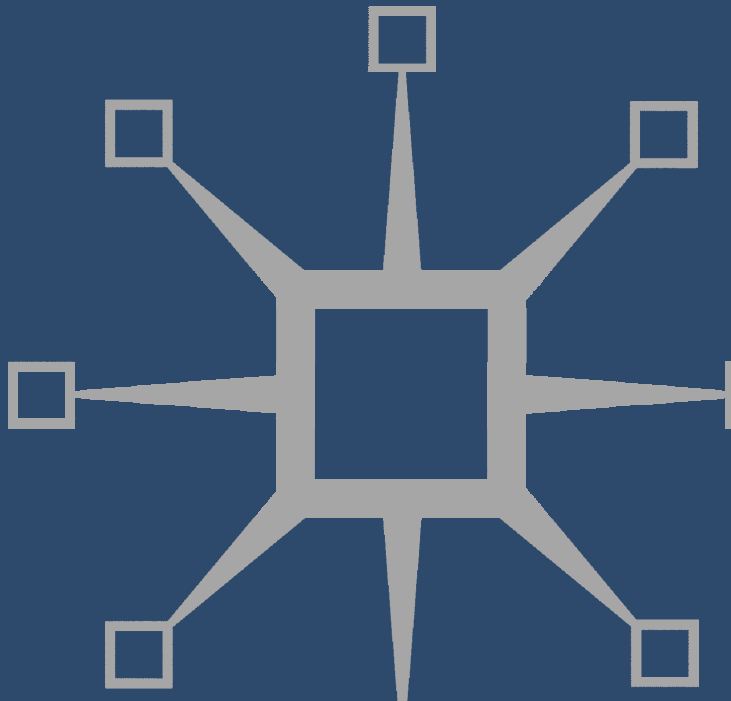


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# Understanding Terrorist Finance

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Timothy Wittig



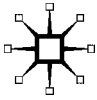
# Understanding Terrorist Finance

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Timothy Wittig

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*To Sarah*

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# List of Abbreviations

9/11	the terrorist attacks on the United States on September 11, 2001
AHIF	Al-Haramain Islamic Foundation
AML	anti-money laundering
ANC	African National Congress
AQIM	al-Qa'ida in the Islamic Maghreb
ATM	Automated Teller Machine
ATTA	Afghan Transit Trade Agreement
BIF	Benevolence International Foundation
CEO	chief executive officer
CFT	combat(ing) the financing of terrorism
CHF	Swiss franc
CIA	Central Intelligence Agency
CTF	counter-terrorist financing
CTS	Critical Terrorism Studies
FARA	Foreign Agents Registration Act
FATA	Federally Administered Tribal Areas
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FfC	Foundation for Chechnya
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
FTO	Foreign Terrorist Organization
GE	General Electric
HAMAS	Harakat al-Muqāwamat al-Islāmiyyah, (Islamic Resistance Movement)
HIG	Hizb-e-Islami Gulbuddin
ICU	Islamic Courts Union
IMF	International Monetary Fund
IPE	International political economy
IRA	Irish Republican Army (can refer also to PIRA)
Kr	Danish Kroner
KYC	know your customer
LeT	Lashkar-e-Taiba
ML	money laundering

NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
NORAIID	Irish Northern Aid Committee
NWFP	Northwest Frontier Province
OECD	Organization for Economic Cooperation and Development
PIJ	Palestinian Islamic Jihad
PKK	Partiya Karkerên Kurdistan (Kurdish/Kurdistan Workers' Party)
PLO	Palestine Liberation Organization
SDGT	pecially designated global terrorist
SOCOM	Special Operations Command
TF	Terroris(t)(m) Financ(e)(ing)
TFG	Transitional Federal Government (Somalia)
TTP	Tehrik-e-Taliban Pakistan
UK	United Kingdom
UN	United Nations
UNODC	United Nations Office on Drugs and Crime
US	United States
USA PATRIOT Act	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
USC	US code
USD	US dollar
USS	US ship

# 1

## Understanding Terrorist Finance: Challenges and Issues

This book is about how to understand the financing of terrorism. It aims to demystify the economic activities of terrorist actors—or, as they are collectively known in common parlance, “terrorist finance”—and to present an approach for understanding these activities that is logical, systematic, and also useful to lay and academic readers alike.

