<sup>4</sup> In early 1976, Tanabalasingham was arrested and Prabhakaran took control of TNT.<sup>5</sup>

In May 1976, Prabhakaran formally changed the name of TNT to the LTTE, and the LTTE continued armed activities through the end of the decade.<sup>6</sup> The LTTE was initially a Marxist organization, although this ideology was not intensely important to the group's leadership. By the mid-1980s, the LTTE had focused on an ethnonationalist Tamil ideology without Marxist principals and sought an independent Tamil state in northern Sri Lanka called Eelam.<sup>7</sup> Other major Tamil VNSAs in existence during these early years include the Tamil Eelam Liberation Organisation and the Eelam Revolutionary Organisation of Students. By the 1980s, however, the Eelam

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<sup>2</sup> Georg Frerks and Toon Dirks, *EU Engagement with Sri Lanka: Dealing with Wars and Governments*, Utrecht, Netherlands: Utrecht University, Center for Conflict Studies, 2017.

<sup>3</sup> Rohan Gunaratna, "Internationalisation of the Tamil Conflict (and Its Implications)," *South Asia*, Vol. 20, No. 1, 1997, pp. 119–152; Wickremesekera, 2016; Paul Staniland, *Networks of Rebellion: Explaining Insurgent Cohesion and Collapse*, Ithaca, N.Y.: Cornell University Press, 2014, p. 148; Dagmar Hellmann-Rajanayagam, *The Tamil Tigers: Armed Struggle for Identity*, Stuttgart: F. Steiner, 1994, p. 10.

<sup>4</sup> Manoj Joshi, "On the Razor's Edge: The Liberation Tigers of Tamil Eelam," *Studies in Conflict and Terrorism*, Vol. 19, No. 1, 1996; Swamy, 2008, pp. 55–57.

<sup>5</sup> Molly Dunigan, Dick Hoffmann, Peter Chalk, Brian Nichiporuk, and Paul DeLuca, *Characterizing and Exploring the Implications of Maritime Irregular Warfare*, Santa Monica, Calif.: RAND Corporation, MG-1127-NAVY, 2012, pp. 69–70.

<sup>6</sup> Swamy, 2008, pp. 53–65.

<sup>7</sup> Swamy, 2008, p. 104.

People's Revolutionary Liberation Front (EPRLF) and People's Liberation Organisation of Tamil Eelam (PLOTE) were significant competitors as well.<sup>8</sup>

During this early period, TNT, and later as the LTTE, predominantly relied on local revenue streams to fund its insurrection. The group engaged in criminal activity and solicited funds from supporters to continue funding its activities. During the TNT years, the group relied on robberies of stores and on contributions from sympathizers. But in March 1976, just two months before the group's name change, TNT began robbing banks. On March 5, 1976, TNT robbed the government-owned People's Bank in Puttur of about 500,000 Sri Lankan rupees (approximately U.S. \$63,646 at the time) and around 200,000 rupees (approximately U.S. \$25,458 at the time) in jewelry.<sup>9</sup> It is not clear how many bank robberies the group participated in throughout the 1970s, but it committed at least one more in 1978. On December 5, 1978, the LTTE robbed another branch of the People's Bank of about 1.2 million rupees (approximately U.S. \$134,937 at the time).<sup>10</sup>

Although the LTTE collected finances mostly within Sri Lanka during the 1970s and used these funds locally, it did make at least one international expenditure in these early years. Through the Eelam Revolutionary Organisation of Students, the LTTE paid about 100,000 rupees (approximately U.S. \$11,245 at the time) to send 16 of its members to training with the Palestinian Liberation Organization in Lebanon, although it appears only two members were trained at any point.<sup>11</sup>

As the LTTE continued its fight with the Sri Lankan government, the group became transnational. In the early 1980s, some LTTE members, including Prabhakaran, took refuge across the Palk Strait in Tamil Nadu, a Tamil-majority state in India. In Tamil Nadu, elements of the local government and security forces that were sympathetic to Tamil militancy in Sri Lanka (a mentality the 1977 anti-Tamil riots in Sri Lanka were likely to have

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<sup>8</sup> Swamy, 2008, pp. 64, 71, 102.

<sup>9</sup> Joshi, 1996; Swamy, 2008, p. 58; Estimates of value in U.S. dollars made using data from CEIC Data, "Sri Lanka Exchange Rate against USD," webpage, undated.

<sup>10</sup> Swamy, 2008, p. 65. Estimates of value in U.S. dollars made using data from CEIC Data, undated.

<sup>11</sup> Swamy, 2008, pp. 65–66, 99–100. Estimates of value in U.S. dollars made using data from CEIC Data, undated.

exacerbated) provided the LTTE with refuge at a time when Sri Lanka was actively working to suppress Tamil militancy.<sup>12</sup>

In Tamil Nadu, the LTTE set up training camps and worked to conserve the funds it had on hand, with the LTTE's treasurer keeping "meticulous accounts for every rupee spent."<sup>13</sup> Although Tamil militant activities had declined in Sri Lanka during the early 1980s, the LTTE continued engaging in limited militant activities inside Tamil Nadu against PLOTE, a group founded because of a splinter in the LTTE's leadership, and against security forces in Sri Lanka.<sup>14</sup>

On July 15, 1983, a Sri Lankan operation yielded the death of LTTE's second in command, Charles Antony, most often known as Seelan.<sup>15</sup> Seelan's death infuriated Prabhakaran, and the LTTE planned to get revenge. On July 23, 1983, the LTTE ambushed a Sri Lankan Army patrol, killing 13 soldiers.<sup>16</sup> Seelan's death, followed by LTTE's response, reinvigorated anti-Tamil sentiment and the conflict more broadly.

The July 23, 1983, attack marked a turning point in the Sri Lankan civil war. The following day, July 24, 1983, massive anti-Tamil riots started in majority Sinhala areas throughout the country and lasted through the end of the month. Sinhalese mobs targeted thousands of Tamils in lootings, beatings, killings, and rapes. Tens of thousands of Tamil civilians were displaced. In this atmosphere, the LTTE and other Tamil VNSAs experienced a significant influx of support and recruits as Tamils fled violence that the Sri Lankan security forces failed to prevent and at times participated in.<sup>17</sup> In addition to driving sizable numbers of Tamil civilians into Tamil mili-

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<sup>12</sup> Swamy, 2008, pp. 73–81.

<sup>13</sup> Swamy, 2008, pp. 74–75.

<sup>14</sup> Swamy, 2008, pp. 71–85.

<sup>15</sup> Seelan is said to have demanded that another LTTE member kill him after he was wounded by Sri Lankan forces and unable to flee. This member complied with Seelan's request and shot him. See Swamy, 2008, p. 88. Seelan's real name is Charles Antony; see V. S. Sambandan, "LTTE Observes Military Commander's Death Anniversary," *The Hindu*, July 16, 2003.

<sup>16</sup> Swamy, 2008, pp. 88–90

<sup>17</sup> Harrison, 2003; "Remembering Sri Lanka's Black July," 2013; Swamy, 2008, pp. 93–97; "Remembering Sri Lanka's Black July," 2013.

tancy, these riots drove a significant uptick in support from Indian Tamils in Tamil Nadu and its state government.<sup>18</sup> Within months, likely after pressure on India's central government by Tamils in Tamil Nadu and because of a desire to gain influence in Sri Lanka relative to outside powers,<sup>19</sup> New Delhi was covertly training and arming the LTTE and other Tamil VNSAs within its territory through its foreign intelligence service, the Research and Analysis Wing.<sup>20</sup> Additionally, the LTTE had begun receiving financial support from the Indian and Tamil Nadu governments.<sup>21</sup>

From 1983, the LTTE insurgency intensified and its resource streams increased. It began taking in funds from Tamil supporters inside and outside Sri Lanka in India and other countries as the numbers of Tamils in the West rose.<sup>22</sup> The 1983 riots alone led around 200,000 Sri Lankan Tamils to seek refuge abroad.<sup>23</sup> In the early 1980s, as the population of the Tamil diaspora rose, the LTTE set up offices and front organizations all over the globe in an effort to bolster its operations and fundraising and to spread its propaganda materials.<sup>24</sup> It also appears that the LTTE may have used members of the Tamil diaspora in Europe and North America to smuggle drugs.<sup>25</sup> This international fundraising sector was in development during the 1980s but was well established by 1990.<sup>26</sup>

<sup>18</sup> Swamy, 2008, pp. 95–96.

<sup>19</sup> Khobragade, 2008.

<sup>20</sup> Though India provided the LTTE with various forms of support, it is not clear that the central government provided funding to the LTTE (Swamy, 2008, pp. 96, 102; S. D. Muni, *Pangs of Proximity: India and Sri Lanka's Ethnic Crisis*, Newbury Park, Calif.: Sage Publications, 1993, p. 72).

<sup>21</sup> Mampilly, 2015, p. 104.

<sup>22</sup> Christopher Corley, "The Liberation Tigers of Tamil Eelam," Ch. 8 in Freeman, ed., 2012, p. 117.

<sup>23</sup> Corley, 2012, p. 114.

<sup>24</sup> Corley, 2012, pp. 117–118, 121–123; John C. Thompson and Joe Turlej, *Other People's Wars: A Review of Overseas Terrorism in Canada*, Toronto: Mackenzie Institute, June 2003, pp. 44–45; Byman, et al., 2001, pp. 44–45.

<sup>25</sup> Thompson and Turlej, 2003, p. 45.

<sup>26</sup> Joanne Richards, *An Institutional History of the Liberation Tigers of Tamil Eelam (LTTE)*, working paper, Geneva: Centre on Conflict Development and Peacebuilding,

Starting in the 1980s, the LTTE regularly used the Palk Strait to smuggle supplies from Tamil Nadu to Sri Lanka.<sup>27</sup> This smuggling became more significant after 1983, when the LTTE began acquiring its own boats. In 1984, the LTTE had begun building a merchant fleet to shuttle supplies and fighters between India and Sri Lanka.<sup>28</sup> Although Sri Lanka had attempted to mitigate this by banning fishing in Sri Lankan waters, a significant number of poachers from Tamil Nadu continued fishing inside Sri Lankan territorial waters. To smuggle to and from India through the Palk Strait, the LTTE used the same boats as Tamil Nadu's fishermen. The Sri Lankan Navy had a difficult time distinguishing between LTTE smuggling craft and civilian fishing vessels, thus impeding countersmuggling efforts.<sup>29</sup> In the early years of its use of watercraft, the LTTE's boats were unarmed and would often attempt to escape from the Sri Lankan Navy by relying on speed rather than brawn.<sup>30</sup>

## Evolution of Financing Strategy

As the Tamil diaspora grew in the 1980s, the LTTE further diversified its revenue streams.<sup>31</sup> One primary source of income for the group was funds donated by and extorted from members of the Tamil diaspora. Some within the diaspora were, to a certain degree, willing to provide funds to the LTTE of their own volition. At the same time, LTTE sympathizers and agents extorted others in the diaspora. Some within the diaspora partook in organized crime and formed gangs that would then transfer funds to the LTTE.<sup>32</sup> LTTE international fundraising became a significant source of money

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November 2014.

<sup>27</sup> Smith, 2010.

<sup>28</sup> Wickremesekera, 2016.

<sup>29</sup> Smith, 2010.

<sup>30</sup> Wickremesekera, 2016.

<sup>31</sup> Corley, 2012, pp. 121–122.

<sup>32</sup> Clarke, 2015b.

starting in the 1980s and continuing through the end of the Eelam Wars,<sup>33</sup> although international CTF strategies had put a significant dent in LTTE financing operations abroad by 2006.<sup>34</sup> Extortion and fundraising abroad appear to have remained part of LTTE strategy through at least 2009, when Sri Lanka defeated the LTTE.<sup>35</sup>

The LTTE used some of its funds to generate further money abroad by investing in “legal operations like restaurants and real estate” and through “other activities, such as passport forgery, narcotics and human trafficking.”<sup>36</sup> Additionally, the LTTE became involved in funneling contributions from charities and NGOs into its coffers as its fundraising and acquisition divisions moved abroad.<sup>37</sup> Annual figures for LTTE global financing are difficult to pin down, but a Treasury estimate places the group raising between \$100 million and \$200 million annually.<sup>38</sup> Some estimates place LTTE fundraising outside Sri Lanka to be as high as 90 percent to 95 percent of the VNSA’s overall annual budget.<sup>39</sup>

In January 1987, the LTTE announced its intent to establish its own governing body in areas under its control. It wanted to take control of “hotels, transport, education, local bodies, cultural activities, media and food distribution” inside its territory and to set up its own courts.<sup>40</sup> In April 1987, Tamil Nadu Chief Minister M. G. Ramachandran sent LTTE and other Sri Lankan Tamil VNSAs funds to support their activities.<sup>41</sup> However, by the summer, India sought to bring about an end to the conflict. In July 1987, the Indian government ordered the Research and Analysis Wing to cease providing support to Sri Lankan Tamil VNSAs as India sought to assist Sri Lanka in

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<sup>33</sup> International Crisis Group, 2010.

