

This brochure looks at how corruption and the criminal exploitation of natural resources facilitate terrorism. It takes stock of publicly available information and uses open data sources. The brochure outlines how the OECD can help the international community respond to the threat caused by terrorism and identifies potential for future work by the OECD. It sets a basis for reflection and discussion among countries determined to stamp out terrorism.

Today's threats to global security are multifaceted. Corruption is rightly seen as a major factor that undermines world peace and stability. Although corruption is not likely to be the only contributor to the destabilisation of a country, it can have a great impact by draining public resources and undermining the government—and public confidence in governing institutions—which, in turn, can become a driver of conflict and fuel terrorism. From petty corruption of low-ranking officials to bribery of leading politicians, corruption not only weakens a state, it also exposes its territory and that of others to terrorist activities by weakening the capacity to defend citizens and national interests.

Corruption and terrorism do not only join forces in conflict-affected countries where criminal activities are likely to flourish. They have become a major concern in countries where corruption has become endemic and made the country itself or its neighbours vulnerable to terrorist activities. Terrorist organisations use corruption to both finance and perpetrate terrorism. Like criminals and those they corrupt, they use the same grey areas in legal systems and porosity of the financial sector to channel their financing. As such, no country is totally immune.

Identifying connections between corruption and terrorism and the means to break them is crucial to fighting terrorism. Four main types of connection can be identified.

## The connections between corruption and terrorism



## CORRUPTION HAMPERS COUNTRIES' ABILITY TO FIGHT TERRORISM

State institutions weakened by engrained and deep seated corruption are not only less effective in fighting terrorism but are also vulnerable to exploitation by terrorist groups. Corruption in institutions such as the army, the police and the judiciary and in the defence sector are of great concern as they are pillars of state security and rule of law.

### Corruption in the army and the defence sector

Corruption in the army not only undermines its legitimacy and efficacy but can also worsen insecurity. Widespread corruption weakens the army's ability to halt terrorist groups such as Boko Haram or ISIL, particularly in countries where soldiers are not paid in full, are poorly equipped, and morale is low. "There's no doubt that the situation is strongly linked to corruption. Corruption weakened and escalated our insecurity. Because money that was appropriated for weapons, for welfare, it wasn't getting to base. And if it wasn't getting there, how are you going to fight insurgency?" says an anti-corruption representative from a large African country.

The defence sector has been historically vulnerable to corruption and in particular corruption of foreign public officials by companies from countries with a strong defence industry, many of which are OECD Members and Parties to the Anti-Bribery Convention.<sup>1</sup> With huge contracts and high secrecy, the defence sector poses unique corruption risks. Single-source or non-competitive contracts, unaccountable and overpaid agents are common in this secretive sector.

Corruption in defence is not just about sales commissions, it may also mean soldiers operating with ill-fitting or inadequate equipment, or with no equipment at all. Examples of fraud and corruption in the defence procurement process show how the misuse of public money in the defence sector weakens countries' capacity to fight terrorism and contributes to rising insecurity. "Nigerian troops were denied weapons to fight Boko Haram and thousands of lives were lost because of rampant fraud in the procurement process", Nigerian President Muhammadu Buhari declared when a corrupt multi-billion dollar deal for weapons and equipment was revealed in the press in November 2015.

Although stringent anti-bribery laws have been passed in most countries and compliance has become part of the lexicon of today's businesses, major corruption scandals continue to occur. According to a 2015 study by Transparency International, two-thirds of defence companies show little or no evidence of having programmes to combat corruption.<sup>2</sup> Governments and international bodies have a vital role to play in promoting more integrity in this sector. Sound financial management of a country's defence sector is key to ensuring that security forces are capable of responding to the terrorist threat and the population's security needs.

## Corruption in the police and the judiciary

In many countries, influence can be exerted at middle and low levels of law enforcement structures to avoid investigation or detection and to impede ongoing judicial or investigative processes. This can benefit both organised crime and terrorists. In the judicial sphere, judges and prosecutors can be corrupted by organised crime groups and terrorists, who may activate already existing corruption networks within the judiciary, to escape pre-trial detention and obstruct justice.<sup>3</sup>

## CORRUPTION FACILITATES TERRORISM

Terrorist groups may seek funding through crimes out of financial necessity or because the potential profits associated with the criminal activity are too attractive to ignore. Terrorists may also be involved in some forms of criminal activities not only as a source of financing but also for logistics purposes in the context of terrorist attacks. They may use evasive methods of travel without detection, including the use of altered and counterfeit passports and visas.

