



# Terrorist Financing Assessment 2018





# TABLE OF CONTENTS

<b>Introduction .....</b>	<b>3</b>
---------------------------	----------

<b>Middle East .....</b>	<b>4</b>
--------------------------	----------

Syria .....	4
-------------	---

Iraq .....	5
------------	---

Turkey .....	5
--------------	---

Lebanon .....	6
---------------	---

Jordan .....	6
--------------	---

Yemen .....	7
-------------	---

Qatar .....	7
-------------	---

United Arab Emirates .....	7
----------------------------	---

Daesh .....	8
-------------	---

Al Qaeda .....	9
----------------	---

Hizballah .....	11
-----------------	----

<b>South Asia .....</b>	<b>13</b>
-------------------------	-----------

Afghanistan .....	13
-------------------	----

Pakistan .....	14
----------------	----

Taliban .....	14
---------------	----

Lashkar-e-Taiba .....	15
-----------------------	----

Haqqani Network .....	17
-----------------------	----

<b>Other jurisdictions and groups of concern .....</b>	<b>18</b>
--	-----------

Somalia .....	18
---------------	----

Al Shabaab .....	18
------------------	----

The Philippines .....	19
-----------------------	----

Abu Sayyaf Group .....	20
------------------------	----

<b>Financial activities of extremist travellers</b>	<b>22</b>
---	-----------

Stages and roles in the extremist traveller process .....	22
---	----

<b>Emerging issues and information gaps ....</b>	<b>23</b>
--	-----------

Small scale, low-value attacks .....	23
--------------------------------------	----

Alternative payment methods .....	24
-----------------------------------	----

Increasing importance of geographic indicators .....	24
--	----

<b>Further reading .....</b>	<b>25</b>
------------------------------	-----------

<b>Annex 1: Indicators of financial activities of extremist travellers .....</b>	<b>26</b>
--	-----------

<b>Annex 2: Methodology for country and group selection .....</b>	<b>29</b>
---	-----------





## INTRODUCTION

As events of the past several years have shown, the activities of individual terrorists and terrorist groups have put virtually every country at risk. These risks extend to terrorist financing; however, the nature of this exposure differs depending on the country, its counter-terrorist-financing regime, and the extent to which its financial system is connected to those higher risk jurisdictions.

To help reporting entities focus and improve the quality of their reporting of suspected terrorist financing activity, this assessment examines terrorist financing risks related to jurisdictions that meet one of two criteria:

- exposure to terrorism and terrorist activity; or
- role in the global financial system and their degree of financial connection to Canada, measured by the volume of reporting to FINTRAC and their overall trade and economic relations with Canada.

Although Canada does not have significant financial connections to certain jurisdictions, the general state of their counter-terrorism-financing regimes and the proliferation of terrorist actors mean that even limited financial exposure may lead to significant risks for Canadian financial entities.

At the same time, while some jurisdictions face lower risks of terrorist violence, features of their financial systems or their financial and economic role in a particular region creates a higher risk for terrorist financing activity.

In a few instances, jurisdictions have met both of the criteria for inclusion and, as such, are deemed to be of particularly higher risk. See Annex 2 for information on FINTRAC's methodology for this report.

This report provides a baseline assessment for Canadian reporting entities on the terrorist financing risks presented by various countries, as well as the financing characteristics of some of the terrorist organizations in those countries. It is important to note, however, that the absence of a country or group from this assessment does not mean an absence of risk. Rather, this report is intended to introduce reporting entities to the issue of terrorist financing. Emerging risks or issues related to terrorist financing not covered in this document of which reporting entities should be informed will be covered in future operational briefs and operational alerts.

Inclusion of a country in this report indicates that that country has been assessed as higher risk for terrorist activity financing, and this assessment should be taken into account by reporting entities in their risk-based analysis.

For broader context on how terrorism affects Canada, in addition to the sources listed in the Further Reading section, reporting entities may wish to consult Public Safety Canada's *Public Report on the Terrorist Threat to Canada* (<https://www.publicsafety.gc.ca/cnt/rsracs/pblctn/s/pblc-rprt-trrst-thrt-cnd-2017/index-en.aspx>).



## MIDDLE EAST

The Middle East, centring on Syria, Iraq and Turkey, presents the greatest terrorist financing risk to Canada. Persistent conflict, not just in Syria and Iraq but also in Yemen and Egypt's Sinai peninsula, continues to be a source of serious instability in the region. Over the past several years, the rise of Daesh in Syria and Iraq has been a key driver of some of the main terrorist financing risks to Canada: extremist travellers, also known as foreign terrorist fighters, travelling to the Middle East to participate in the conflict; individuals providing financial support for terrorist activities abroad; and individuals in Canada being inspired to commit terrorist attacks on Canadian soil. While Daesh has lost significant territory over the past two years, this otherwise welcome development presents its own risks, including the potential return to Canada of extremist travellers, and continued instability and insurgent and terrorist violence in Syria and Iraq.

The rise of Daesh, and Canadian and international sanctions against Syria, succeeded in financially isolating Syria and parts of Iraq from much of the world. A perhaps unintended consequence of this, however, was that the risk of financial exposure to Daesh partly shifted to third countries such as Turkey, which became gateways for Daesh to continue to access the regional and international financial system. A similar shift towards Lebanon has also been observed, where large numbers of Daesh and Al Qaeda members, along with extremist travellers and their families and supporters engage in facilitation activities.

Daesh's ongoing loss of territory has not led to a decrease in the region's risk for terrorist

financing. A number of terrorist groups, some affiliated with Al Qaeda, are operating in parts of Syria, and Daesh remains a threat for terrorist attacks in Iraq and throughout the region. In opposition to Daesh, moreover, a number of organizations—some designated as terrorist groups by the United States and others—have seen large growth in Iraq and Syria, and have received support from both Iran and Hizballah. These regional dynamics continue to pose serious risks for terrorist financing throughout the region, particularly in the short to medium term.

### Syria

The outbreak of the Syrian civil war in 2011 had a significant negative impact on that country's financial sector and its financial relationship with Canada. Canadian and international sanctions against Syria, including its listing as a state supporter of terrorism has contributed to the country's financial isolation. Prior to 2011, this relationship was already weak compared to other countries in the region, given the relatively late development of the banking sector in Syria and the tendency for Syrians to use third countries, such as Lebanon and France, for their banking activity. To date, transaction volumes between Canada and Syria, particularly in the banking sector, remain minimal.

Suspicious transaction reporting on Syrian-related financial activity since 2014 has focused primarily on the potential funding of extremist traveller activity, possible support of Daesh-affiliated individuals, and the suspected diversion of funds sent to or received by charitable organizations working in the region. An additional risk related to Syrian financial transactions involving politically exposed or



designated individuals has also been reported, although this is currently a more marginal risk than terrorist financing. Due to the isolation of the Syrian banking sector, third countries have featured heavily in suspicious transaction reporting, primarily Turkey, the United Arab Emirates and Lebanon, with Lebanese banks in particular remaining important for Syria's connection to the global financial system.

## ***Iraq***

Conflict in large portions of Iraq has not led to the same degree of financial isolation outside of Daesh-controlled areas as it has in Syria, although reporting received by FINTRAC related to Iraq overall remains lower than for other jurisdictions in the region. While the reporting to FINTRAC of Canada-related transactions from Daesh-controlled areas has essentially ceased, reports from areas remaining under the control of the central government and from Kurdish territory have continued, although at a lower rate.

