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FINANCING TERRORISM: FROM OFFSHORE COMPANIES TO THE CHARITY PARADOX

Theoretical article

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Abstract

The world is currently living to its edges, menaced at each corner by environmental changes, terrorist attacks, civil wars or biological weapons let loose. With the emerging of the Islamic State and other terrorist cells the entire world under the peaceful globalization sphere questions its security. The paper aims to focus on detailing the most modern ways of financing terrorism, including through tax haven offshore companies, and the charity paradox. Charity institutions, several banks and even Non-Profit Organizations go hand in hand with a full range of felonies, from money laundering to narcotic traffic, humans trafficking, organized crime, arms dealing and terrorist attacks. The paper aims to offer pertinent solutions to tax havens and light legislation in order to prevent terrorist groups and cells from becoming an extensively rich and potent menace to global and state security.

Introduction

Offshore companies started their journey around the 1980s in the United Kingdom and developed massively to become a worldwide success two decades later. However, according to some other beliefs (Palan in Hampton and Abbott, 1999), the concept roots in the Ancient Greece where wealthy Athenians used to save their fortunes in the isle of Delos, near Greece's coast. New or old, the concept of off shore companies continues to trigger strenuous discussions when it comes to its definition. Some claim that the offshore concept is best defined not by referring to a financial centre, but more as a matter of if a certain client is outside the jurisdiction where a typical financial service is delivered (Levin, 2002). Others (Roberts, 1999) impose a dual definition of onshore and offshore companies as two sides of the same story that can only be understood in coexistence. Although a unilateral, generally admitted definition of offshore lacks, the concept continues to extend its worldwide number of members, reaching financial benefits of trillions of dollars annually in the so-called tax havens.

The main reason for creating an offshore company is often to take away the excessive burden of taxation. But, depending on the particular needs of the company, an offshore can also stand for abroad commercial transactions, property buying, creating "holding" companies, creating insurance companies, and even banks, or for financing various smaller firms and private businesses. The direct advantages of placing one's venues in a tax haven emerge from a smaller to zero taxation and the ability of choosing the exchange currency, which often leads to economic advantages. Money laundering and all its downsides are closely linked to tax havens especially for this little to non taxation, and most influential international institutions seem to take advantage of it. Ever since the end of 1999 there were suspicions that a number of important international banking players (like Citigroup and Bank of America) have facilitated money laundry, managing to process payments up to a whopping 1000 billion USD per day (Fisher et ali, 2005). But the main concern is that up to 99% of the black money (resulted from smuggling, drug, human traffic, weapon traffic and terrorism) are successfully "washed" and sent back on the market as white money with the help of mammoth financial institutions (insurance companies and banks).

The main concern rising from the money laundry phenomenon is strictly linked to financing terrorism. Ever since the 9/11 tragedy, the terrorism problem was signalled in countless studies, books and international conventions, being discussed at the highest security levels of international supra-national organizations. For this paper inquiry it is fundamental to say that terrorists required no less than 500,000 USD to bring the 9/11 attacks to a close. Most of the money was processed through the United Arab Emirates and its offshore accounts opened on American banks. It was not until the tragedy that the United States of America, the country with the strictest defence mechanism adopted the Patriotic Act which refers to the diminishing of international money laundering and counter-financing terrorism (Fisher et ali, 2005). The Patriotic Act helped making progresses on identifying potential terrorists aiming to open bank accounts outside the US.

On an international level, the members of the United Nations could finally sign and ratify the International Convention for the Suppression of the Financing of Terrorism on January 10, 2000 (The Legal Department of the IMF, 2003). Unsurprisingly, before the 9/11 events only 42 countries have signed the treaty, and only four had ratified it (Botswana, Sri Lanka, United Kingdom and Uzbekistan). Between September 11 2001 and February 19 2002 other 90 countries had managed to sign the convention, and other 13 ratified it. However, at that point, the United States had not yet fully ratified or implemented the United Nation's International Convention for the Suppression of the Financing of Terrorism. Germany, Italy or Japan had not signed the convention either (The Economist, 2002).