<sup>34</sup> International Crisis Group, 2010.

<sup>35</sup> International Crisis Group, 2010.

<sup>36</sup> International Crisis Group, 2010.

<sup>37</sup> Corley, 2012, pp. 121–122.

<sup>38</sup> International Crisis Group, 2010.

<sup>39</sup> Povlock, 2011.

<sup>40</sup> Swamy, 2008, p. 213.

<sup>41</sup> Muni, 1993, p. 200.

settling the conflict.<sup>42</sup> India had spent months working at negotiating a deal between it and the Sri Lankan government that could end the war.<sup>43</sup> On July 29, 1987, the governments of both Sri Lanka and India signed the Indo-Lanka Accord that granted the Tamil language official status in Sri Lanka, would grant some autonomy to the Tamil-majority provinces, end fighting, and have India send the Indian Peace Keeping Force (IPKF) to northern and eastern Sri Lanka to maintain peace and disarm the Tamil VNSAs.<sup>44</sup> Tamil VNSAs, including the LTTE, agreed to this deal after New Delhi applied pressure on its proxies.<sup>45</sup> In August 1987, India deployed thousands of IPKF troops to Sri Lanka to enforce the Indo-Lanka Accord.<sup>46</sup> As a party to the agreement, the LTTE began developing its own civil administration.<sup>47</sup>

In reality, the LTTE had little intention of disarming, and India's involvement would fail to resolve the war. The LTTE often gave the IPKF weapons that were no longer functioning instead of those in its stockpile that could be used to continue its war effort. This gave the appearance that the LTTE was abiding by the agreement while it prepared to continue fighting.<sup>48</sup> In fact, the LTTE continued to target members of other Tamil VNSAs, such as the EPRLF, PLOTE, and the Eelam National Democratic Liberation Front. By September 1987, the LTTE and these other Tamil VNSAs were engaged in active conflict despite the IPKF presence.<sup>49</sup>

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<sup>42</sup> Swamy, 2008, pp. 238–240.

<sup>43</sup> Swamy, 2008, p. 252.

<sup>44</sup> India and Sri Lanka, Indo-Lanka Accord, Colombo, Sri Lanka, July 29, 1987; Richards, 2014.

<sup>45</sup> Swamy, 2008, pp. 243–254; Nadarajah, 2018.

<sup>46</sup> Swamy, 2008, p. 250.

<sup>47</sup> Mampilly, 2015, p. 109.

<sup>48</sup> Swamy, 2008.

<sup>49</sup> Swamy, 2008, pp. 256–259; This was a resumption of hostilities that had occurred in the past as groups the LTTE had pushed out of certain areas returned to open political offices. For more on LTTE fighting with other Tamil VNSAs, see Rajan Hoole, Daya Somasundaram, K. Sritharan, and Rajani Thiranagama, *The Broken Palmyra: The Tamil Crisis in Sri Lanka: An Inside Account*, Claremont, Calif.: Sri Lanka Studies Institute, 1990.



The IPKF attempted to save the peace by offering concessions to the LTTE in a political solution and by providing some sanctuary to the Eelam National Democratic Liberation Front, PLOTE, and EPRLF fighters at IPKF bases in Sri Lanka. India and the LTTE came to an agreement that gave the group heightened political power in the autonomous Tamil administration.<sup>50</sup> Yet disagreements over the political future of the autonomous area continued to emerge between Colombo and the LTTE. Violence between Sinhalese and Tamil populations increased; by early October 1987, unknown actors began attacking IPKF soldiers. By October 8, 1987, the LTTE was fighting the IPKF.<sup>51</sup> The IPKF, with support from some Tamil VNSAs, such as the EPRLF, was engaged in a prolonged struggle with the LTTE well into 1989, until the Indian government grew tired of the conflict and decided to withdraw its forces.<sup>52</sup> By March 1990, the IPKF had fully withdrawn from Sri Lanka. Prior to its withdrawal, the IPKF sought to prop up its remaining Tamil VNSA allies and create an environment for them to flourish and potentially defend themselves against the LTTE. This was largely a failure, as the LTTE consolidated control over much of Sri Lanka's northern and eastern provinces following the exit of the IPKF.<sup>53</sup> In June 1990, Sri Lanka and the LTTE resumed significant hostilities after having managed to limit fighting during the IPKF deployment to Sri Lanka.<sup>54</sup>

Although the LTTE had been in direct confrontation with Indian forces in Sri Lanka, it did not lose access to safe havens inside Tamil Nadu until after it assassinated former Prime Minister Rajiv Gandhi there in May 1991.<sup>55</sup> Even then, it appears that, despite Indian hostility and targeting, the

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<sup>50</sup> Swamy, 2008, pp. 259–263.

<sup>51</sup> Swamy, 2008, pp. 267–268.

<sup>52</sup> Swamy, 2008, pp. 269–297; Richards, 2014.

<sup>53</sup> Wickremesekera, 2016.

<sup>54</sup> Swamy, 2008, p. 318.

<sup>55</sup> Muni, 1993, pp. 148–149; Swamy, 2008, pp. 333–334; Wickremesekera, 2016.

LTTE retained some bases in India.<sup>56</sup> In the aftermath of Gandhi's assassination, the LTTE fully lost support from the Tamil Nadu government and was proscribed by the Indian government in 1992.<sup>57</sup> Despite heightened Indian pressure on the group, it does not appear to have ever lost access to Tamil Nadu as a smuggling hub to Sri Lanka.<sup>58</sup> Yet Indian pressure inside its territory was not a significant burden because the LTTE had increased its overall use of the Tamil diaspora as a support base even before the killing of Gandhi.<sup>59</sup> This change appears to have been due to a decline in support from the population of Tamil Nadu; the "Rajiv Gandhi assassination proved to be the point of bifurcation for most of the people in Tamil Nadu, when the largely pro-Tigers sentiment turned into a disapproval of their tactics of terror as the means to a separate Tamil land."<sup>60</sup> The local political parties followed suit and distanced themselves from the LTTE. This shift in support did not mean the people or political parties of Tamil Nadu no longer supported the Sri Lankan Tamil independence movement or the Sri Lankan Tamil struggle but rather that many no longer supported the LTTE.<sup>61</sup> As time went on, the LTTE regained some support within Tamil Nadu, although it does not appear this ever matched what it enjoyed prior to the assassination of Rajiv Gandhi.<sup>62</sup>

In the 1990s, the LTTE used funds procured from the Tamil diaspora to purchase cargo ships to facilitate its arms and supply smuggling to support its war effort against Sri Lanka.<sup>63</sup> The LTTE used its commercial shipping

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<sup>56</sup> Wickremesekera, 2016.

<sup>57</sup> Mampilly, 2015, p. 105; "Indian Court Upholds LTTE Ban," BBC News, November 11, 2008.

<sup>58</sup> Smith, 2010.

<sup>59</sup> Richards, 2014.

<sup>60</sup> Swarnavel Eswaran Pillai, "Sri Lankan Conflict and Tamil Nadu: Terror, Bare Life and Necropolitics," *Sanglap: Journal of Literary and Cultural Inquiry*, Vol. 1, No. 1, 2014, pp. 98–99.

<sup>61</sup> Pillai, 2014, p. 99.

<sup>62</sup> Mampilly, 2015, p. 105.

<sup>63</sup> Smith, 2010.

fleet, the Sea Pigeons, to procure weapons, materiel, and supplies abroad.<sup>64</sup> Although these ships were used for smuggling LTTE acquisitions, they were predominantly used for legal and illegal transit activities.<sup>65</sup> The legal activities included shipping commercial products internationally, and the illicit activities included human and drug trafficking.<sup>66</sup> LTTE cargo ships were a significant source of arms and materiel for the LTTE.<sup>67</sup>

In the 1990s, with the withdrawal of the IPKF, the weakness of the LTTE's Tamil VNSA rivals, and its ability to procure and develop sophisticated technology, the group had control of much of Sri Lanka's northern and eastern territory.<sup>68</sup> It was also able to cause immense harm to Sri Lankan forces. The LTTE's funding and ability to procure weapons allowed it to be a significant rival to the Sri Lankan forces as the Sri Lankan government struggled to finance weapons and materiel purchases abroad and often received second-hand weapons, materiel, and vehicles that were in poor condition and had few parts to enable proper repairs or refurbishment.<sup>69</sup> The LTTE was also not heavily burdened with having to spend much of its finances on providing services to the population living in its territory because the Sri Lankan government continued to supply the majority of funds for many services.<sup>70</sup>

With control over territory in Sri Lanka's north and east, the LTTE stepped in to provide its own administration that used existing Sri Lankan government services in its territory. Although the Sri Lankan state provided significant sums to support reconstruction in LTTE-controlled areas in the north and east, the "LTTE's civil administration was the only structure capable of determining the direction of these allocations. In effect, the

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<sup>64</sup> Povlock, 2011.

<sup>65</sup> Povlock, 2011; Thompson and Turlej, 2003, p. 46; Richards, 2014.

<sup>66</sup> Povlock, 2011.

<sup>67</sup> Smith, 2010.

<sup>68</sup> Mampilly, 2015, p. 106.

<sup>69</sup> Wickremesekera, 2016.

<sup>70</sup> Mampilly, 2015, pp. 112–115.

government ceded control over state fiscal expropriations” to the LTTE.<sup>71</sup> Mampilly has argued that Colombo apparently did this for three reasons:

1. to prevent a humanitarian disaster that might cause outcry in the international community that served as a significant source of funds for the Sri Lankan government
2. to attempt to convince Tamil civilians that the government was dedicated to providing for them
3. to prevent the LTTE from fully developing its own fully independent governing structure.<sup>72</sup>

This continued provision of government services, paid for by Sri Lanka’s central government, afforded the LTTE a population that was “satisfied without having to direct its limited resources to providing services to citizens.”<sup>73</sup> The LTTE provided a police force, court system, legal system, and education system but had only limited involvement in the existing health system.<sup>74</sup> In 1994, the LTTE set up its own bank, the Bank of Tamil Eelam,<sup>75</sup> although it is unclear how much money its branches managed, how it managed funds, and how many branches it had. At the same time, the LTTE levied taxes against its civilian population, with higher rates applied to Sri Lankan government officials living and working in LTTE territory. The amount of funds the LTTE generated from this tax is not entirely clear.<sup>76</sup> It is also not entirely evident whether these funds were extracted for a particular type of expenditure or simply routed toward supporting the war effort.

The LTTE and Sri Lanka resumed fighting in June 1990 and continued for much of the 1990s.<sup>77</sup> By the time a cease-fire came into effect between

<sup>71</sup> Mampilly, 2015, pp. 113–115.

<sup>72</sup> Mampilly, 2015, pp. 112–113.

<sup>73</sup> Mampilly, 2015, pp. 115.

<sup>74</sup> Mampilly, 2015, pp. 116–123; Richards, 2014.

<sup>75</sup> Richards, 2014; “Meet the New Democratic Tigers: But Are They for Real?” *The Economist*, April 11, 2002; “Bank of Tamil Eelam Opens Branch in Pallai,” TamilNet, March 14, 2003.

<sup>76</sup> Mampilly, 2015, p. 115.