While Daesh no longer controls significant territory in Iraq, the country remains at higher risk for terrorist financing activity, particularly recently liberated areas, since insurgent and terrorist activity is still frequent. The presence of multiple armed groups in the country, some of which have been designated as terrorist entities by other countries, also contributes to the elevated risk. The general weakness of counter-terrorist-financing regulations in the country, and the large presence of money services businesses and exchanges make it difficult to determine the true source of funds. Reporting entities should take this fact into consideration when assessing the risk of particular transactions.

## ***Turkey***

Overall transaction volumes between Turkey and Canada remain very high compared to those of other countries in the region. This is driven largely by Turkey's role as a regional economic and trading hub, and its significant bilateral trade with Canada in multiple sectors.

Due to its proximity to Iraq and Syria, its relative stability and its access to the international financial system, Turkey is at elevated risk for terrorist financing activity. While Daesh no longer controls territory along the Turkish border in either Iraq or Syria, cross-border flows of people, goods and money are still at risk of exploitation by Daesh supporters and facilitators. As such, Turkish cities and towns near the borders remain at higher risk, particularly when transactions involving these locations appear in conjunction with other indicators of terrorist financing or behaviour associated with extremist travellers.

As central hubs in the travel routes to and from Syria and Iraq, financial outlets near main entry and exit points to Turkey, such as Istanbul, Antalya, Ankara and Izmir, are also at risk for unwittingly providing services to those travelling to or from a conflict zone, or those engaged in the plotting of attacks against targets in third countries.

Another important factor contributing to a higher risk for terrorist activity financing is the large number of unregistered businesses in Turkey, and the substantial share of the country's economic activity for which they account. Since these companies operate with far less regulatory scrutiny than their registered counterparts, they present an elevated risk for exploitation by terrorist groups and facilitators. Reporting entities should pay particular





attention to businesses that appear to be engaged in remittance activity but that operate under names suggesting activity in another sector, especially when these businesses tend to only send or only receive international wire transfers. Transactions from such businesses to multiple unrelated businesses or individuals who appear to lack an established connection to Turkey—such as through legitimate trade—should also be considered higher risk.

Finally, and again due to its proximity to active conflict zones and its role in the humanitarian response in Syria, Turkey has also been used as a base by charitable organizations oriented towards factions active in Syria's conflict.

## **Lebanon**

Lebanon is one of the primary banking jurisdictions in the Middle East, providing financial services to clients throughout the region. Canada also has a large Lebanese diaspora, many members of which maintain financial connections with the country.

Although Lebanon has criminalized terrorist financing, there are multiple aspects of the Lebanese political situation that contribute to an elevated risk. Canada has designated both the political and military wings of Hizballah as a terrorist entity under the Criminal Code, however Hizballah remains a politically important actor in Lebanon. Hizballah currently holds a number of seats in the Lebanese parliament and is responsible for ministerial portfolios.

Against this political backdrop, a number of issues in the Lebanese counter-terrorist-financing regime raise risk concerns for reporting entities. These include the following:

- weakness in, or the absence of, customer due diligence requirements outside of the banking sector;
- the absence of requirements covering politically exposed persons (under which Hizballah political officials would fall);
- gaps in customer due diligence for those sending international wire transfers;
- the lack of clarity with regard to the establishment of beneficial ownership; and
- the absence of proactive reporting of suspected terrorist financing.

Lebanon features prominently in the reporting FINTRAC receives compared to other jurisdictions in the region. Combined with Hizballah's influential role in Lebanon, this makes Lebanon a higher risk country for terrorist financing. Reporting entities should consider the following areas of vulnerability in conjunction with other indicators in their risk-based analysis:

- transactions involving politically exposed persons;
- uncharacteristic low-value international wire transfers, particularly to areas strongly associated with Hizballah (see below);
- transactions through the banking sector in which the sending or receiving persons or entities appear to be offering exchange or remittance services; and
- transactions in which Lebanon acts as an intermediary for a third country, particularly when that country is at high risk for terrorist financing.

## **Jordan**

Jordan has a moderate profile in reporting received by FINTRAC compared to other countries in the region. While Jordan has a





strong counter-terrorist program and has been active in international efforts to counter Daesh, Jordanian remittance and exchange companies have a high degree of exposure to higher risk jurisdictions in the area, in particular Iraq. A large number of Jordanians have travelled to either Iraq or Syria to fight on behalf of a terrorist organization. The country is also home to well-known Al Qaeda associated extremist ideologues.

International wire transfers received from or sent to Jordan through exchange houses may be at elevated risk of being associated with terrorist financing. In particular, transactions in which the name of the sender or beneficiary is not clear, or the stated purpose of the transaction appears abnormal in light of other information, may warrant increased scrutiny.

## Yemen

Yemen has a small profile in the reporting received by FINTRAC, with few international wire transfers compared to other countries in the region. While low transaction volumes indicate less financial exposure, the ongoing conflict in Yemen, the presence of numerous active terrorist groups, and the country's limited state capacity make Yemen a higher risk country for terrorist financing.

Reporting entities should consider, in conjunction with other indicators, low-value transactions, particularly those associated with locations in which Al Qaeda in the Arabian Peninsula maintains a presence, as higher risk. Travel to and from Yemen, when observed in conjunction with indicators of extremist traveller financial activity (see Annex 1), should also be considered to be higher risk.

## Qatar

Qatar has a moderate profile in reporting received by FINTRAC compared with other countries in the region. Over the past two years, the country has faced numerous allegations from other countries over associations with terrorist financing, specifically from private donors inside the country. A number of both Qatari nationals and charities have also been designated by the United States and the United Nations with respect to the financing of terrorism.

When assessing the risk of particular transactions, reporting entities should consider the exposure through the remittance and exchange sectors of Qatar—while at lower risk of terrorist financing activity than other countries in the region—to higher risk jurisdictions, Pakistan and Afghanistan, in particular. Reporting entities should also be aware of the potential for transactions to pass through the Qatari financial system to or from higher risk jurisdictions, such as Syria and Iraq.

## United Arab Emirates

The United Arab Emirates (U.A.E.) is assessed to be at elevated risk of terrorist financing for a number of reasons:

- The U.A.E. is the primary financial and trading hub in the Middle East.
- It has open and relatively unrestricted free trade zones.
- It has considerable exposure to higher risk jurisdictions outside of the region, including Somalia, Afghanistan and Pakistan.

Al Qaeda, the Taliban and Daesh Khorasan Province all raise significant revenue in the U.A.E., funnelling this money through Dubai via





Iran and Pakistan, often via *hawalas* or cash couriers, as well as via the manipulation of import and export trade transactions.

As a result, reporting entities should take the following risk factors into account when assessing the terrorist financing risk of transactions involving the U.A.E.:

- the significant presence of general trading companies for which client information is difficult to obtain, particularly those operating in economic free zones;
- the country's frequent role as an intermediary for international financial transfers; and
- the large role played by *hawalas*, money exchanges and remittance companies.

In particular, general trading companies that engage in what appear to be non-business-related transactions with multiple unrelated parties pose a heightened risk, since their intermediary role can obfuscate the true sender or beneficiary of funds.

## Daesh

Daesh was the primary terrorist financing threat group throughout 2017. In particular, it was a magnet for individuals travelling overseas to engage in terrorist or extremist activity and subsequently was a potential source of individuals seeking to return to their home countries or relocate after having engaged in armed conflict or other types of terrorist activity.

Daesh financing developments are in a state of constant change as the organization continues to lose territory and slowly transition back into being a conventional terrorist/insurgent group. Over the past several years, the bulk of Daesh's revenue has come from the territories

it controlled, in particular its ability to tax local populations, extract resources such as oil and gas, and appropriate financial and material resources from businesses and state institutions in occupied areas.

