

# Pay *for* Play

## Countering Threat Financing

By MICHAEL T. FLYNN *and* SIMONE A. LEDEEN

**S**hortly after midnight on March 20, 2009, in Bilbao, Spain, police began a series of raids to arrest a number of North Africans on suspicion of funding terrorism in North Africa through criminal activity in Spain. While this investigation continues, globally networked terrorists are operating on low-contrast battlefields where understanding the difference between enemy and friendly forces is growing increasingly complex. This physical and virtual domain includes numerous dimensions unlike any that we have previously experienced.

Among these dimensions, we have discovered that illicit financing networks represent both a significant strength and a critical enemy vulnerability to exploit. Guns, drugs, weapons of mass destruction, and humans are all commodities interactively traded by terrorists in corporate-like networks.

As we have discovered, these networks are interrelated, each transcending borders and forming a growing nexus between terrorist movements and other criminal and narcotics enterprises. The same *hawalas* (money remittance systems prevalent in the Muslim world), smuggling channels, and, in some cases, cash

couriers are used by diverse organizations with similar aims of evading law enforcement, military, and intelligence activities. As Adam Fosson asserts, “The connection between many Foreign Terrorist Organizations (FTOs) and either transnational organized crime groups or global trafficking organizations has increased over time, and FTOs themselves have become

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U.S. Army (Jeffrey Alexander)

U.S. and Iraqi soldiers battle insurgents in Adhamiya, Iraq

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more involved in criminal and trafficking activities. . . . [B]oth sides have a common financial interest, as though two corporations were merging.”<sup>1</sup>

When we scrutinize terrorism and organized crime, the only discernable difference is that most terrorists have political or religious motivations, while organized criminals are motivated by profit and do not, as a rule, attack state targets. However, as these internetworked transnational actors become increasingly capable of warfighting, we are witnessing the evolution of entities capable of challenging the primacy and ultimately the solvency of nation-states.<sup>2</sup> We need only look to the examples of Hizballah, al Qaeda in Iraq, and the Taliban for evidence as to how these organizations exploit criminal activities for their own nefarious purposes.

One of the most complex but most important ways that organized crime and terrorism are connected is through the raising, storing, and transferring of illicit monies, which are at the core of the global organized criminal enterprise. Through this enterprise, terrorists, warlords, gangsters, and other illicit actors frequently cooperate, and we have often successfully disrupted them.

### Funds Distributed Globally

According to Edward Frothingham, “In some respects, terrorist organizations are similar to businesses anywhere in the world. They need to earn, store, and transmit money. The faster and easier they are able to do so, the more effective they will be.”<sup>3</sup> Until recently, we did not understand how to put the pieces together in a comprehensive manner to learn how terrorist and criminal networks overlap. We now have learned that terrorists can generate and hide significant revenues when they work in tandem with criminal groups, or when they undertake criminal activities themselves:

- Terrorist networks such as al Qaeda have supported or exploited relationships with warlords in Somalia and Afghanistan to anchor their global terrorist actions.<sup>4</sup>

- According to French intelligence officials, “Most of the [extremist] structures [the French] have dismantled have been financed by crime,” including robbery, drugs, and fraud.<sup>5</sup>

- At the height of the insurgency in Iraq, insurgent groups used the Baiji Oil Refinery and the supply chain supporting its activities to skim funds from the oil trade. Together

with criminal networks, these groups profited by cutting into pipelines and trucking oil products to be sold on the black market.

Indeed, much has already been written about the linkages among organized crime, terrorism, and narcotics trafficking, going back to the 1990s and the *Fuerzas Armadas Revolucionarias de Colombia* (FARC); designated in 1997 as an FTO by the U.S. Department of State, the FARC over the years has morphed into an organized criminal syndicate and narco-trafficking organization in order to maintain its revenue flow. One such criminal activity the FARC engages in is the production of counterfeit U.S. currency. To date, the U.S. Secret Service has seized over \$241 million in counterfeit currency generated by the FARC.

In addition to counterfeiting currency, the FARC is famously involved in drug trafficking. In 2003, it was designated a significant foreign narcotics trafficker by the Department of the Treasury’s Office

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of Foreign Assets Control, pursuant to the Kingpin Act. The FARC learned over time that it did not need to merely dabble in drugs—it decided to go all the way. The logistics of drug trafficking is so costly that it only makes sense to do it on a large scale. To generate the revenues necessary to maintain its army of 14,000 troops, the FARC moves cocaine to U.S. and European markets. To transport these drugs to the United States, the FARC must work with traditional drug trafficking organizations to move its product through Central America and Mexico. This is the same route used by those who want to move illegal aliens, bulk cash shipments, stolen cars, and weapons from the United States southward.