This book is necessary because there is widespread recognition—if not a consensus—in spheres of both thought and practice that terrorist financing is poorly understood. In the years since the terrorist attacks of September 11, 2001, the so-called *financial war* against terrorism has produced, in the words of economists Peter Reuter and Edwin Truman, “an elaborate system of laws and regulations that affects the lives of millions of people and imposes several billion dollars in costs annually,” and which, they write, “has been based to a substantial degree on *untested assumptions that do not look particularly plausible*” [emphasis added].<sup>1</sup>

One such flawed assumption is that Western societies comprehend the financial and economic dynamics of terrorist actors to a level at all proportional to the various efforts meant to counter them. Brown University’s Thomas Bierstecker and Sue Eckert remark of this remarkable disconnect that it is “humbling . . . how little we know”<sup>2</sup> and that despite years of attention and huge amounts of resources dedicated to fight it, terrorist financing remains “inadequately researched.”<sup>3</sup> In practice, the consequences of these analytic deficiencies amount to, as Nikos Passas puts crisply, “fighting terror with error,”<sup>4</sup> a situation reflected in the following comments from those in government and the financial sector responsible for tracking and countering terrorist finance:

We don’t know what to look for. (Chief of Financial Crime and Intelligence of a major global banking group)<sup>5</sup>

## 2 *Understanding Terrorist Finance*

Regulations meant to combat terrorist finance are based on “quite a few myths.” (Senior official in the International Monetary Fund’s Anti-Money Laundering/Counter Terrorist Financing (AML/CTF) section)<sup>6</sup>

Efforts by the financial industry to detect and stop terrorist financing are “elaborate theater.” (Senior compliance officer at a major global banking group)<sup>7</sup>

We need all the help we can get. Most of what we know [about terrorist financing] is from news reports. (Intelligence analyst, US Department of the Treasury)<sup>8</sup>

A generally accepted model for terrorist financing would provide a clear and common strategic understanding of how terrorist financing operates and a sound basis for deciding how to respond to it. Currently, no such model exists. (Canadian Secret Intelligence Service (CSIS))<sup>9</sup>

It is impossible to point to ... objective criteria for making decisions. (Managing Director for AML/CFT compliance of a major global banking group, referring to the regulatory requirement to judge the risk that banking activity is linked to terrorist actors)<sup>10</sup>

We have been looking in the wrong places. (John Cassara, retired senior US Treasury official)<sup>11</sup>

This book attempts to address this problem not by providing final answers about the financial and economic dynamics of terrorists but by presenting a more coherent and systematic approach to understanding them. I argue that the activities typically represented as “terrorist finance” (for example, donations, criminal activities, weapons procurement, and so on) ought to be understood in terms of how terrorists—as socio-political actors—access and interact with particular—and often legitimate—political-economic communities; rather than as elements of some vast, mysterious and entirely illicit financial edifice supposedly underpinning global terrorism.

Most significantly, this represents an advancement beyond—and importantly not a mere critique of—the deeply flawed but nevertheless dominant orthodoxies about terrorist finance that focus on uncovering the secrets of “who finances terrorism and how they do it,” and toward more contextualized understandings that subordinate the answers to such questions to the socio-political meaning of both terrorist financing activity and our attempts to understand it. By emphasizing the socially contingent, geographically specific, “everyday” ways that terrorist actors interact with local and global political economies and social

movements, the book also helps to better situate knowledge of terrorist financing into the distinct but related literature on extra-legal political economies,<sup>12</sup> something which to date has not been done. Third, the book addresses several key gaps in the critical discourse on terrorist financing, which in aggregate has so far failed to provide viable alternative theoretical perspectives about terrorism-related financial activity to accompany its trenchant critiques of existing orthodoxies. In particular, the book's focus on value chains and a more specified understanding of material support helps resolve the implicit and intellectually stifling levels-of-analysis debate in terrorist financing discourse; which is caught between, on the orthodox side, pretensions of objectivity, despite the inherent politicized and contested nature of both terrorism and finance, and, on the critical side, a failure to present any alternative set of proper objects of analysis and scope of inquiry for terrorist financing research. This serves to move understandings of terrorist finance into the "more mature phase of research" called for by Bierstecker and Eckert.<sup>13</sup>

This book thus aims to provide new insights into the material reality of the financial and economic activities of terrorist actors; to dispel certain popular myths about these activities; and to present a coherent framework for conducting systematic research on terrorist finance that is more analytical, more nuanced, and ultimately more practically useful than existing thinking on the topic. Consequently, the book presents an important step forward in our understanding of not only terrorist finance but also more generally of the place terrorism and terrorists occupy in the contemporary world, however one defines these contested terms.