While these revenue sources have been seriously diminished over the past year by Coalition efforts against Daesh, the group continues to pose a significant terrorist financing risk. Although it is impossible to determine the details, Daesh is known to have moved unspecified amounts of funds out of both Syria and Iraq into third countries for safekeeping. Daesh can then use this pool of funds for terrorist attacks within Syria and Iraq, and elsewhere. It is also known that the organization has provided finances to its foreign affiliates, and is likely to continue to seek means to move funds from Syria and Iraq to jurisdictions where its affiliates are located.

Due to its loss of the revenue associated with the territory it controlled, Daesh is likely going to have to diversify its revenue streams in order to continue its operations. At the same time, its overall expenses can be expected to decrease, since it will no longer have the costs associated with governing and managing civilians. This may lead to Daesh being weaker overall in financial terms, but continuing to have a capacity to fund maximum-impact terrorist attacks in Iraq, Syria and abroad.

Outside of Iraq and Syria, individuals continue to sympathize with Daesh and its message. While these individuals may not have formal ties to the organization or its members, they could nevertheless pose a significant threat to public safety should they choose to engage in lone-actor-type attacks. Monitoring the financing of such activities is difficult, since





these individuals are often self-funded and may not act in any way that is significantly different from routine, small-scale financial activity.

As Daesh has lost territory, a number of fighters with origin countries outside Syria and Iraq, including Canada, have, or could seek to return or move to other regions. Some of these individuals may also engage in lone-actor or small-cell-type attacks in their home countries or elsewhere. An additional risk, however, is that these individuals may go on to facilitate financial aid to the organization from their home states, thanks to their connections to Daesh members in the Middle East.

## Outlook

Daesh will continue to remain a significant terrorist financing risk to Canada over the coming year as the organization continues to return to its origins as a terrorist group engaged in insurgent activity. Given that many Daesh-inspired attacks outside of Syria and Iraq were designed to maximize the number of casualties, reporting entities are encouraged to remain vigilant in their monitoring for any transactional activity that could indicate the planning stages of such attacks.

Daesh will also continue to pose a serious risk within Syria and Iraq. There, and in neighbouring countries such as Turkey and Jordan, it will continue to exploit the existing financial infrastructure.

## Geographic indicators

### **Iraq**

- Mosul
- Hawija
- Diyala
- Baquba

## **Al Qaeda**

While international attention on Daesh has somewhat lessened the focus on Al Qaeda over the past several years, it remains a formidable organization throughout the Middle East. Indeed, it has affiliates and sympathizers in numerous countries in the region, including Yemen and Saudi Arabia (Al Qaeda in the Arabian Peninsula, or AQAP) and Syria (Al Qaeda in Syria also known as Tahrir al-Sham). There are multiple Al Qaeda affiliates in South Asia and North, East and West Africa as well (see below).

Al Qaeda's activities, unlike those of Daesh, have not been centralized in a primary geographic territory. Instead, Al Qaeda's core provides the overall direction for the movement, coordinating with its affiliates through various clandestine means, and providing or receiving financial support depending upon its circumstances and the affiliates'. Al Qaeda's financing appears similar to that of Daesh in its opportunistic nature, wherein the organization capitalizes on single acts that can bring in substantial sums of money. For example, AQAP members stole millions of dollars from a provincial bank in Zinjara, Yemen, in 2011, and looted approximately \$60 million from the main bank in the port city of Mukalla, Yemen, in April 2015.

While such one-off funding opportunities can bring in significant resources, they do not provide a stable source of revenue. For AQAP, more regularized revenue sources have been taxing oil and gas transiting through the areas in which it exercises control or influence, kidnapping for ransom, and setting up and receiving donations for fake charities. AQAP





has also received support from other Al Qaeda branches, which have provided fighters. The organization has also taxed goods and fuel when it has had control over territory, such as Mukalla in 2015. Although since AQAP has lost control of the city, it remains unclear whether such revenue streams are still available and in what volumes.

Tahrir al-Sham has made use of some of the same funding strategies in Syria as AQAP. For example, Tahrir al-Sham relies on kidnapping for ransom, taxation of the local population, in particular for water usage, and the looting and sale of goods, such as antiquities. It also receives support from other Al Qaeda affiliates and donors. Like Daesh, however, as the group's capability and territorial control have been degraded, its revenue sources have also diminished.

## Outlook

Ongoing conflict and unrest in the Middle East will continue to provide Al Qaeda and its affiliates with opportunities to expand and potentially capitalize on the decline of Daesh by securing greater support and access to financial resources. While these resources may be smaller and less stable compared to what was available when both groups controlled territory, the low cost of attacks protects Al Qaeda from financial disruption to a certain extent.

Although neither of these groups relies on Canada as a significant source of funding, reporting entities should continue to be aware of the risks associated with transactions involving certain jurisdictions with which Al Qaeda is associated in both Yemen and Syria, as discussed below. In particular, this includes monitoring for extremist traveller typologies

(see Annex 1) in which transactions to or from these jurisdictions may arise, or transactions in the form of donations to charities in these areas for which negative media coverage exists.

## Geographic indicators

### **Yemen**

AQAP has a significant presence in certain areas of Yemen. When seen in conjunction with other indicators of suspicious transaction activity, these areas may provide further context for indicators, which may suggest that such transactions warrant the submission of a suspicious transaction report. In addition, due to the ongoing conflict within the country, the weakness of state structures, and the presence of multiple violent groups, Yemen as a whole is considered higher risk for potential terrorist financing activity. The following cities within Yemen have been known to be areas with a high presence of terrorist organizations.

- Rada
- Ja'ar
- Zinjibar
- Mahfad
- Azzan
- Al-Mukalla
- Sana'a
- Aden

### **Syria**

Tahrir al-Sham, like Daesh, has lost significant portions of the territory it once controlled in Syria. In spite of these losses, however, there are still certain jurisdictions within the country where Tahrir al-Sham maintains a presence. The following subnational jurisdictions may provide further context when assessing





transactions for suspicions of terrorist financing activity.

- Aleppo
- Idlib
- Daraa
- A'zaz
- Al Bab'
- Al Safirah
- Manbij
- As Suwayda
- Jisr ash Shugur

### **Lebanon**

- Sidon
- Ain Al Hilweh

While the preceding analysis focuses primarily on Tahrir al-Sham, it should be emphasized that the alliances and affiliations among terrorist organizations fighting in Syria remain extremely fluid. This can make assessing a specific group difficult, particularly when reviewing suspicious transactions. In light of this, FINTRAC recommends that reporting entities emphasize geographic areas of concern, with a focus on those cities and towns in Syria in which conflict is ongoing, regardless of the specific alliances of the groups involved. The locations listed above are not exhaustive, but rather indicative of the most contested areas at the time of writing. That notwithstanding, Syria in its entirety remains at higher risk for terrorist financing.

### **Hizballah**

Hizballah is one of the most complex listed terrorist organizations from a financing perspective and currently one of the most powerful political parties in Lebanon. The organization is well entrenched in the Lebanese political and economic landscape,

giving it the capacity to act as a state within a state. Outside of these formal structures, however, Hizballah operates within a logistical and support structure that is both global in scope and highly diversified in nature. The organization makes use of this support network to augment its financial capacity for operations both within and outside the Middle East.

For decades, Hizballah has received significant funding from Iran, resulting in many countries designating it as a state sponsor of terrorism. This funding likely accounts for a large proportion of Hizballah's overall budget, although specific figures are not known.