All of these items are really commodities that pass through the same areas, navigate the same sentries, and can be interchangeable. A load of AK-47 rifles can be traded for heroin as it travels to a final destination. There are tremendous intelligence collection and

disruption opportunities from drugs. We can use the linkages among crime, narcotics, and terrorism to map these networks, how they operate, and how they overlap to determine vulnerabilities and subsequent targeting.

While the FARC has been successful in the past, it has become increasingly vulnerable, as key nodes of its facilitation and narcotics networks have been chipped away by the Colombian military and law enforcement apparatus, with the assistance of the United States. The FARC continues to operate in specific geographic areas but no longer poses the same threat.

In testimony before the House Armed Services Committee, Admiral James G. Stavridis, USN, then-Commander of U.S. Southern Command, now Supreme Allied Commander Europe, discussed the nexus between drug trafficking, “including routes, profits and corruptive influence,” and “Islamic radical terrorism.” In fact, in August 2008, the U.S. and Colombian governments disrupted an international cocaine smuggling and money-laundering ring based out of Colombia. This operation was executed through a partnership between a Colombian drug cartel and Lebanese members of Hizballah. Portions of the profits—allegedly hundreds of millions a year—were used to finance Hizballah.<sup>6</sup>

In addition to drug trafficking in South America, Hizballah operatives engage in a host of criminal activities to raise, transfer, and launder funds to support terrorism. These activities run the gamut from mafia-style shakedowns to sophisticated import-export scams involving traders from India and Hong Kong. In one case, Paraguayan officials arrested an operative—Ali Khalil Mehri—for selling millions of dollars in pirated software and funding Hizballah with the profits.

Back in the Middle East, the Israelis discovered and disrupted a series of Israeli-Arab cells working for Hizballah in return for money and frequently drugs. Some of these cells, such as one operating out of the Galilee village of Abu Snan, were planning to kidnap Israeli soldiers. In September 2002, an Israeli military court indicted an officer for spying for Hizballah in return for money, hashish, and heroin.<sup>7</sup>

All of these examples are drops in the bucket compared with the activities of Assad Amad Barakat and his network in and around Paraguay’s Ciudad del Este. The owner of Apollo Electronics Store in Galleria Page, Barakat was identified by Paraguayan

U.S. Border Transition Team escorts Iraq Threat Finance Cell officer during visit to Iraqi border post at Basra



U.S. Army (Kerath Cohen)

police as “the Hizballah military chief in the Tri-Border,” an area along the junction of Paraguay, Argentina, and Brazil. The Paraguayan government assessed that Barakat raised \$50 million for Hizballah between 1995 and 2001. He was arrested in a raid on September 14, 2001, and charged with tax evasion. In 2003, he was sentenced to 6½ years in prison. According to a recently released RAND report, the Barakat clan sent these millions of dollars to Hizballah from drug trafficking and pirated goods and was responsible for much of the \$20 million annually that Hizballah was estimated to have received from the Tri-Border Area (TBA).

While it is difficult in the case of Hizballah to tie these activities to a specific attack, other examples are readily available. In 2004, the ringleader of the Madrid bombings, an adherent of *Takfir wal Hijira*, a largely Moroccan Islamist sect active in the European and North African criminal underworld, turned out to be the brother of one of Morocco’s top hashish traffickers. His cell used 30 kilograms of hash to purchase the explosives used in those attacks. In the investigation that followed, nearly \$2 million

in drugs and cash was seized. It was a true coalition of radicalized gangsters who came together to conduct the operation, selling drugs as a weapon of jihad and demonstrating the dangerous combination of Islamic extremism and organized crime.

Our collective experiences have taught us that contemporary terrorists are operating in a networked fashion, with relatively

without these ill-gotten gains, these nefarious characters cannot operate as they wish.

These groups historically have raised and spent money autonomously, with little centralized direction or coordination. The focus on money is the insurgency’s weakness as well as its strength. The estimates of amounts raised and laundered by these groups around the world vary widely, but all

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autonomous cells—much like market-driven businesses. In fact, these networks are much more “business” than we realized even a few short years ago.<sup>8</sup>

We have seen in Iraq, for example, that money is a crucial motivation for a majority of Sunni insurgents, more than the ideology of radical Islam. Studies of detainees in American custody found that about three-quarters were not committed to the jihadist ideology. Money from criminal activities such as kidnapping for ransom, extortion, and fuel-smuggling serves as the insurgency’s oxygen—

agree that these are substantial sums. This enormous influx of foreign cash relieves pressure on governments to meet citizen demands, especially in today’s economic environment. Governments are finding it is easier to look the other way than to combat groups that use violence and coercion against the state.<sup>9</sup>

When the Soviet Union collapsed, organized crime groups paid handsomely to scoop up intelligence professionals to supplement their efforts and improve their capabilities. Former KGB agents who had been stationed

overseas now use the same “safe” financial conduits once used for espionage as avenues for money-laundering, improving tradecraft to a previously unthinkable level.