<sup>77</sup> Richards, 2014; Swamy, 2008, p. 318.

the two parties in late 2001,<sup>78</sup> Sri Lankan government forces controlled major urban areas in the north and east, including Jaffna, Trincomalee, and Batticaloa, while the LTTE was in control of rural areas in the north and east. As part of a cease-fire agreement that was made in 2002, the LTTE was unbanned, and its operatives were allowed to travel into government-controlled areas. The LTTE used this access to collect taxes from Tamils living in government-controlled areas, such as Jaffna. Additionally, the LTTE set up tolls and customs fees for vehicles and goods that travelled in and out of its territory for areas under Sri Lankan control.<sup>79</sup>

Prior to this cease-fire, some countries had begun designating the LTTE as a terrorist group or banned organization. In 1997, the United States listed the LTTE as an FTO and, in 2001, listed the group as an SDGT.<sup>80</sup> These designations, along with those that followed from Australia, Canada, the European Union, and the UK appear to have damaged LTTE's international financing by 2006, although by how much is unclear.<sup>81</sup> The LTTE also siphoned off some of the flow of humanitarian aid to Sri Lanka after the December 2004 tsunami to fund some of its military capabilities.<sup>82</sup>

In 2004, the LTTE suffered a significant setback as Colonel Karuna, a fairly major player within the organization, broke away and initiated conflict with the LTTE.<sup>83</sup> By the end of the year, Karuna and his followers had formally formed the Tamil Makkal Viduthalai Pulikal (TMVP).<sup>84</sup> It appears that the TMVP and the Sri Lankan government refrained from engaging in

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<sup>78</sup> Temporary cease-fire in late December 2001 was made official in February 2002.

<sup>79</sup> Richards, 2014.

<sup>80</sup> International Crisis Group, 2010; Bureau of Counterterrorism, undated a.

<sup>81</sup> International Crisis Group, 2010.

<sup>82</sup> Treasury, *National Terrorist Financing Risk Assessment: 2015*, Washington, D.C., 2015.

<sup>83</sup> His real name is Vinayagamoorthy Muralitharan, but he is often referred to as Karuna; see "Interview: 'Colonel Karuna,'" Al Jazeera, April 29, 2009.

<sup>84</sup> Paul Staniland, "Between a Rock and a Hard Place: Insurgent Fratricide, Ethnic Defection, and the Rise of Pro-State Paramilitaries," *Journal of Conflict Resolution*, Vol. 56, No. 1, 2012a; "Break-Away Group Disarms, Seeks IOM Assistance," webpage, New Humanitarian, March 9, 2009.

conflict. By 2007, the TMVP was acting as a partner to Sri Lankan security forces in the fight against the LTTE.<sup>85</sup>

In 2006, the LTTE and Sri Lanka returned to fighting in what was the final stage of the Eelam Wars. In 2006 and 2007, the Sri Lankan Navy targeted the LTTE's Sea Pigeon cargo ships, causing significant damage to the fleet, a hit to LTTE shipping income, and an inability to transport necessary weapons and materiel to continue mounting a significant challenge to Sri Lankan forces.<sup>86</sup> At the time, the LTTE was struggling to acquire funds from international sources because of the international community's CTF campaign.<sup>87</sup> In 2008 and 2009, the Sri Lankan Armed Forces launched a series of offensives to retake LTTE positions. By May 2009, Sri Lanka had defeated the LTTE and killed Prabhakaran.<sup>88</sup>

In August 2009, after the LTTE had been militarily defeated in Sri Lanka, Selverasa Pathmanathan, the group's top leader outside Sri Lanka, who was largely in charge of weapon procurement, was arrested. This was a major dent for the remnants of the LTTE.<sup>89</sup> Despite the LTTE's defeat in Sri Lanka, there appears to have been a continuation of fundraising activities by elements of its international wing.<sup>90</sup> In the years following its defeat in Sri Lanka, there may have been attempts to reorganize the group in Tamil Nadu, despite India's ongoing ban on the group, because of the proximity to Sri Lanka and the relative ease with which Sri Lankan Tamils could blend into the population of Indian Tamils.<sup>91</sup> However, the group has not made major strides to reignite its insurgency against Sri Lanka.

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<sup>85</sup> Wickremesekera, 2016.

<sup>86</sup> Wickremesekera, 2016.

<sup>87</sup> International Crisis Group, 2010.

<sup>88</sup> Wickremesekera, 2016.

<sup>89</sup> International Crisis Group, 2010; Smith, 2010.

<sup>90</sup> "US Department of State Claims Sri Lankan LTTE's International Financial Support Continues" Jane's (IHS), August 18, 2011.

<sup>91</sup> International Crisis Group, *India and Sri Lanka After the LTTE*, Asia Report No. 206, June 23, 2011.

## Efforts to Disrupt Finances

In the 1970s, it appears that the Sri Lankan state largely tried to deal with the LTTE and other Tamil militant organizations by using local police forces.<sup>92</sup> In May 1978, the Sri Lankan government passed a law, Proscription of Liberation Tigers of Tamil Eelam and Other Similar Organisations, that made it a crime for anyone to be involved in “contributing or collecting funds or furnishing information or securing other assistance to” the LTTE or similar organizations.<sup>93</sup> It is not clear how effective this law was at deterring individuals from providing the LTTE with money, but the group continued armed activity and raised funds in the months that followed.<sup>94</sup>

As violence continued, the Sri Lankan government passed the Prevention of Terrorism (Temporary Provisions) Act in July 1979 and declared a state of emergency.<sup>95</sup> This act provided the government with a mechanism to seize property and assets of those deemed to have participated in or supported acts of terror.<sup>96</sup> Sri Lanka went on to deploy troops to the Jaffna Peninsula, where much of the Tamil militancy was ongoing. Hundreds of Tamil civilians were detained, arrested, and tortured as the state pursued militants. It is likely that the state extrajudicially killed some individuals during this crackdown; the bodies of some civilians were found dumped under a bridge. The bodies of others who were missing were never found. This campaign successfully quelled Tamil militancy in the short run—Tamil VNSAs mostly ceased activities inside Sri Lanka, and leaders, such as Prabhakaran, fled and took refuge in Tamil Nadu.<sup>97</sup>

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<sup>92</sup> Swamy, 2008, pp. 29–44.

<sup>93</sup> Government of Sri Lanka, 2016.

<sup>94</sup> Swamy, 2008, pp. 40–41.

<sup>95</sup> This law was made permanent in 1982 (Tejshree Thapa, *Locked Up Without Evidence: Abuses Under Sri Lanka’s Prevention of Terrorism Act*, New York: Human Rights Watch, January 29, 2018; Swamy, 2008, p. 41).

<sup>96</sup> International Monetary Fund, *Sri Lanka: Report on the Observance of Standards and Codes for Anti-Money Laundering and Combating the Financing of Terrorism and Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism*, January 2008.

<sup>97</sup> Swamy, 2008, pp. 40–42.

Any resulting decline in militant activities or fundraising within Sri Lanka was temporary. The LTTE and other Tamil VNSAs used Tamil Nadu as a base and refuge from Sri Lankan security forces, where they continued organizing and training. By 1982, the LTTE and other groups were carrying out attacks in Sri Lanka once again. As noted earlier, in the aftermath of a July 1983 LTTE ambush that killed 13 Sri Lankan soldiers, the country erupted with anti-Tamil violence, displacing thousands of Tamils from across the country. This violence, which the Sri Lankan security forces failed to quell and were at times complicit in, resulted in a significant rise in the numbers of Tamils willing to support or join Tamil militant groups inside and outside Sri Lanka because the government had failed to properly protect Tamil civilians. Additionally, as Tamil refugees fled the country and as Tamil VNSAs started using the diaspora as a source of fundraising, the Sri Lankan government lost the ability to directly police its former constituents and their contributions to the LTTE and other VNSAs.<sup>98</sup>

The LTTE and other groups began building a smuggling network of their own in 1983. Sri Lanka implemented bans on fishing in its waters and deployed its navy in an effort to disrupt this supply chain and support network. These actions failed to stop the flow of weapons, resources, fighters, and funds between Sri Lanka and Tamil Nadu.<sup>99</sup>

Additionally, Sri Lanka was unable to stop India and Tamil Nadu from supporting Tamil militancy. India ceased its direct support to the LTTE in July 1987, largely of its own volition and because of its desire to end the violence in Sri Lanka.<sup>100</sup> Although financial support from India ended, the LTTE continued to have a steady flow of resources as it continued to develop its international and Tamil diaspora support network.<sup>101</sup> Even with the deployment of the IPKF in Sri Lanka and direct conflict between it and the LTTE, India was unable to defeat, cut the finances of, or negotiate a settlement with the LTTE. By 1989, India had announced its intention to

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<sup>98</sup> Harrison, 2003; “Remembering Sri Lanka’s Black July,” 2013; Swamy, 2008, pp. 93–97.

<sup>99</sup> Smith, 2010; Wickremesekera, 2016; Povlock, 2011.

<sup>100</sup> Swamy, 2008, pp. 238–240.

<sup>101</sup> Richards, 2014.



withdraw from Sri Lanka.<sup>102</sup> In 1990, with the IPKF withdrawn, the LTTE took control of a significant portion of northern and eastern Sri Lanka and implemented its own system of governance with a tax regime to extract funds from the population.<sup>103</sup>

Although India engaged in direct fighting with the LTTE in Sri Lanka, it had never fully managed to target the group on its own soil, especially inside Tamil Nadu. After the LTTE assassinated Rajiv Gandhi on May 21, 1991,<sup>104</sup> the Indian government began targeting LTTE activities inside Tamil Nadu and banned the group inside India in 1992.<sup>105</sup> Despite increased pressure from Indian authorities in Tamil Nadu, the LTTE maintained a presence there and used it as a base for some of its smuggling operations through the 1990s.<sup>106</sup> The LTTE did so with significantly less support from civilians, politicians, and local government in Tamil Nadu than it had enjoyed in the past.<sup>107</sup> India also increased its pressure on the organization at sea; in the 1993, India's navy intercepted an LTTE cargo ship and set it on fire, destroying it, after the vessel refused to surrender.<sup>108</sup>

It appears that the LTTE faced little international pressure on its financing until the United States listed the group as an FTO in 1997 and as an SDGT in 2001.<sup>109</sup> American designations prohibited actors involved in banking or business in the United States from allowing funds to enter the hands of the LTTE or its members. The designations also enabled the United States to shut down LTTE front organizations.<sup>110</sup>

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<sup>102</sup> Swamy, 2008, pp. 269–297; Richards, 2014.

<sup>103</sup> Mampilly, 2015, pp. 112–115; Wickremesekera, 2016.

<sup>104</sup> Wickremesekera, 2016.

<sup>105</sup> Wickremesekera, 2016; “Indian Court Upholds LTTE Ban,” 2008.

<sup>106</sup> Smith, 2010.

<sup>107</sup> Pillai, 2014, pp. 98–99.

<sup>108</sup> Wickremesekera, 2016.

<sup>109</sup> International Crisis Group, 2010; Bureau of Counterterrorism, undated a.

<sup>110</sup> International Crisis Group, 2010.

The UK and Australia followed suit, listing the LTTE as a terror group in 2001.<sup>111</sup> The UK went on to shut down LTTE front organizations, close down the LTTE's London office, and freeze LTTE assets in the UK.<sup>112</sup>

Terrorist designations in these countries significantly decreased the total amount of funding the Tamil diaspora willingly donated to the LTTE. Individuals may have feared potential prosecution if they were discovered to be providing funds to a terrorist organization (although few individuals appear to have ever been prosecuted for supporting the LTTE internationally).<sup>113</sup> Similarly, funds derived from extortion appear to have declined; it became easier for some individuals to refuse to pay taxes levelled by LTTE agents because they could use the threat of state prosecution as a "convenient excuse to spurn monthly LTTE tax collections" (although it appears that the LTTE continued to procure some funds in this manner).<sup>114</sup> Additionally, these proscriptions made it difficult for LTTE agents "to transfer the money abroad without attracting the attention of banking authorities," who would then freeze the funds, thus preventing them from reaching the LTTE.<sup>115</sup>

Much of the international community did not engage in significant targeting practices against pro-LTTE groups and actors abroad. In general, it appears that states generally got groups to cease activities deemed pro-LTTE or that supported LTTE goals by threatening them with legal punishment or by making examples of individuals through prosecuting actors for even tangentially or vocally supporting the overall Sri Lankan Tamil independence movement.<sup>116</sup> Although this did not eliminate LTTE fundraising abroad (it became more covert),<sup>117</sup> these actions may have led to an overall

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<sup>111</sup> Nadarajah, 2018.

