

Points of Intervention:  
Combating the Financing of Violent Extremist Organizations

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## Index of Abbreviations

Al Qaeda in the Islamic Maghreb	AQIM
Al Qaeda in Iraq	AQI
Anti-Money Laundering	AML
Non-Profit Organization	NPO
Combating the Financing of Terrorism	CFT
Countering Violent Extremism	CVE
Financial Action Task Force	FATF
Islamic State of Iraq and the Levant	ISIL
Kidnapping for Ransom	KFR
Multinational Joint Task Force	MNJTF
Suspicious Transaction Report	SRT
Violent Extremist Organization(s)	VEO(s)

## Abstract

Violent Extremist Organizations (VEOs) require monetary funds to recruit, train, plan and launch operations regionally and globally. Since September 11, 2001, the United States and its allies have tried a variety of ways to counter the threats posed by such organizations. The conflict in Syria has propelled proxy wars between the Sunni and Shi'a powers in the region to new levels. The goal of this paper is to demonstrate the necessity for further analysis on how to combat the methods used by VEOs to acquire and produce funds, but more importantly, how to deter and if need be, compel nations states from funding VEOs.

This paper identifies the methods used to acquire and produce monetary funds and the tactics deployed by the United States and its allies to counter such methods. Policymakers do not have the luxury of simply preventing VEOs from transferring funds through regulated banking systems or increasing security to limit the profits of smuggling. Rather, Policymakers must confront the fact that nations states, some of whom we deem as allies in the "War on Terror" such as Pakistan and Qatar are actually passive or active supporters of VEOs.

To combat the financing of VEOs, this paper recommends a framework in which the methods deployed by a particular VEO are placed on a spectrum. On one side, you have Diaspora support, and on the other, you have the country either passively or actively supporting that particular VEO. Each additional method is placed in between the two end points based on the category the method falls within (Grey Economy and Dark Economy) and the amount of money it produces. This spectrum framework allows policymakers to simultaneously squeeze the spectrum from either end, thereby putting pressure on the VEO while attempting to intervene at particular points based on the method.

## Introduction

Financial assets owned, obtained and produced by Violent Extremist Organizations (VEOs) have the equivalent relationship that oxygen has with fire. Without oxygen, the fire will eventually be extinguished and its destructive capability will no longer be a threat. Without financial resources, VEOs will struggle to obtain supplies needed for its operations, continue recruiting, and eventually launch successful orchestrated operations. Terrorism is the method these organizations use to fight their enemy. Money is how the organizations continue to survive.

Since September 11, 2001 scholars and practitioners have produced a multitude of frameworks to address threats posed by VEOs. Such frameworks, have ranged from pure deterrence to preemptive kinetic operations. A common theme in successful frameworks is that each framework focuses on a specific actor, organizational level, or capability within a VEO rather than viewing a VEO as a single actor.<sup>1</sup>

For the purposes of this paper financing is defined as “the process of raising, storing and moving funds obtained through legal or illegal means for the purpose of terrorist acts or sustaining the logistical structure or an insurgent organization.”<sup>2</sup>

The unfortunate reality is that a zero-sum framework will be unsuccessful. VEOs will continue to find ways to raise or obtain funds. Therefore, this paper intends to demonstrate points of intervention where indirect deterrence and compellence can be successful in decreasing a VEO’s ability to raise or obtain funds. This paper will discuss the methods used by VEOs to finance their organizations. More importantly, however, this paper intends to demonstrate that furtherer analysis

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<sup>1</sup> Paul Davis and Michael Jenkins were among the first to apply a deterrence framework to counterterrorism by identifying specific aspects of a VEO that could be leveraged by deterrence. See Paul Davis and Brian Jenkins, *Deterrence and Influence in Counterterrorism: A Component in the War on Al Qaeda* (Santa Monica, CA: RAND Corporation, 2002).

<sup>2</sup> Kevin D. Stringer, “Tackling Threat Finance: A Labor for Hercules or Sisyphus.” *Parameters*, Vol. 41, No. 1 (2011) 101-119.

of the VEO is required prior to developing a strategy of combating the financing of that particular VEO.

