



**Money Supply for Terrorism –
The hidden financial flows of
Islamic Terrorist Organisations:**

**Some preliminary results
from an economic
perspective**

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Table 1.1: Shadow Economy and Underground Economy in Germany from 1996-2001

Year	Germany			
	Shadow Economy ¹⁾		Underground Economy ¹⁾ (typ. crime activities)	
	in % of official GDP	in bill. €	in % of official GDP	in bill. €
1996	14.50	263	10.4	189
1997	15.00	280	11.6	217
1998	14.80	286	12.8	248
1999	15.51	308	14.1	280
2000	16.03	329	16.3	334
2001 ²⁾	16.00	336	16.9	355

1) Shadow economy (=in principle legal activities, but withholding tax and social security payments, and violating other labour market regulations) and underground economy are different activities, which can not be summed up as the underground economy (typical crime activities, like burglary, etc.) produces no positive value added for an economy and hence can not be treated as a complement to the “official GNP”, whereas the “traditional” shadow economy can be seen as a complement to the “official” GNP. For both “economies” we have overlapping areas.

2) Preliminary first estimations.

Source: Own calculations.

Figure 1.1: Shadow Economy and Underground Economy in Germany (1996-2001) in % of official GDP

Figure 1.1: Shadow economy and Underground economy in Germany (1996-2001), in % of official GNP