<sup>112</sup> International Crisis Group, 2010; Povlock, 2011.

<sup>113</sup> International Crisis Group, 2010; Nadarajah, 2018.

<sup>114</sup> International Crisis Group, 2010.

<sup>115</sup> International Crisis Group, 2010.

<sup>116</sup> Nadarajah, 2018; Suthaharan Nadarajah "Disciplining the Diaspora: Tamil Self-Determination and the Politics of Proscription," in Alan Ingram and Klaus Dodds, eds., *Spaces of Security and Insecurity: Geographies of the War on Terror*, New York: Routledge, 2016, pp. 120–128; Nadarajah 2016, pp. 120–128.

<sup>117</sup> Nadarajah, 2018, pp. 278–297.

decline in the willingness or ability of LTTE supporters to contribute to the group due the risk to their own individual or group interests in their current nation of residence. It also may have pushed LTTE fundraising further underground, where it was more difficult for states to figure out who might be participating.

During the cease-fire in the early to mid-2000s,<sup>118</sup> the Sri Lankan government worked to disrupt LTTE financing internationally. Colombo leveraged the U.S. FTO designation to target known LTTE financing streams and weapon supply chains in Europe and North America.<sup>119</sup> To do this, Sri Lanka provided other governments with intelligence that allowed states to take action against LTTE agents in their countries to break up LTTE fundraising activities.<sup>120</sup> In 2006, Prabhakaran stated that these international actions had significantly harmed the LTTE's ability to procure necessary warfighting materials and funds.<sup>121</sup> The LTTE had tried to both lobby and bribe itself off the FTO list, indicating that the FTO status had had a serious effect on the group's financing capabilities.<sup>122</sup> In 2006, the LTTE faced further problems abroad when the European Union and Canada listed the LTTE as a terror group in the aftermath of the collapse of the cease-fire between it and the Sri Lankan government.<sup>123</sup> These designations appear to have added to the LTTE's struggle to acquire funds from abroad.

In 2004, the LTTE splintered when Karuna and his followers left the organization.<sup>124</sup> Karuna and his followers formed TMVP and, by 2007, had partnered with the Sri Lankan state.<sup>125</sup> The TMVP alliance was a significant gain for the Sri Lankan state because the TMVP provided Sri Lanka with an ally in the east to fight the LTTE, as well as "detailed intelligence

<sup>118</sup> Mampilly, 2015, pp. 106–107.

<sup>119</sup> Povlock, 2011.

<sup>120</sup> Corley, 2012, pp. 131–132.

<sup>121</sup> International Crisis Group, 2010.

<sup>122</sup> Corley, 2012, p. 130.

<sup>123</sup> Nadarajah, 2018.

<sup>124</sup> Staniland, 2012a, pp. 16–40; "Break-Away Group Disarms . . .," 2009.

<sup>125</sup> Wickremesekera, 2016.

about LTTE forces, logistics, and support drawn from the TMVP's former place within the Tigers."<sup>126</sup> It is not clear what amount of intelligence on LTTE financing was provided to the Sri Lankan regime by the TMVP, but it is likely that the government learned a fair amount about LTTE financials through its TMVP ally.

In September 2005, the Sri Lankan Navy began searching for, targeting, and sinking LTTE fishing trawlers used to bring supplies from LTTE cargo ships to shore. However, these efforts were not intensely successful and involved the expenditure of a significant amount of resources.<sup>127</sup> In 2006, the Sri Lankan Navy shifted tactics and began focusing on targeting LTTE cargo ships. Prior to this, the Sri Lankan Navy had sunk only two of the LTTE's cargo ships, which were discovered near Sri Lanka's coast, over the course of 1996 and 1997. The destruction of these two ships does not appear to have been part of a Sri Lankan campaign to target LTTE cargo ships but rather occurred as ships were discovered.<sup>128</sup>

To target LTTE shipping efforts, the Sri Lankan Navy developed its own offshore patrol vessels to patrol Sri Lankan waters. These offshore patrol vessels were generally "a cobbled together collection of welded on weapons systems" and were equipped to engage and defeat Sea Pigeon vessels.<sup>129</sup> In 2006 and 2007, the Sri Lankan navy used its offshore patrol vessels to destroy multiple Sea Pigeon vessels in nearby international waters but also farther away, near the territorial waters of Indonesia and Australia. To enable these operations against the LTTE's Sea Pigeons, the Sri Lankan government relied on its own intelligence gathering, intelligence from India and the United States, and radar systems from the United States.<sup>130</sup>

The sinking of LTTE cargo ships caused immense damage to LTTE financing and its supply chain for its war effort at a time when the group was already struggling to successfully fundraise and transfer funds from

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<sup>126</sup> Staniland, 2012a, pp. 16–40.

<sup>127</sup> Smith, 2010.

<sup>128</sup> Smith, 2010.

<sup>129</sup> Povlock, 2010, p. 33.

<sup>130</sup> Smith, 2010.

abroad because of U.S. and other terrorist designations.<sup>131</sup> These setbacks significantly affected the LTTE's ability to fight the war because its ability to replenish supplies was significantly damaged and allowed Sri Lankan security forces to launch successful offensives against a weakened LTTE force.<sup>132</sup>

With the LTTE struggling financially and unable to easily transport materiel, supplies, and weapons to the fight in Sri Lanka, government forces began pushing the LTTE back. Over the course of the final installment of the Eelam Wars, the Sri Lankan government retook nearly all LTTE territory and had devastated the LTTE navy by early 2009. By mid-May 2009, the Sri Lankan security forces had killed or captured nearly all LTTE forces within the country and had killed Prabhakaran and much of the LTTE's remaining leadership.<sup>133</sup>

After the LTTE was defeated in Sri Lanka, elements and sympathizers of the group continued raising funds, although it appears that these funds were mostly for humanitarian purposes. The fragmented LTTE continued to survive in the aftermath of the 2009 defeat in Sri Lanka,<sup>134</sup> but its capability to reorganize abroad was hit hard by the August 2009 arrest of Selverasa Pathamanathan, the group's last surviving senior leader, who had been in charge of the LTTE's activities outside Sri Lanka.<sup>135</sup> It appears that the group may have continued to exist in some form internationally but had been unable to reconstitute itself.<sup>136</sup> This may very well be because numerous governments continued to ban the LTTE or listed it as a terror organization.<sup>137</sup>

Overall, the most successful means of harming the LTTE's finances over the years appear to have been the international community's designation

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<sup>131</sup> Povlock, 2011.

<sup>132</sup> Povlock, 2011; Smith, 2010.

<sup>133</sup> Wickremesekera, 2016.

<sup>134</sup> International Crisis Group, 2010.

<sup>135</sup> International Crisis Group, 2010; Smith, 2010.

<sup>136</sup> International Crisis Group, 2011.

<sup>137</sup> Bureau of Counterterrorism, undated b; Indian Ministry of Home Affairs, "Banned Organizations: Terrorist Organizations Listed in the First Schedule of the Unlawful Activities (Prevention) Act, 1967," webpage, undated; Public Safety Canada, "Currently Listed Entities," webpage, undated.

of the LTTE as a terror organization, which made it more difficult for the group to acquire funds from outside Sri Lanka, and the destruction of its commercial wing, the Sea Pigeons. The cooperation of the international community with Sri Lanka in applying intelligence to counter LTTE financing abroad appears to have damaged the LTTE's finances significantly on its own. The use of force to destroy the group's commercial cargo ships appears to have further dented the group's ability to equip, finance, and supply itself in the final stages of the war so that the government could engage and eliminate the group.

## Conclusions and Implications

The LTTE spent its early years funding itself primarily through local criminal actions and the financial contributions of its Sri Lankan supporters. After 1983, it took advantage of the international flow of refugees from Sri Lanka to create an internationalized funding scheme and went on to significantly diversify its financing. The LTTE managed to secure an impressive annual haul of funds that it then used to invest in various licit and illicit revenue streams; fund propaganda campaigns; pay for its war effort in Sri Lanka; create its own fleet of commercial vessels for international shipping; and purchase weapons, materiel, and supplies. Together, these efforts created a well-funded, well-armed, and sophisticated VNSA that developed its own sea and air wings.<sup>138</sup>

The financing activities of the LTTE were not significantly deterred until the late 1990s and through the 2000s, when the international community began participating in countering LTTE financing. India proscribed the LTTE in the early 1990s, but that did not significantly affect LTTE fundraising abroad (or eliminate LTTE activities within India). It was not until the United States listed the LTTE as an FTO in 1997 that there was a sizable impact on the ability of the LTTE to raise and transfer money across the world to fund its war effort and make purchases. Other governments fol-

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<sup>138</sup> The LTTE air wing was relatively small and ineffective, but is one of the only instances of a VNSA securing its own piloted aircraft other than seizing them as government military bases were taken.

lowed the U.S. lead; by 2006, these efforts had significantly affected international financing of the LTTE. Intelligence-sharing was itself particularly useful for this effort; during the 2001–2006 cease-fire, the Sri Lankan government used the FTO status of the group to inform governments of which actors it knew to be holding LTTE funds or actively participating in raising money for the LTTE so that those funds would be frozen and inaccessible to the group.

The implementation and enforcement of international sanctions and CTF efforts severely affected the LTTE's ability to raise money abroad while it was dependent on these revenue sources to maintain its war effort. Hampering LTTE access to these streams was a boon for Sri Lanka, but only because the LTTE had built such an internationalized financing regime. It is unlikely that a similar CTF campaign would inflict such sizable damage to a group in its early years, while it is still developing its own financing streams. Instead, CTF targeting of these groups in their early years could likely drive them toward building a fully localized fundraising structure that would not be easy for the international community to target through nonkinetic means alone. Similarly, it is possible that this strategy is most effective against groups that have already developed and are significantly dependent on an international financing strategy rather than those mostly focused on local revenue streams.

The other strategy that appears to have made a significant dent in LTTE financing and procurement operations was the 2006 and 2007 campaign of sinking cargo ships the group used to raise funds and transport weapons, materiel, and supplies. In two years, the Sri Lankan navy had destroyed most of the LTTE's major shipping vessels. This campaign significantly damaged the LTTE's ability to use conventionally manufactured weapons in its fight, which in turn appears to have facilitated the success of the Sri Lankan offensives against the group from 2006 through 2009. This strategy greatly harmed LTTE supply chains and funding streams.

In other conflicts, states may gain significant leverage over groups by similarly targeting their logistics operations. It will be difficult for a state to cause similarly immediate and significant harm to a VNSA's logistics if it has not chosen to use a small number of larger and more easily detectable and targetable vehicles. When a VNSA's supply lines consist of a significant number of smaller, lower-cost vehicles that are not easily distinguishable

from their civilian counterparts, government forces will have to use a significant amount of intelligence, manpower, and time to target these lines or will need to heavily patrol the waters, cut off the group's access to international borders, or cut off local supply chains to VNSA controlled areas. Hampering the LTTE's supply and financing chain by targeting its vessels was enabled by the group's use of cargo ships that were expensive and difficult to replace. This strategy would have been more difficult if the LTTE had not shifted a significant amount of its supply lines to these ships. This can be seen in the difficulties the Sri Lankan navy had eliminating the transport of supplies and resources to the LTTE and other Sri Lankan VNSAs, which used small watercraft. To similarly harm logistics networks of other VNSAs in other conflicts, targeting the places where the VNSAs store or maintain their vehicles may yield significant, although probably not comparable, damage to their logistics networks unless the VNSAs build a logistics network that is partially dependent on larger vessels, something that is unlikely for a group to become dependent on barring access to the sea.

It is possible that, if the Sri Lankan government had behaved differently in the 1970s and the 1980s, the LTTE would not have had the same access to financing later on. Sri Lanka failed to protect Tamils during the 1983 anti-Tamil riots, and some of its security forces participated in attacking Tamils during this violence. These actions drove a sizable share of the Tamil population to support or join the LTTE because Sri Lankan Tamils were persecuted without meaningful protection from the state. Thousands of Tamils went abroad and enough support for the LTTE existed within this diaspora that funds could be extracted and supplied to the group in places the Sri Lankan government had no ability to police. On top of this, the Indian government began funding, arming, and training the LTTE and other Tamil VNSAs because of pressure from its Tamil population in Tamil Nadu and a desire to gain influence in Sri Lanka.<sup>139</sup> Sri Lankan actions during the 1983 anti-Tamil riots led to long-term blowback for the government that went on to lose control of substantial portions of its territory in the north and east, saw the establishment of LTTE governance in certain areas, saw violence erupt throughout the country, and struggled to finance its own war effort.