Within this context, this opening chapter outlines a more systematic and analytic approach to researching—and thus also ultimately understanding and even responding to—terrorist finance. It begins by offering a case study of terrorist financing activity in order to introduce and illustrate the empirical realities common—if not often inherent—to cases of terrorist financing, and thus also the key epistemic and methodological challenges that research into terrorist finance must address. The study, based in part on field research, focuses in particular on the financing of Chechen separatists and the foreign "al-Qa'ida" jihadist fighters allied to them in the Republic of Georgia, from 1999 to 2002. This case was chosen because it illustrates numerous social, political, economic, cultural, cognitive, and discursive complexities that are significant to understanding terrorist finance, and which are explored more deeply later in this book. Following this case, the chapter outlines and discusses the major epistemic and methodological issues of researching

both this case in particular and terrorist financing in general. First, the chapter examines the *levels of analysis*, that is, the core epistemological question of “what to look for?” when conducting research and analysis into terrorist finance. Second, and following from this, the chapter discusses the *purpose of inquiry* into terrorist financing activity, focusing especially on, respectively, the demand, supply, and governance of knowledge about both this particular case and of terrorist financing activity in general. Third, the chapter examines the key *methodological* issues of terrorist financing research, looking especially into the major research questions, problems to be solved, systems to be challenged, and appropriate research methods.<sup>14</sup> The chapter concludes by calling for an approach to researching terrorist financing that is both critically minded and systematic, and capable of simultaneously solving problems within current terrorist financing paradigms and questioning the political and ethical foundations of these frameworks.

### **Financing terrorism along the Chechnya–Georgia border, 1999–2002: an indicative case**

The border between Chechnya and the Republic of Georgia lies in a remote high-mountain region in the Central Caucasus. Completely impassable during the winter months,<sup>15</sup> the border at other times can only be crossed on foot or horseback, or by four-wheel drive vehicle solely via the 300-km road from Tbilisi to Shatili. The region is (sparsely) inhabited by the Kist, Tush, and Khevsur peoples, among others,<sup>16</sup> and although distinct from one another, all of these ethnic groups are characterized by strong social, cultural, and linguistic traditions that have changed little since the Middle Ages.<sup>17</sup> For example, similar to the Pashtun institutions in Afghanistan and Pakistan,<sup>18</sup> these groups have strict traditions of hospitality and honor, are only nominally governed by the central national government, and are largely egalitarian in how they govern themselves and settle disputes, relying on a complex mixture of social and familial customary law blended with religious beliefs.<sup>19</sup> These beliefs combine ancient pagan traditions with Orthodox Christianity (or Sufi Islam in the case of the Kists) and play both significant spiritual and nationalistic roles. Although austere, these beliefs are, as Sanikidze and Walker described, part of a “tradition of religious tolerance and eclecticism,”<sup>20</sup> an observation confirmed by a period of field research among Khevsur villagers and elders.<sup>21</sup> All inhabitants of the border region identify themselves as Georgian for official purposes, although the Kists are descendents of the Chechen

and Ingush peoples (who collectively are referred to as *Vainakhsi*), and during Soviet times it was common for Kists to move to Chechnya for employment.<sup>22</sup> Most of the Kist population lives in the Pankisi Gorge, a remote broad valley (not a gorge, in fact) about 85 km from the Chechen border. Beginning during the first Chechen conflict, Chechen militants established a relatively large base of operations in the gorge in order to train personnel and raise funds to support its operations. It is believed that many of the terrorist attacks committed by Chechen forces had a connection to Pankisi Gorge, either as a supply point, training centre, or planning base.