Limiting a VEO's financial resources will decrease the risk of a complex mass-causality operation being successful.<sup>3</sup> Beyond decreasing an organization's capabilities targeting financial capital will degrade its operational tempo. Slower operational tempos create greater opportunities for the United States and its partners to gather more intelligence to intervene and prepare for potential attacks. Finally, stressing financial resources increases its difficulty in acquiring supplies (weapons, vehicles, food, etc.) and paying members. Decreasing a VEO's financial strength in itself is not enough to eliminate a VEO's threat. However, it is a useful piece of a broader and complex framework to address the present-day threat of VEOs.

#### The Grey Economy: "Clean Money for Dirty Purposes"

##### *Diaspora Support*

No method of funding has been more enduring than diaspora support. Immigrant communities established in other countries (e.g., the Somali community estimated at 31,400 in Minnesota in 2015)<sup>4</sup> constitute diaspora support.<sup>5</sup> Diaspora communities that are most likely to send funds to VEOs are organized trans-state ethno-national diasporas. The groups immigrate to countries after experiencing prolonged conflict and are therefore, less likely to compromise and more likely to reinforce and exacerbate the protracted conflicts.<sup>6</sup> Funds originating from diaspora

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<sup>3</sup> To plan and carry out the terrorist attacks of September 11, 2001, Al Qaeda spent between \$400,000 - \$5000,000. A great resource to examine the financial breakdown of the attack, please see "National Commission on Terrorist Attacks Upon the United States: Appendix A." Retrieved February 25, 2018 from [https://govinfo.library.unt.edu/911/staff\\_statements/index.htm](https://govinfo.library.unt.edu/911/staff_statements/index.htm)

<sup>4</sup> "Immigration & Language." Minnesota State Demographic Center. Retrieved February 27, 2018, from <https://mn.gov/admin/demography/data-by-topic/immigration-language/>

<sup>5</sup> Colin Clarke, *Terrorism, Inc: The Financing of Terrorism, Insurgency, and Irregular Warfare*, (Santa Barbara, CA: Praeger Security International, 2015), 5-6.

<sup>6</sup> Gabriel Scheffer, "Diasporas and Terrorism," in Louise Richardson, ed., *The Roots of Terrorism* (London: Routledge, 2006), 118-119.

communities are then transferred either directly (e.g., Western Union) or indirectly (Charities, Legal Business, Money Laundering) to individuals who associated with the particular VEO.

#### *Charities & Non-Profit Organizations*

The current humanitarian crisis in the Levant region has greatly increased the need for organizations to provide a variety of charitable services. Unfortunately, since the early 1970's VEOs have seen charities and non-profit organizations (NPOs) as a safe and reliable method to acquire funds. After 9/11 the international community began to crack down on this particular method. However, charities and NPOs still are vulnerable to such abuses by VEOs. In a majority of cases internal actors of a charity or NPO who are sympathetic to a VEO's cause will divert funds during the collection or transfer phase. This method involves transfers between the organization (usually located within a diaspora community) and either foreign based legal entities or front companies.<sup>7</sup>

#### *Fraud*

With the evolution of technology VEOs have been able to engage in quick and flexible fraud schemes to earn "bang for their buck." VEOs engage in fraud both in person (typically within diaspora communities) and cyberspace. Potentially the most advanced VEO in this particular method is Hezbollah. Hezbollah has been associated with schemes in Michigan (Detroit and Dearborn) and computer hackers who breached networks of financial institutions.<sup>89</sup>

#### *Money Laundering & Legal Businesses*

Money laundering and legal business go hand in hand because of the advantages high cash volume operations present to VEOs. Money laundering goes beyond purely financial-based

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<sup>7</sup> "Risk of Terrorist Abuse in Non-Profit Organizations," Report of the Financial Action Task Force (FATF), June 2014.

<sup>8</sup> For a detailed accounting of the fraud conducted in Michigan by Hezbollah see... Matthew Levitt, *Hezbollah: The Global Footprint of Lebanon's Party of God* (Washington DC: Georgetown University Press, 2013) 320.

