



Objectives

In this module, we will address the following questions:

- What is terrorism and terrorism financing?
- What are the trends in terrorism?
- What are the principal uses and sources of money by terrorist organisations?
- What are the principal methods used by terrorist organisations to transfer money?
- What are the principal types of activities relating to terrorists and their assets?
- What are the Financial Action Task Force's 9 Special Recommendations?

Your key learning objectives will be to correctly answer each of the questions listed above.

What is terrorism and terrorism financing?

Terrorism is a global problem. Terrorism is the unlawful use, or threatened use, of force or violence against individuals or property to intimidate or coerce governments or societies, often to achieve political, religious or ideological objectives.

Terrorism financing can be raised by legitimate sources such as fund-raising activities and business profits, as well as illegitimate sources such as the drug trade and fraud.

The fight against terrorism financing requires an understanding of the way terrorist organisations obtain their money and its use.

Trends in terrorism

After the events of September 11, 2001, awareness of terrorist activity around the world has grown, such as its international impact and ideological orientation.

To disrupt terrorism financing we need to understand it.

Terrorist activity is escalating in frequency, scale, geographical reach and types of targets.

Terrorist organisations are driven by several motives which are also used in recruitment. Motives include:

- change – *relating to social, religious or political change*
- religious
- political
- revenge
- symbolism

Terrorist organisations are increasingly structured as a loosely organised and self-financed international network.

Terrorist groups may differ depending on the nature of their threats.

The role of money

Terrorist organisations need money to:

- **recruit and sustain:** money is needed to recruit, support, train, transport, house, compensate and equip terrorist agents.
- **acquire influence:** money is needed to sustain media campaigns and win political support.
- **build the support base:** money is needed for educational and social programs to win members and create a support base.
- **carry out** terrorist activity.

Their success in accessing and deploying this money has disastrous results!

Terrorist organisations do not require a lot of money to achieve disastrous results.



The September 11 attack cost AUD600,000 to execute. The Bali attack cost AUD60,000 to execute. The Madrid attack cost AUD12,000 to execute. The London bombings cost less than AUD18,000 to execute.

Sources of money

Even though terrorist groups have similar qualities their sources of money may differ.

Terrorist organisations obtain money from a number of legitimate and illegitimate sources, such as the following:

Illegal activities: Terrorists obtain funds from illegal activities such as drug trafficking, smuggling, kidnapping and extortion. Drug trafficking is particularly lucrative. In Latin America, 'narco-terrorists' obtain much of their money from the drugs trade.

Wealthy Sponsors: Terrorists may receive funds from wealthy individual or sponsors which can support their terrorist activities.

Charitable and religious institutions: Legitimate charitable and religious institutions can be a source of funding for terrorists. They are ideal conduits because they are very lightly regulated and do not need to provide a commercial justification for their activities.

Commercial enterprises: Terrorist organisations may run or own otherwise legitimate commercial enterprises to generate profits and commingle illegal funds. These include jewellery businesses, trading companies, convenience stores, real estate ventures and investment management firms.

State sponsors: A number of rogue nations have been known to provide assistance, financial support and safe harbour to terrorist organisations. A prime example of this was Afghanistan under the Taliban regime.

Because a large amount of funding for terrorist activities comes from legitimate sources, terrorism financing is sometimes depicted as the reverse of traditional money laundering. Instead of illegal money being 'washed' to make it legal, terrorism financing often involves the task of filtering legitimate funds into terrorist hands.

Moving terrorist money

The methods used by terrorists to move money are substantially the same as those used by other criminals, such as:

Traditional financial institutions: Often, individual accounts are opened and small withdrawals and deposits of less than AUD10,000 are made in order to avoid the reporting requirements of Australian anti-money laundering and counter-terrorism financing legislation.

Alternative remittance systems: Unregulated remittance systems such as 'Hawala' and 'Hundi' are extensively used to transfer funds without any documentation.

