

The use of tax frauds - including VAT or carousel fraud - to finance terrorism

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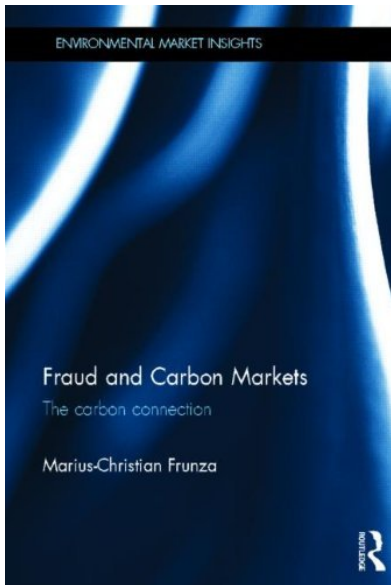
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Agenda

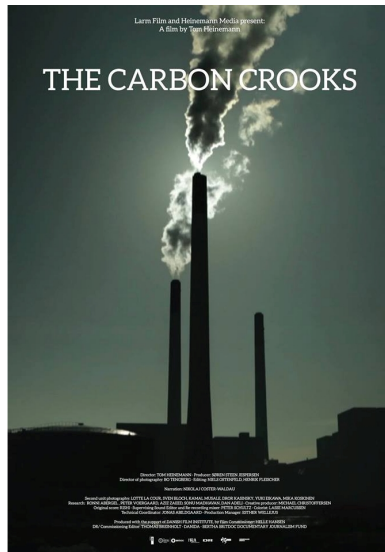
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VAT Fraud on Carbon Markets: The Carbon Connection



Fraud and Carbon Markets: The Carbon Connection [Frunza(2015)]



Carbon Crooks

Uber-terrorism: A new form of decentralized, distributed, non-hierarchical and low-cost terrorism

"Classic" terrorist organizations had a defined hierarchy and an effective chain of commands. ISIS changed the modus operandi of terrorism.

- The organization of terrorist groups like ISIS is decentralized, due to the fact it would be impossible to coordinate operations at a global level. Al-Qaeda and the Emirate of Caucasus attempted to run like a para-military organization, with limited success.
- The hierarchy is not clearly defined and the operations are managed locally.
- The hierarchy is replaced with a "terrorist social network" that can facilitate the interaction of followers and the organization of a terrorist actions. Uber-terrorism is no longer a centralized structure which ensures the financing, organization and preparation of a terrorist group. It seeks to link its followers and transmit technical expertise, thereby strengthening the potential terrorists locally.
- The advantage of uber-terrorism is that one local group is dismantled, it will not threaten the existence of another group



Uber-terrorism: A new form of decentralized, distributed, non-hierarchical and low-cost terrorism

Financing terrorist activities relied on massive long-term funding involving overseas money transfers. Modern terrorism changed the paradigm and understood that the main resources are not the financial ones but the human ones.

- To finance and to organize a global extremist network, managed by a centralized chain of commands has become a difficult task
- Uber-terrorism focuses on actions organized by local groups managed in a decentralized manner requiring minimal funding (Paris attacks were budgeted at $\approx 50\,000$ €)
- The amounts are below the thresholds of processes and systems designed to tackle the CFT
- Uber-terrorism's vision of terrorism focuses on low-cost actions and strong media impact.
- Uber-terrorism aims to a lesser extent for complex actions such as the September 11, 2001 attacks, but targets actions with a higher frequency and lower severity
- The financing of this new form of terrorism encompasses: tax fraud, benefit fraud, application fraud, crypto-currencies mining, sanctions breaching, business and personal loans...



Terrorism: Old vs New

Feature	Classic Terrorism	Uber-terrorism
Examples	<i>Breton Revolutionary Army</i>	<i>ISIS aka Daech</i>
Strategy	Focus on financial resources	Focus on human resources management
Organization	Centralized/ hierarchical	Decentralized/ Non-nested
Actions	High severity	High media impact
Budgets	Big amounts of money	Low-cost
Financing	Donors and violent crimes	Tax evasion, benefits fraud, application fraud
Recruitment	Targets the induction of new adepts	Establishes a social network of terror
Recruitment pool	Ethnically and religiously homogenous background	Multi-national : Equal opportunity recruiter
Gender distributions	Mainly men dominated	Women have a growing influence
Horizon	Long term	Short term
Geography	Local	Global
Relation with organized crime	Terrorists are involved in organized crime	Organized crime is involved with terrorists

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¹ <https://www.francetvinfo.fr/monde/proche-orient/offensive-jihadiste-en-irak/temoignage-france-2-je-n-ai-commis-aucune-exaction-se-defend-un-francais-accuse-d-avoir-combattu-avec-l-etat-2438741.html>