<sup>9</sup> *Ibid.*, 318-323.

institutions (Lebanese Canadian Bank) but can include car dealers, casinos, jewelers and pawn shops.<sup>10</sup> Despite the vast resources the international community dedicates to combating money laundering, expectations to curb it remain tempered. According to the Center of Law & Globalization, the International Monetary Fund (IMF) has identified prominent banks such as U.S. Bank and HSBC of repeated flagrant violations of the program known as Anti-Money Laundering and the Combating the Financing of Terrorism (AML/CFT).<sup>11</sup>

### *Halawa*

Halawa is a cornerstone within the Islamic community. Halawa operates outside of the traditional banking system and acts as an alternative or parallel remittance system. The system relies on close knit communities and networks of halawa dealers who transfer funds without moving them.<sup>12</sup> Hawala became popular between members of poor countries to side step expensive formal banking regulations. Prior to the terrorist attacks on September 11<sup>th</sup>, this method operated almost in almost complete anonymity. However, after the attacks the alternative unregulated remittance system has seen an increase in formality and regulation.<sup>13</sup> Recently western companies (Transferwise based in the U.K., and Facebook) have involved themselves in the practice of hawala, evolving the alternative remittance system to create new regulations. This evolution has made is dramatically more difficult to use the system for money laundering and financing purposes.<sup>14</sup>

### *Bitcoin: Potentially the Next Frontier of Financing*

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<sup>10</sup> Michael Levi and Peter Reuter, "Money Laundering," in Michael Tonry, ed., *The Oxford Handbook of Crime and Public Policy* (New York: Oxford University Press, 2010) 290.

<sup>11</sup> "Global Surveillance of Dirty Money: Assessing Assessment of Regimes to Control Money Laundering and Combating the Financing of Terrorism," Center on Law & Globalization, January 30, 2014, 9.

<sup>12</sup> United States Department of Treasury, Financial Crimes Enforcement Network (FinCEN), 1998, *The Hawala Alternative Remittance System and its Role in Money Laundering*.

<sup>13</sup> D.K. "How Hawala Money-Transfer Schemes Are Changing," *The Economist*, October 16, 2015.

<sup>14</sup> *Ibid.*

The use of Bitcoin by VEOs is likely to increase because of Bitcoin's improved anonymity and the regulatory increase that hawala has undergone. Not only does Bitcoin provide instant transfer of funds, western companies Samurai, BitcoinFog, and DarkWallet are explicitly focusing on make Bitcoin transactions virtually untraceable.<sup>15</sup> Although Bitcoin as a cryptocurrency has dramatically increased in daily transactions (roughly 282,000 per day), its use by VEOs is still in its infancy. However, ISIL demonstrated in 2015 its interest in the use of cryptocurrency because it reportedly posted its Bitcoin address on the dark web.<sup>16</sup> Therefore, it is increasingly likely that policymakers in the future will be challenged in applying a regulatory framework to a market that is inherently designed to avoid.

#### The Dark Economy: The Intersection of Criminal Enterprise

##### *Predicated on Violence*

Kidnapping for Ransom (KFP) and Armed Robbery are useful methods for some organizations and uniquely precarious for others. These violent methods of acquiring money are low risk and high reward. In and around areas with a VEO presence, KFP is a common reoccurrence. There is a correlation between a weak government, vast ungoverned territory and a VEO presence that leads to KFP of locals and foreigners. Lashkar-e-Jhangvi, loosely affiliated with Al Qaeda, kidnaped the son-in-law of the former chairmen of Pakistan's Joint Chiefs of Staff.<sup>17</sup> During the peak of the Iraq war Al Qaeda in Iraq (AQI) reportedly made \$36 Million from kidnapping foreign reporters and aid workers.<sup>18</sup>

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<sup>15</sup> Olivia McCoy, "Bitcoin for Bombs," *Politics, Power and Preventative Action and Center for Preventative Action*, Council on Foreign Relations, August 17, 2017.

