

Basic Threat Finance Overview

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Value Touches Everything



Learning Objectives:

TLO1. Incorporate into financial investigations an understanding of the actions and roles of illicit actors operating in networks and tools and techniques they utilize.

ELO 1.1 Explain the value in application of financial investigation techniques to investigations.

ELO 1.2 Explain the concept of risk as it applies to illicit networks.

ELO 1.3 Describe the sources for illicit revenue generation.

ELO 1.4 Briefly describe the role of a gatekeeper.

ELO 1.5 List the characteristics of a front, shell and shelf business.



“The attraction of the complexities of high finance to the criminal is clear, as the movement of illicit funding is best achieved when the financial audit trail is as complex as possible.” – Shima D. Keene

- Keene, S.D. (2012) *Threat Finance, Disconnecting the Lifeline of Organized Crime and Terrorism*. Gower Publishing.

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Focus: The Need for Money

“Dear brothers: Jihad heavily relies on money. In Qur’an, the physical jihad is associated with jihad with one’s wealth in eight verses. In every verse but one, jihad with wealth preceded the physical jihad. That is because without wealth there can be no jihad.”

“Our enemies have realized that. Therefore they are ‘following the money trail’ and are trying to dry up all the sources of funding ‘terrorism’ ”

Anwar al Awlaki (2010)



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Definitions

Transnational Organized Crime, Violent Extremism, Threat Networks

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Transnational Organized Crime

“Transnational organized crime (TOC) groups are self-perpetuating associations of individuals who operate, wholly or in part, by illegal means and irrespective of geography. They constantly seek to obtain power, influence, and monetary gains.” FBI definition

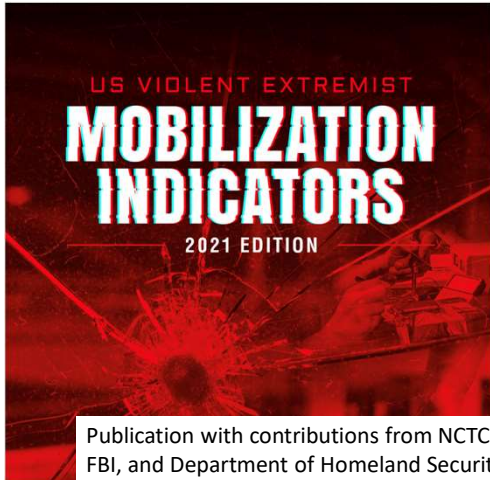


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Domestic/Homegrown Violent Extremism



Homegrown Violent Extremists

1. A person of any citizenship who has lived and/or operated primarily in the United States or its territories.
2. Advocates, is engaged in, or is preparing to engage in ideologically motivated terrorist activities.

Domestic Violent Extremists

1. An individual based and operating primarily within the United States or its territories.
2. Without direction or inspiration from a foreign terrorist group or other foreign power who seeks to further political or social goals, wholly or in part, through unlawful acts of force or violence.

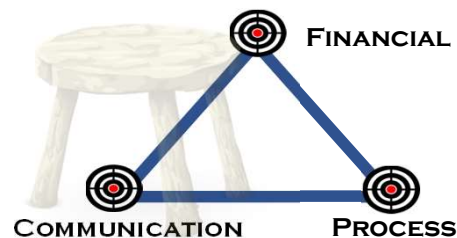
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Threat Networks Defined

- Those networks whose size, scope, or capabilities threaten U.S. interests;
- Jeopardize the stability and sovereignty of nation-states, including the United States; and,
- May traffic in licit or illicit goods and services or a combination of both using legal and illegal financial, transportation, and distribution networks.



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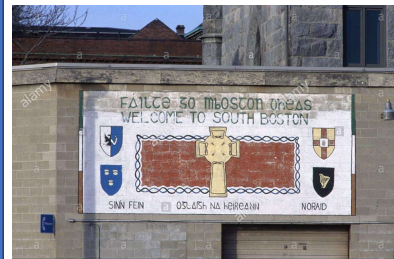
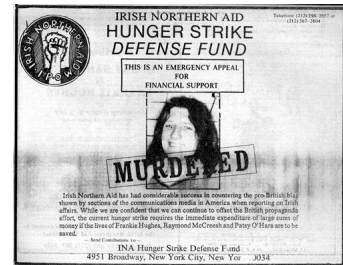
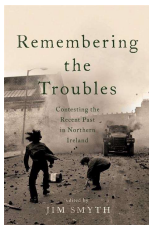
Threat Finance Network Vulnerabilities