Currency transfers: Cash is smuggled across borders, particularly through land crossings and sea shipments.

Trade financing: With the growth of terrorist-owned commercial firms, trade finance is increasingly being used.

September 11 Case

The United States Federal Bureau of Investigation (FBI) uncovered some of the financing techniques used by the '9/11' (September 11, 2001) terrorist. A profile developed by the FBI of the 24 US bank accounts opened by the 9/11 terrorists can be viewed by selecting [Download](#)

Accounts: The 9/11 terrorist opened a set of 24 accounts at a bank in the United States using false identities, social security numbers and documents.

Comment: The theft of personal identity information is a common method used by terrorists and criminals to operate in the legitimate system.

Benefactors: About US\$325,000 was deposited into such accounts from benefactors in the Middle East.

Comment: In many cases, once the account is opened, the terrorist brings in money from the legitimate system using wire transfers.

Debit cards: The terrorist also used debit cards issued by foreign banks to finance their activities in the United States.

Comment: Debit cards are used by criminals because (unlike cash) they are a discreet way to store value and (unlike credit cards) they do not leave much of a trail.

Responses to 9/11

The 9/11 attacks galvanised international bodies and governments into responding more effectively to the global threat of terrorism. A chart describing some of the key initiatives around the world and in the region can be found by selecting [Download](#)

Australian fight against terrorism

The Australian approach to fighting terrorism is based on strong cooperative, coordinated and consultative relationships between the state and territory governments, the Australian Government and their departments and agencies. For more information visit www.nationalsecurity.gov.au.

Australia's fight against terrorism includes implementation of United Nations Security Council Resolution 1373. For information regarding [AUSTRAC's Information Circular No. 40](#), which refers to the Charter of the United Nations (Anti-terrorism Persons and Entities) List, follow the link given above. To view visit http://www.austrac.gov.au/files/aic_40_un_charter.pdf

Resolution 1373: member states are obligated to take specified actions to suppress terrorism.

2002 Act and Regulations: in compliance, Australia implemented the Charter of the United Nations (Terrorism and Dealings with Assets) Regulations 2002.

Requirements: Under these regulations, it is a criminal offence:

1. For persons to hold or use assets ('freezable assets') that are owned or controlled by persons or entities on the Department of Foreign Affairs and Trade (DFAT) list; and
2. To make assets available to persons or entities on the DFAT list.

Penalties: The penalty for the proscribed activities is 5 years imprisonment.

Financial Action Task Force (FATF) 9 Special Recommendations:

1. Ratification and implementation of UN instruments

Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism.

Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.

2. Criminalising the financing of terrorism and associated money laundering

Each country should criminalise the financing of terrorism, terrorist acts and terrorist organisations. Countries should ensure that such offences are designated as money laundering predicate offences.

3. Freezing and confiscating terrorist assets

Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organisations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts.

Each country should also adopt and implement measures, including legislative ones, which would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organisations.

4. Reporting suspicious transactions related to terrorism

If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organisations, they should be required to report promptly their suspicions to the competent authorities.

5. International cooperation

Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or information exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organisations.

Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organisations, and should have procedures in place to extradite, where possible, such individuals.

6. Alternative remittance

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

7. Wire transfers

Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

8. Non-profit organisations

Countries should review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organisations are particularly vulnerable, and countries should ensure that they cannot be misused:

- by terrorist organisations posing as legitimate entities;
- to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and
- to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organisations

9. Cash couriers

Countries should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including a declaration system or other disclosure obligation.

Countries should ensure that their competent authorities have the legal authority to stop or restrain currency or bearer negotiable instruments that are suspected to be related to terrorist financing or money laundering, or that are falsely declared or disclosed.

