



CFT Programming: Developing an analytic model

by John Solomon – World-Check Terrorism & Insurgency Research Unit



As a component in leading compliance programs, countering the financing of terrorism (CFT) suffers from a good deal of conceptual ambiguity. Many compliance policy-makers mistakenly conflate CFT and anti-money laundering (AML) in the respect that AML concepts and tools are applied to CFT, irrespective of the significant distinctions that exist between the two areas.

The false assumption -- what works well for AML works equally well for CFT -- undermines the effectiveness of CFT and may lead to a false sense of security in some compliance programs. Deploying traditional AML tools (i.e., transaction analysis software) for CFT is about as effective as using chopsticks to eat chicken soup. To avoid this pitfall, more thought and discussion is needed to improve thinking about CFT and the ways compliance programs could be improved in this regard.

Effective CFT requires a number of elements. One of the most important is programming predicated on a realistic assessment of the key factors shaping the terrorist financing threat landscape. A heightened awareness of three interlocking factors could help form a more accurate view of the threat and lead the financial community to enhance its defenses against exploitation by terrorists and their financial backers.

These elements are an in-depth awareness of the following: terrorist financing threats on a jurisdictional basis; the broad organizational infrastructure of terrorist networks active in those jurisdictions; and trend analysis of the known / suspected methods that these organizations employ by jurisdiction to raise and move funds. In other words, the three factors shaping our threat perception should be formed on the basis of jurisdictional risk, identity of terrorist organizational infrastructure, and

incidence of terrorist financing typology.

One method to apply this method is to:

- 1) Determine overall jurisdiction risk;
- 2) Identify an exhaustive list of all known/suspected terrorist and insurgent organizations present within the jurisdiction(s) of interest; and
- 3) Identify and analyze incidence of terrorist financing typology trends by organization and jurisdiction.

JURISDICTION RISK

The Financial Action Task Force (FATF) has indicated in its July 2008 report that jurisdictional risk assessments can form a framework for countries and financial institutions to understand associated threats from money laundering and terrorist financing.¹

Each institution has its own means of perceiving jurisdiction risk. The best out of the box solution on the market today is Country-Check (www.country-check.com) which can be calibrated to adhere to a firm's bespoke criteria relating to risk. The aspects germane to terrorist financing within this dimension might be based on overall regulatory environment and the strength of anti-terrorism laws in addition to the level of corruption and presence of communities with relatively high levels of sympathy for militant organizations.

TERRORIST AND INSURGENT ORGANIZATIONAL PRESENCE

Situational awareness with regard to terrorist presence is another critical factor. Terrorist movements tend to be both transnational and adept at maintaining artificial distinctions between their paramilitary apparatus and their broader support infrastructure which may include non-profit organizations fronting under religious, humanitarian and political causes.² When sanctions or terrorist designations are made against a given terrorist movement, the group often fragments into several sub-units that cloak themselves in new names in order to throw investigators and prosecutors off their trail.

In order to fully appreciate this dynamic and the possible risk it poses with regard to the financing of terror, a compliance program must account for each and every terrorist organization known or suspected to be present in a given jurisdiction, including the umbrella movement it is associated with. For example, the globally positioned Tamils Rehabilitation Organization is a non-profit front that has functioned as a funding and logistics arm for the Sri Lankan-based umbrella movement, the Liberation Tiger of Tamil Eelam (or Tamil Tigers). Without appraising both the domestic and international infrastructure of a terrorist movement by jurisdiction, it is extremely difficult to stay ahead of the curve with regard to protecting a business against reputation, legal and regulatory risk.

TERRORIST FINANCING TYPOLOGIES

Trend analysis of a terrorist network's funding strategies by region or jurisdiction would also be a useful input for any robust CFT compliance program. It has often been claimed that knowledge of the myriad ways terrorists raise and move money is analytically useless. Every possible financial means is to some extent at risk goes the argument. This notion fails to acknowledge the fact that statistically significant geographic and organisational

patterns may lead to insights and predictive models that could make CFT programs more proactive.

For example, if it is known that the Kurdish Workers' Party (PKK) continuously exploits funding opportunities through the use of networked NPO fronts in certain European capitals, then red flags might be created to address certain indicators based on that typology and group within the jurisdiction(s). The same is true with regard to the narcotics distribution and sales activities of the group within specific jurisdictions. Once associated typologies are established on a geographical basis, a CFT program could become more efficacious, thus improving the odds that the financing of terrorist movements would be detected at an earlier stage.

CONCLUSION

The potential for optimized CFT in compliance programs has been stultified by the belief that CFT and AML are functional equivalents. Rethinking ways in which the compliance industry could build more robust models for CFT is needed. A systematic method for analyzing the intersection among jurisdiction risk, terrorist organizational presence and terrorist financing typology trends could shed more light on these issues.

Footnotes:

1. For more information about risk assessments, please see: http://www.fatf-gafi.org/LongAbstract/0,3425,en_32250379_32237277_4097899_8_1_1_1_1,00.html
2. A diagram of the Tamil Tigers movement is illustrative in this respect: <http://www.pvtr.org/ccft/publication/pdf/LTTE%20-%20Flow%20Chart.pdf>