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Need for money is not a new concept



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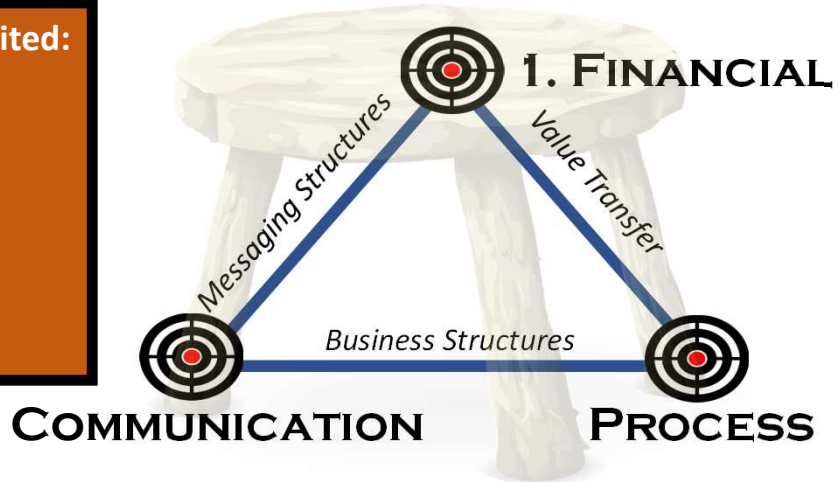
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Network Vulnerability Financial System Targets

Systems that are Exploited:

- ✓ Financial Institutions
- ✓ Money Services Businesses
- ✓ Virtual Asset Systems
- ✓ Non-Profits
- ✓ Non-Government



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Most Common Types of Foreign TF Activity in the US

Donors

Individuals who knowingly provide funds to terrorists, terrorist groups, or their supporters abroad.

Communications

Use social media to identify potential followers, recruitment, and solicit financial or other forms of material support.

Finance and Business Processes

“These groups and their supporters target individuals sympathetic to humanitarian causes or vulnerable to violent messaging...”



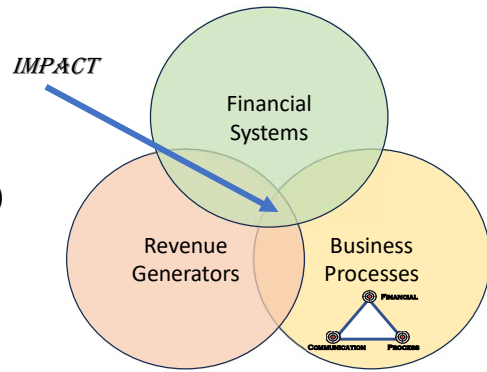
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Threat Finance Revenue Generators

- Terrorism
- Criminal enterprise collaboration
- Proliferation/WMD
- Extortion
- Virtual Kidnapping
- Crime/corruption
- Regime influence
- Human Trafficking
- Wildlife/Timber Trafficking
- Narcotics
- Oil bunkering
- Smuggling (various types)
- Counterfeit (various types)
- Antiquities
- Espionage/data theft
- Kidnapping and piracy for ransom
- Fundraising



Network: The value may not be in the commodity, but in control of the route.

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How Do Terror Groups/Extremists and TCOs align?



Objectives to various degrees and weight

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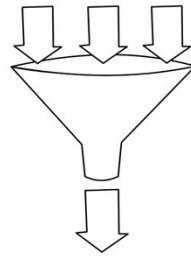
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Illicit Network Actions:

Use of the Money Laundering Processes

- Protect identity of source and destination
- Make illicit money useable
- Engage in business processes, local to worldwide
- Mask the connections made apparent through financial connections

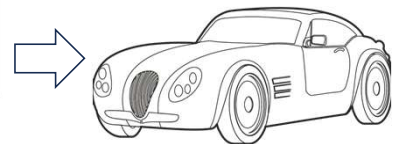


Placement



Layering

Integration



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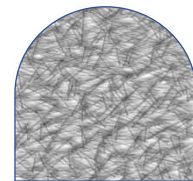


Illicit Network Use of Fronts



Location to introduce illicit revenue and represent as legitimate

- Illicit revenue is brought into the business and booked to appear as a legitimate revenue and expenses
- “Brick and mortar”
- Public facing
- May generate “legitimate” revenue as well