As a response to the 9/11 attacks, UN's Security Council adopted the 1373 resolution (United Nation Security Council, 2001) and asked all members of the United Nations to adopt a certain package of measures for countering terrorism. The actions included freezing bank accounts or any other financial goods and resources if a person was directly or indirectly involved in terrorist attacks. By the end of 2003 all of the 191 states members of the United Nations have offered detailed reports on the measures for implementing the anti-terrorist resolutions. Even so, it remains a huge gap between state actions of combating terrorism and its main economic implications. Most international agencies and state institutions lack the power of efficiently fighting against financial terrorism in real time and, in the majority of the cases, they impose threats, decisions and penalties after the terrorist acts were funded.

The "Gross Criminal Product" (Baker in Napoleoni, 2005) concept is directly linked to the terrorist financing phenomenon, and represents an integrated part in today's economy of terror. In order to plausibly fight against terrorism financing, "we need to wage the war increasingly on an economic front, and not just on the military and security/ intelligence fronts" (Barber, 2011). But any war needs money and terrorist require funds more than they require new adepts. Extremist Jihadists know that and intend to appeal to the most common and unusual ways to attract new funds to support their claims, create chaos and achieve their global terror goals.

THEORY

Financing terrorism through offshore companies and tax havens represents a rather new concept, integrated in today's geopolitical context. Globalization and market liberalization play fundamental roles in wrongly understanding the freedom of expression and towards a personal religion or belief. Most fundamentalist and extremist terrorists claim they fight against capitalism and its horrors, and for creating a better state with holy rules. In fact, powerful international terrorist cells base their beliefs on the same capitalist concepts, indispensable to the 21st century world: violence, terror, weapon use, fear inflicting, and money. The American-born extremist radical Anwar al-Awlaki, former important recruiter and terrorist in the Al-Qaeda cell wrote an essay entitled "44 Ways to Support Jihad". He dedicated five of his 10 described strategies to money and funding terrorism, especially through donations and charity (FBI, 2013)**.** Money fuels all terrorist and terror-related operations, from establishing the means of communication, to creating or buying weapons, stakeouts, fund planning and purchasing the required supplies. But how do agencies monitor the illicit money funding terrorist operations?

The tricky and most challenging part is that even the biggest international agencies go on blind. It does not take millions of dollars to plan a terrorist attack counting multiple victims and casualties. The Oklahoma City bombing in 1995 required as little as 4,000 USD. This included gathering the materials, establishing the plan, and hiring a truck to carry out the explosive materials (MSNBC, 2010). Domestic terrorist attacks targeting 10 – 200 victims using artisanal bombs and explosives are even cheaper in the developing countries, causing each unreliable individual to take as many lives as possible when reaching an edge to insanity. Suicide bomb vests sell for as low as 1,200 USD, while a "decent" suicide car bomb costs anywhere between 13,000 and 20,000 USD (Temple-Raston, 2014). The New York Times presents an even darker scenario (Carter & Cox, 2011), with average total cost of whooping 3.3 trillion USD for the 9/11 attacks. The sum refers to what the United States suffered in terms of economics after and during the attacks in 2001, with strong emphasize on the national economy. The economic impact of the terrorist attacks planned and conducted by the Al-Qaeda in 2001 counted for 123 billion USD, while all homeland security related costs covered more than half a trillion USD (589 billion USD). By far the biggest slice is given to the war funding and all of its related costs: more than 1.5 trillion USD, proving that declaring a war in times of globalisation requires serious funding. But who paid for all the money? Everyone. Every single tax-paying American annually contributes with more than 5,000 USD to fund a war that does not fully concern him. Territorial invasions, weapon procuring, nuclear bomb testing and specific anti-terrorism protocols – they all count for massive funding, especially from the government. Under these economic circumstances it is easy to say who suffers more after terrorist attacks – not only the victims, but mainly the state in which the terrorist attack occurred.