<sup>16</sup> Jordan Pearson, "New Bill asks Homeland Security to Investigate Whether Terrorists Use Bitcoin," *Motherboard*, May 19, 2017.

<sup>17</sup> "Taliban Free Son-in-Law of Former JCSC Chief," *Dawn*, March 16, 2012.

<sup>18</sup> Michael Jonsson, "Following the Money: Financing the Territorial Expansion of Islamist Insurgents in Syria," Swedish Defense Research Agency, FOI Memo #4947, May 2014.

One unique difference between an insurgent organization ( Hamas ) and terrorist organizations is the effect such violent methods have on the image of the organization. Hamas has political ambitions within Palestine and therefore mostly avoids such methods. Therefore, rather than seeking profit from kidnapping, Hamas attempts to leverage the release of Palestinians in Israeli jails.<sup>19</sup> Such moves are seen as a service to the very people Hamas is fighting for.<sup>20</sup>

#### *Predicated on Territorial Control*

Although the above methods are profitable, the funds acquired pale in comparison to those produced by methods predicated on territorial control. Instead of relying on circuitous methods of diaspora support, the most profitable methods are extracting profits from the local territory (the populous and natural resources) while supplying the demand for illicit goods.

ISIL with its territorial control in Iraq and Syria during 2014, is potentially the most notable example of successful smuggling and trafficking of illicit goods. While in control of key oil fields in Syria and Iraq, ISIL reportedly made \$1 to \$2 million per day prior to U.S. air strikes on the oil refineries.<sup>21</sup> Furthermore, by what is known as “Takfirinomics,” ISIL was able to marry authoritarian governance with a remarkably successful war economy allowing ISIL to collect “zakat” (different forms of Islamic alms payable to the state, also known as extortion and protection rackets).<sup>22</sup>

Controlling smuggling routes and assisting other criminal enterprises with their trafficking are two additional profitable methods VEOs use.<sup>23</sup> Al Qaeda in the Islamic Maghreb (AQIM) is

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<sup>19</sup> Clark, *Terrorism, Inc.* 100.

<sup>20</sup> Hamas kidnapped Gilad Shalit, a sergeant in the IDF, in 2006 and exchanged him for 1,027 Palestinians in Israeli jails in 2011.

<sup>21</sup> Michael Weiss & Hassan Hassan, *ISIS: Inside the Army of Terror* (New York: Regan Arts, 2015) 233.

<sup>22</sup> *Ibid.*, 234-235. ISIL varied their percentage requirement based on an individual’s religious beliefs and occupation.

<sup>23</sup> Although traditionally used interchangeably, smuggling in this paper refers to crossing borders and trafficking is the process of moving the illicit good.

known for assisting Columbian cartels in moving cocaine.<sup>24</sup> AQIM has established a relationship in which they provide access and heavily armed escorts for traffickers from Central and South America.<sup>25</sup> AQIM assists the traffickers in moving product between Mauritania, Mali, and Algeria on their way to the European Market.<sup>26</sup> Similarly, Hezbollah is known for trafficking conflict diamonds from Africa to world markets in Antwerp, Dubai and New York City. Reportedly, Hezbollah made \$2 million by trafficking conflict diamonds.<sup>27</sup>

### *Sponsors of Terrorism*<sup>28</sup>

External support is a broad method where a nation state provides VEOs a variety of resources to increase the organization's capabilities. States can be active supporters (knowingly allowing a VEO to occupy space within their territory) or passive supporters (the state's inaction facilitates the VEO's success).<sup>29</sup> The protracted conflict in Syria has created a proxy war between Sunni and Shi'a countries (i.e., Saudi Arabia and Iran) which increases the external support of VEOs.<sup>30</sup>

For the past forty years, Iran may be the most active supporter of VEOs.<sup>31</sup> Iran actively provides funds to Hezbollah, reportedly in the range of \$200 - \$350 million annually. Even though

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<sup>24</sup> Clark, *Terrorism, Inc.*, 140.