Second to state support for Hizballah are numerous material supporters—successful individuals in business and other professions—who provide both financial and other resources to the organization. These individuals operate in many countries both within and outside of the Middle East, including Canada. In many cases, these individuals are not directly tied to the formal structures of Hizballah, and operate successful businesses that engage in legitimate commercial activity. Some of the resources these businesses generate, however, are ultimately diverted to support Hizballah's official activities.





Hizballah also maintains an international network of charities, non-profit organizations and other organizations sympathetic to its cause. These organizations exist in countries throughout the world, again including Canada. The financial connections between Hizballah and these organizations, however, are not always straightforward. In some cases, a portion of the funds these organizations raise may find its way back to Hizballah in the Middle East; however, in other cases these organizations themselves may be the beneficiaries of Hizballah funding.

Finally, Hizballah may benefit indirectly from donations or other funding from sympathetic members of the global Lebanese Shia population. Often, these individuals have no direct or even indirect affiliation with the organization, but may simply sympathize with it for political reasons. This support can even extend to individuals engaging in criminal activity, as has been seen on a limited number of occasions in the past in locations as diverse as West Africa, the United States and South America.

## Outlook

Hizballah will remain a primary concern for terrorist financing activity, since its global reach, diversified funding structure, and role in the Lebanese political system will ensure its longevity. Its increasing influence in Syria and Iraq as a result of its participation in the fight against Daesh has also bolstered its fortunes. The risk of the potential diversion of funds to support Hizballah remains higher in Canada in particular, given the longstanding and significant financial flows between Canada and Lebanon, the volume of which can often make

suspicious transactions more difficult for reporting entities to detect.

## Geographic indicators

### **Lebanon**

Hizballah is strongly rooted in certain geographic locations in the Middle East, with a weaker presence in many others. When seen in conjunction with other indicators of suspicious transaction activity, implication of the following cities and regions may provide a further context for those indicators. This may suggest that such transactions warrant the submission of a Suspicious Transaction Report.

- Hret Hreik
- Dahiyah (southern suburbs of Beirut)
- Baalbek
- Hermel
- Tyre (Sour)
- Bint Jbeil
- Nabatieh





## SOUTH ASIA

The South Asia region, centring on Afghanistan and Pakistan, is of high importance in the risk of terrorist financing to Canada.

Since the transition of security enforcement from the NATO-led International Security Assistance Force to the Afghan National Defense and Security Forces beginning in 2013, Afghanistan's security environment has become increasingly unstable. Over the past year, there has been an increase in terror attacks by the Taliban and its affiliate the Haqqani Network, while groups such as Daesh Khorasan Province and Lashkar-e-Taiba continue to attempt to establish themselves through high-profile mass-casualty attacks.

Pakistan has long experienced high levels of terrorism, with mass-casualty attacks against civilians, government officials and religious minorities continuing throughout the country. While the number of terrorism-related civilian deaths has decreased since 2016, the proliferation of numerous active terrorist organizations perpetrating attacks both within and outside the country persists. The country is a base of operations for groups such as the Haqqani Network, the Taliban and Lashkar-e-Taiba.

Persistent insecurity and the proliferation of numerous active terrorist organizations throughout most of Afghanistan and key areas of Pakistan pose serious challenges to counter-terrorist financing regimes. Despite the efforts of both countries to stem terrorist financing activities, weak anti-money laundering and counter-terrorist financing controls and the lack

of institutional capacity and resources have allowed terrorist organizations to continue to generate and access funds through the international financial system. These factors will continue to pose serious risks of terrorist financing throughout the region.

Moreover, Canada is financially exposed to these jurisdictions via its large Afghan and Pakistani diaspora, as evidenced by the substantial value of funds remitted to and from their home countries. The degradation of security in Afghanistan and Pakistan and the strengthening of terrorist organizations in the region present a terrorist financing concern for Canada. Any fund flows from Canada to regions controlled or influenced by terrorist organizations are potentially at risk of being taxed or diverted and used to support these terrorist organizations.

### *Afghanistan*

Canada's exposure to Afghanistan-related financial activity has been low and limited to mostly remittance activities since 2014 as a result of the withdrawal of Canadian troops in March of the same year. A significant portion of observed transactions are low-value wire transfers being sent to and from higher risk jurisdictions within Afghanistan and to third countries at risk for terrorist financing activity. Transactions are primarily conducted through money service businesses followed by the banking sector. While FINTRAC assesses these transactions to be remittance activities, funds are being remitted to cities or provinces within Taliban or Daesh Khorasan Province control. The presence of numerous active terrorist groups in the country contributes to a higher risk of possible fund diversion for terrorist financing purposes.





Other indicators of suspicious transactions related to Afghanistan focus on potential diversion of funds sent or received by charitable organizations; transactions associated with politically exposed foreign persons and corruption; high-risk auto purchases and/or imports and exports; and third-party romance and/or relative-in-need fraud.

## **Pakistan**

Pakistan has a large profile in the reports FINTRAC receives, compared to other countries in the region. With a very high rate of domestic terrorist attacks, and the presence of a number of terrorist groups throughout the country, Pakistan remains at particularly elevated risk for terrorist financing activity.

Particular risk factors reporting entities should consider in relation to Pakistan include transactions involving cities or towns close to the Afghan border; transactions involving businesses whose activities resemble those of a money services business but who appear to be operating in an unrelated sector; and transactions involving other high-risk countries, Afghanistan and the United Arab Emirates, in particular.

## **Taliban**

The Taliban continues to be a resilient and active insurgent group, outlasting missions by the NATO-led International Security Assistance Force and the Afghan National Defense and Security Forces. Unlike Al Qaeda, the Taliban operates and conducts attacks primarily in one geographic region and, since 2016, has made significant territorial gains in Afghanistan in an effort to develop parallel governance in the country. Unlike its military operations, however,

Taliban financial solicitation, facilitation and logistics occur well beyond Afghanistan and Pakistan.

The Taliban's longevity stems in part from its ability to exploit Afghanistan's weakly regulated economy, as well as its persistent insecurity, to successfully diversify its income sources. While the group engages in traditional fundraising in Afghanistan and Pakistan, as well as in the Gulf States, opium and hashish trafficking remains one of its largest revenue sources. The Taliban increasingly leverages criminal networks to raise funds and levy taxes on heroin and hashish production, sale and smuggling, as well as providing protection and escort/security services to non-affiliated drug traffickers. Similar protection and security services are used to extort funds from international aid and development agencies operating in Afghanistan. The presence of international military and nongovernmental organizations in Afghanistan also allows the Taliban to profit from kidnapping-for-ransom schemes.

The group also profits in large part from the unofficial economy (grey/black markets) – imports, exports and smuggling of goods that occurs outside of the realm of state purview and therefore financial control. The Taliban also exploits natural resources, seizes assets, and levies taxes on opium farmers, citizens and commercial businesses in its areas of control.

The Taliban relies on informal methods to move funds into, out of and around Afghanistan, including couriers, commodities and informal money transfer systems. Due to Afghanistan's small banking sector, inadequate customer due diligence and record keeping





measures, *hawalas* are often used as a way to circumvent government oversight and enforcement of the anti-money laundering and counter-terrorism financing framework. Weak measures governing the cross-border movement of currency allow the group to smuggle bulk cash and use commodities such as gold to transport funds.

## Outlook

The presence of the Taliban throughout Afghanistan has contributed to the higher risk of fund diversion for terrorist financing purposes. The group frequently mounts attacks to seize control of districts from the Afghan National Defense and Security Forces and maintains an open presence in government-held districts across the region. Given the presence of allied forces in the country, as well as a large Afghan diaspora in Canada remitting funds back home, the Taliban continues to pose a terrorist financing risk to Canada.