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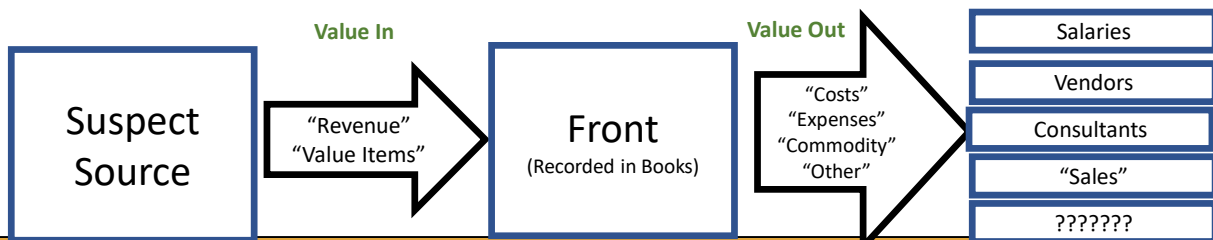
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Typical Front Characteristics

What makes a front an easy placement of dirty money?

- 💰 **Cash Intensive:**
Produces revenue from cash transactions with highly variable amounts
- 💰 **Expenses:**
Use Variable expenses that are difficult to measure
- 💰 **Examples:** Art galleries, pawnshops, bars, nightclubs, restaurants



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Shells: “Corporate Vehicles”

Businesses that are registered that have no significant operations or assets

- Companies/LLCs
- Trusts
- Foundations
- Partnerships
- Other types of legal persons or arrangements
- Easily created in multiple countries with ready access to the international financial system
- **Corporate Transparency Act of 2020**



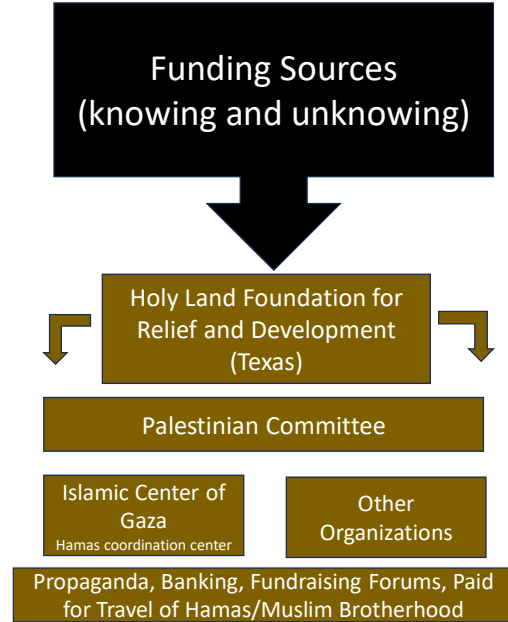
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Moving money through a charity

- Holy Land Foundation for Relief and Development (2008)
- HLF hid financial support for Hamas behind the guise of charitable donations.
- Beginning in 1988 HLF provided approximately \$12.4 million in support to Hamas and its of creating an Islamic Palestinian state by eliminating the State of Israel through violent jihad.
- Money was sent to Hamas control zakat committees and charitable societies in the West Bank and Gaza



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HLF Regular Payments to Zakat Committees

- Give money to non-Palestinian charities: "We can give \$100,000 to the Islamists and \$5,000 to the others" (Shukri Abu Baker)
- Supported recruitment and rewarded efforts in the West Bank and Gaza
 - In 1992 Israel deports 400 Hamas members to Southern Lebanon
 - HLF provided financial support
- Support to Orphans and Needy Families
 - Specifically sought orphans and families whose relatives had died or were jailed as a result of violent campaigns including suicide bombers

"So instead of sending someone \$100, you send them \$100 worth of wheat or sugar or rice. And since wheat, sugar, and rice need to go into the Gaza Strip, that doesn't raise the same kind of eyebrows," Levitt said. "But if you send it to Hamas there, which is easy to do because they're the governing entity, then they can use it free up other funds. They can use it to give to their constituents and build grassroots support, or they can sell it and use that money as they see fit."