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<sup>139</sup> Khobragade, 2008.



It is not clear that Tamil militancy would have continued to decline without the 1983 anti-Tamil riots. The aftermath of the riots was a rapid and dramatic uptick in violence in Sri Lanka. It is possible that violence would have accelerated with or without this single event, but these riots, on their own, helped create an environment that gave the LTTE more manpower and funding locally and access to funding from a diaspora in wealthy nations that Sri Lanka could not police. In other conflicts, states should take to heart the need to properly protect civilian populations and refrain from targeting them or else run the risk that doing so might increase VNSAs access to willing sources of funding and recruits and to a potential stream of funds from resettled populations abroad.



## Disruption Methods in Detail

This appendix provides an overview of the various nonkinetic and kinetic tools used to disrupt VNSA financing. We summarized these instruments and discussed their effectiveness across a series of case studies in Chapter 5 and in the respective appendixes. The discussion in this appendix complements that material by providing more background information on the tools and their uses.

### Nonkinetic Disruption Methods

The nonkinetic tools we examined were international standards of AML/CFT; international legal authorities; targeted financial sanctions; designation mechanisms; asset freezes to impede financial access; investigation, prosecution, and sentencing; and DoD's role in intelligence sharing and coordination.

The United States unveiled a new *National Strategy for Combating Terrorist and Other Illicit Financing* in early February 2020.<sup>1</sup> The strategy identifies key risks and vulnerabilities in the U.S. AML/CFT regime and calls for a holistic, interagency approach to take on emerging AML/CFT challenges by closing legal and regulatory gaps in the AML/CFT framework. The strategy is based on the illicit finance risks and threats found in the

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<sup>1</sup> Treasury, 2020a. Subsequent to the completion of this research, the department produced a new *National Strategy for Combating Terrorist and Other Illicit Financing*, in May 2022.

updated national risk assessment from 2018.<sup>2</sup> In the 2020 strategy, the major risks associated with money laundering were fraud, cybercrimes, drug trafficking, transnational organized crime, human trafficking and smuggling, corruption, and terrorist financing.<sup>3</sup> The previous assessment and strategy also outlined risks involving emerging technology. Illicit finance involving digital assets and cybercrime often use encrypted messaging applications. In this regard, the 2020 strategy document noted that FATF had issued clarified guidance on the regulation and supervision of virtual assets.

## AML/CFT Tools

### FATF: The International AML/CFT Standard Setter

The FATF is a multilateral organization serving as the international standard setter on AML/CFT regulatory policy. The FATF issues recommendations, known as the FATF standards, to enhance the AML/CFT legislative framework and the effective implementation of AML/CFT measures. The FATF comprises 37 member jurisdictions and two regional organizations and also publishes mutual evaluations—formal assessments of member countries’ AML/CFT regimes measured against the revised FATF standards.<sup>4</sup> Furthermore, it has the commitment of more than 200 jurisdictions to follow the FATF standards.<sup>5</sup> FATF last formally assessed the United States in 2016 for effective implementation of its AML/CFT regime under the revised FATF standards.<sup>6</sup> In terms of terrorism financing investigations and prosecutions, the FATF assessors found that the U.S. CFT system was well integrated into U.S. counterterrorism structures, that interagency cooperation and coordination was effective, and that intelligence information-sharing between the

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<sup>2</sup> Treasury, *National Terrorist Financing Risk Assessment: 2018*, Washington, D.C., 2018.

<sup>3</sup> Treasury, 2020a.

<sup>4</sup> FATF, undated.

<sup>5</sup> In addition to FATF, there are nine FATF-style regional bodies covering more than 200 jurisdictions. These jurisdictions have committed to follow FATF standards (FATF, undated b; FATF, *High-Level Principles and Objectives for FATF and FATF-Style Regional Bodies*, Paris, February 2019a).

<sup>6</sup> FATF, undated.

intelligence community and law enforcement on terrorist financing matters was conducted effectively. Additionally, the conviction rates in terrorist financing cases were assessed as dissuasive and proportional.

### AML/CFT U.S. Legal Authorities

Two legal authorities allow the U.S. government to implement AML/CFT measures, enhance law enforcement investigatory tools, and impose AML/CFT obligations on financial institutions. The U.S. Congress passed the 2001 USA PATRIOT Act to prevent and deter terrorist acts, enhance law enforcement investigatory tools, strengthen AML/CFT measures, prevent foreign abuse of the U.S. financial system for purposes of corruption, and require all financial institutions to report money laundering.<sup>7</sup> The BSA obligates financial institutions to report on customer relationships and maintain records of financial transactions by filing currency transaction reports and suspicious activity reports.<sup>8</sup> It also authorizes Treasury to issue implementing regulations requiring financial institutions to maintain transaction records.<sup>9</sup> More recently, AML/CFT measures in the BSA were further strengthened by Title III of the USA PATRIOT Act and the Money Laundering Suppression Act and Intelligence Reform and Terrorism Prevention Act of 2004.<sup>10</sup>

The FinCEN oversees and implements AML/CFT policies at Treasury with the mission of combating the illicit use of the financial system and using financial intelligence and authorities to preserve the national security of the United States.<sup>11</sup> FinCEN uses the BSA to partner with financial institutions and obligates them to keep records and report suspicious transactions. FinCEN also provides law enforcement with financial intelligence

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<sup>7</sup> Pub. L. 107-56, 2001; FinCEN, undated.

<sup>8</sup> Pub. L. 91-508, 1970.

<sup>9</sup> Federal Deposit Insurance Corporation, 2004.

<sup>10</sup> Pub. L. 107-56, 2001; Pub. L. 99-570, Anti-Drug Abuse Act of 1986, Subtitle H, Money Laundering Suppression Act of 1986, October 27, 1986; Pub. L. 108-458, Intelligence Reform and Terrorism Prevention Act of 2004, December 17, 2004.

<sup>11</sup> FinCEN, undated.

recorded through the BSA and provides analytical support, facilitating information sharing within law enforcement.<sup>12</sup>

## Targeted Financial Sanctions

### The International Targeted Financial Sanctions Regime

The International targeted sanctions regime comprises UNSCRs 1267 and 1373 and the international AML/CFT standards involved (FATF's revised Recommendation 6). The FATF standard requires countries to implement the Targeted Financial Sanctions regime by complying with the UNSCRs to prevent and suppress terrorism financing.<sup>13</sup> Under the UNSCRs, countries must freeze, without delay, the funds or assets of any person or entity designated by the UN Security Council under UNSCR 1267; likewise, under UNSCR 1373, countries are required to prevent financing of terrorism and freeze the funds of anyone committing terrorism.<sup>14</sup> This involves countries (1) applying clear authorities and procedures for identification and designation of persons and entities; (2) making efforts to establish due process mechanisms for the persons and entities designated; (3) establishing a mechanism to freeze, without delay, the funds and assets of designated indi-

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<sup>12</sup> FinCEN, undated.

<sup>13</sup> FATF, 2019b. Recommendation 6 in the document states (p. 11),

Countries should implement targeted financial sanctions regimes to comply with UNSCRs relating to the prevention and suppression of terrorism and terrorist financing. The resolutions require countries to freeze without delay the funds or other assets of, and to ensure that no funds or other assets are made available, directly or indirectly, to or for the benefit of, any person or entity either (i) designated by, or under the authority of, the UN Security Council under Chapter VII of the Charter of the UN, including in accordance with resolution 1267 (1999) and its successor resolutions; or (ii) designated by that country pursuant to resolution 1373 (2001).

<sup>14</sup> FATF, 2019b. The Security Council's designation power comes from Chapter VII of the UN Charter. Recommendation 6 of the FATF standards requires countries to ensure funds or assets of individuals and entities under UNSCR 1267 and all current and successor resolutions that involve targeted financial sanctions against terrorists are not made directly, or indirectly available to designated persons or entities. This involves UNSCRs 1333 (2000), 1363 (2001), 1390 (2002), 1452 (2002), 1455 (2003), 1526 (2004), 1617 (2005), 1730 (2006), 1735 (2006), 1822 (2008), 1904 (2009), 1988 (2011), and 1989 (2011).

viduals and implementing a communication strategy for public dissemination of the freezing restrictions; and (4) ensuring domestic coordination and clear procedures to deal with frozen funds and assets and accessing frozen funds and assets to designated persons and entities in cases of exemptions.<sup>15</sup> An effective freezing regime serves a preventive role to combat terrorism by eliminating terrorist cash flows and preventing the use of funds for terrorist means and activities by finding money trails that expose terrorist cells, deterring nondesignated individuals from pursuing terrorist goals, and encouraging designated individuals to dissociate from terrorist networks.<sup>16</sup>

### The U.S. Targeted Financial Sanctions System and Designation Schemes

There are two major designation schemes involving targeted financial sanctions in the United States: the FTO and SDGT lists. The Immigration and Nationality Act expressly grants DoS the authority to place groups on the FTO list,<sup>17</sup> while EO 13224 grants DoS and Treasury authority to add individuals and entities to the SDGT list.

DoS's Counterterrorism Bureau is responsible for designating entities as FTOs under the authority of the section 219 of the Immigration and Nationality Act.<sup>18</sup> DoS compiles an administrative record, based on open and classified sources, on the individuals or entities for designation, in consultation

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<sup>15</sup> FATF, *Targeted Financial Sanctions Related to Terrorism and Terrorist Financing (Recommendation 6)*, Paris, 2013a.

<sup>16</sup> FATF, 2013a. UNSCR 1267 laid the foundation for the targeted financial regime in 1999, while subsequent UNSCRs further evolved the targeted financial sanctions regime to also include freezing funds against ISIS. The UN Security Council created the sanctions regime in 1999 (UNSCR 1267) imposing financial sanctions on the Taliban. Additionally, UNSCR 1333 (adopted in 2000) emphasized the linkage and broadened sanctions beyond the Taliban by including AQ. In 2001, while the measures against both groups remained broadly the same, the Security Council split the sanctions regime into two groups—one for the Taliban and one for AQ (through UNSCRs 1998 and 1999). The Security Council adopted resolution 2253 in 2015 to expand the listing criteria to include individuals and entities supporting ISIL.

<sup>17</sup> Pub. L. 104-208, The Omnibus Consolidated Appropriations Act of 1997, September 30, 1996; Pub. L. 107-56, 2001.

<sup>18</sup> Rollins, 2019.

with the DoJ and Treasury, and determines whether the entity is a foreign organization, engages in or has the capability and intent to engage in terrorist activities, and threatens the security of the United States.<sup>19</sup> Under amendments to the Immigration and Nationality Act, providing material support to designated FTOs is unlawful, and the designation helps curb terrorism financing because financial institutions are required to block transactions involving assets of a designated FTO.<sup>20</sup>

EO 13224 authorizes the Secretary of State, in consultation with Treasury, to add individuals and entities on the SDGT list if the two find that the individuals and entities pose a threat to the national security of the United States and meet the designation criteria set out in EO 13224.<sup>21</sup> Additionally, Treasury's OFAC administers economic sanctions to block the assets and funds of foreign individuals and entities that commit or pose a risk of committing acts of terrorism. OFAC also publishes lists of individuals or companies acting on behalf of or for targeted countries; it also lists individuals and entities that are not country specific on the Specially Designated Nationals list.<sup>22</sup>

DoS and Treasury lead the designations for foreign or domestic persons acting on behalf of or associated with designated persons or entities under the SDGT scheme, while DoS is the lead for designating foreign persons committing terrorist acts and FTOs.<sup>23</sup>

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<sup>19</sup> Rollins, 2019.

<sup>20</sup> Rollins, 2019; Pub. L. 104-132, 1996; Pub. L. 107-56, 2001.