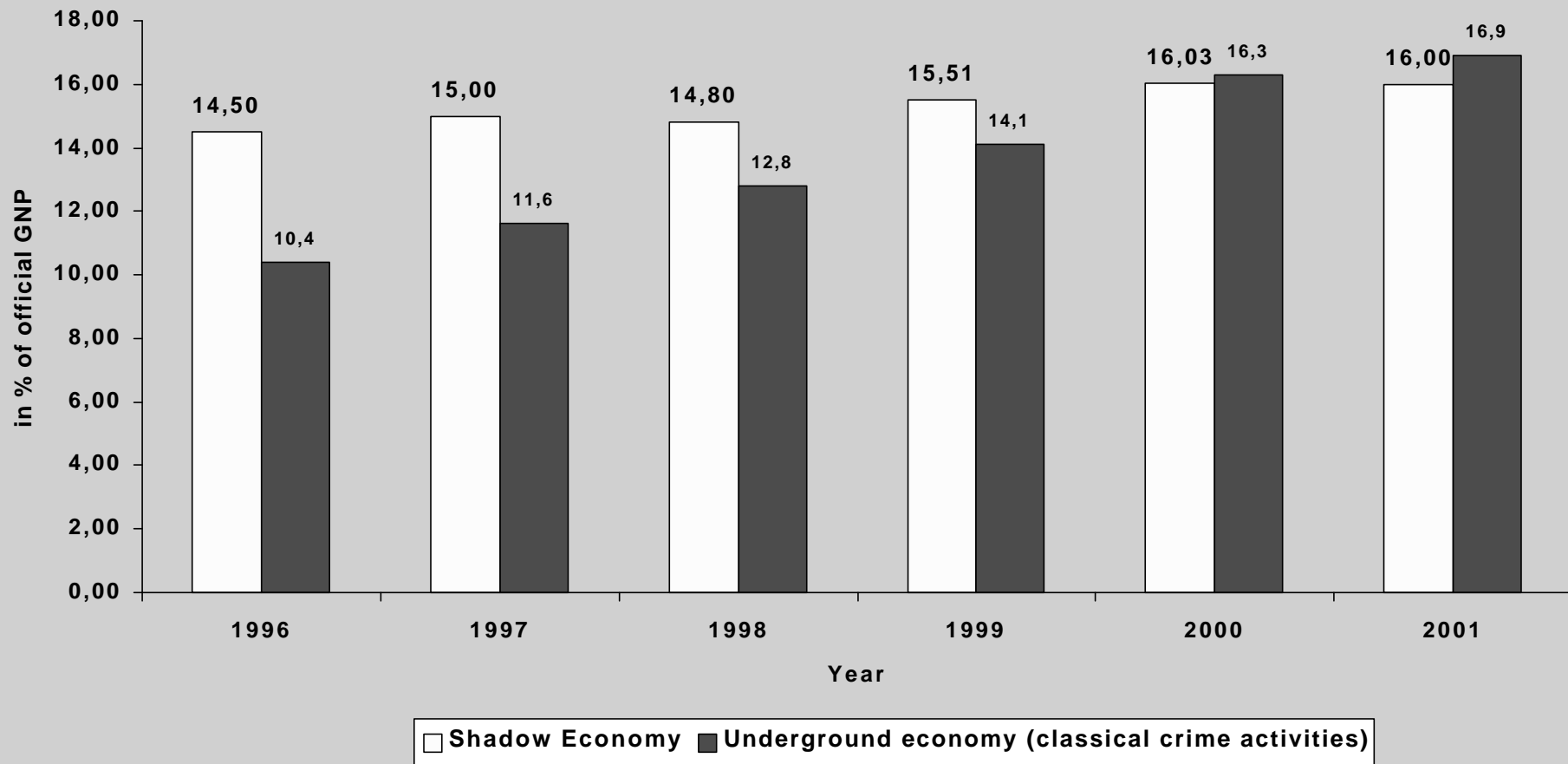


Figure 1.2: Shadow Economy and Underground Economy in Germany (1996-2001) in bill. Euro

Figure 1.2: Shadow economy and Underground economy in Germany (1996-2001), in bill. Euro