METHODOLOGY

This paper wishes to survey the existing literature on the matter and stress the importance of efficient anti-terrorism financial measures to exterminate massive terrorism funding. The existing literature on terrorism financing features two interest points: the literature before the 9/11 attacks, and the current existing one. The pre-2001 literature is scarce and mainly approaches offshore companies and tax havens directly with its negative impacts, like financing terrorism or money laundering. However, the global literature experienced a shocking boom after the 9/11 events, determining terrorism to become the *en-vogue* subject of countless studies, analyses, reports, theories, books and articles. But even with a more than sufficient literature on terrorism matters, history continues to be written every day as terrorist organizations aggressively seek out new ways to attract funds and recruits to serve their devious purposes. Charities could represent the way as they are mainly done anonymously and are rarely the subject of contestations, taxes and fiscal regulations abroad. Moral or immoral, legal or illegal, the terrorism funding must draw awareness to the important global financial institutions to casehearden their laws and immediately announce any suspicions of money laundering and money defalcation. John Ashcroft (cited in Acharya, 2009) claimed that "terrorists cannot terrorize without money, without resources; training costs money, planning costs money, and explosives cost money, plane tickets cost money". And where does that money come from? Ehrenfeld (2005) synthesizes the main sources of terrorism financing, claiming that most of the funds come from "sympathetic governments" such as the Saudi Arabia, Iran, or the United Arab Emirates, and from the so-called charitable Islamic organizations. Exploitation of financial markets and money laundering also count for substantial funds added in the terrorists' accounts, while all other criminal activities (including smuggling, prostitution, kidnapping, drug and arm dealing) plumps the daily subsistence of terrorist organizations. All of the above become fundamental links in the new funding terrorism symbiosis, with a system so closely put together that even the most important counter-terrorism national and transnational organizations could learn from.

FINDINGS

The existing literature on financing terrorism is scarce, although the terrorism phenomenon bloomed in thousands of writings, books, articles, and specialists in the past decade. There is even less accurate information regarding today's main global threat, the Islamic State of Iraq and Syria (ISIS). With Al-Qaeda's main leader, Osama Bin Laden, assassinated in 2011, the United States faces a new threat by the name of ISIS. More importantly, if a few years back the war against terror was slightly kept on balance geographically speaking, today's terrorist threats stretch from the most developed European countries to the emerging ones at the border between Europe and Asia, and the Islamic world. The hatred has become so deep that most analysts claim a worldwide conflict is about to arise in less than ten years, fundamentally affecting the geopolitical map of the world, and possibly creating new state borders as well. Even more shockingly is how a group that originated only 16 years ago, at the end of the 1999s, has managed to attract over 8 million sympathisers across the controlled regions, with over 1,000 new members joining daily, even from the anti-terrorist declared states such as the United Kingdom, France, Spain or the United States of America (The New York Times, 2014). The United Nations names ISIS (ISIL as of 2014) as one of the most dangerous terrorist organizations in the world, being held responsible for human rights abuses including massacres, ethnic cleansing, terrorist acts and generally acts involving a high level of hatred and violence against non-Muslims.

The expansion of the Islamic State currently represents the main issue against counter-terrorism organisations, with the group proclaiming a worldwide caliphate and the creation of new state borders. Using primordial expurgation techniques and violence, the new proclaimed Islamic State manages to conquer not only territories, but valuable human and financial resources as well. As a result, from 2008 and until 2014, ISIL's accounts hold not less than 2 billion USD, at the disposal of the most feared terrorist leaders of the world. Most of the funds came from anonymous donations and charity organizations situated in Western Asia. However, it has been shown in many cases that well put-together terrorist attacks do not require fabulous amounts of money. On the contrary, with as little as 500 USD, one can create enough panic to make it in the international headlines and spread even more panic and fear worldwide. A similar scenario was fortunately avoided in 2008, when Germany hosted the World Cup soccer tournament. Several suitcases containing artisanal explosives were set to blow up in trains, causing sufficient casualties and international panic. Even more shockingly is that anyone can create bombs nowadays with the smallest investment. In fact, one of the men hold responsible for the terrorist planned attacks paid for his requisite with his tuition fee money. As a paradox, although largest international terrorist organizations have wealthy bank accounts, they do not plan to spend too much on organizing a terrorist attack on a small scale. Thus, for a widely public organization like ISIS with its reported 2 billion USD piggy bank, "the only limit on the number of attacks it can launch is the number of people willing to carry them out" (Temple-Raston, 2014). Although a considerable amount of the funds ISIL held was through its affiliation and pledge to Al-Qaeda, since February 2014 when the two organizations decided to split, ISIS continued to gain sympathy from Asian-based charities and through a series of off-shore companies virtually located in tax havens across the globe. In terms of self-funding, ISIS has also come a long way. Instead of waiting to cash these long-term pay checks from money laundering and charity, the Islamic State developed its own funding system by extorting money from humanitarian workers, selling electricity to the Syrian government. Controlling strategically regions filled with natural resources, it comes as no surprise that the rebel child of Al-Qaeda plans to become financially independent in the future by exploiting the oil resources it possesses. Until then, the Islamic State, just as other Islamic extremist movements, continues to drain most of their revenues from illicit activities through money laundering or charity.