From 1999 to 2002, Georgia was by almost any measurement a poor and corrupt country. In 2002, the World Bank estimated its per capita GDP as \$2,220 (just richer than Mauritius and Angola, but poorer than Papua New Guinea)<sup>23</sup> while Transparency International ranked it as the 17th most corrupt country in the world,<sup>24</sup> an assessment shared by an overwhelming majority of Georgian citizens.<sup>25</sup> Exacerbating this were large numbers of displaced persons, both from the 1992–93 conflict in Abkhazia (300,000)<sup>26</sup> and the wars in Chechnya (4170).<sup>27</sup> Most of the Chechen refugees migrated to Kist (ethnically Chechen Georgian) villages in Pankisi Gorge where most of them took shelter with local families.<sup>28</sup>

## Expenditures

Terrorist expenditures in the region primarily focused on weapons purchases, the cross-border smuggling of people to fight with Chechen terrorist groups, training, and day-to-day needs. The day-to-day needs of Chechen fighters in Georgia, or *boeviks*, included food, medicine, and clothing. As will be discussed later, this was acquired in a number of ways, including receiving donations from Islamic and international charities, the black market, theft, as well as the hospitality of local civilians.

Available evidence shows that the weapons materiel purchased ranged from relatively cheap and available handguns, bullets, Kalashnikovs, and detonators<sup>29</sup> to expensive and harder-to-get weapons, such as 9M111 *Fagot* anti-tank missiles, *PIT* handheld anti-tank grenade-launchers, and *Strela* surface-to-air missile systems.<sup>30</sup> Often, corrupt Georgian officials facilitated these purchases. For example, Akaki Kegoshvili, the commander of the Georgian peacekeeping battalion in the Tskhinvali district, and Major Kornel Lazashvili, chief of finance of the same battalion, were both caught in 2001 smuggling a full carload of

weapons into Chechnya.<sup>31</sup> Tskhinvali was a major transshipment point for weapons smuggled into Chechnya throughout the period.<sup>32</sup>

A large amount of money also went to smuggling foreign (non-Chechen) fighters into Georgia and across the border to join various Chechen armed groups, as well as training and indoctrinating them. In the case of smuggling, sometimes this involved purchasing for about \$400 the assistance of a Georgian guide to show them “weak points” in the border where crossing was possible.<sup>33</sup> Alternatively, these fighters could purchase more guaranteed passage by directly bribing relevant Georgian police and border officials to facilitate the border crossing.<sup>34</sup>

Although many belonged to separate networks with different particular agendas, the foreign fighters going to Chechnya were most generically motivated by a desire to join a global “jihad” against those seen to persecute Muslim peoples—in this case Russia—and came predominantly from Saudi Arabia, Kuwait and other Arab countries, but also occasionally from European countries such as the United Kingdom and France.<sup>35</sup> Many of these foreign nationals—herein referred to as foreign fighters<sup>36</sup>—were later involved in terrorist attacks or al-Qa’ida-related cells around the world after their experiences in Chechnya, including for example, the Moscow and Beslan attacks, as well as the 2003 “Ricin Plot” in London.<sup>37</sup> In many instances, corrupt Georgian law enforcement and intelligence personnel also facilitated the smuggling of people later involved in terrorism. According to several sources, the going rate of such transport was about \$10,000 per head, paid in either US dollars or Deutsche Marks.<sup>38</sup> Much of this activity occurred in Pankisi Gorge, where Georgian police demanded bribes of about 10 lari (approximately \$6) to enter or leave the Gorge.<sup>39</sup>

Some of the approximately 60<sup>40</sup> foreign fighters resident in the Gorge also apparently received indoctrination and training in military and terrorist operations while in Pankisi. Few details are available about the specific expenses of the training camps. One clue may be in contemporary press sources that reported that multiple mosques were built in Pankisi Gorge, including one in the valley’s administrative centre Duisi, which taught the strict Wahhabist interpretation of Islam promulgated by Saudi Arabia that is not only common among foreign fighters but also considers the Sufi beliefs of the indigenous Kists and Chechens to be heretical.<sup>41</sup> Although no information could be found about the exact activities of these mosques, it was widely reported that large numbers of Arab and Turkish men frequented them.<sup>42</sup> As Wahhabi beliefs are largely antithetical to local interpretations of Islam and benign visitors would be highly unusual in this remote region, especially considering

the larger context of events there during this period, this may indicate expenditures on methods of radicalization and indoctrination via the mosque.