<sup>25</sup> Although cartels in Central and South America are constantly morphing into new entities as law enforcement agencies target leaders of the cartels, the current cartels known for trafficking cocaine into Africa are (Los Urbanos, Columbia, and Los Zetas and the Gulf Cartel from Mexico). See Christopher Woody, "Pablo Escobar's Death Clear the Way for a Much More Sinister Kind of Criminal in Colombia," *Business Insider*, March 27, 2017.

<sup>26</sup> Clark, *Terrorism, Inc.*, 140.

<sup>27</sup> *Ibid.*, 76.

<sup>28</sup> Due to limitations of this paper, for those interested in reading of Pakistan's external support of the Afghan Taliban please see: Thomas H. Johnson, "Financing Afghan Terrorism," in Jeanne K. Giraldo and Harold A. Trinkunas, *Terrorism Financing and State Responses: A Comparative Perspective* (Stanford CA: Stanford University Press, 2007) 101.

<sup>29</sup> Daniel Byman, *Deadly Connections: States that Sponsor Terrorism* (New York: Cambridge University Press, 2005) 322.

<sup>30</sup> Creede Newton, "Saudi-Iran Proxy Wars: In Pursuit of Regional Hegemony," *Al Jazeera*, November 14, 2017.

<sup>31</sup> It can be arguably said that Pakistan is in fierce competition for this title.

not all funds provided to Hezbollah are used to carry out violent operations against Israel, they nonetheless strengthen the Hezbollah's capabilities.<sup>32</sup> While Iran provides active and open support, there are far more examples in the past twenty years of countries as passive supporters. Even though some wealthy Saudis financed Al Qaeda in the late 90's and early 2000's, Riyadh's role in supporting Al Qaeda was more clandestine.

Saudi Arabia indirectly assisted Al Qaeda in two notable ways. First, wealthy financiers were unobstructed in their support of Al Qaeda. The government did not begin clamping down on financing Al Qaeda until the May 2003 bombings in Riyadh.<sup>33</sup> Second, Riyadh's export of Salifism (a/k/a Wahhabism, Jihadi Salifism), throughout the Middle East and Asia in the form of creating Madrassas assisted VEOs in recruiting.<sup>34</sup> The most recent demonstration of passive support is Qatar and their unwillingness to commit to charging and convicting known financiers of terrorism.<sup>35</sup>

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<sup>32</sup> Clark, *Terrorism, Inc.*, 78.

<sup>33</sup> Daniel Byman, "Passive Sponsors of Terrorism," *Survival*, Vol. 47, No. 4, Winter 2005-06, 117.

<sup>34</sup> *Ibid.*, 134.

<sup>35</sup> Matthew Levitt & Kathrine Baur, "Qatar Doesn't Need a Blockade. It Needs an Audit," *Foreign Policy*, June 15, 2017.

## Combating the Financing of Violent Extremist Organizations

“The same way that jihad with one’s life is obligatory, jihad with one’s money is obligatory... We are even unable to prepare the brothers who are willing to sacrifice their life for the Cause of Allah due to the insufficient of [funds]” Mustafa Abu-al-Yazid, a/k/a Sheikh Saeed, Leader of Al Qaeda in Afghanistan, June 10, 2009.<sup>36</sup>

### *Introduction*

When targeting the financing of a particular VEO, the creation of a spectrum depicting the methods and amount of money produced by a method is a useful framework. This framework facilitates the notion of “squeezing the spectrum.” Squeezing the spectrum is a multi-pronged approach to diminishing the finances of a VEO. On one side you have diaspora support and on the other you have external support from state actors. The tactics used by practitioners must be extraordinarily specific when attempting to deter state actors from financing a VEO because policy makers must consider the potential consequences for the state and geo-political implications overall. The following section of this paper attempts to demonstrate tactics that may be successful but also the complexities involved in countering such methods of financing.

### *Grey Economy: Combating the Why and How*

As demonstrated above, VEOs go to great lengths to obtain and produce funds within the Grey Economy. Governments must use a multi-pronged approach to combat VEO’s methods of funding within the Grey Economy. The first point of intervention is indirect deterrence aimed at the diaspora community through community-based Countering Violent Extremism (CVE) programs to target the “why.”<sup>37</sup> CVE programs are typically used to provide counter-narratives

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<sup>36</sup> Translation Performed by SITE Intelligence Group, Summer of 2009.