<sup>21</sup> Pompeo, 2019. Pursuant to authorities of the International Emergency Economic Powers Act (codified in U.S.C., Title 50, War and National Defense, Ch. 35, International Emergency Economic Powers, § 1701, Unusual and Extraordinary Threat; Declaration of National Emergency; Exercise of Presidential Authorities) and the National Emergencies Act (codified in U.S.C., Title 50, War and National Defense, Ch. 34, National Emergencies, Subch. I, Terminating Existing Declared Emergencies, § 1601, Termination of existing Declared Emergencies). In response to the 9/11 terrorist acts, President Bush declared a national emergency to combat the existing terrorist threat on the national security, foreign policy and economy of the United States and signed EO 13224 in 2001 as a tool to inhibit terrorist funding.

<sup>22</sup> Pompeo, 2019.

<sup>23</sup> FATF, 2016; see also Treasury, "Financial Sanctions," webpage, June 2, 2020b.



## Investigation, Prosecution, and Sentencing

### Tracking Money Flows and Investigations

The FBI, the DEA, and the DHS all play roles in tracking VNSA financing and money flows and in investigations. The FBI established TFOS, which provides financial expertise and follows the money in terrorist investigations, in conjunction with the intelligence community and law enforcement. Additionally, TFOS is also involved in FBI joint terrorism task forces, which are FBI-led partnerships across multiple jurisdictions that conduct terrorism investigations comprising representatives from various federal agencies (such as the Secret Service, DEA, ICE, and CBP), local law enforcement, and state representatives.<sup>24</sup> The 2016 U.S. Mutual Evaluation Report noted that FBI-led joint terrorism task forces have successfully disrupted more than 100 potential terrorist attacks, while FBI-TFOS has initiated over 700 terrorist financing investigations since 2010, leading to over 120 convictions for terrorist financing offenses from 2010 to 2015.<sup>25</sup> The FBI has such tools as the administrative subpoena to acquire information for national security purposes without preapproval from a judge and can also request judicial approval for electronic surveillance and physical searches of individuals engaged in terrorist activities.<sup>26</sup> Additionally, Treasury initiated the TFTP to identify and track money flows of terrorists, helping to uncover terrorist cells and networks.<sup>27</sup>

The DHS has a supporting role in combating terrorist financing. DHS is tackling bulk cash smuggling through ICE by providing law enforcement with tactical and investigation support and financial investigative expertise on the transportation and smuggling of bulk cash. Through such initiatives as Cornerstone, the Static Analysis Tools Modernization Project, and the Seizing Earnings and Assets from Retail Crime Heists initiative, DHS is closing weaknesses in the financial, trade, and transportation sectors that

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<sup>24</sup> FATF, 2016.

<sup>25</sup> FATF, 2016.

<sup>26</sup> FATF, 2016.

<sup>27</sup> Treasury, undated.

are vulnerable to exploitation, combating human trafficking and smuggling, and investigating organized retail crime rings with international ties.<sup>28</sup>

The DEA's statutory duty is to investigate financial transactions resulting from illicit drug activity and stop the manufacture, sale, and use of illegal drugs. In this regard, the DEA also has a duty to prevent the diversion of funds from illicit drug activity to terrorism ends.<sup>29</sup> The Financial Intelligence and Investigations Unit within the DEA's Office of Financial Operations is responsible for financial investigation efforts and analysis of the financial intelligence gathered.

### Prosecution and Sentencing

DoJ has the lead responsibility for the prosecution of VNSA financing acts, including all forms of material support to terrorism. The National Security Division of DoJ oversees VNSA financing investigations and prosecutions federally and oversees prosecutions in coordination with U.S. Attorney's offices. DoJ works with the intelligence community for use of intelligence in court proceedings.<sup>30</sup>

The Material Support to Terrorism statutes outlaw knowingly attempting, conspiring, providing material support or resources in preparation of or for carrying out an offense identified as a federal crime of terror (18 U.S.C. § 2339A) and to a designated FTO or an organization that engages in terrorism or terrorist activities (18 U.S.C. § 2339B).<sup>31</sup> A defendant who has conducted or attempted to conduct domestic money laundering transactions or international monetary laundering transactions or is part of an undercover sting of money laundering transactions can be held criminally culpable under 18 U.S.C. § 1956.<sup>32</sup>

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<sup>28</sup> DHS, "Disrupt Terrorist Financing," webpage, August 16, 2018.

<sup>29</sup> Congressional Research Service, 2005.

<sup>30</sup> FATF, 2016.

<sup>31</sup> U.S.C., Title 18, Crimes and Criminal Procedure, Pt. 1, Crimes, Ch. 113B, Terrorism, § 2339A, Providing Material Support to Terrorists; U.S.C., Title 18, Crimes and Criminal Procedure, Pt. 1, Crimes, Ch. 113B, Terrorism, § 2339B, Providing Material Support to Designated Foreign Terrorist Organizations.

<sup>32</sup> U.S.C., Title 18, Crimes and Criminal Procedure, Pt. 1, Crimes, Ch. 95, Racketeering, § 1956, Laundering of Monetary Instruments.

## Military Intelligence Sharing, Interagency Coordination, and Counterdrug Activities

### Intelligence Gathering and Sharing

DoD employs threat finance intelligence analysts and CTF analysts, with specialized skill sets, to track, monitor, and analyze terrorist financing methods and long-term financial transactions behavior, providing joint force commands with actionable strategic CTF intelligence and giving joint force commands an enhanced understanding of terrorists' operational environments.<sup>33</sup>

### Operationalization of CTF Activities within the Department of Defense

DoD's CTF activities are defined in DoDD 5205.14, which codifies DoD's commitment to the threat finance strategy and cooperation efforts and establishes CTF as a DoD mission.<sup>34</sup> DoDD 5205.14 includes such activities as CTF intelligence, coordination with partner nations, and CTF for other illicit means.<sup>35</sup>

Through DoDD 5205.14, DoD's major roles in CFT efforts include enhancing coordination, cooperation, and enhancing support with CFT activities of agency partners and nations and intelligence gathering and dissemination. DoD has a responsibility for interagency government coordination of action involving intelligence information sharing. Similarly, DoD serves to enhance coordination and cooperation with interagency partners and partner nations to "deny, disrupt or defeat, and degrade" terrorists' ability to use financial networks.<sup>36</sup> Internally, DoD engages in strategic planning within Joint Staff commands and supports U.S. government agencies with their CFT efforts. Furthermore, DoD also supports law enforcement CFT efforts in investigations, freezing assets and funds, and prosecution of terrorists. DoD works with the intelligence community to collect, analyze and disseminate CTF intelligence. DoD also supports civil agency law

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<sup>33</sup> DoDD 5205.14, 2017.

<sup>34</sup> DoDD 5205.14, 2017.

<sup>35</sup> DoDD 5205.14, 2017.

<sup>36</sup> Anderson, 2007; See also DoDD 5205.14, 2017.

enforcement activities, providing logistics and equipment to civil agents or law enforcement, such as convoy security and transportation, and providing communications and intelligence support, such as information technology personnel.<sup>37</sup>

### National Guard Counterdrug Program

Congress established the National Guard Counterdrug program in 1989 to use the military's capabilities and resources to combat the security threats stemming from the drug problem in the United States.<sup>38</sup> Legal authority for the program rests in U.S.C., Title 32, Section 112, which authorizes the secretary of defense to provide funds to states that request it for the use of their respective National Guard members for drug interdiction and counterdrug activities.<sup>39</sup> In 2011, the Deputy Assistant Secretary of Defense for Counternarcotics and Global Threats funded a new CTF course to support the counterdrug program, with the National Guard Counterdrug program as one of six supported law enforcement components; the others included the DEA, the FBI, FinCen, ICE, and Internal Revenue Service Criminal Investigations.<sup>40</sup> Current information indicates that this course has been ended.

## Conclusion

The U.S. government has a wide variety of nonkinetic tools to disrupt VNSA financing through use of AML/CFT measures, the targeted financial sanctions regime, investigations and prosecutions, and DoD's role in intelligence gathering and interagency coordination (Figure H.1). The United States effectively implements international AML/CFT measures and obligates financial institutions to conduct due diligence and keep financial records through the USA PATRIOT Act and FinCEN's authority and coordination. Through implementation of the UNSCRs and U.S. designation schemes, the

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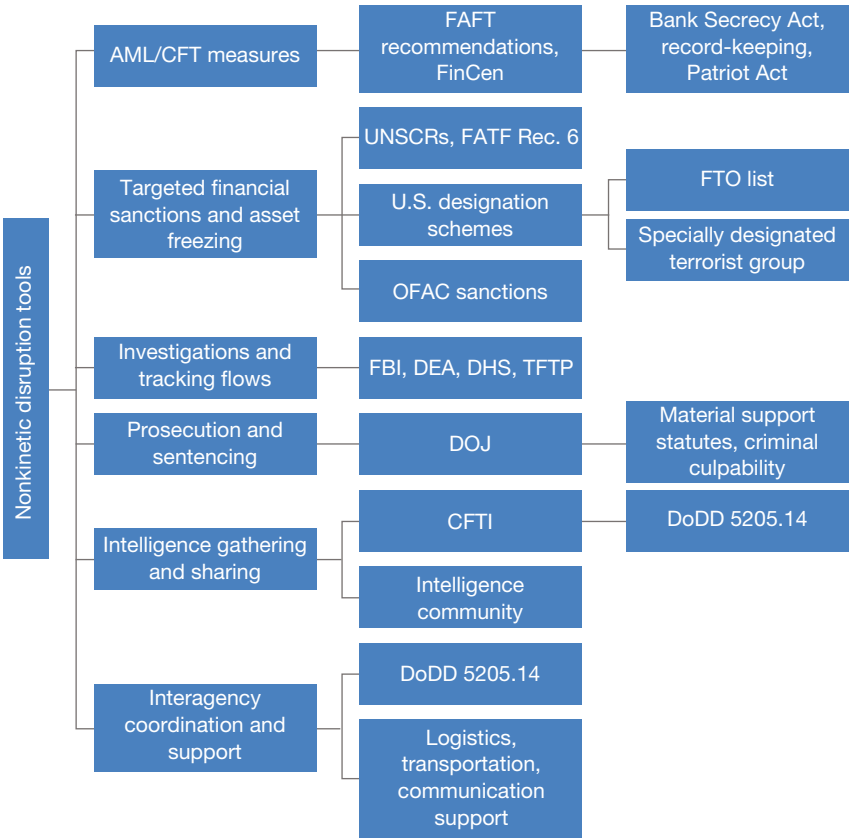
<sup>37</sup> Anderson, 2007; See also DoDD 5205.14, 2017.

<sup>38</sup> Nadine Wiley de Moura, "National Guard Counterdrug Program Celebrates 30 Years," press release, U.S. Army website, August 21, 2019.

<sup>39</sup> 32 U.S.C., § 112; National Guard Bureau Public Affairs, 2017.

<sup>40</sup> Betty Squatrito-Martin, "Counterdrug Launches New Counter Threat Finance Program," The National Guard, April 3, 2012.

**FIGURE H.1**  
**Overview of Nonkinetic Toolkit Available to the U.S. Government**



United States is able to freeze the funds and assets of individuals and entities involved in terrorist acts without delay. Several U.S. agencies, such as the FBI, DEA, DHS, and Treasury, are involved tracking money flows and investigations of terrorist entities and individuals, while DoJ is primarily responsible for the prosecution and sentencing of individuals involved in providing material support to terrorism. DoD conducts CTF intelligence activities and shares information with, coordinates, and provides logisti-

cal and other support to the intelligence community, agency partners, and partner nations.<sup>41</sup>

## Kinetic Disruption Methods

This section presents the institutional structures and kinetic options that the DoD uses to support CTF strategy. It begins by outlining the relevant institutional and organizational capacities, then illustrates key kinetic activities, grounding them in historical examples when applicable. It also includes findings from the research literature regarding the efficacy of the different types of operations.