### Sources of funds

The money used to purchase the aforementioned goods and services had a variety of ultimate origins, including direct, intentional funding, criminal activity, and legitimate commerce. In the first instance, it is well known that substantial funding for Chechen terrorist groups originated from benefactors in the Middle East and Islamic world, primarily from Saudi Arabia, but also Pakistan, Qatar, and Yemen.<sup>43</sup> Typically, these funds were given as fulfillment of the sacred duty of *zakat*, or almsgiving, one of the five pillars of Islam.<sup>44</sup> According to the Qur'an, money given as *zakat* could be used, among other purposes, for humanitarian aid to the poor as well as to works that sustain "Allah's Cause."<sup>45</sup> This latter purpose has in some more radical interpretations of Islam been equated to justify the financial support for acts of war and terrorism under the banner of holy struggle, or *jihad*.

Zakat can be given in the path of Allah. By this is meant to finance a Jihad effort in the path of Allah, not [only] for Jihad [but] for other reasons. The fighter (mujahid) will be given as salary what will be enough for him. If he needs to buy arms or some supplies related to the war effort, zakat money should be used provided the effort is to raise the banner of Islam.<sup>46</sup>

In several cases, fundraising revolved around lobbying efforts and fundraising events planned by a small cadre of well-connected *salafist* activists, apparently including two prominent veterans of the Soviet War in Afghanistan: influential al-Qa'ida ideologue, author and internet propagandist Yousef al-Ayyri in Saudi Arabia,<sup>47</sup> and in Yemen Mohammad Hamdi al-Ahdal, who prior to his 2003 arrest allegedly administered the finances of al-Qa'ida in Yemen and participated in the 2000 attack on the USS Cole.<sup>48</sup> Perhaps reminiscent of a Western political party benefit dinner, these events often involved propaganda material (such as literature and combat films), motivational speeches by the returned *mujahedeen*, and direct pitches for funding.<sup>49</sup>

Chechen militant groups allegedly have also received direct financial support from an unlikely source: the US Government. According to contemporary Georgian newspaper accounts and corroborated by interviews with a former senior Georgian Ministry of State

Security counterterrorism official,<sup>50</sup> in March 2002 American personnel apparently made contact with a Chechen militant leader—probably Ruslan Gelayev<sup>51</sup>—to discuss the transfer of Arab fighters associated with al-Qa'ida into American custody. In exchange for these Arabs—one of whom may have been al-Qa'ida *shura* (consultative council) member Saif al-Islam al-Masri—the American officials reportedly “promised to help financially in the ‘holy war’ against Russia.”<sup>52</sup> In late April 2002, representatives of Gelayev received a shipment of weapons allegedly from a courier arranged by the US officials.<sup>53</sup> Such a deal had precedent during the Soviet War in Afghanistan where US officials gave weapons and cash to various militant leaders in exchange for assistance against US enemies.<sup>54</sup> According to these accounts, this led to conflict within the Chechen groups over the division of the spoils, particularly between Jaber, field commander of Khattab's<sup>55</sup> group, and Abu-Amer, representative of the Muslim Brotherhood in Georgia.<sup>56</sup>

Chechen terrorists also engaged in a number of criminal schemes to generate money for their cause, both independently and in concert with the local population. A particularly lucrative enterprise was the production and trafficking of heroin. Owing to a confluence of factors,<sup>57</sup> Georgia during the period was a major transshipment route for heroin smuggled from Afghanistan and Central Asia to Europe. A significant portion of this trade occurred in Pankisi Gorge, where heroin was both processed (from imported morphine base) and repackaged (from wholesale shipments of processed heroin from the east into “retail” packages that could be distributed more widely throughout Europe).<sup>58</sup> In addition, Pankisi served as a point of entry for smuggling heroin in and out of Georgia,<sup>59</sup> sometimes using traditional handicraft containers carried by couriers to smuggle the drugs to Tbilisi and into Eastern and Western Europe, where it was sold.<sup>60</sup> At the time, heroin in Pankisi sold for the equivalent of \$200–300 per gram, although it could be sold in Tbilisi and Europe for double that price.<sup>61</sup> The price of opium decreased over the period,<sup>62</sup> which would have had an effect on the revenues generated by Chechen *boeviks* in Pankisi. In 2001, Chechen militants also established two heroin production laboratories among their training facilities in Pankisi Gorge to replace one that had recently been destroyed in Shatoi, Chechnya.<sup>63</sup> The heroin produced by these labs is likely to have joined the same trafficking routes mentioned above.