<sup>37</sup> While CVE is a sticker phrase slapped on by the government, research shows the local community leaders are hesitant to participate and adopt programs that they view as specifically targeting Muslim communities. For the sake of clarity, this paper adopts CVE as the term but recognizes that communities need and should adopt terminology that their members can support.

with the goal of preventing the radicalization of disenfranchised youths. But the same perceived grievances that are at the core of radicalization also may motivate sympathizers to support the cause of a VEO.<sup>38</sup> Sympathizers of the end goal of a VEO may not be as committed to the means by which the VEO attempts to accomplish their long-term goal. Local social and educational programs designed to build community resilience and social cohesion is a low-cost approach to addressing a foundational source of VEO's financial resources.<sup>39/40</sup> Additionally, this approach assists governments in dealing with the tricky position they are in. A government needs to balance preventing illegitimate charitable and humanitarian organizations from receiving money while not alienating diaspora communities in supporting legitimate ones.<sup>41</sup> Therefore, governments must continue to deploy additional financial tools to combat the grey economy as well.

Strengthening Anti-Money Laundering (AML) and Combating the Finance of Terrorism (CFT) are not designed to completely prevent the transfer of illicit obtained funds. AML and CFT are designed to increase the difficulty of transferring funds and punishing individuals for such behavior. VEOs are susceptible to AML and CFT laws when they use a regulated financial system. However, these policies are only effective if financial institutions are committed to compliance.

The Financial Action Task Force (FATF) is an intergovernmental agency that develops AML and CFT policies. The FATF examines a country's banking practices and determines if they are complying with its recommendations. The international community must increase the cost of non-compliance for banks, e.g., charging individual executives. Additionally, countries that do not exhibit sufficient diligence in forcing their banks to comply must be sanctioned. Beyond sanctions,

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<sup>38</sup> In video and audio recordings by Al Qaeda, the organization continued to advocate for those who cannot fight or wage jihad to support the organization through monetary means.

<sup>39</sup> Eric Rosand, "Fixing CVE in the United States Requires More Than Just a Name Change," Brookings, February 16, 2017.

<sup>40</sup> For an example of a community based approach that demonstrates a moderate level of success see the *Star Tribune* (MN) Editorial Board's article "Trump Team Should Heed Minnesota's Efforts to Fight Terror," December 9, 2016.

<sup>41</sup> Clark, *Terrorism, Inc.*, 6.

developed countries with sophisticated banking and regulatory strategies must continue assisting developing countries. For instance, Nigeria based their financial intelligence unit on western models and FATF recommendations. The United States must continue to educate members of government and financial institutions on the specific methods used by Boko Haram because inevitably Nigerian banks will have Boko Haram funds transfer through their accounts.<sup>42</sup>

Although in certain conflict zones (Syria), increasing domestic security may be impractical, it is more feasible in Africa where AQIM and Boko Haram operate. Increasing governmental security targets two points of intervention. First, it targets the local banking system and increases compliance to FATF. Decreasing the influence of a VEO has over the local populous will also decrease the fears of retribution that bank employees may have if they produce a Suspicious Transaction Report (SRT). Second, as demonstrated with the success of Multinational Joint Task Force (MNJTF), increased security will also begin to address the methods of financing within the Dark Economy.<sup>43</sup>

### *Dark Economy*

As ISIL demonstrated, VEOs are successful using methods associated with the Dark Economy when they are able to operate in ungoverned territory. To decrease the financial resources predicated on violence and territorial control, the international community needs to assist countries in developing their domestic security. Additionally, the international community must continue to advocate and push countries to adopt Resolution 2133 passed by the United Nations Security Council in 2014, banning the practice of paying kidnapping ransoms. A study conducted by Patrick T. Brandt et. al., published in *European Journal of Political Economy* found that

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<sup>42</sup> Jason L. Rock, “The Funding of Boko Haram and Nigeria’s Actions to Stop It,” (Monterey, CA: Naval Post Graduate School) December 2016, 30.