## Geographic indicators

### **Afghanistan**

The Taliban has a significant presence in multiple districts in provinces across Afghanistan. According to the group's own claims, it controlled or influenced 211 districts as of March 2017. When seen in conjunction with other indicators of suspicious transaction activity, implication of the cities in the following provinces may pose a higher risk for terrorism financing and may also provide further context for those indicators. This may suggest that such transactions warrant the submission of a Suspicious Transaction Report.

- Badakhshan
- Balkh
- Ghazni
- Helmand
- Herat
- Jawzjan
- Kabul
- Kandahar
- Kapisa
- Khost
- Konar
- Nangarhar
- Laghman
- Logar
- Paktia
- Paktika
- Takhar
- Wardak

### **Pakistan**

- Karachi

## **Lashkar-e-Taiba**

Founded in Pakistan in the 1990s, Lashkar-e-Taiba is the militant arm of the organization Markaz-ad-Dawa-wal-Irshad. In 2002, the latter rebranded itself as Jamaat-ud-Dawa (JuD) to superficially split from Lashkar-e-Taiba. Today, Lashkar-e-Taiba uses JuD as a front organization and the two groups continue to operate together to further their ideology.

Lashkar-e-Taiba is unique in its operations and has taken advantage of the social capital it gains through its activities. The group's funds are mainly used for preaching, providing social services and achieving its ideological objectives through recruitment, training, and procurement of equipment and weapons. The group operates numerous Islamic institutions and *madrassas*, social service organizations,





hospitals and medical clinics across Pakistan to gain legitimacy and recruit new members. Through JuD, the group provides charitable services and relief to garner goodwill and loyalty.

Lashkar-e-Taiba relies on diverse revenue streams. A significant portion of the group's financial and material support originates from the state of Pakistan, as well as charitable donations from the Gulf States, charities and expatriate communities and businessmen. The group also systematically exploits JuD's social welfare networks and members for fundraising purposes. Donation boxes are used in markets, JuD offices, businesses and at public gatherings throughout Pakistan.

The group secures funding from legitimate businesses it owns or controls, such as fish farms and agricultural tracts, and profits from false invoicing, extortion and levying taxes. The group also diverts revenues and tuition fees raised from its Islamic institutions, *madrassas*, medical clinics and services. Other profitable illicit activities include counterfeiting currency and drug trafficking.

Similar to other terrorist groups operating in Asia, Lashkar-e-Taiba relies heavily on informal money transfer systems such as *hawalas* and cash couriers. The group leverages JuD preachers travelling internationally to raise, collect and move funds throughout the region, essentially acting as cash couriers for the group. The group is also known for exploiting the traditional banking sector by providing account numbers on its website for charitable purposes, through which expatriates legally move money into Pakistani banks.

## Outlook

While Lashkar-e-Taiba does not rely on Canadians as a significant source of funding, the proliferation of the group's influence and stake in the Pakistani economy presents a higher risk for Canadian funds to be diverted for terrorist financing. The group's use of JuD and other charities to raise funds poses an additional risk for the Pakistani-Canadian diaspora, who may unsuspectingly donate to the group. Reporting entities should continue to be aware of charity-related transactions that may be associated with Lashkar-e-Taiba and JuD.

## Geographic indicators

### **Pakistan**

Lashkar-e-Taiba carries out cross-border operations in both India and Afghanistan. Based in eastern Pakistan and Pakistan-administered Kashmir, the group maintains and operates numerous training camps, recruitment offices and businesses across Pakistan. When seen in conjunction with other indicators of suspicious transaction activity, implications of the following subnational jurisdictions may pose a higher risk of terrorism financing and may provide further context for those indicators. This may suggest that such transactions warrant the submission of a Suspicious Transaction Report.

- Abbotabad
- Akora Khattak
- Chamkani
- Kohat
- Bannu
- Dera Ismail Khan
- Dera Ghazi Khan
- Jhang





- Muzaffarabad
- Lahore
- Peshawar
- Islamabad
- Rawalpindi
- Karachi
- Multan
- Quetta
- Gujranwala
- Sialkot
- Muridke

## **Haqqani Network**

The Haqqani Network rose to prominence in the 1990s, fighting in the Soviet-Afghan War alongside the Taliban in Afghanistan. Today, the group is primarily based in Lower Kurram Agency, Pakistan, and conducts cross-border operations in Afghanistan. The group is an integral asset of the Taliban, but maintains autonomy over its financial and tactical operations.

The network's resiliency stems from its ability to occupy key spaces in both the licit and illicit economies in Afghanistan and Pakistan. The group also leverages its alliances with various terrorist factions in Afghanistan and Pakistan, various Gulf States, and with some elements in the Pakistani security establishment, for support, protection and funds. The network also benefits from donations through fundraising activities in the Gulf States and jurisdictions with a Haqqani Network presence.

The Haqqani Network has spent a considerable amount of time and effort diversifying its revenue streams. It has cultivated a vast network of front companies and legal business interests across key business sectors, including real estate,

communications, construction, import-export, natural resources, weapons and transportation. The group also owns and operates a network of *madrassas*, and uses both them and its business interests to conceal and launder licit and illicit profits.

The group also extorts and levies taxes on local, regional and international businesses, and citizens in its area of control. Increasingly, the network has come to rely on kidnapping local business owners, or wealthy and influential citizens, rather than Western targets, since the financial concessions are much easier to gain. Other methods used to raise funds include providing protection for and taxing narcotics trafficking and drug precursor chemical smuggling.

The pervasiveness of the Haqqani Network's influence in the Afghan and Pakistani economies is instrumental to its ability to move and manage its funds. The group uses its *madrassas* as a conduit for cash couriers moving funds in and out of Afghanistan and to send monthly salary payments to operatives inside the country. Besides cash couriers, the Haqqani Network uses *hawalas*, banks and other local financial institutions to hold and launder funds.

## Outlook

The Haqqani Network's holdings in both Pakistan and Afghanistan pose a terrorist financing risk to Canada, similar to that of Lashkar-e-Taiba. Legitimate financial transactions may be inadvertently diverted through Haqqani-related front companies or legitimate businesses. Reporting entities should leverage open source intelligence and negative media coverage to identify





transactions involving high-risk businesses associated with the Haqqani Network.

### Geographic indicators

The Haqqani Network maintains its base of operations in Thal and Saida in the Lower Kurram Agency of Pakistan. When seen in conjunction with other indicators of suspicious transaction activity, implications of the following subnational jurisdictions may pose a higher risk of terrorism financing and may provide further context for those indicators. This may suggest that such transactions warrant the submission of a Suspicious Transaction Report.

#### **Pakistan**

- Thal
- Saida
- Peshawar
- Kohat

#### **Afghanistan**

- Paktia
- Paktika
- Khost



## OTHER JURISDICTIONS AND GROUPS OF CONCERN

### **Somalia**

Somalia has a small profile in the reporting FINTRAC receives, although Canada's large Somali diaspora contributes to a relatively high exposure to remittances to the country. Due to Somalia's extremely weak banking sector, the majority of financial transactions to and from Canada occur through money services businesses. As with many other African countries, Somalia relies heavily on mobile banking, given the relative scarcity of banks and other financial institutions there. Particular vulnerabilities reporting entities should consider for terrorist financing in relation to Somalia include financial activity that appears to indicate that an individual is acting as an unregistered money services business, as well as financial indicators associated with extremist travellers who may be travelling to or from the country.