### Targeted Measures

Faced with this complex and growing challenge, the United States is broadly stepping up its focus on disrupting adversary finances in order to decrease operational capabilities. In our battle against adversary infrastructure, money is one of the most critical nodes. Our adversaries are acutely aware of the many measures that we take to disrupt their activities, especially the most visible: targeted financial measures.

One of the major challenges we face with regard to targeted financial measures undertaken by either the State or Treasury Department is that the people we are designating are also the best positioned to evade sanctions. As we designate one entity, another pops up under a different name with the same shady characters behind the wheel. Due to the stringent legal threshold required to designate an individual or entity, it will be months before a follow-on action can be approved. Months will pass in which illicit money is raised and moved, often in plain sight, with the full knowledge of the law enforcement and/or security services of the country where this individual or entity is based.

However, the importance and relevance of targeted financial measures either domestically through Presidential executive orders or internationally through the United Nations Security Council remain significant. In December 2006, the U.S. Treasury Department listed Sobhi Fayad as a Specially Designated Terrorist because “Fayad has been a senior TBA Hezbollah official who served as a liaison between the Iranian Embassy and the Hezbollah community in the TBA. He has also been a professional Hezbollah operative who has traveled to Lebanon and Iran to meet with Hezbollah leaders. Fayad received military training in Lebanon and Iran and was involved in illicit activities involving drugs and counterfeit U.S. dollars.”<sup>10</sup> Fayad is currently serving a 6½ year sentence in a Paraguayan prison for tax evasion and criminal association with Mr. Barakat.

The simple act of publicizing these individuals and their activities can have an effect, either directly through freezing assets

or indirectly through “naming and shaming.” The name-and-shame tack can provide impetus to partners who may have been on the fence to take action, as we have seen in a number of cases. Furthermore, it discourages people from wittingly doing business with designees for fear of becoming implicated and having their own accounts frozen. Public designations cause targets to resort to less secure and costlier mechanisms for moving assets globally.

In addition to designations, the U.S. approach to combating threat finances includes intelligence and law enforcement action, helping to set international standards and the provisions of international training and technical assistance programs. Law enforcement action is increasingly important as we gain further understanding of the global nature of the challenge we face. A raid in Spain can directly affect the situation on the ground in Africa.

Moreover, publicizing these terrorist networks’ engagement in common criminal activities contradicts the image they seek to maintain. The close association of terrorists with criminals, narcotics traffickers, and other such characters, and the publicizing of this association, denies these terrorists the appearance of legitimacy that is critical in recruiting both operatives and financial supporters.

We in the Department of Defense (DOD) assist these efforts on a number of levels and are working to increase our support. At the same time, we continue to develop our internal capabilities. We have broadened our aperture from the early focus on direct action, to include support to inter-agency efforts to combat threat finance. The geographic combatant commands, through their threat finance units, can facilitate the disruption of threat finance networks of particular interest to the combatant commander. These units work with DOD and non-DOD intelligence, law enforcement, and regulatory agencies to detect financial support networks; collect, process, and analyze information; and target, disrupt, or destroy financial systems and networks that support activities that threaten U.S. interests.

The geographic combatant commands are currently assessing the ability of adversaries to finance operations and the effectiveness of military efforts to deny them resources. Initial data from these assessments indicate that despite some early suc-

cesses, we are progressing slowly in combating threat financing on a global scale.<sup>11</sup> There is still much to do.

The hybridization of terrorist groups and organized crime has given birth to organizations that could become more dangerous as they gain more skill sets. By merging multiple entities or applying their respective strengths, they stand to improve their capabilities. We must posture ourselves accordingly.

We are working to refashion ourselves into a hybrid of sorts, crafted from our respective cylinders of excellence, to include terrorist, narcotics, and proliferation

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finance. By focusing on money, we have a shot at cutting across these cylinders and bringing a focus and discipline to identifying and disrupting these networks. Focused intelligence collection must play a significant role in this effort. We must follow the money trail to impede these illicit financial operations and ultimately the international networks they support. In particular, we must develop human intelligence capabilities to identify weaknesses or choke points within these criminal/terrorist hybrid networks.

As we follow this trail, our adversaries’ reliance on what some call “nontraditional” methods of moving money—their use of *hawala*, trade-based smuggling, and cash couriers—is a vulnerability that provides us an opportunity for disruption. These organizations operate on a trust-based network where infusing and sowing the seeds of doubt and deception could open seams and gaps that may not currently exist.