Matthew Levitt

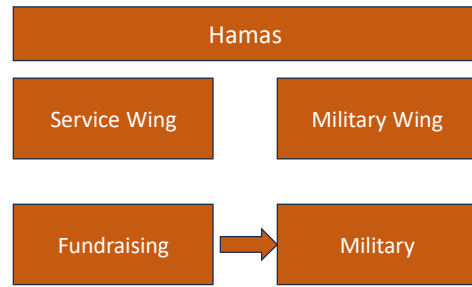
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The use of a front in Threat Finance: Hamas Funding Sources

- Estimates are an operational budget of \$300M
- Iran (\$70M-\$100M)
- Governmental: Qatar has paid hundred of millions of dollars since 2014 for construction projects. It pays \$30M/month for family stipends
- Controlled Territories: Taxing Imports in Gaza
- Extortion of residents in Gaza
- False Charities and Misleading Other Charities
- Business Investments, Crypto transactions
- Investments in real estate, construction, mining and infrastructure



Money from known sources also creates the opportunity to divert that money or money from other revenue streams to support war efforts

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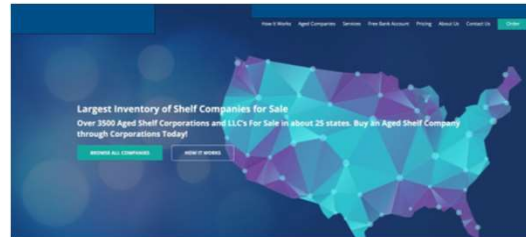


Aged Corporations (Shelfs)

Aged Companies

Select State: Sort By: Show:

Company Name	Location	Cost	Inc. Date	Buy
24-7 Security Services, Inc.	WY	\$9,995.00	08/07	Buy
307 Capital Management, LLC	WY	\$2,195.00	05/21	Buy
A Commodity Exchange, Inc.	WY	\$1,295.00	04/02	Buy
About Time Consulting, LLC	WY	\$2,795.00	09/20	Buy
Access Holdings, LLC	UT	\$2,895.00	08/20	Buy
Accurate Ventures Inc.	AZ	\$2,795.00	09/20	Buy
Adman, LLC	WY	\$2,195.00	05/21	Buy
Administrative Funding, LLC	WY	\$1,895.00	09/21	Buy
Adrenaline Investing, LLC	WY	\$2,795.00	09/20	Buy
Advanced Equity Holdings, Inc.	SD	\$2,395.00	02/21	Buy
Advanced Global Financial, LLC	WY	\$1,495.00	01/22	Buy
Advanced Holdings Group, LLC	WY	\$2,495.00	12/20	Buy
Advanced Management, Inc.	UT	\$2,895.00	08/20	Buy
Advanced Networking LLC	MT	\$2,095.00	06/21	Buy



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Structure of a Threat Finance Network

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TCOs - Organization Levels



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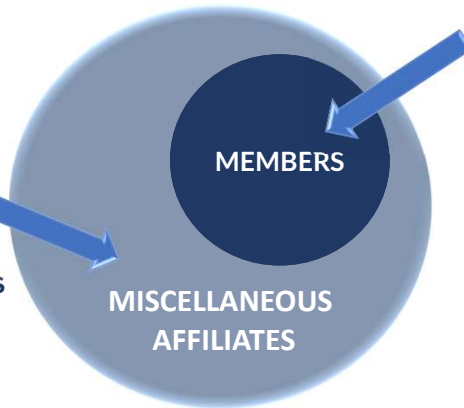
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Membership & Affiliation

AFFILIATED NON-MEMBERS

- Criminals
- **Gatekeepers**
- Business leaders
- Politicians
- Public servants



MEMBERSHIP BASIS

- Ethnicity
- Clan
- Geography
- Economic interest
- Others

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ANALYSIS

Far from Gaza hardships, Hamas chief and family enjoy easy life in Qatar

Thanks to Doha's sponsorship and the wealth he accumulated as Hamas leader, Ismail Haniyeh and his children today live a life of wealth and privileges denied to other Gazans.

By KIMBERLY NICHOLSON
17 October 2023, 1:11 pm



Hamas leader Ismail Haniyeh and other Hamas leaders meeting a group before leaving in the afternoon for training drills in Qatar with Qatar officials and international diplomats April 13, 2023. (Shamas via AP)

Shortly after the start of Hamas's brutal attack against Israel on October 7, a video began circulating of the terror group's leader Ismail Haniyeh in his elegant office in the Qatari capital Doha, watching the bloody onslaught unfold on Al Jazeera and "prostrating in gratitude" with a group of other Hamas officials for the killing of over 1,300 Israelis, among them at least 1,000 civilians.