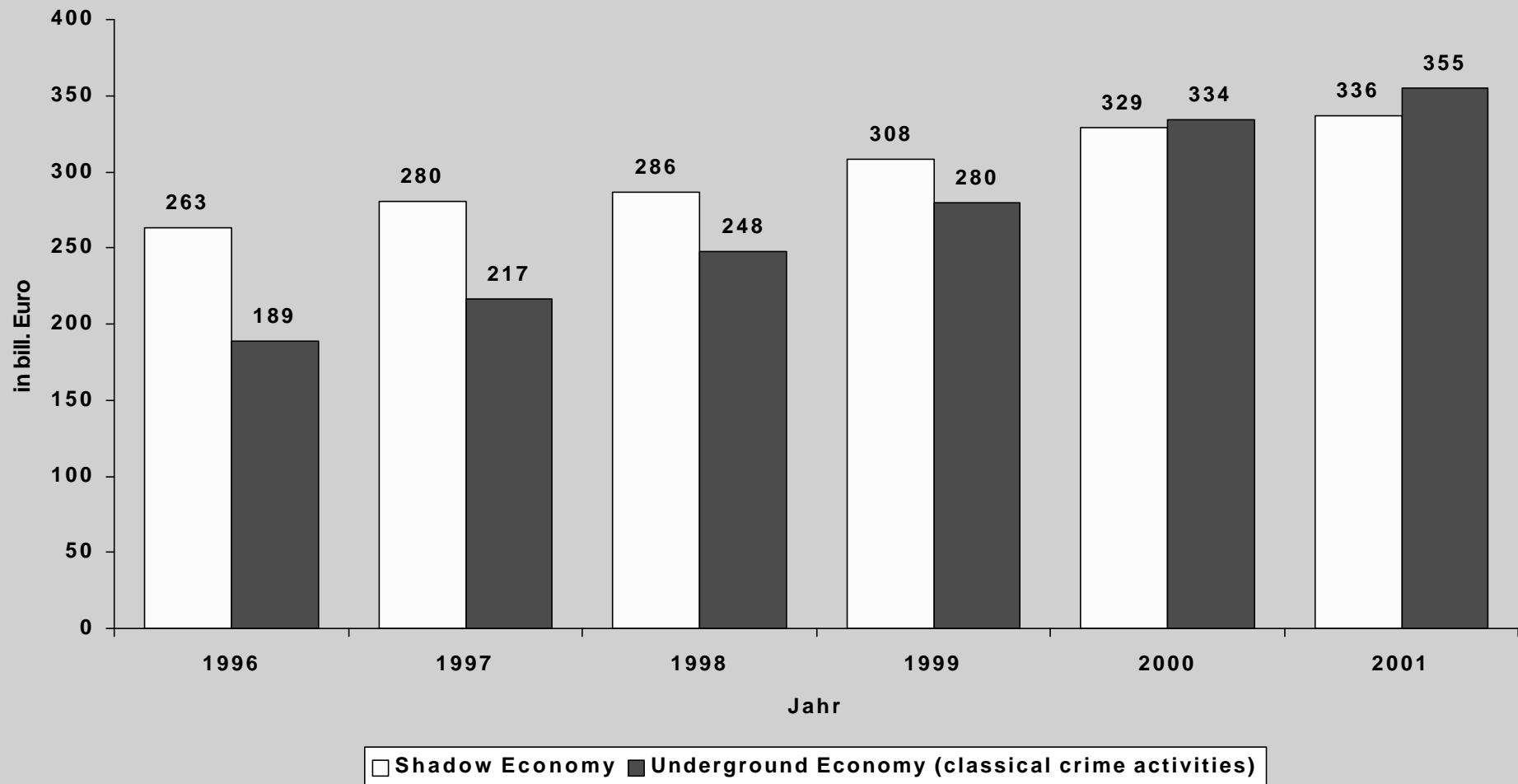
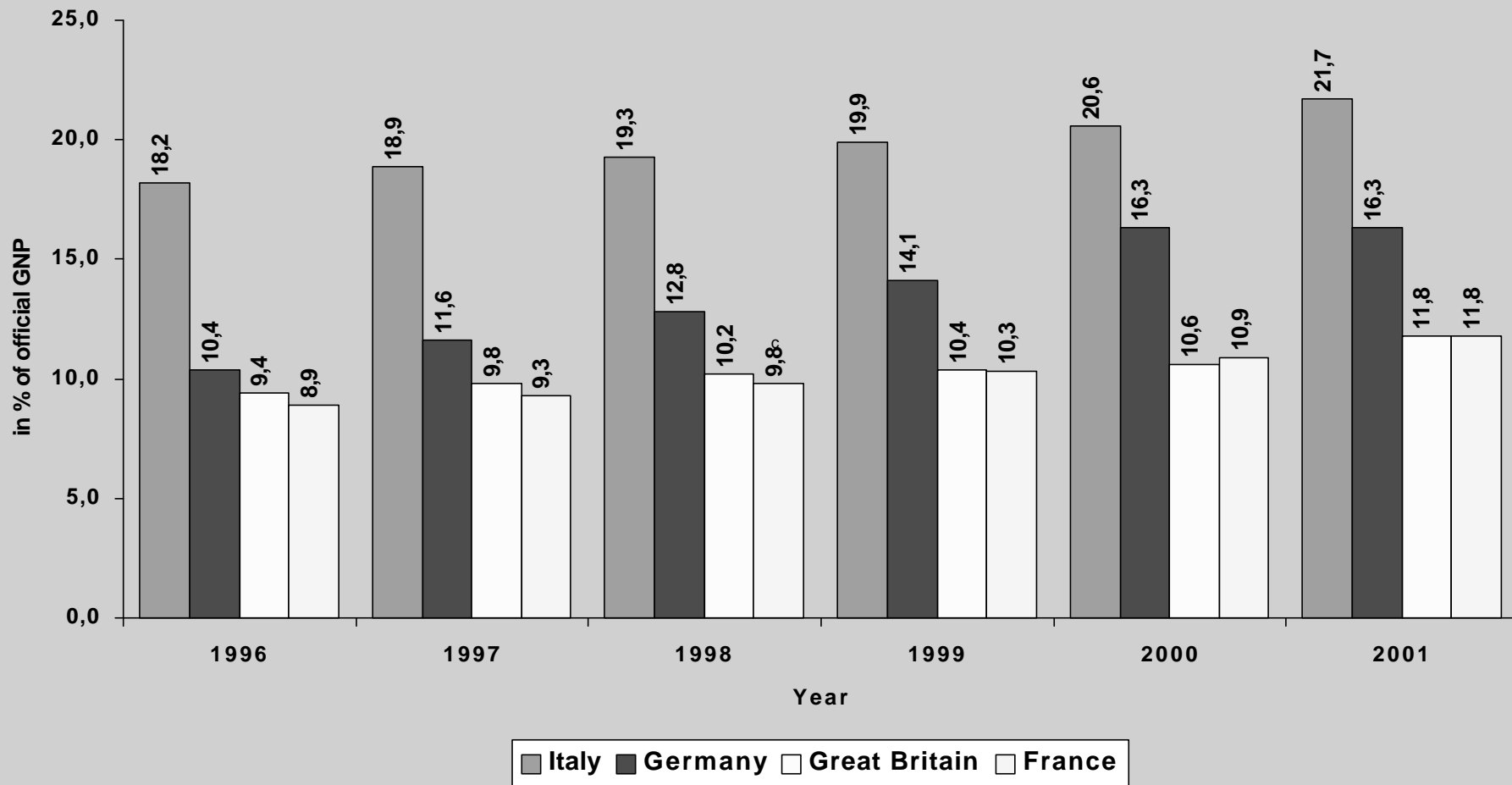