Countries should ensure that effective, proportionate and dissuasive sanctions are available to deal with persons who make false declaration(s) or disclosure(s). In cases where the currency or bearer negotiable instruments are related to terrorist financing or money laundering, countries should also adopt measures, including legislative ones consistent with Recommendation 3 and Special Recommendation III, which would enable the confiscation of such currency or instruments.

To review all Financial Action Task Force [40 recommendations](http://www.fatf-gafi.org/dataoecd/7/40/34849567.PDF), visit <http://www.fatf-gafi.org/dataoecd/7/40/34849567.PDF>.

Summary

Terrorism financing can be raised by legitimate sources such as fund-raising activities and business profits as well as illegitimate sources such as the drug trade and fraud.

Terrorist organisations need money to support their activities.

Terrorism financing quiz

This quiz will test your understanding of terrorism financing.

Question 1

Choose the single correct response.

Terrorism financing:

- a) mostly involves conversion of illegal money into legal funds and assets, similar to traditional money laundering
- b) involves moving legitimate funds into the control of terrorist organisations. This is sometimes known as 'reverse money laundering'

Question 2

Choose the single correct response.

Because of heightened vigilance, most terrorist organisations are:

- a) increasingly becoming isolated and localised .
- b) forming global networks which are highly dispersed and difficult to detect.

Question 3

Choose the single correct response.

International wire transfers are:

- a) a significant method used by terrorist organisations to transfer money.
- b) not a method which is favoured terrorist organisations for transferring money.

Question 4

Choose the single correct response.

Charitable organisations are:

- a) not a significant conduit for terrorism financing.
- b) vulnerable as conduits for terrorism financing because of the low level of accountability and regulation over them.

Question 5

Choose the single correct response.

Most counter-terrorism regulations:

- a) are solely focused on prohibiting dealings with terrorist individuals and organisations.
- b) tend to have a broad scope, which includes proscribing financing activities by terrorist organisations.

Question 6

Choose the single correct response.

Terrorist groups:

- a) can obtain money from legitimate sources
- b) can only obtain money from illegitimate sources

Question 7

Choose the single correct response.

Terrorist organisations use alternative remitters to move their money. This is because:

- a) money can often be transferred without requiring or generating documentation.
- b) organisations can deposit amounts of less than \$10,000 into financial institutions to avoid the reporting obligations under the FTR Act.
- c) organisations can smuggle cash across borders, e.g. sea shipments.

Question 8

Choose the single correct response.

Australia's fight against terrorism includes:

- a) banning all international wire transfers.
- b) major reforms to Australian legislation including the passing of the AML/CTF Act.
- c) requiring all banks to be licensed by AUSTRAC.

Question 9

Choose the single correct response.

The Financial Action Task Force (FATF), a global inter-governmental body, has created 40 + 9 recommendations to develop and promote international policies and best practice to combat money laundering and terrorism financing.

Which statement is correct?

- a) Australia is excluded from the 40 + 9 recommendations as Australia has not been affected by terrorism.
- b) Terrorism financing in Australia is legal, therefore it is exempt from the FATF recommendations.
- c) Australia is a member of FATF and is working to adopt FATF's recommendations in legislation such as the AML/CTF Act.

Answers – terrorism financing quiz

1. b) Correct. Often, in terrorist financing, the process involves moving legitimate funds into the control of terrorist organisations. This is sometimes known as 'reverse money laundering'.
2. b) Correct. Terrorist organisations are forming global networks which are highly dispersed and difficult to detect.
3. a) Correct. Often, this technique is combined with setting up accounts using false identities.
4. b) Correct. For example, Islamic charities have been extensively used by the Middle East terrorist organisations.
5. b) Correct. Counter-terrorism regulations tend to have a broad scope, which includes proscribing financing activities by terrorist organisations.
6. a) Correct. Terrorist groups can also obtain money from legitimate sources such as charities, religious groups, wealthy individual sponsors and commercial enterprises.
7. a) Correct
8. b) Correct
9. c) Correct

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AUSTRAC Help Desk via:

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