² <https://www.ouest-france.fr/leditiondusoir/data/16380/reader/reader.html#!preferred/1/package/16380/nub/23650/page/7>



Value Added Tax in the European Union

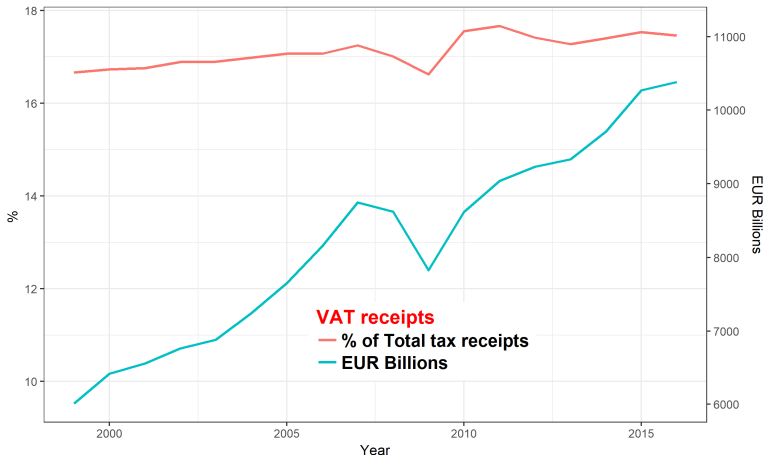


Figure: Evolution of total VAT receipts in European Union since 1999. The total VAT amount is expressed as a percentage of the total tax receipts and in Billion euros. (Source: Eurostat).



VAT Fraud and terrorism funding

Why VAT fraud?

- VAT fraud is particularly easy to implement, requires relatively little seed-funding and can be leveraged across markets and countries
- The terrorist organizations engaged in the economic side of terror are generally directors of small and medium enterprises, sole traders or merchants.
- Their business turnovers do not account more than a few million euros and this makes them less visible to the banking systems that are focused on the detection of large financial flows.
- The networks of VAT fraud existed for several years and have probably largely supported the recent terrorist actions in Europe and worldwide
- A macro-estimation indicates that each year 420 million euros of defrauded VAT could finance uber-terrorism.



VAT Fraud and terrorism funding: Features

How is implemented?

- Terrorist groups recruit individuals with from North African, Asian and Middle Eastern communities which have a long tradition in overseas trading
- Training sessions are organized for inducing beginners in the VAT fraud ring. "New blood" is crucial as many veterans of the VAT scams became banned from directorship.
- VAT fraudsters have significant research "departments", which analyze markets and countries for finding the favorable ground for implementing the fraud
- VAT fraud boot-camps are organized for training and exchanging best-practices
- Some extremist religious leaders encourage young entrepreneur to engage in VAT fraud schemes as part of an economic war. For example, the role of Zakat^a in the terrorism financing was pointed by [Chugani(2008)]. Not paying VAT(not compulsory in Sharia) and diverting the funds towards the Zakat is a realistic scenario.
- Transnational organized crime and terrorist groups do intersect in the VAT fraud arena. This is also a particularity of uber-terrorism, whereas criminal with no ideological binding into the terrorist propaganda, join or work closely with terrorist group in order to develop their criminal enterprises. Uber-terrorism created a safe -haven for criminals.

^aZakat is an obligation upon Muslims to pay two and one-half percent of their wealth if and when it exceeds a minimum level, or nisab



Which actions could serve as closing this specific VAT fraud for funding terrorism?

VAT fraud as a tool of terrorist financing needs a paradigm shift in the way it is dealt with. Countering uber-terrorism is solving a puzzle spread over many countries and involving different strata of society. Therefore, a single investigative body from one country would not be able to tackle this phenomena. Distinguishing between fighting terrorism and fighting VAT fraud that financing it is a major flaw.

Uber-terrorism and the underlying tax evasion should be addressed in holistic way. Therefore, the investigation teams should encompass people from various walks of life and with a multi-disciplinary background, including:

- Governmental intelligence agencies and private intelligence firms
- Financial Intelligence units in banks
- Police officers and serious organized crime agencies
- Custom and Tax officers

Tax evasion for uber-terrorism funding is a global phenomena and represents a global threat. Only a transnational cooperation can address this issue in an efficient way. Few measures would facilitate this effort including:

- 1** Creation of European Intelligence Office, that would reunite crucial intelligence from all Member States.
- 2** Cooperation between the big countries affected by terrorism: the United Kingdom, the United States, European Union and Eurasian Union
- 3** Cooperation between law enforcements investigating organized crime and counter-terrorism intelligence agencies





Chugani, S. H., 2008. Benevolent blood money: Terrorist exploitation of zakat and its complications in the war on terror. NCJ Int'l L. & Com. Reg. 34, 601.



Frunza, M.-C., 2015. Fraud and Carbon Markets. Routledge.

