

Follow the Money Study Guide

Suggested reading:

Freeman, Michael and Moyara Ruehsen, "Terrorism Financing Methods: An Overview," *Perspectives on Terrorism* Vol. 7, No. 4 (2013):

<http://www.terrorismanalysts.com/pt/index.php/pot/article/view/279/html>

Freeman, Michael, "The Sources of Terrorist Financing: Theory and Typology," *Studies in Conflict and Terrorism* Vol. 34, No. 6 (2011): 461-475.

Giraldo, Jeanne K. and Harold A. Trinkunas, "Introduction," in Giraldo and Trinkunas, eds., *Terrorism Financing and State Responses* (Palo Alto: Stanford University Press, 2007): 1-6.

Kiser, Steve, "Financing Terror: An Analysis and Simulation for Affecting Al Qaeda's Financial Infrastructure," dissertation, Pardee RAND Graduate School, Santa Monica, 2005.

KEY CONCEPTS

Terrorists need to move money safely and securely and in sufficient quantities to support their networks of operatives and enable attacks without being detected by the states that are trying to stop them. The game highlights four key concepts related to how terrorists move money: (1) the need for funds to conduct terrorist operations, (2) the various methods terrorists use to move funds, (3) the risks and rewards of each of these methods, and (4) the options for the state when trying to disrupt terrorist financing streams.

The Need for Funds

Giraldo and Trinkunas note that terrorists need money for a variety of purposes, such as to pay for weapons, travel, logistics, recruitment, training camps, and former members' pensions, and to fund operations. They get the money they need from a wide range of sources, from wealthy sponsors, legitimate businesses, and religious charities to smuggling, extortion, kidnaping, and petty theft. Freeman points out that, although a single operation

may cost only a few thousand dollars, a networked international group such as al Qaeda may also have considerable infrastructure, recruiting, training, and logistics overhead, and an annual budget in the tens of millions of dollars.

Follow the Money reflects this reality in two ways. First, the Terrorist player must move a total of \$25 thousand, the amount of money required to conduct an attack, from the financier to the operatives. If the required money reaches the group's leader, the Terrorist player wins the game. Second, terrorist organizations face daily operating expenses in food, rent, transportation, equipment, and so on. In the game, this is captured by the fact that each of the three terrorist operatives loses \$1000 in each turn. The Terrorist player must keep all three operatives adequately funded through the course of the game, while evading the State player's scrutiny.

Methods to Move Funds

While the sources and uses of terrorist financing receive the most attention from scholars and policymakers, how that money is moved from its sources to the terrorist organization is a critical intermediary step. For international organizations like al Qaeda, large quantities of money may have to cross several national borders to reach it. Freeman and Rhuesen describe six primary ways in which terrorist groups move funds within their organization: cash couriers, banks, informal value transfer systems (IVTS), false trade invoicing, money service businesses, and high value commodities. The game simplifies this by focusing on three of the most common methods: banks, hawalas (a form of IVTS), and cash couriers.

Formal banking systems: People who fund terrorism often use the international banking system to move money. If the source of funds is a wealthy businessman, for example, he might launder money destined for an extremist organization through banks and other businesses to obscure the source and destination. Al Qaeda transferred relatively small amounts of money (several thousand dollars at a time) to legitimate US bank accounts opened by the men who carried out the 9/11 attacks. Such transfers are too common to raise regulatory flags even in the much tighter post-9/11 banking world. The downside for

terrorists is that much stronger regulations and law enforcement and better technology have been effective at increasing transparency within the system and denying access to actors connected with terrorism.

Informal value transfer networks—Hawala: Hawala networks are fast, safe, cheap, and reliable, and are one of the main methods that Islamist terrorists and their supporters use to move money. Hawala networks can spring up anywhere there is a Muslim community, and they serve an important legitimate function in areas that lack formal banking services. Irregular bookkeeping, access to remote localities, spotty or non-existent regulation, speed, and anonymity for sender and receiver are pluses for terrorist networks. In places where these networks are not regulated, however, the back-end transfer of funds to balance books between the hawaladar operators can involve criminal trade activity and therefore entails some risk of exposure if the hawaladar keeps records and his books are seized by officials.