Chechens also engaged in other criminal activity in Georgia as a means of raising funds. One such method was counterfeiting, specifically the importation of high-quality US dollars from Iran, Iraq, and Lebanon, which replaced lower quality notes that had been produced

in the Chechen cities of Argun and Grozny. Much of this fake currency was smuggled into Chechnya via Georgia or was used to purchase goods and services in Georgia.<sup>64</sup> Chechen militants also generated funds through the kidnap and ransom of businessmen, journalists, local civilians, humanitarian workers, and others. In one case, two kidnapped Spanish businessmen were reportedly ransomed for €300,000.<sup>65</sup> In another case, two women working for the International Committee of the Red Cross were kidnapped in Pankisi Gorge and held for a ransom of many thousands of dollars, although they were eventually released after the local population of Kists (ethnic Chechens living in Georgia) vigorously protested to their captors.<sup>66</sup>

In addition, some funds used by Chechens in the Chechnya–Georgia border region originated from ostensibly legitimate sources. For example, Koj-Akhmed Nukhaev, former chief of foreign intelligence and later deputy prime minister of Chechnya, so-called *godfather* of the Chechen mafia in Moscow, and supposed model for the Frederick Forsythe film “Icon,”<sup>67</sup> created several organizations and businesses for both profit and aid to Chechen militants. In the late 1990s, Nukhaev founded the Caucasian-American Chamber of Commerce in Washington DC and the Transcaucasian Energy Consortium to, among other things, provide a commercial vehicle to sell oil from Chechnya.<sup>68</sup> Nukhaev also allegedly owned a 39 percent stake in the St Petersburg branch of the large car-producing Russian company LogoVAZ.<sup>69</sup> The profits from these enterprises not only made Nukhaev wealthier but also allowed him to establish organizations such as Chechen House, which produced pro-Chechen propaganda, organized holidays for Chechen *boeviks*, and conducted fundraising appeals.<sup>70</sup> Ideologically, Nukhaev subscribed to militant Chechen nationalist and Islamist views, but apparently actively opposed al-Qa’ida. In 2000–2001, he had publically campaigned for the separation of Chechnya into two sectors; a “pro-Russian” North (the plains), and a “South Chechnya” (the mountains), the latter of which was to be “transformed into a fierce opponent both of the heretical Wahhabi tendency within Islam and of the ‘Great Satan,’ the United States of America.”<sup>71</sup>

### Transfer and flow of value

Financing terrorist actors involves not only methods to raise and spend money, as described above, but also the capacity to move and store acquired resources until they could be spent. To understand the complex processes by which this occurred along the Georgian–Chechen border,

it is useful to think of money as simply an instrument of *value*, and that the intermediate steps between revenue and expenditure are in fact simply the repeated transfer and conversion of value. For example, in a modern society, a typical person deposits cash into a bank, which stores its value according to regulations until she decides to transfer money to meet an expense, at which time the cash is converted into other equivalent forms of value through a variety of instruments, such as back into cash (for example, via an Automated Teller Machine (ATM) withdrawal), or directly into goods and services (for example, payment by check or credit card). Therefore, it is important to remember that the transfer of *value* may or may not take the form of actual cash or any cash equivalent.

### *Islamic charities and their local agents*

As described earlier, significant funds from wealthy benefactors in the Middle East made their way to the Georgian–Chechen border to buy weapons, build mosques, transport volunteers, and establish training camps, often under the guise of charitable and pious *Zakat* donations. The ways in which this money reached its ultimate end use of financing *jihad* in Chechnya can be complicated. The following describes some of the activities in the region related to two global Islamic charities that have since been officially designated by the United Nations as terrorist financing organizations.