Offshore companies and money laundering

Most terrorist organizations go hand in hand with intense criminal activity including smuggling, drug dealing, weapon trafficking, human trafficking, kidnapping and extortion. "When a criminal activity generates substantial profits, the individual or group involved must find a way to control the fund without attracting attention" (Financial Action Task Force, 2003). Most of these profits become easily untraceable by repeatedly sending them through offshore companies in tax havens. This way, fictional companies headquartered in tax havens across the globe (including in New Jersey and the Virgin Islands) can easily launder millions of dollars coming from illicit criminal activity or use the profits to purchase white assets like gold, diamonds or actions which are later sold in exchange for "white money". For the right amount of money, criminals would seek the legal advice and counselling of professionals, not only to perform money laundering schemes, but also to complete certain transactions. Accessing legal skills will help terrorist organizations in the future for becoming untraceable by the international authorities. In order to access private data such as client accounts numbers, the provided literature has come up with a series of legal grounds where specialists are required: managing trusts and companies, purchasing real estates and properties, using clients' accounts, and managing charities. However, once the required information is achieved, criminal organisations begin training their own specialists in the field, so they can exercise full control upon bank accounts and personal data information. The main area of vulnerability of the banking system is represented by real estate purchasing. Up to 30% of the criminal assets confiscated by international and national authorities counted for properties, determining it to be the most prolific money laundering scheme. International crime and money laundering investigators apply several methods to identify suspect bank activity and possible linkages to terrorist acts, including credit history checks and reviews of banking history. The success rate of these actions is pretty motivating, with the FBI agency alone managing to overrule over 400 potential terrorist threats per year. Even so, numerous terrorist organizations continue to survive and prosper through international aid coming in forms of donations and charities and laundered money. Offshore companies are the main responsible factor for this blooming situation. Their potential and global impact is, without a doubt, positive and negative. Offshore companies represent a potential opportunity for a highly sought global financial stability. On the other hand, offshore centres pose a serious threat to other more legit companies due to their territorial jurisdiction problems. Also, offshore companies will continue financing budgetary deficits, sometimes with long-term costs and consequences. The increasing rate of financial frauds and constant threats regarding money laundering and financing terrorism are the main drawbacks of offshore companies that everyone is fully aware of. In past few years, the most important international organizations (like the International Monetary Fund, the United Nations Organization and the World Bank) have become actively involved in the construction and implementation of stricter resolutions regarding tax havens and the way they operate on a national and international level. Without a doubt, the offshore environment has suffered severe changes as an outcome of these reports and resolutions and will most likely continue to transform as it seeks to optimise its potential on a global economic scale. In terms of diminishing money laundering and terrorism financing, the main approach of the offshore companies was to quit the bank secrecy after 9/11 events, becoming more transparent and inviting counter-terrorism agencies to snoop in, seeking for incriminatory evidence.

The charity paradox

Charity as a primordial source of terrorism funding was developed as a concept over the past decade, deviating from its original meaning. Charities and fund raiding actions were developed to strictly helping the ones in need by the ones that had more to offer. The main charity causes for which financially potent individuals and companies pledge include environmental threats, poor children, abused women, outstanding individuals or endangered species of plants and animals. However, the concept of charity has been allegedly distorted to fit the greedy financial requests of terrorist groups and cells across the globe. During the "war on terror" started by the Bush Administration in the dawn of the September 11 events, numerous charitable organisations, and even individuals, were accused of having ties with terrorists or terrorist cells. Charities are mainly used as a means to move funds without appealing to international legislations or taxation. "Terrorist abuses of the charitable sector have included using legitimate transactions to disguise terrorist cash travelling to the same destination" (Financial Action Task Force, 2008). Among the list of the biggest charities accused of funding terrorism, one can name the following: Afghan Support Committee headquartered in Pakistan, the Al Kifah Refugee Centre headquartered in the US, the Global Relief Foundation, International Islamic Relief Organization headquartered in Saudi Arabia, Tamils Rehabilitation Organization, the Society of the Revival of the Islamic Heritage headquartered in Kuwait, or Muslim Aid headquartered in London. The Al Kifah Refugee Centre is alleged to have provided impressive military training prior to the World Trade Center bombings in 1993 and to have trained troops that were rather recruited in the staff of Osama Bin Laden. The European Union Commission froze all assets obtained by the Global Relief Foundation under the accusations of terrorism made by the Federal Bureau of Investigation.