### **Al Shabaab**

Al Shabaab is based primarily in the southern and western regions of Somalia. At various times, it has controlled significant portions of Somali territory, including parts of the capital, Mogadishu, and the port city of Kismayo. Since 2013, Al Qaeda has recognized Al Shabaab as its official branch in Somalia. Although Al Shabaab no longer has territorial control over major urban centres in Somalia, it still maintains a strong presence throughout the south of the country, and has networks in Mogadishu, the north of the country and





throughout various parts of neighbouring Kenya, particularly along the Somali border.

Al Shabaab has relied on various financing sources over the past several years, including the taxation of various commodities and activities, which has been possible due to its territorial control. For example, Al Shabaab has taxed the export of both sugar and charcoal to various countries in the region, as well as the sales transactions and salaries of individuals living in Al Shabaab-controlled areas. While the taxation on activity related to the use of ports has also been a significant funding source, Al Shabaab no longer has access to this revenue since losing control of Kismayo in 2012. Revenue provided by taxation of charcoal has also been somewhat hampered by a United Nations ban on the commodity coming from Somalia. Taxation of the drug *khat*, which is commonly used in the region, provides an additional funding source.

While it is unknown to what extent Al Shabaab receives financial support from other Al Qaeda affiliates, there is limited indication that the group has received donations from wealthy individuals sympathetic to Al Shabaab's cause, as well as indications that the group receives smaller amounts from sometimes unwitting members of the diaspora living in various Gulf States. Supporters in Kenya have also raised funds for the organization through money services businesses serving the Somali diaspora.

In previous years, a small number of individuals have left Canada to join Al Shabaab, although this trend has slowed dramatically. Nevertheless, financial indicators of extremist traveller behaviour with a link to Somalia should still be considered higher risk,

in particular when observed in conjunction with the geographic indicators observed below.

## Geographic Indicators

### **Somalia**

While Somalia in its entirety remains at higher risk for terrorist financing activity, the following areas have been associated with Al Shabaab activity:

- Bosaaso
- Ghalkayo
- Dhusamareb
- Beledweyne
- Hudur
- Baidoa
- Bardere
- Marka
- Mogadishu
- Jilib
- Kismayo

### **Kenya**

In addition to the aforementioned cities and towns in Somalia, the following locations in Kenya have also been associated with Al Shabaab activity:

- Mandera
- El Wak
- Dadaab
- Kolbio

### **The Philippines**

The Philippines has a large profile in reporting received by FINTRAC relative to other countries in Southeast Asia, likely as a result of the large Filipino diaspora and subsequent remittance flows out of Canada. The presence of numerous terrorist and separatist groups, including the Daesh-affiliated Abu Sayyaf





Group, and the country's historical and ongoing use as a drug trafficking jurisdiction, represents a higher risk for terrorist financing activity.

The primary concern for Filipino terrorist financing risk is the diversion of remittances through taxation or extortion in cities and provinces where terrorist activities occur. Transactions originate predominantly from money service businesses and banks, largely for remittances. Transactions may be intercepted and redirected by terrorist groups, which largely rely on the same informal money transfer systems to move and manage funds.

Filipino terrorist groups have leveraged the loss of Daesh core territory in Syria and Iraq, and the inability of extremist travellers to travel to Syria or Iraq, to transform the Philippines into an emerging theatre for terrorist activities. Particular risk factors to consider in relation to the Philippines include suspicious transactions indicative of extremist traveller activities, and international flows between the Philippines and Middle Eastern countries that may act as a front for fund flows between the headquarters of Daesh or Al Qaeda and their affiliates in the Philippines.

## ***Abu Sayyaf Group***

The Abu Sayyaf Group (ASG) is a multi-faction network operating in the southern Philippines. The group gained increased international notoriety in 2014 for pledging allegiance to Daesh and then for the kidnapping and brutal beheading of three Westerners—two Canadians and a German. Operating in the south islands of the Philippines, the ASG engages in terrorist activities both for profit and to push for an independent Filipino Islamic state.

During the establishment of ASG, the group received logistical and financial support from various terrorist groups, including Al Qaeda and Jemaah Islamiyah. As revenues from other like-minded groups have declined, ASG has mainly turned to violent and criminal activity to raise needed funds. Specifically, the group targets Westerners, wealthy foreign nationals, local politicians, businessmen and civilians to kidnap for ransom. The group levies taxes and demands protection payments from businesses and civilians within its area of control. The group also profits from taxing marijuana farms as well as the sale of marijuana in the Sulu Archipelago.

Remittances from the Filipino diaspora are an integral part of the country's economy and may be diverted by ASG and other terrorist organizations operating in the Philippines. ASG relies on the same informal money transfer systems to move and manage funds as the Filipino diaspora, and may intercept and redirect funds entering the country via money service businesses.

## **Outlook**

ASG has capitalized on Daesh's brand and transformed parts of the Philippines into a possible new theatre for extremist travellers unable to travel to Syria or Iraq to fight. However, with the death of Daesh-linked ASG leader Isnilon Hapilon in 2017, the group has been quietly recovering and reorganizing for future attacks. Since its founding, ASG has been a resilient group and there is no indication that the group has been completely erased from the Philippines landscape. As such, FINTRAC is of the view that ASG will continue to engage in criminal activities to raise revenues.





While Canada's exposure to ASG-linked terrorism financing is low, reporting entities should continue monitoring extremist traveller typologies related to the Philippines as well as transactions involving certain jurisdictions linked to ASG, as identified below.

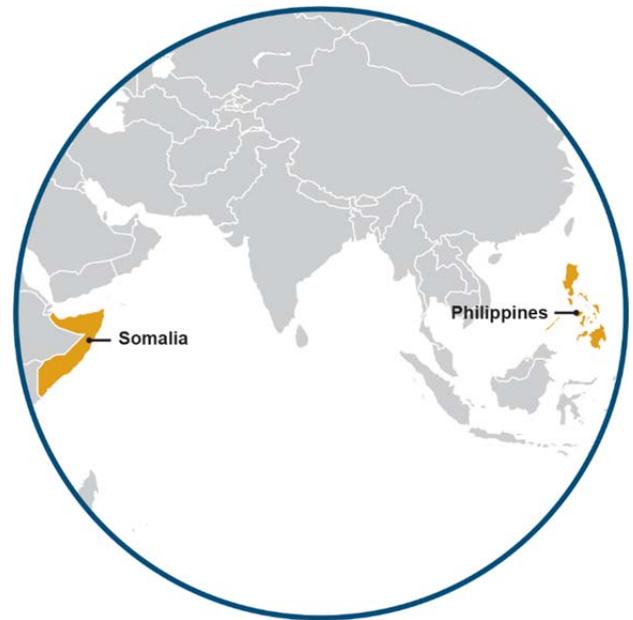
## Geographic indicators

### ***The Philippines***

ASG mainly operates in the southern Philippines. While the group has conducted its kidnapping-for-ransom operations all over the country in recent years, its base of operations remains in the Sulu Archipelago and Mindanao. When seen in conjunction with other indicators of suspicious transaction activity, implications of the following subnational jurisdictions may pose a higher risk of terrorism financing and may provide further context for those indicators. This may suggest that such transactions warrant the submission of a Suspicious Transaction Report.

- Mindanao
- Davao
- Jolo
- Marawi
- Pagadian
- Zamboanga
- Misamis
- Ipil

- Kabacan
- Isabela City
- Ozamiz City
- Monkayo
- General Santos City
- Kidapawan City
- Datu Piang
- Cagayan de Oro
- Koronadal City
- Butuan City
- Cortabato
- Basilan Island
- Sulu Island
- Tawi-Tawi Island





## FINANCIAL ACTIVITIES OF EXTREMIST TRAVELLERS

The extremist traveller phenomenon has posed the primary terrorist financing risk to Canada over the past several years, drawing approximately 190 individuals with a nexus to Canada to conflict zones all over the world. While the phenomenon predates the creation of Daesh, the most recent conflict in Syria and Iraq has drawn thousands of individuals from across the globe to Daesh-controlled territory. As of 2017, approximately 60 individuals had returned to Canada from global conflicts.