The Al-Haramain Islamic Foundation (AHIF), a large charitable organization based in Saudi Arabia, was founded in 1998 to “provide relief and aid to Muslim people and groups wherever they are, should they face disasters endangering their being, their religious beliefs, or their freedom.”<sup>72</sup> AHIF served as a conduit for primarily Saudi donors who wished to give to various needy recipients, primarily the poor and dispossessed, but also including those engaged in *jihad*. Those wishing to give could simply deposit money into one of two designated bank accounts administered by the Saudi Royal Family for this purpose. The money from these accounts—#6/98998 and #2/9292<sup>73</sup>—was then transferred to the foundations’ 50 offices around the world, ostensibly for the construction of mosques, schools, literature, Web sites, and other *da’wa*<sup>74</sup> activities. In the case of Georgia, some of these funds were wired directly into the accounts of the Tbilisi-based “Muslim Protection Organization” at the Bank of Georgia.<sup>75</sup> Another more significant channel was through the “Foundation for Chechnya (FfC),” a 25-employee AHIF affiliate based in nearby Baku, Azerbaijan. According to several sources, the FfC regularly sent couriers to Georgia to carry

cash and supplies to the *boeviks* in both Pankisi Gorge and Chechnya proper.<sup>76</sup> Contemporaries described one of the leaders of FfC (and member of the *majlis al-shura* (consultative council of al-Qa'ida)), Abu Omar Mohammed al-Serif (a.k.a. Abu Serif), as the primary "conduit through which the financing of the Chechen fighters was exercised."<sup>77</sup>

Chicago, US-based Benevolence International Foundation (BIF) is another Islamic charity that facilitated the transfer of funds to Chechen terrorist groups via Georgia during the period 1999–2002. Similar to AHIF, BIF funds were centrally collected and then transferred to a local affiliate, "Madli" (a.k.a. Georgian Relief Association, a.k.a. MADLEE),<sup>78</sup> which then distributed the funds by courier to *boeviks* in Pankisi and Chechnya.<sup>79</sup> Madli was a Georgian-registered charity that had received a total of \$850,000 by 1999,<sup>80</sup> and \$685,560 between January and April 2000,<sup>81</sup> primarily via wire transfer.<sup>82</sup> According to statements to the Georgian government and the United Nations, Madli supposedly was engaged in various medical and health-related humanitarian aid projects in Pankisi Gorge.<sup>83</sup> The indictments in the United States of several employees of BIF for providing material support for terrorism in the United States claim that Madli was in fact a conduit for funds going to Chechen terrorism.

Although no hard evidence is publicly available proving Madli's involvement in terrorist financing, several pieces of contextual evidence demonstrate that this claim is almost certainly true. First, the total of \$1.53 million that Madli received in 1999 and 2000 is considerably more than could have been spent on its stated humanitarian aid mission, which consisted primarily of providing free food and medical care through a small clinic in Pankisi Gorge.<sup>84</sup> For comparison, the entire 2000 aid budget of the International Federation of the Red Cross and Red Crescent, which had a similar but much more comprehensive mandate in the region, was CHF 260,000 (\$156,157), or one-tenth of what Madli received.<sup>85</sup> Second, Saif al-Islam al-Masri, one of the al-Qa'ida members turned over to the American government in Pankisi Gorge<sup>86</sup> (see above), had served as BIF's liaison to Chechnya in the mid 1990s.<sup>87</sup> This lends credence to the allegation as it fits a pattern identified in other cases of charities transferring value to terrorist groups of having facilitating agents at various stages of the transfer process, especially close to the end recipients. Third, interviews of native Georgian UN staff who were present in Pankisi Gorge in 2000 and who were personally familiar with Madli and its humanitarian work confirmed that the perception at the time was that Madli "was already involved in terrorism financing."<sup>88</sup>

*Pankisi Gorge: arms, cars, drugs, and corruption*

In 1999–2002, an estimated 100 foreign “jihadist” fighters and 2000 Chechen *boeviks* lived and operated along the Chechen–Georgian border.<sup>89</sup> These terrorist actors employed a different system of value transfer, governed by a combination of the market, the state, and social principles, and involving a variety of financial instruments, only one of which was cash. This section examines anecdotally this system as it evolved in Pankisi Gorge between 1999 and 2002.

Figure 1.1 depicts some of the ways in which value was transferred among the major actors in Pankisi during the period. The complexity of the value transfer processes is immediately evident, and the figure in fact simplifies the activity by grouping some diverse collections of people together (for example, “other organized crime” and “civilians”) and by ignoring the diversity in what methods and motivations occurred in the transfers (for example, willing vs. unwilling transfer). But in order to simplify the discussion to fit this space, our discussion will focus only on the intermediate transfer of value that resulted in two of the important operational expenditures mentioned above: weapons and safe passage.