### Institutional Capacities

The U.S. military conducts kinetic operations to support U.S. CTF strategy against VNSAs when other means are insufficient. DoD, through USSOCOM, leads these efforts, with significant contributions from law-enforcement agencies in the DHS and DoJ. DoD's CTF roles include providing support to partner nations, conducting threat-finance intelligence operations, and taking direct military action.<sup>42</sup>

To coordinate these actions, each U.S. combatant command maintains dedicated CTF capabilities. Occasionally, the military may establish a threat finance cell, which integrates command and control from relevant domestic and international partners. The ITFC, established in 2005, was the pioneer. It brought together personnel from a variety of federal agencies, including the FBI, the Internal Revenue Service, and the Joint Interagency Coordination Group, and focused on the finance efforts of insurgent advisory groups, such as AQ.<sup>43</sup> The ITFC's success led to the creation of the Afghan Threat Finance Cell in 2009,<sup>44</sup> and later the Counterterrorism Interagency Finance Cell.

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<sup>41</sup> DoDD 5205.14, 2017.

<sup>42</sup> DoDD 5205.14, 2017, pp. 1, 5–6.

<sup>43</sup> Blum and Conway, 2015, p. 1.

<sup>44</sup> Blum and Conway, 2015, p. 2.

Combatant commands can also create joint interagency organizations to combat transnational illicit revenue streams. According to Detzi and Winkleman, the efforts to disrupt illicit trafficking by two such organizations—USSOUTHCOM’s JIATF-S and U.S. European Command’s JICTC—provide models for success.<sup>45</sup> JIATF-S and JICTC act as central nodes to unite an array of domestic and international authorities affected by illicit trafficking in the Western Hemisphere, Europe, and West Africa. The organizations work in concert, with JIATF-S focusing on supply-side mechanisms and JICTC on demand-side mechanisms. Detzi and Winkleman concluded that USAFRICOM could implement a similar organization to degrade the finances of adversary VNSAs in the region, specifically AQIM.<sup>46</sup>

## Activities

Kinetic CTF activities include the eradication or destruction of resources; the interdiction of illicit substances, cash, and other assets; the decapitation of kingpins; and certain aspects of COIN operations. The United States may conduct these activities itself, build the capacity of host nations to conduct them, or both. Under the auspices of what was originally called the Global War on Terror, the U.S. military has taken direct action and trained partner forces against AQ, ISIS, and affiliated groups. Additionally, through peacetime security-cooperation relationships, the United States has trained, equipped, and supported partner forces to combat VNSAs. Finally, the United States has used domestic authorities and international partnerships to disrupt the transnational movement of illicit goods. In the following subsections, we define each of these activities, provide examples of their historical application, and highlight key effects.

In theory, kinetic operations can be used against most sources of revenue; however, certain sources are more conducive to military action than others. Counternarcotics, for example, is a substantial part of kinetic CTF operations. This is because drug trafficking is a ubiquitous and highly lucrative source of revenue, including for several VNSAs with anti-U.S. agendas, and has independent nefarious effects on the societies involved in the trade.

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<sup>45</sup> Detzi and Winkleman, 2016, p. 234.

<sup>46</sup> Detzi and Winkleman, 2016, p. 234.

Additionally, narcotics offer physical targets to attack. Activities used for counternarcotics can also be used against other illegal goods and the unauthorized trade of legal goods.

Furthermore, the ability to employ kinetic operations depends on the geographic and sociopolitical context of the threat. When the United States conducts activities against VNSAs or supports a partner country's activities against a VNSA, COIN and CTF become intrinsically related. The following examples highlight CTF-specific COIN tactics that the United States has conducted or supported.

### Destruction and Eradication

The United States may reduce a VNSA's assets by physically destroying them, often via aerial bombing. One example of this was Operation Point Blank, in which the United States bombed ISIS's cash stores, destroying millions of dollars.<sup>47</sup>

Eradication is a specific type of destruction that targets narcotics crops, such as marijuana, coca, and poppy. This can be done using forces on the ground, aerial spraying of herbicides, or targeted strikes.<sup>48</sup> Eradication has been a controversial staple of U.S. and Colombian counter-cocaine and counter-VNSA strategy. In Colombia, eradication means manually or aeri-ally spraying coca crops with herbicide. U.S. officials compare the strategy to mowing the grass—enduring impacts on cultivation result only if efforts are consistent and sustained.<sup>49</sup> Furthermore, eradication is extremely costly, especially in comparison with other methods. According to a GAO report, one study suggested that removing 1 kg of cocaine from retail mar-kets through eradication alone would cost the United States \$100,000. In addition, aerial eradication inflames resistance from populations living near coca crops. Furthermore, human rights activists claim (with evidence from scientific studies and anecdotes) that the herbicide causes detrimental effects to public health, livestock, and other licit crops and wildlife.<sup>50</sup>

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<sup>47</sup> Warren and Davis, 2016.

<sup>48</sup> JP 3-07.4, 2019, p. I-4.

<sup>49</sup> U.S. Government Accountability Office, 2018, p. 36.

<sup>50</sup> U.S. Government Accountability Office, 2018, p. 42.



The United States also tried eradication on poppy fields in Afghanistan (prior to the American withdrawal and the Taliban's return to power in 2021), with arguably even less-promising results. The enormous revenue the Taliban gained from the drug trade made poppy fields a tempting target for NATO forces. In 2004, the United States began aerial spraying, which immediately ignited violent strikes and protests.<sup>51</sup> Felbab-Brown has argued that eradication in Afghanistan is counterproductive because it deprives populations of their sole source of income, weakening the legitimacy of the now defunct Western-backed Afghan state, alienating Afghans from the U.S. cause, and driving citizens to seek security elsewhere, such as with the Taliban.<sup>52</sup> Moreover, eradication has not produced any enduring impact on poppy cultivation, with levels rising back to pre-eradication numbers just two years after the program ended. Felbab-Brown also argued that it did not do detrimental damage to the Taliban's finances. The group merely found other revenue streams in the unauthorized trade of licit goods, such as timber and gems, and funding from neighboring Pakistani and Middle Eastern donors.<sup>53</sup> Evidence from Afghanistan and Colombia suggests that, while eradication can achieve temporary positive results, the United States must weigh these against potential blowback, the severity of which depends on specific social and economic factors on the ground.

### Interdiction

Interdiction seeks to disrupt revenue streams by (1) destroying or seizing illicit products, cash, processing facilities, or other assets and (2) killing or capturing traffickers.<sup>54</sup> The USCG leads these efforts for illegal drugs by guarding the coastal waters of the United States and patrolling 6 million mi<sup>2</sup>

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<sup>51</sup> Vanda Felbab-Brown, "Counterinsurgency, Counternarcotics, and Illicit Economies in Afghanistan: Lessons for State-Building," in Michael Miklaucic and Jacqueline Brewer, eds., *Convergence: Illicit Networks and National Security in the Age of Globalization*, Washington, D.C.: National Defense University Press, 2013, p. 191.

<sup>52</sup> Vanda Felbab-Brown, "Afghanistan: When Counternarcotics Undermines Counterterrorism," *Washington Quarterly*, Vol. 28, No. 4, 2005, p. 62.

<sup>53</sup> Felbab-Brown, 2013, p. 192.

<sup>54</sup> U.S. Government Accountability Office, 2018, p. 42.

of international waters, known as the Transit Zone,<sup>55</sup> where the USCG has authorities to stop and search unauthorized sea vessels and to seize or detain illicit substances and traffickers onboard.<sup>56</sup> In 2017, the USCG seized 223 metric tons of cocaine and 31,190 lbs of marijuana, worth a combined \$6.6 billion. They also detained 708 suspected drug traffickers for prosecution in the United States or allied nations.<sup>57</sup> The drug seizures came from around the globe, although the vast majority intended for distribution in the United States come from Latin America.

In addition to their own operations, U.S. agencies supported various international interdiction efforts. In the 1990s and early 2000s, the United States implemented air bridge denial programs in Peru and Colombia, which funded and operationally supported the shooting down of unauthorized aircraft suspected of carrying drugs. In 2003, Colombia documented 60 to 70 flights per month transporting drugs in and out of Colombia. Today, that number is at two to three.<sup>58</sup> Although concerted U.S. and Colombian government interdiction efforts translated into the weakening and ultimately disruption of the FARC, these efforts were not equally successful in disrupting the flow of cocaine out of Colombia toward the United States and other international markets. With other VNSAs from Colombia and Mexico stepping in to fill the void that the weakening of the FARC left, the flow of cocaine barely diminished over time but instead found alternate routes. The Colombian government has also conducted other interdiction measures, such as river and maritime search and seizures, and has launched strikes at cocaine labs and processing facilities, using DoD provisions, such as monitoring and detection support; intelligence, surveillance, and reconnaissance; technology; and weapon systems. It is difficult to evaluate the efficacy of these programs, given the lack of good data and multiple confounding factors; however, despite the enormous resources spent, the dismantling of VNSAs, such as the FARC and the AUC, and the seizure of tons

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<sup>55</sup> Gonzales-Pinto, 2008, p. 444.

<sup>56</sup> JP 3-07.4, 2019, p. I-11.

<sup>57</sup> JP 3-07.4, 2019, p. III-10.

<sup>58</sup> U.S. Government Accountability Office, 2018, p. 42.

of drugs, the flow of cocaine out of Colombia has remained relatively stable, and even reached an all-time peak in 2017.<sup>59</sup>

As with Colombia, the U.S. DoD attempted to implement kinetic interdiction efforts against opioid facilities in Afghanistan. Felbab-Brown has argued that interdiction, like eradication, was also often counterproductive. First, the vast, mountainous Afghan terrain made it difficult to locate and hit substantial, concentrated targets. The United States also had to consider and mitigate potential blowback from local warlords and power brokers who profited from the drug trade, with whom the United States wanted to cooperate on intelligence. A 2005 International Monetary Fund report on Afghanistan provides evidence that successful counternarcotics efforts can often be bad for the state and a boon for insurgents. The core of this claim is that enduring peace depends on the host nation's organic economic and social development ultimately making peace more profitable than violence. Destroying illicit trade economies often has the opposite effect—diminishing gross domestic product, disrupting the balance of payments and government revenue, depriving citizens of livelihood, and fostering backlash.<sup>60</sup> When President Barack Obama came to office in 2008, he implemented a nuanced strategy, prioritizing the interdiction of the drug traffickers instead of the farmers.

Finally, DoD conducted military interdiction operations against ISIS's oil supply chain—this time with strategic success. First, the anti-ISIS coalition launched targeted airstrikes at tanker trucks, then oil fields and mobile refineries in Iraq and Syria.<sup>61</sup> An IHS Jane's report estimated that ISIS's oil revenues dropped from \$500 million in 2015 to \$250 million in 2016.<sup>62</sup> The coalition also destroyed and interdicted cash through airstrikes and raids on storage depots, finance distribution networks, and tax-collection

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<sup>59</sup> U.S. Government Accountability Office, 2018, p. 51.

<sup>60</sup> International Monetary Fund, *Islamic State of Afghanistan: 2004 Article IV Consultation and Second Review Under the Staff-Monitored Program—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Islamic State of Afghanistan*, Country Report No. 05/33, February, 2005.

<sup>61</sup> Clarke, 2017, p. 12.

<sup>62</sup> Clarke, 2017, p. 1

centers.<sup>63</sup> These operations destroyed “at least tens of millions, and possibly more than a hundred million dollars.”<sup>64</sup> They also forced ISIS to sell or ration battlefield equipment.<sup>65</sup> A Congressional Research Service report suggests that the attacks on revenue streams put financial pressure on ISIS and slowed down their operations.<sup>66</sup>

### High-Value Targeting

High-value targeting, which may include decapitation or kingpin strategies, targets key individuals in VNSAs to be captured or killed. It is a staple of DoD and DEA counternarcotics and counterterrorism operations, although its effects are complex and varied. Studies from Mexico show that, while decapitation can temporarily disrupt terrorist and criminal groups, it can also cause counterproductive blowback. Removing key leaders often results in internal strife; competition for control; and, ultimately, spikes in violence in local communities.<sup>67</sup> Decades of decapitation efforts in Colombia, including removing thousands of traffickers, tons of drugs, and millions in illegal assets, has yielded little impact on the drug trade.<sup>68</sup> From 1989 to 1996, U.S. and Colombian forces jointly captured or killed nearly all the kingpins from the most prominent cartels in the country; yet, just six years later, the estimated production of cocaine in Colombia had increased by 143 percent.<sup>69</sup>

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<sup>63</sup> Clarke, 2017, p. xi.