Figure 1.3: Underground Economy in Germany, Italy, France and Great Britain (1996-2001) in % of official GDP

Figure 1.3: Underground Economy for Germany, Italy, France and Great Britain from 1996-2001, in % of official GNP



**Table 1.2: Shadow Economy and Underground Economy in Italy
from 1996-2001**

Year	Italy			
	Shadow Economy ¹⁾		Underground Economy ¹⁾ (typ. crime activities)	
	in % of official GDP	in bill. €	in % of official GDP	in bill. €
1996	27.0	18.2	27.0	18.2
1997	27.3	18.9	27.3	18.9
1998	27.8	19.3	27.8	19.3
1999	27.1	19.9	27.1	19.9
2000	27.2	20.6	27.2	20.6
2001 ²⁾	27.0	21.7	27.0	21.7

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2) Preliminary first estimations.

Source: Own calculations.

**Table 1.3: Shadow Economy and Underground Economy in France
from 1996-2001**

Year	France			
	Shadow Economy ¹⁾		Underground Economy ¹⁾ (typ. crime activities)	
	in % of official GDP	in bill. €	in % of official GDP	in bill. €
1996	14.9	8.9	14.9	8.9
1997	14.7	9.3	14.7	9.3
1998	14.9	9.8	14.9	9.8
1999	15.2	10.3	15.2	10.3
2000	15.2	10.9	15.2	10.9
2001 ²⁾	15.1	11.8	15.1	11.8

1) Shadow economy (=in principle legal activities, but withholding tax and social security payments, and violating other labour market regulations) and underground economy are different activities, which can not be summed up as the underground economy (typical crime activities, like burglary, etc.) produces no positive value added for an economy and hence can not be treated as a complement to the “official GNP”, whereas the “traditional” shadow economy can be seen as a complement to the “official” GNP. For both “economies” we have overlapping areas.

2) Preliminary first estimations.

Source: Own calculations.

Table 1.4: Shadow Economy and Underground Economy in Great Britain from 1996-2001

Year	Great Britain			
	Shadow Economy ¹⁾		Underground Economy ¹⁾ (typ. crime activities)	
	in % of official GDP	in bill. €	in % of official GDP	in bill. €
1996	13.1	9.4	13.1	9.4
1997	13.0	9.8	13.0	9.8
1998	13.0	10.2	13.0	10.2
1999	12.7	10.4	12.7	10.4
2000	12.7	10.6	12.7	10.6
2001 ²⁾	12.6	11.8	12.6	11.8

1) Shadow economy (=in principle legal activities, but withholding tax and social security payments, and violating other labour market regulations) and underground economy are different activities, which can not be summed up as the underground economy (typical crime activities, like burglary, etc.) produces no positive value added for an economy and hence can not be treated as a complement to the “official GNP”, whereas the “traditional” shadow economy can be seen as a complement to the “official” GNP. For both “economies” we have overlapping areas.

2) Preliminary first estimations.

Source: Own calculations.

1. Introduction

Facit from the development of the shadow and underground economy:

- 1) Both are important “economic branches” with more than 10% of the official GDP.**
- 2) The shadow economy is stagnating (except Germany) in the last years, whereas the underground economy (classical crime activities) is still strongly increasing.**
- 3) The German underground economy (i.e. classical crime activities) has reached a far a bigger size than the shadow economy in the years 2000 and 2001.**