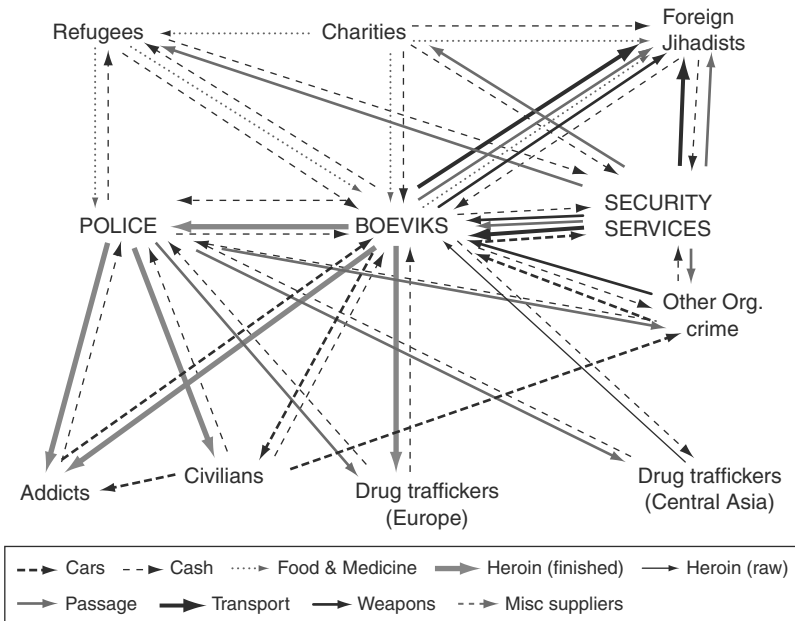


Figure 1.1 Value transfer in Pankisi Gorge, Georgia 1999–2002

Small arms are virtually ubiquitous among the population along the Georgian–Chechen border;<sup>90</sup> however during 1999–2002, military scale weapons were available in the region for sale to Chechen *boeviks* and *foreign jihadists*. Some of these weapons originated from the armories of the Georgian security, police, and military establishments,<sup>91</sup> while others were sent via courier from Turkey, the Middle East, Afghanistan, and even Russia. For example, in January 2000 Georgian security forces discovered a large shipment of weapons near Pankisi Gorge that apparently originated from the Russian military base at Vaziani. Georgian authorities accused corrupt Russian security services of facilitating the theft, an accusation lacking direct evidence but with historical precedent.<sup>92</sup> Russian authorities counter-charged, however, that Georgian authorities worked with Russian organized crime to smuggle the weapons to Chechen militants in order to undermine Russian influence in the region.<sup>93</sup> This explanation is also plausible, as there had been great geopolitical enmity between Tbilisi and Moscow since the dissolution of the Soviet Union. In addition, federal-level Georgian security services were known at the time to control the trade in weapons along the Georgian–Chechen frontier.<sup>94</sup>

Regardless of the truth of this specific case, members of the Georgian security services did indeed facilitate or at times even personally conduct (see above) the transport and sale of weapons to Chechen *boeviks*, either via Pankisi Gorge or directly at the border.<sup>95</sup> These weapons were often paid for in cash raised either from Middle Eastern charities or the sale of heroin, smuggled or stolen goods, or fraudulently obtained humanitarian aid,<sup>96</sup> or were exchanged for non-cash direct barter of the same.<sup>97</sup>

The use of stolen cars, for either raising cash or barter, was an especially common instrument of transferring value. Georgian criminals and drug addicts stole cars in Tbilisi and took them to Pankisi to either sell to the *boeviks* or to exchange for heroin. The owners of the stolen cars were then obliged to go to Pankisi and pay ransom to a middleman who would in turn get their car back. If the police facilitated the negotiation, which was common, then the potential ransom amount increased.<sup>98</sup> The stolen cars also served as an instrument to store value for longer periods. Reportedly, there were up to 2500 stolen vehicles in Pankisi Gorge during the period, often with Chechen and local Kists having 8–10 cars per family.<sup>99</sup> These cars served as virtual bank accounts for many desperately poor residents of the Gorge, as they could be sold, rented, or bartered to others if necessary, including of course to Chechen or foreign militants.