Despite Daesh's loss of territory throughout 2017, and the departure or death of many extremist travellers in Syria and Iraq, the broader phenomenon of individuals travelling overseas to participate in foreign conflicts for political or ideological reasons will likely persist. As such, continued attention on the part of Canadian financial institutions to specific financial indicators of such activity and the global context in which they occur remains crucial.

The extremist traveller phenomenon is not new, but in the context of the rise of Daesh it has taken on a new importance to the fight against terrorist financing. While in the case of Syria and Iraq it appears that the trend of individuals travelling to engage in violence has decreased, this phenomenon could continue in current and future conflicts. Financial intelligence will continue to play an important role in the detection and prevention of individuals travelling to participate in conflict, and indicators of this type of activity will remain

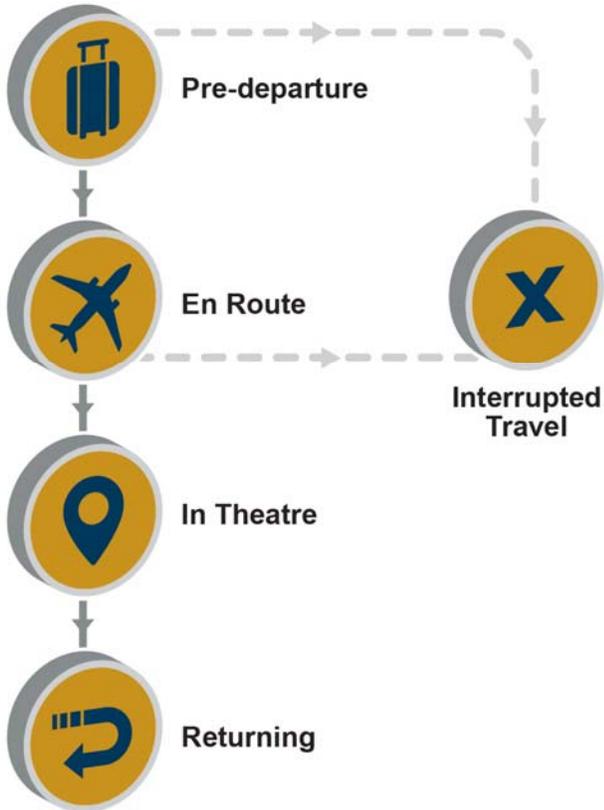
an important element of producing that intelligence. As such, reporting entities are encouraged to use the indicators found in Annex 1 as a baseline, while refining them in light of the global terrorist situation.

### ***Stages and roles in the extremist traveller process***

FINTRAC assesses that there are several discrete phases to successfully travelling to join a conflict or engage in terrorist activity overseas. The four main stages are pre-departure, en route, in theatre and returning, corresponding to the steps individuals take when travelling overseas to engage in hostilities. In some cases, an individual may not reach their ultimate destination for any number of reasons, resulting in the interruption or denial of their travel. Finally, the activities of extremist travellers may also be supported by individuals who, while not participating actively in conflicts themselves, facilitate the participation of others. This final category is the facilitator or donor.



## STAGES OF THE EXTREMIST TRAVELLER PROCESS



An understanding of these stages can be useful for determining possible financial indicators of extremist traveller activity, since each stage presents potential opportunities for detection through financial intelligence.

## EMERGING ISSUES AND INFORMATION GAPS

### *Small scale, low-value attacks*

Over the last several years there has been a tendency towards small-scale, low-cost terrorist attacks against vulnerable or soft targets. A particularly disturbing example of this has been the use of cars or trucks to target random groups of individuals, often at public events or other large gatherings.

While the nature of these attacks speaks to the relative effectiveness of counter-terrorist measures, among other factors, particularly in preventing the acquisition and use of more dangerous weapons, they also present a particular challenge to counter-terrorist financing programs. The extremely low cost of such attacks, combined with the routine nature of the limited financial activity required to undertake them, will continue to present challenges to the proactive detection of potential terrorist activity using financial intelligence.

The continued occurrence of such attacks will require an ongoing examination of risk methodologies and monitoring strategies to facilitate the development of actionable financial indicators. This process will also likely require greater reliance on public-private partnerships, and new means of information sharing to ensure that financial intelligence keeps pace with the changing environment.





## ***Alternative payment methods***

Alternative payment methods refer to a wide variety of products used to facilitate the transfer of value, and have become a key enabler of economic activity across many parts of the world. While a necessary and valuable part of contemporary commerce, however, many of these products introduce the potential for new vulnerabilities and potential exploitation for the purposes of terrorist financing.

Products that facilitate the anonymity of individuals engaging in transactions, such as prepaid cards unattached to an established account with a financial institution, will continue to pose risks similar to that of cash, but with the additional feature that they are far easier to move, particularly across international borders. While there is limited evidence of the wide adoption of such products for the purposes of terrorist financing, monitoring of trends in this area will gain importance over the coming year.

Mobile payments and other online payment alternatives to traditional banking or exchange services are also an emerging area of terrorist financing risk, in particular when these services can help obscure the identity of one or both parties to a transaction, slowing down the flow of actionable financial intelligence.

## ***Increasing importance of geographic indicators***

Over the past several years, coinciding with the rise of Daesh and the extremist traveller phenomenon, the role of geography as an additional indicator in the assessment of terrorist financing risk has come to the fore. In contrast to previous approaches, however, more specific geographical information related to transactions is becoming critical. Attention not to just countries determined to be at higher risk for terrorist financing, but more specifically to cities and towns within those countries, and the characteristics that make them higher risk, will be a crucially important factor to consider in the reporting of suspicions of terrorist financing.

The extremist traveller phenomenon illustrates this growing importance. As discussed throughout this report, particular cities in countries such as Turkey, which border on territory formerly controlled by Daesh, for a time, provided a powerful indicator of risk. This was due to cities being used as a transit point for individuals and goods aiding extremist groups in the region. This dramatically increased the usefulness of reporting on these areas compared to reporting referring only to Turkey generally.

A move toward the monitoring and reporting of more specific geographic information in the future will enable reporting entities to both better manage their risk of exposure to terrorist financing, as well as to report more actionable and useful financial intelligence.





## FURTHER READING

The terrorist financing landscape is dynamic, and often changing political developments can elevate or decrease the level of risk from a particular jurisdiction. As such, the following list of sources for public information on terrorist financing, and terrorism more broadly, is recommended for financial institutions in order to assist with the ongoing development of monitoring and risk assessment tools.

### **Financial Action Task Force**

<http://www.fatf-gafi.org/countries/>

The task force and its various regional bodies provide useful information on risks associated with terrorist financing. In particular, mutual evaluation documents are a good source of information on specific vulnerabilities in member states' counter-terrorist financing regimes.

### **Canadian Security Intelligence Service**

<https://www.canada.ca/en/security-intelligence-service.html>

The Canadian Security Intelligence Service publishes a number of public reports on current security issues, including issues related to terrorism.

### **Global Affairs Canada**

<http://international.gc.ca/world-monde/country-pays/index.aspx?lang=eng>

Global Affairs Canada maintains travel advisories on countries across the world, including regions within countries that are particularly unsafe for reasons of security and safety, including terrorist activity.