2. The structure and financial systems of Islamic (international) terror organisations and their ways of financing

2.1. The financial structure of Islamic (international) terror organisations

2.2. The amount of financial flows and the ways of financing Islamic (international) terror organisations

2.1. The financial structure of Islamic (international) terror organisations

- (1) The Islamic terror organisations have an organisational structure of from each other independently acting cells, where the members of the cells have little or almost no knowledge about the other cells.**
- (2) The organisational structure is strictly hierarchic (top down) organised and only a few key members/leaders have the knowledge about the organisation and structure of the single cells and hence are able to influence and guide the cells.**
- (3) Cells work independently from each other and quite often the cells are occupied with inactive (“sleeping”) members, which can be activated using certain code-words in order to fulfill certain criminal/terrorist activities.**

Table 2.1: The kind of financial flows in order to supply the terrorist cells

<p>1) STARBUST:</p>	<p>A deposit of dirty money is made in a bank with standing instructions to wire it on in small, random fragments to hundreds of other bank accounts around the world. Goal: To hide the original source of the money and to increase the financial flows for terrorist groups organized in cells.</p>
<p>2) BOOMERANG:</p>	<p>Money is send on a long arc around the world before returning to the country where it came. En route it travel through what money launderers refer as “black wholes” meaning countries, that lack the means also in clination to investigate banks. Goal as 1)</p>
<p>3) CHARITY MONEY:</p>	<p>The source of terrorist money might, for a start, be legal. It might come from a wealthy individual or a religious charity.</p>
<p>4) SHELL COMPANIES:</p>	<p>Via faked firms and with the help of “tax optimisation experts” dirty money will be white-washed. Goal as 1)</p>

Figure 2.0: Development of the shadow economy (size of financial flows of Islamic terrorist organisations) over time

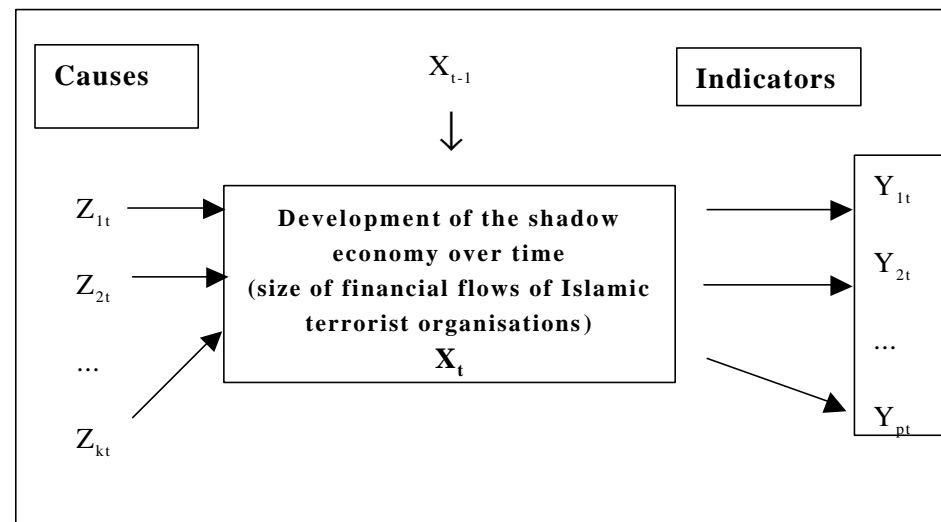


Figure 2.1: Estimation (latent estimator approach) of the size of the shadow economy using causes (determinants) and traces (indicators), DYMMIC estimation procedure, combined cross section and time series over 17 OECD countries and over 1984 -1999