<sup>43</sup> UN Secretary General’s Report on Lake Chad Crisis, September 14, 2017. Increased Security by the governments in Africa will directly combat such methods as extortion and kidnapping.

countries that negotiate with VEOs regarding KFR increase the probability (65%-87%) that citizens from that country will be kidnapped in the future.<sup>44</sup> Therefore, countries that have adopted Resolution 2133 are in affect discouraging VEOs from kidnapping their citizens.<sup>45</sup>

A lack of governance allows VEOs to use criminal enterprises to obtain and produce funds. There are limitations on how much security the international community can provide to a particular country or territory. Instead of attempting to deter VEOs from smuggling and trafficking goods, the international community should focus its efforts on deterring entities from accepting such goods. In certain instances, on-the-ground conditions will interfere with this effort because local actors fighting against the VEO may have no choice but to accept such contraband and thereby contribute to the smuggling and trafficking. Rebels in Iraq and Syria demonstrated this predicament when they had to pay ISIL entities for gas or otherwise they could not continue to fight against ISIL and the Syrian regime.<sup>46</sup>

*Active and Passive Support by State Actors: “The Paradoxical Ally”*

Each country that actively or passively supports terrorism will require its own tailored framework in deterring such support. In the current landscape, bilateral international relationships complicate and limit the United States’ approach to our paradoxical allies, such as Qatar and Pakistan. Over the past sixteen years Qatar has been an ally in counter-terrorism operations but also a passive supporter of terrorism. Qatar has not only failed to arrest and charge individuals on U.S. Treasury and U.N. sanctions lists, they have knowingly housed known terrorist leaders and

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<sup>44</sup> Patrick T. Brandt, et. al., “Why Concessions Should Not be Made to Terrorist Kidnappers,” *European Journal of Political Economy*, Vol. 44 (September 2016): 43.

<sup>45</sup> Later in this paper, you will see the consequences when a country pays the ransom money.

<sup>46</sup> Carole Nakhle of Crystol Energy, “ISIL Sells its Oil, But Who is Buying it?,” *Al Jazeera*, December 6, 2015.

financiers.<sup>47</sup> The U.S. and international community continue to support Qatar's counter-terrorism efforts, particularly in combatting terrorist financing. Unfortunately, additional support for counter-terrorism efforts by Qatar and Pakistan will not reach the desired outcome if these countries continue with their behavior.

The U.S. has limited options in forcing Qatar to comply with FATF recommendations and prosecute individuals who finance VEOs. No kinetic operations can be launched against Qatari citizens on Qatari soil. Time and time again, Qatar has agreed to strengthen its laws combating the financing of terrorism without following through. Continuing to spend money on assistance is unlikely to motivate Doha to change its behavior. The New York Times recently published a story on an incident that epitomizes the troubling nature of Qatar, "How a Ransom for Royal Falconers Reshaped the Middle East."<sup>48</sup>

In December of 2015, members of the Qatari royal family were kidnaped in the southern desert of Iraq by a Shi'a militia group with ties to Iran which meant that the fate of the hostages were solely in the hands of Qassim Suleimani.<sup>49</sup> Suleimani is more concerned with stabilizing the Syrian regime than acquiring funds for Shi's based VEOs. Therefore, he saw this an opportunity to begin to change the landscape of towns and villages around Damascus. This opportunity was largely successful and was known as the "Four Towns Deal." In addition to strengthening areas around Damsascus to stabilize the regime, Qatar paid the ransom. Qatar ended up paying \$360 million via Beirut to Kata'ib Hezbollah, a Shi'a backed militia and to keep Doha's proxies satisfied paid an additional \$50 million to Jabhat al-Nursa and Ahrar al-Sham, Sunni militias. While the

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<sup>47</sup> Peter Krovesy, "Qatar FM: Hamas Leader to Remain in Doha as 'Guest,'" *Doha News*, January 13, 2015. Referring to Qatar housing Khaled Meshal, former leader of Hamas who has been living Doha.