By far one of the most controversial charity organization is the International Islamic Relief Organization which was sued in 2002 by the families of the victims died in the 9/11 attacks. Founded in 1978, the charitable organization has branches in the most diverse countries and territories worldwide, including Thailand, Senegal, Pakistan, South Africa, Albania, Bulgaria, Kosovo and Macedonia, proving an intense overseas activity. Under the pledge of providing humanitarian aid, the organization is affiliated to al-Qaeda through its Indonesian and Philippines branch offices. The accusations were made by the United Nations Security Council and, as a result, the European Union and the United Kingdom also complied with the status. IIRO denied the accusations and applied to all legal channels to have the accusations removed. On January 6, 2014 the Security Council Committee removed the allegations and deleted the International Islamic Relief Organization, the Philippines office from the list of organizations affiliated to or associated with al-Qaeda (UN, 2014).

On December 12, 2014 finance and security analyst at BBC, Tom Keatinge, released a well-documented paper regarding terrorist funding, emphasizing on ISIL, the Afghan Taliban and Al-Shabab (Keatinge, 2014). It is estimated that the Afghan Taliban group gathered as much as 200 million USD from donors and drug sales, while Al-Shabab received “taxes” and donations counting for 100 million USD. And while ISIL is currently the wealthiest terrorist organization, Hamas comes on a second place, according to a report made by Forbes Israel. The report lists Hamas dealing with budget funds of nearly 1 billion USD per year, making it extremely unpredictable and dangerous. On the same report Hezbollah is listed as occupying a forth position, with funds of roughly 500 million USD. However, it is impossible to count exactly how much of this money comes directly through external funding (donations and charities). It is even harder to proof funding accusations on a legal ground and seek international embargo on all assets for those responsible. Muslim Aid, the Revival of Islamic Heritage Society and the Qatari Charitable Society are among the biggest donors sustaining the pro-jihadists. Things appear to be even more dramatic in the UK, where the Islamic charity organization Camden Abu Dis Friendship is publicly supporting terrorist actions and initiatives. The Islamic Relief, UK division, was finally facing the consequences of its acts after UBS shut down the branch’s bank account under constant suspicion that the money was used to fund terrorist acts.

CONCLUSIONS

The purpose of the paper triggers to offer a new perspective upon the importance of terrorism funding in today’s “war on terror” played by the entire global society. Terrorism financing represents an aching problem of today’s society, mainly because it comes from such diverse sources: from money laundering to organized crime facts, smuggling, prostitution, drug and weapon trade, and others. Tax havens are giving today’s terrorist organizations the perfect environment to grow their finances and become richer than a state, actively menacing the borders and the integrity of any country willing to fight against it. There is no boundary between what is legal and illegal, what is moral and what is condemnable, as terrorist organizations can support their entire entity through a combination of legal and illegal actions on the financial market, especially through charities and offshore companies.

There are no secure parties in the process and large financial institutions do not seem to rush into making the world a more secure place. Although bank legislations regarding offshore companies and tax havens have improved after the 9/11 triggering events, there remains a huge gap between what counter-terrorism agencies claim to do, and what they are actually doing. Most agencies fail to comply with what they signed up for merely because they cannot act efficiently enough in real time to minimize the damages caused by terrorist attacks. There is no guessing in where will be the next terrorist act, but based on a constant surveillance of bank accounts, charity organizations and donations received by the most dangerous terrorist cells, terrorist funding should hold the key of future preparation and security organization.

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