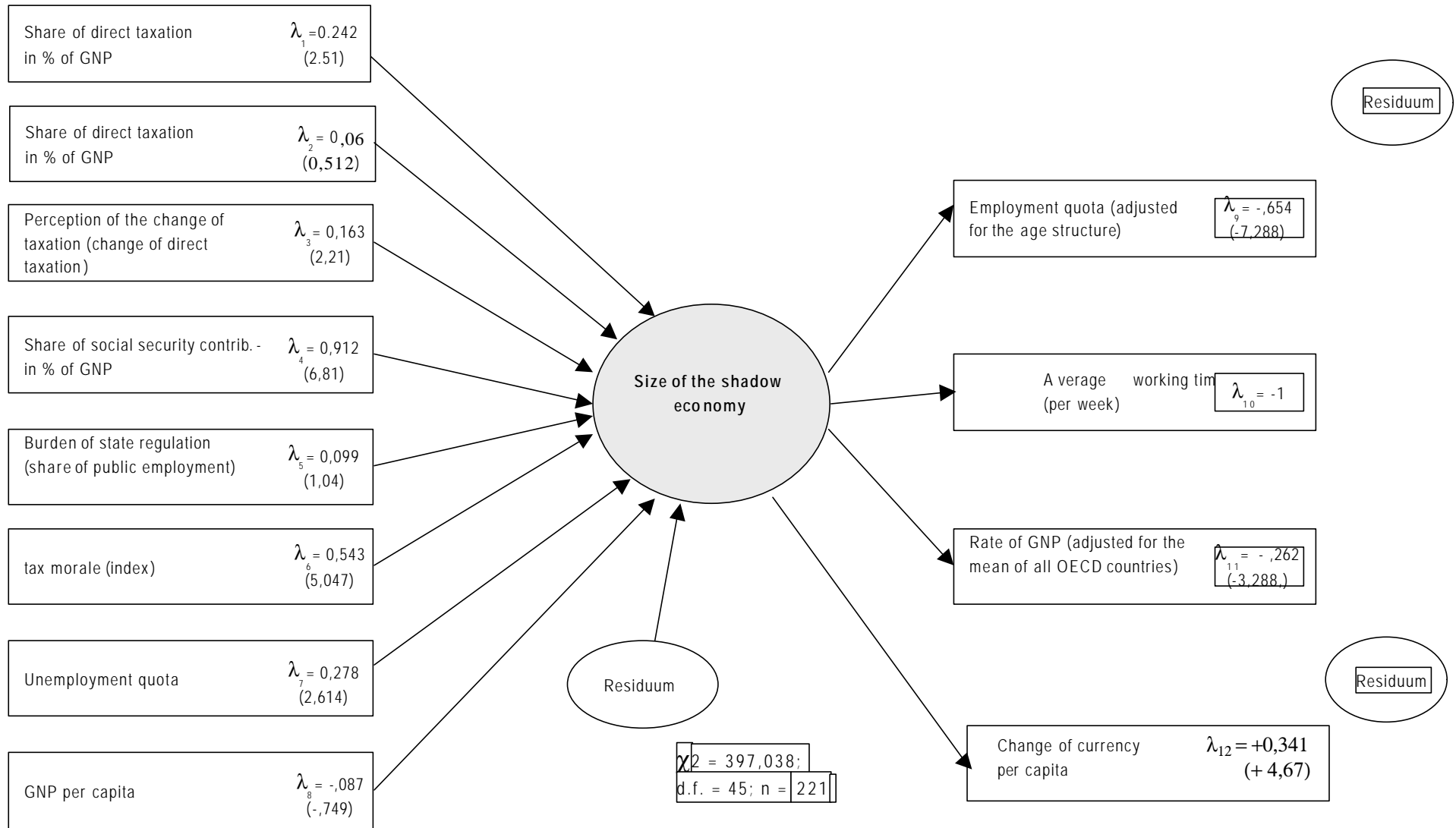


Figure 2.2: Estimation (latent estimator approach) of the financial flows (budget) of Islamic terrorist groups using causes (determinants) and traces (indicators), DYMMIMIC estimation procedure, combined cross section and time series over 20 Islamic terrorist org. and over 1990 -1999