Corruption is the "enabling technology" that makes many terrorist crimes possible. For instance, two of the 9/11 hijackers allegedly obtained fraudulent driver's licences from a branch of Virginia's Division of Motor Vehicles which they used as identity cards to board the aircraft. The same branch had also sold licenses to illegal immigrants in exchange for bribes.<sup>4</sup> In the Bangkok bombing in August 2015, according to media reports, one of the suspects paid a bribe to enter Thailand.<sup>5</sup> Terrorists also often need to bribe airport personnel in order to get bombs and weapons past security systems, as seems to have been the case for instance at the Domodedovo (Moscow) airport bombing in 2004.<sup>6</sup>

Corruption of public border officials enables terrorists to travel clandestinely and gain access to targets or smuggle weapons. To get arms across borders, smugglers may misreport the number of transferred weapons, use false documentation and conceal weapons from the authorities. Obtaining false documentation usually entails corruption of border officials who remain very vulnerable.<sup>7</sup>

Some experts are also concerned that corruption is increasing the risk of terrorists obtaining nuclear materials. It is highly unlikely that terrorists could build, steal, or buy a nuclear bomb, but they may try to use less sophisticated devices, for example releasing radioactive material obtained from a reprocessing plant or weapon decommissioning in a so-called "dirty bomb". For cross-national smuggling of nuclear components, corruption is again the primary tool that criminals use to solicit help from officials. According to Louise Shelley, Director of the Transnational Crime and Corruption Center at George Mason University, "the greatest threat to post-Soviet nuclear security is no longer underpaid scientists selling their skills to the highest bidder. Much more dangerous today are the connections between corrupt officials who have access to nuclear materials, criminal groups that already control transit networks for illegal goods, and terrorist groups that want to acquire nuclear materials".<sup>8</sup> This is where corruption endangers world peace and jeopardises global stability.

# CASE STUDY

## THE CROSS-BORDER SMUGGLING OF OIL PRODUCTS BY ISIL

### ISIL: exporting oil and terror

As of December 2015, ISIL controlled around 60% of Syrian oil production, and around 10% of Iraq's. ISIL's main oil producing region is still in Syria's eastern Deir Ezzor province. Despite its efforts to recruit skilled workers, ISIL does not have the technology or equipment needed to maintain productivity of the oil fields it controls. ISIL seems to sell most of its crude directly to independent traders at the oil fields. Originally, the organisation had developed a network of mobile and modular refineries which it managed to maintain and repair in spite of bombing raids. However, the intensification of airstrikes has led the organisation to rely less on refining. The main customers for ISIL's oil are now local refiners inside Syria who buy oil at the source or from middlemen.

Even though ISIL is primarily engaged in local crude oil trading, the group is also said to be earning revenues from the oil trade further down the supply chain. Tanker lorries transporting oil have to pay tolls, often at multiple checkpoints. Local refiners presumably also have to pay ISIL to operate.

Once the oil is refined, it is bought by traders or taken by dealers to markets across Syria and Iraq. The routes that allow the oil to flow are well-established, some dating back decades to when Saddam Hussein smuggled oil during the UN oil-for-food programme. According to the Financial Times, about half the oil goes to Iraq, while the other half is consumed in Syria, both in ISIL territories and rebel-held areas in the north.

Even though cross-border smuggling of oil products might have been affected by recent price decreases, the illegal trade continues. Moreover, according to press reports as well as academic research, crude oil extracted in Iraq is traded and smuggled through Kurdistan and reaches a variety of international markets. The risk that crude oil sold by ISIL finds its way to international markets through dishonest traders may actually be increasing.

### Breaking the chains

Although military interventions are reducing production from oilfields under ISIL's control, they are unlikely to stop the criminal trade in oil by ISIL completely. The scale and cost of the interventions that would be required, added to the risk of killing civilians and destroying their homes and livelihoods, mean that other methods and counter-measures must also be used, in particular to dry up oil sales as a source of finance. Targeted financial sanctions remain the main weapon in this kind of conflict. They are critical to cutting off ISIL access to the international financial system, but need to be implemented without delay and used in conjunction with other counter-measures, since ISIL continues to generate substantial funds from the territory it controls.<sup>1</sup>

Likewise, a November 2015 Security Council Report on sanctions and natural resources underlined that, to date, traditional oil-trade measures had had limited effect due to "the ability of [ISIL] to extract financial benefits at each stage of the value chain: selling crude oil at the wellhead, levying fees at checkpoints, exchanging crude oil for

refined products and selling the latter to the local population".<sup>2</sup>

Countries must urgently focus on the effective implementation of the full range of laws, regulations and other measures to combat terrorist financing.