<sup>48</sup> Robert F. Worth "How a Ransom for Royal Falconers Reshaped the Middle East, *New York Times*, March 14, 2018.

<sup>49</sup> *Ibid.*, Qassim Suleimani is an Iranian General who controls the Quds Force of the Iran's Revolutionary Guard. Furthermore, he is reported to advise and provide weapons and trainings to a far-flung network of proxy forces (Shi'a militia groups) in the region.

full impact of the payment may not be completely understood, what it most certainly did do is strengthen VEOs and prolong the conflict in Syria. The question remains, how can the United States deter Qatar from financing VEOs and compel them to strengthen their enforcement of counter-terrorism efforts? In short, there is no good answer but rather a multitude of options that may in fact produce undesirable outcomes.

Similar to the current administration cutting off aid to Pakistan, policy makers may apply that approach to Qatar. In doing so, policy makers risk strengthening sympathizers' resolve in financing VEOs. Economic sanctions can impact the local economy and therefore strengthen the grievances that sympathizers have in the first place (lack of economic opportunities, weakness of their country's government). Furthermore, policy makers must calculate the risk of inspiring more disenfranchised youths to join VEOs.

Pakistan is also a paradoxical ally. Pakistan's history of supporting the Taliban in Afghanistan and providing safe havens to members of Al Qaeda is well documented. The Inter-Services Intelligence (ISI) of Pakistan ensured the survival of the Taliban prior the September 11<sup>th</sup> attacks. After the attacks, Pakistan provide safe haven to Mullah Omar and other members of the leadership by allowing them to settle in Baluchistan around the city of Quetta.<sup>50</sup> A leaked NATO report to the Times reportedly stated that "the ISI is thoroughly aware of Taliban activities and the whereabouts of all senior Taliban personnel."<sup>51</sup> A strategy for deterring and compelling Pakistan from providing passive support can only be understood after policy makers understand why Pakistan supports VEOs in the first place. Pakistan is most likely best example of the geo-political complexities of formulating a coherent strategy decreasing and potentially preventing their support of VEOs. Policy makers must consider the advantages to Pakistan of a constantly weak government in Afghanistan. Additionally, because of the tension between Pakistan and India, what

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<sup>50</sup> Bruce Riedel, "Pakistan, Taliban and the Afghan Quagmire" *Brookings*, August 24, 2013.

<sup>51</sup> Jeremy Kelly, "Pakistan Anger at Leaked NATO Report" *The Times*, February 1, 2012.

advantages are provided with support for the Taliban. Finally, is Pakistan's relationship with Russia and China improved by supporting the Taliban?

It is too early to understand the consequences of denying aid to Pakistan. The FAFT has put Pakistan on their "Grey List," thereby increasing the scrutiny of any money originating from Pakistan or money flowing out. This will force businesses to consider whether it is worth operating in or having a relationship with Pakistan. Similar to Qatar, policy makers will need to consider the consequence of sanctioning Pakistan. What will be the consequence if Pakistan's strengthens their relationship with China and Russia? Finally, by decreasing support for Pakistan's counter-terrorism efforts, will Pakistan be forced to accept VEOs operating within its ungoverned regions and VEOs' potentially increased support for the Afghan Taliban?

#### Conclusion

Violent extremist organizations will continue to adapt to the environments in which they operate. Each VEO requires an in-depth analytical approach as to the methods used to fund that specific organizations. A similar approach must be taken when analyzing why countries fund VEOs, how it benefits the country, the consequences of economic sanctions as a method of deterrence, and potential kinetic operations as methods of compellence. The framework described in this paper does not address deterring individuals within America from attempting lone-wolf attacks. This framework must be part of a larger comprehensive plan to combat the threat that VEOs pose to the United States and its allies. Although crypto-currencies are not a large portion of financing for VEOs it does demonstrate that policy makers must constantly think of potential new ways that VEOs may finance their operations. Future analysis is required to understand the potential consequences for successfully combating the financing of VEOs and its effects on our intelligence gathering capability. Only after in-depth analysis of a VEO and a state actor supporting them, can the successful implementation of this framework provide policy makers with points of intervention.

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