### **Chatham House**

<http://www.chathamhouse.org/>

Chatham House is a London-based independent policy institute that provides expert commentary and reporting on international security issues, including terrorism and conflict.

### **National Consortium for the Study of Terrorism and Responses to Terrorism**

<http://www.start.umd.edu/>

This group is dedicated to the scientific study of global terrorism, and provides research and education on terrorist activity across the globe. It also maintains the Global Terrorism Database, a comprehensive list of terrorist events from 1970 to the present.

### **Studies in Conflict and Terrorism**

<https://www.tandfonline.com/toc/uter20/current>

This journal publishes theoretical and empirical studies on issues related to terrorism, conflict and insurgency.





### **Terrorism and Political Violence**

<https://www.tandfonline.com/toc/ftpv20/current>

This multidisciplinary journal publishing studies on the causes of terrorist and state violence, links between terrorism and organized crime, and public policy responses.

### **SITE Intelligence Group**

<https://ent.siteintelgroup.com/>

This non-governmental counter-terrorism organization tracks and analyzes online activity related to extremist and terrorist movements and organizations.

### **RUSI Centre for Financial Crime and Security Studies**

<https://rusi.org/expertise/research/centre-financial-crime-and-security-studies>

RUSI's Centre for Financial Crime and Security Studies conducts research to address the challenges and effects of financial crime and threat finance.

### **Center on Sanctions and Illicit Finance**

<https://www.defenddemocracy.org/csif>

The Center on Sanctions and Illicit Finance provides in-depth analysis on areas of illicit finance and national security aspects of financial activity.

## ANNEX 1: INDICATORS OF FINANCIAL ACTIVITIES OF EXTREMIST TRAVELLERS

Stages and roles in the extremist traveller process

FINTRAC assesses that there are several discrete phases to successfully travelling to join a conflict or engage in terrorist activity overseas. An understanding of these can be useful for determining possible financial indicators of extremist traveller activity, since each stage presents potential opportunities for detection through financial intelligence.

### **Pre-departure**

Individuals who decide to travel overseas to participate in hostilities in a conflict zone need time and resources to prepare. Prospective extremist travellers get their personal affairs in order, plan their travel (including means of transportation, timing and routes) and raise money to buy travel-related items, including tickets.





### **Indicators**

- Person indicates planned cease date for account activity
- Person or account activity indicates sale of personal possessions
- Purchase of airline ticket to country in the vicinity of a conflict zone (e.g., Syria or Iraq)
- Use of funds for other travel-related items
- Donations to non-profit organizations linked to terrorist financing activity
- Use of funds from social assistance, student loans or other credit products (“debt financing”)
- Exploitation of available credit products, including maxing out credit cards, not making payments and transferring balance to personal debit account

### **En route**

This spans the period from departure from home until individuals reach their destination. Generally, individuals take multiple means of transportation (e.g., airline, bus, train) and stop in a number of locations. Depending on where the conflict is, individuals may follow a circuitous or seemingly irrational route to obfuscate their ultimate destination.

### **Indicators**

- Client notifies reporting entity of travel to a third country via a country contiguous to a conflict zone, but subsequent financial activity indicates the journey was not completed
- Financial activity, such as debit or credit card usage, along a known travel corridor to a conflict zone
- Receipt of wires inside or along the border of a conflict zone

### **In theatre**

Upon reaching the conflict zone, individuals are in theatre. Since a number of contemporary conflict zones lack financial services, due to the conflict and, frequently, international sanctions, the financial aspects of this stage are often more opaque than those at other stages. However, extremist travellers in theatre may still have some access to either personal resources or those of friends, family or supporters outside of the conflict zone.

### **Indicators**

- Person receives money transfers from family or friends in or in the vicinity of a conflict zone
- Publically available information and media coverage indicates that the individual has travelled to a conflict zone
- Client accounts go dormant

### **Returning**

While extremist travellers may remain in the conflict zone after the conflict subsides, some attempt to return home or try to go to a third country. This stage is critical in terms of public safety, since returning extremist travellers may bring their combat experience and connections to terrorist groups home. There is also a risk that returnees could go on to act as facilitators or supporters of terrorist activity, or even as participants in future attacks.

### **Indicators**

- Person reinitiates activity on a dormant account
- Person begins receiving new sources of income (e.g. employment, social assistance)
- Person sends or receives atypical domestic or international transfers





### ***Interrupted travel***

Some individuals may be prevented from reaching a conflict by the authorities or may change their course of action for other reasons. In some cases, as has been the case in Canada, these individuals may go on to plot or facilitate domestic attacks or attempt to facilitate the travel of others. While the frequency of such attacks is low, their impact on public safety can be significant.

#### ***Indicators***

- Individual made travel-related purchases, such as of airline tickets or a visa, which were subsequently refunded
- Individuals indicated they would be travelling out of the country but transaction history suggests the travel did not occur
- Publically available information indicates that the individual was prevented from travelling for security reasons

### ***Donors and facilitators***

In addition to those who travel or intend to travel to support a foreign terrorist organization, there are those who have no intention to travel themselves but support the goals of those who do. These individuals may act as either donors, providing small amounts to individuals intending to travel, or facilitators, who take a larger role in planning foreign travel and may assist not only financially but also with logistics. These individuals may have formal ties to a foreign terrorist organization and may operate under the guise of a legitimate business operation or non-profit organization through which they carry out their activities.

Donors and facilitators operate from virtually any jurisdiction but may do so from a country near the conflict zone, particularly one that has access to the international financial and transportation systems, and affords some degree of anonymity. Turkey, which hosted a number of Daesh facilitation networks throughout the course of the conflict in Iraq and Syria, is a case in point.

Such third-country facilitation activity has taken place in other conflicts. For example, Al-Shabaab used Kenya to facilitate its insurgency, while the Taliban used northern Pakistan and some economically central Gulf States in its activities. This suggests that third-country facilitation activity is highly likely to feature in future conflicts.





## ANNEX 2: METHODOLOGY FOR COUNTRY AND GROUP SELECTION

FINTRAC's terrorist financing assessment provides a baseline assessment for Canadian reporting entities on the terrorist financing risks presented by various jurisdictions and terrorist organizations within those jurisdictions. The trends highlighted in this assessment reflect 2017 financial intelligence data.

The inclusion of specific countries and terrorist groups was based on a number of factors. Countries determined to be at a higher risk of terrorist financing were selected based on their exposure to terrorists and/or terrorist activities, their role in the global financial system, and their counter-terrorist financing regulatory and enforcement regime, as well as Canada's financial exposure to them, as determined by FINTRAC reporting; remittance flows, as reported by the World Bank; and data on trade volumes, as reported by Statistics Canada. FINTRAC also assessed the financial characteristics of terrorist organizations within jurisdictions at elevated risk of terrorist financing. A number of factors were considered when highlighting high-priority terrorist groups that represent an immediate risk of either violence or terrorist financing undertaken in or directed against Canada. Selected terrorist groups were assessed for lethality and activity, as determined by the number of attacks they had carried out over the previous 18 months, as well as the context of the country or countries in which they operate and access the financial system to raise funds. Terrorist groups were also assessed for the extent of activity

and presence in Canada, their hostility towards Canada, and their capability and sophistication in terms of undertaking operations or attacks outside of their main theatre of operations.

It is important to note that while all of the above-listed factors were taken into consideration when selecting countries and terrorist groups, the exclusion of certain jurisdictions and terrorist organizations does not mean there is an absence of risk for terrorist financing. Rather, this report is intended to introduce reporting entities to the issue of terrorist financing.

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