For years, Haniyeh has been rebuked by many Palestinians for leading a comfortable life away from the hardships of Gaza in the oil-rich Gulf monarchy, which offers shelter to the terror group's leaders and an internationally recognized platform to spread its propaganda through Al Jazeera.



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Need for Business Processes

- Operational stability
- Maximum extraction of wealth as fast as possible
- Hierarchical structure
- Rigid internal discipline & distribution of roles
- Active resistance to law enforcement
- Concentration of efforts to exploit specific illicit markets

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Concept of Risk as a Vulnerability

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Risk Defined


Wolfsberg Group (2001) identified these risks to financial institutions as:

- ✓ **Reputation**
- ✓ **Legal (Investigation, Court)**
- ✓ **Operations**
- ✓ **Concentration (Portfolio)**




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Risk Defined



Reputation	Legal <i>(Investigation, Court)</i>	Operations	Concentration (Portfolio)
Is the risk going to cause business to go elsewhere?	Criminal investigation, civil, regulatory	Risk as assessed to physical location, personnel, or other business operations	Is there a sufficient diversity of investments by the bank to withstand damage or failure in one of more sectors?

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Risk-Based Approach by Banks



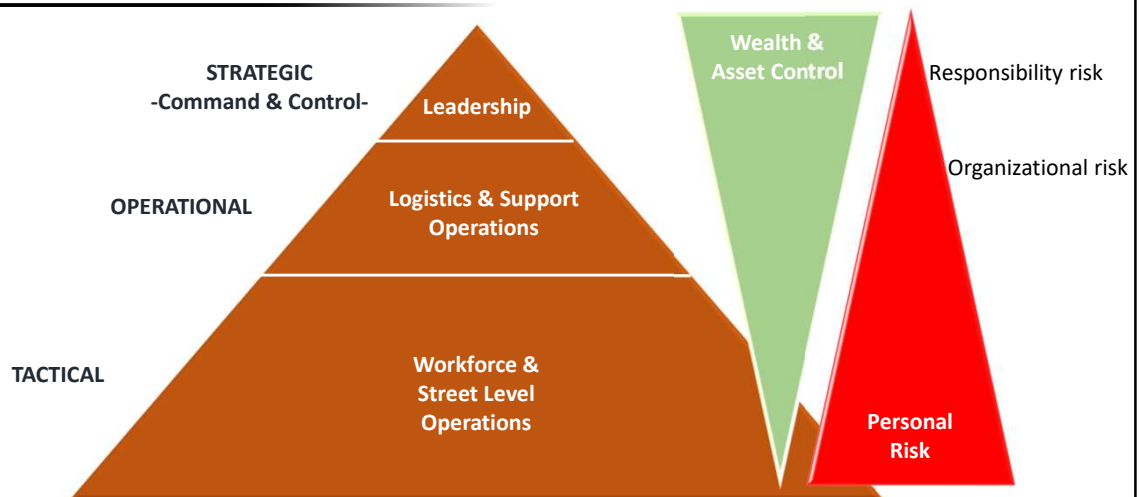
1. Identify all possible risks
 2. Rank all the risks to the possibility of encountering them and impact.
 3. Decide which risks to apply resource to mitigate.
 4. Live with the rest.
- You are going to hear about a risk-based approach quite a bit.
 - This impacts the amount and type of information that an FI will collect based on the risk profile of their customers and relationships with other banks.
 - They will have differing forms and questions, different sized investigations and compliance offices, and different training and skills.

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Apply the Risk concept to the TCO Organization