Cash couriers: This is the simplest, most direct method for moving cash from one place to another, depending on factors such as the amount of money involved, distance from source to destination, number of border crossings, available means of travel, and level of customs enforcement. On the downside for the terrorist, theft and capture are significant risks, the transaction moves at the speed of a human being, and courier services can be very costly. In the game, a significant benefit of this method is that the money a courier carries “disappears” from the sight of the State player. The use of a courier creates an intelligence gap that allows the Terrorist to reroute that money stream away from scrutiny. Similar to the real world, however, the courier takes a large cut of the funds and slows the flow of money by losing a turn for the Terrorist player.

Risks and Rewards of Moving Funds

Clandestine networks require a constant flow of funds from various sources to stay viable and active. Freeman and Rhuesen compare the relative usefulness of the three transfer methods described above according to several criteria: the amount of money that can be moved at one time, risk, convenience, simplicity, costs, and speed. Kiser analyzes the value and risks that each of the methods had for al Qaeda in the period before and following 9/11.

Follow the Money incorporates four of these criteria: volume, risk, costs, and speed. For example, if the Terrorist player chooses to use the *hawala* network, the State agents can automatically follow the money after one transfer and freeze its movement at will. The bank network is fast and can handle high volumes of money, but it carries a high risk of detection because the State's agents can potentially follow that flow of money all the way to the destination. The most secretive method—the courier—is more expensive and slower; it can be used to hide a critical transfer and at least temporarily throw the State agents off the trail, but at a price.

TWO KEY COUNTER-FINANCING CONCEPTS: FREEZE VS. FOLLOW

Follow the Money incorporates two important concepts of counter-finance operations, which can be described as a “freeze” strategy vs. a “follow” strategy.

Freeze

The purpose of “freezing” financial assets that are suspected of being intended for terrorist activities—that is, putting a hold on them so they can't be moved or converted—is twofold: to prevent the assets from reaching the intended recipient and to give investigators time to trace their origin. International bank transfers have been subject to increasingly strict regulation and scrutiny since 9/11, but the difficulty of proving in court that frozen assets were destined for nefarious purposes has meant that freezing is often temporary and ineffective (Kiser, 133-140). Furthermore, it is not always clear who actually has the authority to freeze funds in the international financial environment, and doing so usually requires the cooperation of foreign governments, law enforcement, and financial institutions. Freezing funds also alerts the intended recipients that law enforcement is aware of these transactions, allowing them to change tactics and once again obscure the trail. The game gives the State the option to freeze funds but, once this is done, the State player cannot observe transactions for a turn, giving the Terrorist a momentary advantage. In both the real world and the game, the funds the state freezes could turn out to be legitimate, which both wastes time (or a turn, in the game) and alerts the terrorist to where

law enforcement is focusing attention. Such a move has no further consequence in the game but, in real life, such mistakes risk ending cooperation from institutions and governments and could result in litigation.

Follow

As Freeman and Ruehsen discuss, law enforcement can gather vital intelligence about a terrorist group's funding sources and methods by attempting to follow rather than freeze a funding stream. Following can be a risky strategy, however, because, if the trail is lost at any point, that money will likely reach its intended destination and possibly fund an attack. Tracking a given "packet" of money through the international banking system is time- and resource-intensive. Furthermore, the success of a follow strategy depends to some degree on geopolitics and the willingness of private institutions and governments to cooperate with the investigators as the money works its way from the sender to the intended receiver. That cooperation may be denied up front or rescinded at any point. Following becomes even more difficult and risky if the money goes through informal and loosely regulated value transfer systems such as hawalas or moves by courier. As the name of the game implies, following the money is a vital method that enables the State player's agents to unveil the network of financial transactions and, even more important, discover who the terrorist leader is. But, as noted above, allowing the funds to flow may also risk a game-ending attack.