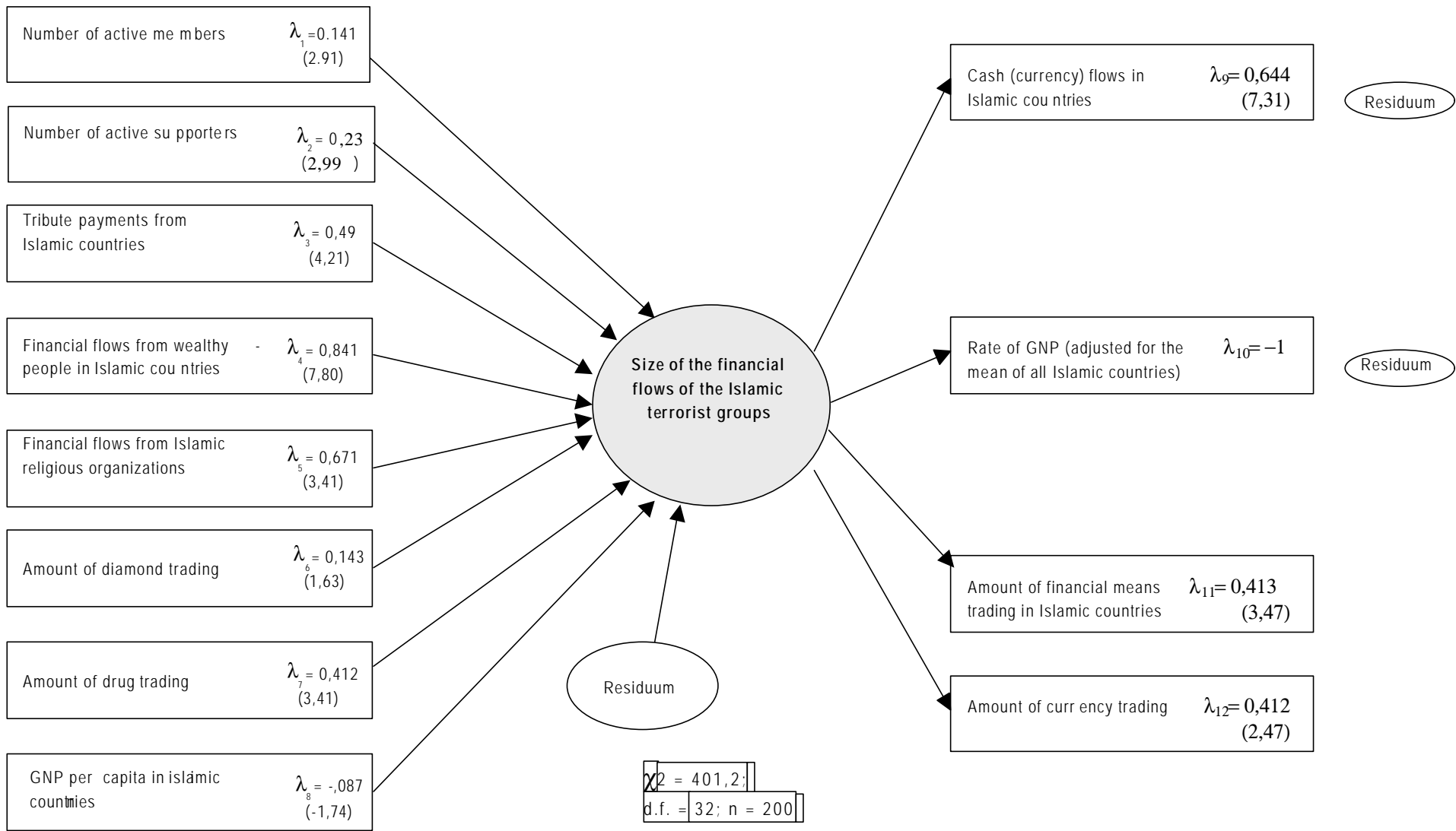


Table 2.2: The financial flows and the kind of finances of Al-Kaida and other terror organisations

Wealth (Stock value) of Al-Kaida (Average 1999-2001)	ca. 5 bill. \$
Annual financial flows (budget) of Al-Kaida(Average 1999-2001)	20-50 mill. \$
Ways of financing of terror organisations (using the example of Al-Kaida)	
Drug business (mainly transporting drugs)	30-35%
Donations/Tribute payments of governments or wealthy individuals or religious groups	25-30%
Classical crime activities (blackmale, kidnapping, etc.)	10-15%
Illegal diamond trading	10-15%
Additional unknown financial means (legal + illegal)	25-5%

Source: Own calculations.

Table 2.3: Preliminary (incomplete) overview of financial flows of Arabic Islamic terror organisations

Name	Members (worldwide)¹ Year 2001/02	Current financial flows (annual budget) Year 2001/02
Al-Kaida	1500-3000	20-50 mill. \$
Front Islamique du Salut (Algerien)	ca. 400	ca. 5 mill. \$
Hamas	ca. 1000	ca. 10 mill. \$
Hizbullah	ca. 10.000	ca. 50 mill. \$
Arabic Mujahedin (terror) organisations:		
- Irak	ca. 800	ca. 5 mill. \$
- Iran	ca. 600	ca. 5 mill. \$
- Libyen	ca. 600	ca. 10 mill. \$
- Egypt (Egyptian Islamic Jihad; most likely united with Al-Kaida; islam./arab.)	ca. 600	ca. 8 mill. \$
additional 17 Organisations	ca. 27.000	ca. 150 mill. \$
PKK (Turkey)	ca. 2.000	ca. 10 mill. \$

1) Active (well trained) members belonging to the hardcore (stock).
Source: Own calculations.