Another area of vulnerability is when the pipelines intersect with the official economy or state structures. There are many means of attacking publicly identifiable organizations such as companies, banks, charities, and nongovernmental organizations. We may not be able to destroy a pipeline, but we can seriously damage it and force our

adversaries to spend financial and human resources to defend themselves. We have done this in the counter-drug fight for many years.

In early 2001, General Anthony Zinni spoke at the University of California at Berkeley. He told students that the threats we face today are nontraditional, unlike any we have experienced before. "The application of the military," he said, "isn't as direct as we would like, and our theory and doctrine prevent dealing with the reality, which is overlaid and mixed with politics and economics, and humanitarian and cultural issues. It's a very different world out there . . . the application of military force to this has to change, to adapt to that."<sup>12</sup>

General Zinni's words ring true today, as we are engaged in complex military operations in different theaters. While we work to adapt our application of military force, we must continue to develop our capability across the U.S. Government to disrupt the flow of illicitly gained funds to our adversaries. At the end of the day, it is all about money.

The merging of narcotics traffickers, organized criminals, and terrorists tends to occur simply due to the availability of and access to money. Therefore, to the extent that these groups do not have money, the deadly alliance between terrorists and conventional criminals will be weakened and perhaps even broken. Mapping and targeting financial networks require a focused interagency effort. Our experience has demonstrated that we are up to the challenge. **JFQ**

NOTES

<sup>1</sup> Adam Fosson, "Confluence of Evil: The Smuggling-Terrorism Nexus," *Homeland Security Today*, November 30, 2008, available at <www.hstoday.us/content/view/6239/27/>.

<sup>2</sup> John P. Sullivan, "Terrorism, Crime and Private Armies," *Low Intensity Conflict and Law Enforcement* 11, no. 2/3 (Winter 2002), 239-253, available at <www.informaworld.com/smp/content~content=a714004253~db=all~jumptype=rss>.

<sup>3</sup> Edward Frothingham III, "Tracking and Disrupting Terrorist Financial Networks: A Potential Model for Inter-agency Success?" testimony presented to the House Armed Services Subcommittee on Terrorism and Unconventional Threats, Washington, DC, March 2009.

<sup>4</sup> Sullivan.

<sup>5</sup> *Ibid.*

<sup>6</sup> Matthew Levitt, "Hezbollah: narco-Islam," Middle East Strategy at Harvard, March 22, 2009, available at <http://blogs.law.harvard.edu/mesh/2009/03/hezbollah-narco-islamism/>.

<sup>7</sup> Matthew Levitt, "Hezbollah: Funding Terror Through Criminal Enterprise," testimony presented to the U.S. Senate Committee on Homeland Security and Governmental Affairs, Washington, DC, May 25, 2005.

<sup>8</sup> Sullivan.

<sup>9</sup> Hans Binnendijk, ed., "Transnational Trends: New Threats?" in *Strategic Assessment 1999: Priorities for a Turbulent World* (Washington, DC: National Defense University Press, 1999), 254, available at <www.ndu.edu/inss/Strategic%20Assessments/sa99/16.pdf>.

<sup>10</sup> U.S. Department of Treasury, "Treasury Targets Hizballah Fundraising Network in the Triple Frontier of Argentina, Brazil, and Paraguay," December 6, 2006, available at <www.treas.gov/press/releases/hp190.htm>.

<sup>11</sup> Wesley J.L. Anderson, *Disrupting Threat Finances: Using Financial Information to Disrupt Terrorist Organizations* (Hurlburt Field, FL: Joint Special Operations University, April 2008), 35-37, available at <http://jsoupublic.socom.mil/publications/jsou/JSOU08-3andersonDisruptingThreatFinances\_final.pdf>.

<sup>12</sup> Anthony C. Zinni, "The Military's Role in a Changing World: Conversation with General Anthony C. Zinni," University of California at Berkeley, March 6, 2001, available at <http://globetrotter.berkeley.edu/conversations/Zinni/zinni-con4.html>.



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Robert B. Oakley and Franz-Stefan Gady argue that the Inter-Services Intelligence Directorate and Pakistani Army remain essential to the security of Pakistan. Although both groups have in the past embraced radicalism as a means to address the conventional military gap between Pakistan and its traditional enemy India, there are signs that Pakistan is shifting its short-term strategic priorities and recognizing that the Taliban is not only a U.S. problem. After reviewing the major influences on Pakistani strategic culture, they conclude that now is not the time to restrict U.S. military assistance to Pakistan.

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