<sup>64</sup> Adam Szubin, “Remarks of Acting Under Secretary Adam Szubin on Countering the Financing of Terrorism at the Paul H. Nitze School of Advanced International Studies,” press release, Washington, D.C.: U.S. Department of the Treasury, October 20, 2016.

<sup>65</sup> Jim Michaels, “U.S.-Led Coalition Blows Up \$500 Million in Islamic State Cash,” *USA Today*, April 21, 2016.

<sup>66</sup> Carla E. Humud, Robert Pirog, and Liana W. Rosen, *Islamic State Financing and U.S. Policy Approaches*, Washington, D.C.: Congressional Research Service, R43980, April 10, 2015, p. 16.

<sup>67</sup> Nathan Jones, “The Unintended Consequences of Kingpin Strategies: Kidnap Rates and the Arellano-Félix Organization,” *Trends in Organized Crime*, Vol. 16, No. 2, June 2013 p. 158.

<sup>68</sup> Michael Kenney, “From Pablo to Osama: Counter-Terrorism Lessons from the War on Drugs,” *Survival*, Vol. 45, No. 3, September 2003, p. 197.

<sup>69</sup> Kenney, 2003, p. 188.

Moreover, the downfall of the cartels gave the FARC—an organization that would eventually wage the longest civil war in history against the Colombian state and conduct more terrorist attacks against U.S. assets than any other VNSA in the world prior to 9/11—room to consolidate control over the entire drug trade.<sup>70</sup>

The United States also used high-value targeting against Salafi jihadist groups, such as AQ and ISIS, which achieved mixed results. Against AQ, the United States targeted key operational leaders, which had some secondary CTF effects. However, Kenney has argued that, while decapitating major power players may have denied AQ affiliates the deep financial resources that Bin Laden offered them, it did not ultimately have strategic effects on the group.<sup>71</sup> Against ISIS, the United States targeted financiers specifically, killing two finance ministers, Abu Saleh in 2015 and Haji Iman in 2016, and an oil minister, Abu Sayyaf, in 2015.<sup>72</sup> This arguably contributed to the broader successful degradation of ISIS's finances. The varied effects of decapitation suggest that it is important to target individuals selectively. As Ingram and Whiteside argued in their case against targeting ISIS leader Abu Bakr al Baghdadi, killing certain operational leaders can occasionally be imprudent, especially if they have known vulnerabilities that their successors do not.

The DEA, FBI, and CBP also target key financiers of foreign terrorist groups, such as LH, which command vast illicit economy networks in the Americas. In 2017, the DEA arrested, extradited, and prosecuted Kassim Tajideen, a prominent financial supporter of LH, for violating U.S. sanctions.<sup>73</sup> In 2018, the DEA arrested another LH financier, Assad Ahmad Barakat, in the Tri-Border Area of South America and extradited him to the United States.<sup>74</sup>

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<sup>70</sup> Stanford Center for International Security and Cooperation, “Revolutionary Armed Forces of Colombia (FARC),” webpage, undated b.

<sup>71</sup> Kenney, 2003, p. 187.

<sup>72</sup> Clarke, 2017, p. 12.

<sup>73</sup> DEA, 2017.

<sup>74</sup> “Hezbollah ‘Financier’ Arrested in Brazil,” 2018.

## Counterinsurgency Operations

Although COIN and CTF are often codependent and difficult to parse, certain COIN activities effectively degrade an organization's finances more than others. This is best exemplified by President Uribe's COIN strategy in Colombia during the early to mid-2000s. In addition to the aforementioned counternarcotic operations, President Uribe deliberately aimed to separate the FARC from three traditional sources of revenue: (1) the towns within which it had historically levied taxes on the population; (2) transit between Colombia and Venezuela, from whence it collected provisions and money; and (3) its base camps, or strategic rear guards, where it stockpiled its resources and cash. The first goal required establishing state government and security presence in areas traditionally governed by the FARC, then conducting stability operations. The second goal necessitated taking the fighting to the FARC, destroying their stockpiles and forcing them to go on the run and scavenge for resources. The last involved reestablishing state control over major transitways in Colombia, to control who moved in and out. The United States provided more than \$10 billion dollars and a variety of military weapons, training, and operational assistance to support Colombia's counternarcotics and COIN efforts. This contributed to the defeat of the FARC.<sup>75</sup>

## Conclusion

The United States has employed kinetic disruption methods to support CTF in counterterrorism operations, counterdrug operations, and security-cooperation efforts that affect U.S. national security. Direct strikes on resources, products, and financiers and support to host nations' COIN and counterterrorism efforts, especially in Iraq, Afghanistan, Syria, Colombia, and Mexico, have achieved mixed results. There are several recurring themes regarding criteria for success:

1. understanding specific social, cultural, and economic factors on the ground and how they interact with the illicit economy

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<sup>75</sup> Thomas A. Marks, "A Model Counterinsurgency: Uribe's Colombia (2002–2006) vs FARC," *Military Review*, Vol. 87, No. 2, March–April 2007.

2. drawing on all relevant interagency and international partnerships
3. recognizing that kinetic operations must be in support of nonkinetic government efforts to create alternative development and maintain stability, otherwise any gains will be fleeting
4. commitment to sustained, long-term support to a host nation that is capable of leading its own military strategy.





# Abbreviations

|       |                                      |
|-------|--------------------------------------|
| AML   | anti–money laundering                |
| AOR   | area of responsibility               |
| ASG   | Abu Sayyaf Group                     |
| AQ    | al-Qaeda                             |
| AQIM  | al-Qaeda in the Islamic Maghreb      |
| ASI   | Additional Skill Identifier          |
| AUC   | Autodefensas Unidas de Colombia      |
| BAM   | al-Bunyan al-Marsous                 |
| BSA   | Bank Secrecy Act                     |
| CBP   | U.S. Customs and Border Protection   |
| CFT   | combating the financing of terrorism |
| COIN  | counterinsurgency                    |
| CPI-M | Communist Party of India–Maoist      |
| CPN-M | Communist Party of Nepal–Maoist      |
| CPP   | Communist Party of the Philippines   |
| CTF   | counter–threat finance               |
| DCD   | Dangerous Companions Dataset         |
| DEA   | U.S. Drug Enforcement Administration |
| DHS   | U.S. Department of Homeland Security |
| DoD   | U.S. Department of Defense           |
| DoDD  | Department of Defense Directive      |

|          |                                                                                                                                                   |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| DoJ      | U.S. Department of Justice                                                                                                                        |
| DoS      | U.S. Department of State                                                                                                                          |
| DRC      | Democratic Republic of the Congo (formerly Zaire)                                                                                                 |
| ELN      | Ejército de Liberación Nacional [National Liberation Army]                                                                                        |
| EO       | Executive Order                                                                                                                                   |
| EP       | Ejército del Pueblo [People's Army]                                                                                                               |
| EPRLF    | Eelam People's Revolutionary Liberation Front                                                                                                     |
| FARC     | Fuerzas Armadas Revolucionarias de Colombia [Revolutionary Armed Forces of Colombia]                                                              |
| FATF     | Financial Action Task Force                                                                                                                       |
| FBI      | Federal Bureau of Investigation                                                                                                                   |
| FinCEN   | Financial Crimes Enforcement Network                                                                                                              |
| FLEC-FAC | Frente da Libertação do Enclave de Cabinda–Forças Armadas de Cabinda [Front for the Liberation of the Enclave of Cabinda–Armed Forces of Cabinda] |
| FORGE    | Foundations of Rebel Group Emergence                                                                                                              |
| FTO      | foreign terrorist organization                                                                                                                    |
| GAO      | U.S. Government Accountability Office                                                                                                             |
| GCC      | geographic combatant command                                                                                                                      |
| HIFPA    | Hezbollah International Finance Prevention Act                                                                                                    |
| HVT      | high-value target                                                                                                                                 |
| ICE      | U.S. Immigration and Customs Enforcement                                                                                                          |
| IPKF     | Indian Peace Keeping Force                                                                                                                        |
| IRA      | Irish Republican Army                                                                                                                             |

|         |                                                        |
|---------|--------------------------------------------------------|
| ISIL    | Islamic State of Iraq and the Levant                   |
| ISIS    | Islamic State of Iraq and Syria                        |
| ISIS-L  | Islamic State in Libya                                 |
| ITFC    | Iraq Threat Finance Cell                               |
| JIATF   | joint interagency task force                           |
| JIATF-S | Joint Interagency Task Force South                     |
| JICTC   | Joint Interagency Counter-Trafficking Center           |
| JP      | Joint Publication                                      |
| LAAF    | Libyan Arab Armed Forces                               |
| LH      | Lebanese Hezbollah                                     |
| LNA     | Libyan National Army                                   |
| LTTE    | Liberation Tigers of Tamil Eelam                       |
| MDSC    | Mujahideen of Derna Shura Council                      |
| NATO    | North Atlantic Treaty Organization                     |
| NGO     | nongovernmental organization                           |
| NLFT    | National Liberation Front of Tripura                   |
| NORaid  | Irish Northern Aid Committee                           |
| OFAC    | Office of Foreign Assets Control                       |
| OLS     | ordinary least squares                                 |
| PIJ     | Palestinian Islamic Jihad                              |
| PIRA    | Provisional Irish Republican Army                      |
| PKK     | Partiya Karkerên Kurdistanê [Kurdistan Workers' Party] |

|                 |                                                                                                                   |
|-----------------|-------------------------------------------------------------------------------------------------------------------|
| PLOTE           | People's Liberation Organisation of Tamil Eelam                                                                   |
| RCD             | Rebel Contraband Dataset                                                                                          |
| RUC             | Royal Ulster Constabulary                                                                                         |
| SDGT            | specially designated global terrorist                                                                             |
| TFOS            | Terrorist Financing Operations Section                                                                            |
| TFTP            | Terrorist Finance Tracking Program                                                                                |
| TIOS            | Terrorist and Insurgent Organization Social Services                                                              |
| TMVP            | Tamil Makkal Viduthalai Pulikal                                                                                   |
| TNT             | Tamil New Tigers                                                                                                  |
| Treasury        | U.S. Department of the Treasury                                                                                   |
| UCDP            | Uppsala Conflict Data Program                                                                                     |
| UCDP-ESD        | Uppsala Conflict Data Program External Support Dataset                                                            |
| UCDP-GED        | Uppsala Conflict Data Program Georeferenced Event Dataset                                                         |
| UDA             | Ulster Defense Association                                                                                        |
| UK              | United Kingdom                                                                                                    |
| UN              | United Nations                                                                                                    |
| UNITA           | União Nacional para a Independência Total de Angola<br>[National Union for the Total Independence of Angola]      |
| UNSCR           | United Nations Security Council Resolution                                                                        |
| USA PATRIOT Act | Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act |
| USAFRICOM       | U.S. Africa Command                                                                                               |

|            |                                 |
|------------|---------------------------------|
| U.S.C.     | U.S. Code                       |
| USCG       | U.S. Coast Guard                |
| USSOCOM    | U.S. Special Operations Command |
| USSOUTHCOM | U.S. Southern Command           |
| VEO        | violent extremist organization  |
| VNSA       | violent nonstate actor          |



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**V**iolent nonstate actors (VNSAs) obtain money from multiple sources, both licit (e.g., donations and legitimate businesses) and illicit (e.g., extortion, smuggling, theft). They use that money to pay, equip, and sustain their fighters and to provide services to local populations, which can help build support for the groups, allowing them to extract resources, gain safe havens, and challenge state authority and territorial control. In this way, financial resources can prolong conflicts and undermine stabilization efforts after the fighting ends. Countering VNSA financing plays a critical role in degrading such organizations.

Various means are available to disrupt financing. These include kinetic means, such as destroying resources or neutralizing leadership, and nonkinetic means, such as targeted financial sanctions and legal remedies. The counter-threat financing (CTF) tools that work best for transnational groups may not work as well for national ones, and some tools may prove counterproductive in certain situations. Which tools to use in a given case is not always obvious.

The authors draw lessons from efforts against five VNSA groups to discover, in each case, how they financed their activities and for what purposes, as well as which methods to counter this financing worked best and which were counterproductive. The authors then consider what the U.S. Army can do to support counter-terrorism financing efforts.

\$49.95

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ISBN-10 1-9774-1082-0  
ISBN-13 978-1-9774-1082-5