3. Strategies and countermeasures to detect and reduce the financial flows of Islamic terror organisations

3.1. Single country countermeasures to detect and reduce the financial flows of Islamic and other terror organisations

3.2. Further and comprehensive ideas/counter-measures to detect and reduce the financial flows of international terror organisations

Table 3.1: Reactions/Strategies to fight the terror organisations and their financing

1) USA:	FTATC (Foreign Terrorist Asset Tracting Center) Budget: 6,4 mill. \$ To detect the wealth of criminal/terrorist organisations. Direct investigation policies of the bureau to control foreign money with the help of the Internal Review Service as well as Customs Authorities. Direct use of the staff against the FBI, CIA and NSA. Additional competences for the FBI + local investigation teams.
2) EU	FATF (Financial Action Task Force) Fighting of money laundering and fighting the financial flows of terror organisations.
3) Germany (i)	A new founding of a „Zentralstelle für verfahrensunabhängige Finanzermittlungen“ Task: Competence centre against money laundering.
(ii)	Additional competence to survail of financial transfers; Creation of a central data base at „Bundesaufsichtsamt für Kreditwesen (KAKred)“. Goal: to detect “dirty” money and the financial flows of terror organisations and money laundering activities of classical crime groups.
(iii)	Additional competences and power for the existing state institutions, for example: „Bundesaufsichtsamt für Wertpapierhandel oder Bundesaufsichtsamt für Versicherungswesen“.

Table 3.2: Further and comprehensive ideas/countermeasures to detect and reduce the financial flows of international terror organisations

<p>1) Guided criminal search and criminal network analyses</p>	<p>Goal: guided search and linking all possible traces of the financial flows of terrorist organisations with the link to the traditional criminal search.</p> <p>Problems/Questions:</p> <p>1) Authorisation and implementation of the necessary competences and guidelines in the single nations.</p>
<p>2) New Financial Interpol/Task Force (worldwide)</p>	<p>Goal: International unit to fight terrorism and their financial flows using guided criminal search and network analyses with the help of national jurisdictional and police force. Control: UNO, IMF, World Bank and/or national parliaments?</p> <p>Problems/Questions as 1)</p>
<p>3) High award- and other incentive systems</p>	<p>Goal: to create incentives that key terrorist or other active members leave their unit. Promise of new identity and a lot of money.</p>

3.2. Further and comprehensive ideas/countermeasures to detect and reduce the financial flows of international terror organisations

Criminal network analyses (CNA): CNA is a method of a graphical representation of criminal networks from various documents.

The CNA allows to

- (1) reproduce a structure close to reality of criminal organisations/networks**
- (2) analyse the different structures of the same network according to the appropriate type of links**
- (3) simulate actions using these networks**

3.2. Further and comprehensive ideas/countermeasures to detect and reduce the financial flows of international terror organisations

The use of information technology (IT) tools in criminal network analyses (CNA)

- (1) IT-Technologies are one of the key elements of the process of detection.**
- (2) However it is essential in this environment characterized by complexity and the extremely high level of automatic financial and commercial transactions that the two measures (guided criminal research and criminal network analyses) as well as a worldwide Interpol have to be established.**

4. Summary and conclusions

- (1) For the western world it is a major political and economic problem to fight terrorism and to detect and reduce the financial flows of terrorists. This means on the one side we should be able not to use too many instruments of repression and on the other side we should have efficient instruments to detect and reduce the financial flows of terrorists, so that their actions are impeded or made impossible.**
- (2) This difficult trade-off will only be masterminded with a lot of good will and close interaction in the Western hemisphere. Only with a close interaction and the creation of new international organisations and task forces it will be possible to overcome the threat and the challenge of Islamic and other international terror organisations, without giving up key-elements of our democracy.**