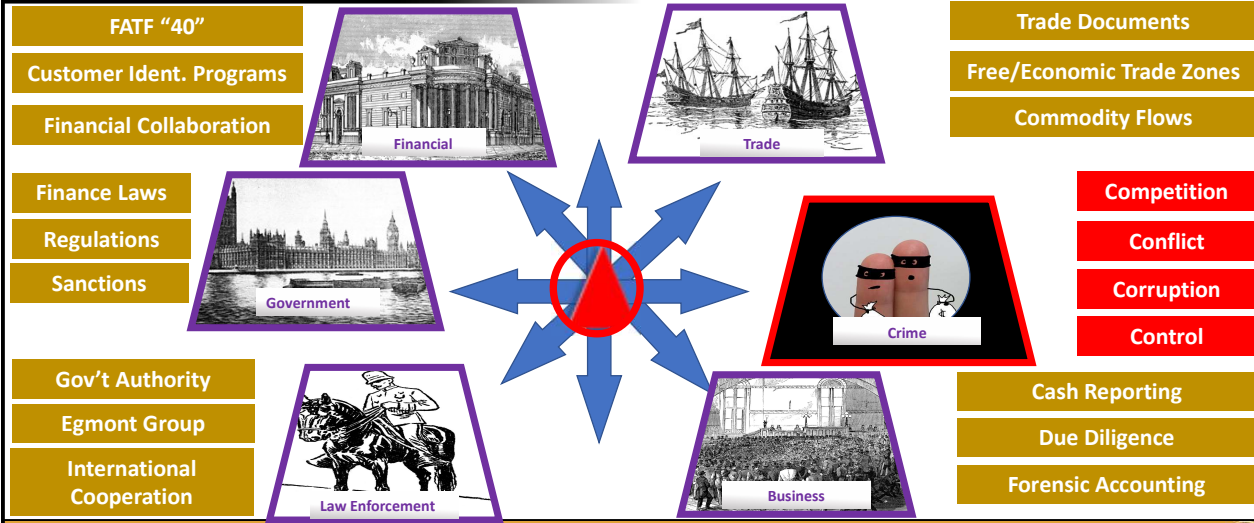


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How do we create risk for illicit networks?



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Tools in a Network

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Money Laundering In A Front



Customer makes a purchase of Roman coins



A “special” discount price is offered to customer for cash purchase



The receipt for sale shows full amount (no discount)



Sale is booked in Gallery at full amount



Dirty money placed to make up the difference

Cash is added to the sale from other sources and recorded in the books

or

Reports fictitious sales
Average 300 coins a month
When 150 actually sold, add 150 false
Stay within business standards to avoid suspicion

Other possibilities
Phantom coin purchases
Other organization costs



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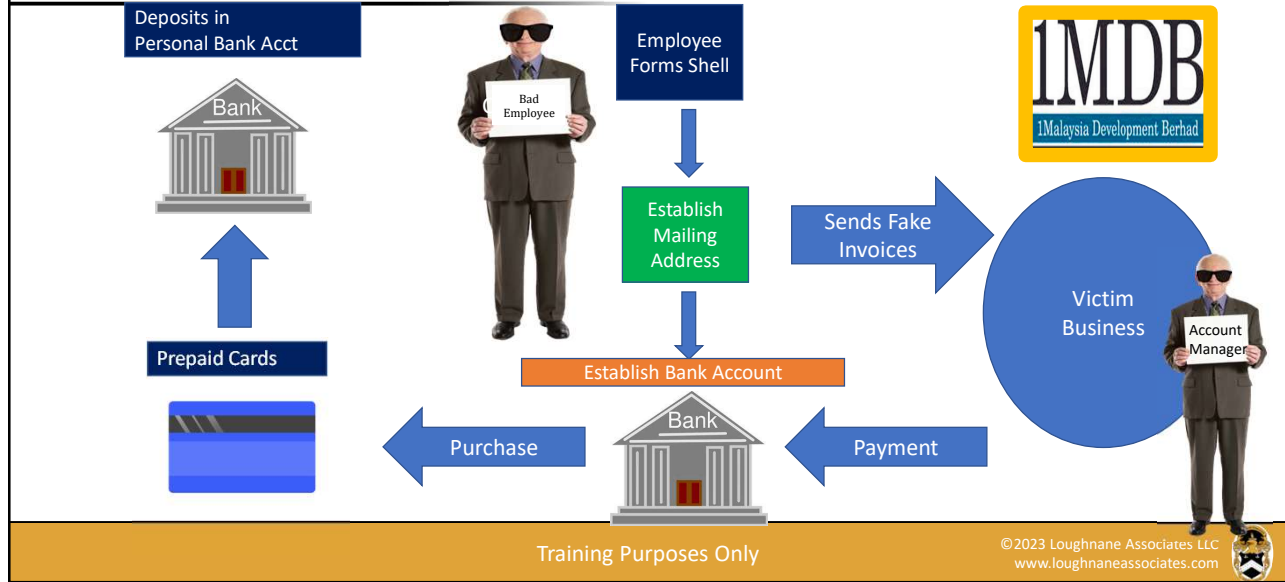


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Shell Business Used In A Fraud Scheme



Questions?

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