An OECD instrument is helping the international community to build a coordinated response to the criminal exploitation of minerals, where corruption plays a central role. The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas,<sup>3</sup> building on FATF due diligence recommendations and guidance, has inspired programmes to encourage responsible mineral sourcing and combat the criminal exploitation of minerals.

The OECD Guidance is now referenced in domestic regulations in the US and several African countries, and the EU is drafting a regulation based on the Guidance. As a result, in 2016 the US and EU markets could be covered by legal provisions requiring mineral supply chain due diligence on all imported products containing tin, tungsten and tantalum (3T) and gold. Hundreds of companies and industry initiatives across the supply chain now implement the OECD's due diligence framework to ensure they produce and source responsibly. Traceable 3T exports from the Democratic Republic of the Congo, Rwanda, and Burundi, for instance, increased from around 300 tonnes in 2010 to 19,500 tonnes in 2014. Sector-specific guidance of this nature could help the international community to fight the criminal trade in oil.

1. Financial Action Task Force leads renewed global effort to counter terrorist financing, FATF news release, 14 December 2015

2. UN Sanctions: Natural Resources, Security Council Report, November 2015

3. <http://mneguidelines.oecd.org/mining.htm>

## CORRUPTION CONTRIBUTES TO TERRORIST FINANCING

Although awareness of corruption, organised crime and terrorist financing has been growing in recent years, the linkages and resonances between these three forms of behaviour may not be sufficiently acknowledged. Recent UN Security Council Resolutions<sup>9</sup> recognise that terrorist groups function like international criminal businesses.

Criminals and terrorists use similar tactics to reach their separate operational objectives, a similarity that is also recognised in the international standards developed by the FATF to combat money laundering and terrorist financing.<sup>10</sup> These standards provide countries with a toolbox of measures related to prevention and on legal, law enforcement and operational issues.

If these measures are implemented effectively by countries, they will create an environment where it will be more difficult for terrorist financing, money laundering, corruption and other crimes to thrive and remain undetected.

The fact remains that like criminal organisations, terrorists engage in a range of activities that are greatly facilitated by corruption. Corruption happens at border points, where criminal operators offer bribes to customs officials to allow them to smuggle prohibited goods. The nature of activities that corrupt customs officials typically engage in varies from country to country, from simple acts of “turning a blind eye” to extreme acts of aiding with contraband smuggling.

Smuggling and illicit trade are long-established and profitable activities which international terror groups, crime rings and rebel guerrillas use to finance their activities.

“ Terrorists benefit from corruption and promote it in order to finance their activities, and smuggle their equipment, and to protect their networks from the eyes of security and justice. Terrorism and corruption are feeding each other.”

Ashraf Rifi, Minister of Justice of Lebanon and President of the Arab Network for strengthening the integrity and the fight against corruption, 2015

Smuggling is carried out either directly by these groups or indirectly, by offering paid protection to other groups carrying out the smuggling. Terrorist organisations undertake various forms of smuggling activities to finance their operations. Many countries in Europe, Africa or South America which have been badly affected by terrorism report a direct link between the illegal drug trade, trafficking in firearms, smuggling of migrants, and terrorism. The terrorists who attacked Paris in November 2015 gunned down their victims with rifles allegedly smuggled from Eastern Europe.<sup>11</sup> Smuggling of antiques is also recognised as an important source of terrorism financing. Illicit trade can involve more banal products too, such as the illicit trade in sugar that finances Al Shabaab in Somalia.

Trafficking of wildlife and derived products is recognised as one of the most profitable and attractive of all the illicit trades. Recent studies show how criminal organisations, including terrorists, are exploiting wildlife as a source of financing. Corruption is a key facilitator of wildlife crime and endemic in many countries identified as either a source or destination of wildlife trafficking.<sup>12</sup>

To augment funds, ISIL uses neighbouring countries to carry out illicit trade. Similarly, petty corruption taking place at borders allows criminal activities to continue. In particular, ISIL has insinuated itself into the region’s long-established smuggling networks and works with criminal syndicates proficient in the smuggling of weapons, antiques, and people across borders. But the illegal oil trade is far more lucrative.

## HIDING MONEY: THE MISUSE OF CORPORATE VEHICLES

Traffickers, corrupt politicians, and terrorists need ways to raise, move, conceal and spend money. One of their main means is the use of anonymous “shell companies”, defined by the OECD as “a company that is formally registered, incorporated, or otherwise legally organised in an economy but which does not conduct any operations in that economy other than in a pass-through capacity”.<sup>13</sup> The only purpose of a shell company is to hide the identity of the true owner of the money passing through it, or “beneficial ownership” as it is called by tax authorities and others combating illegal financial flows and tax avoidance.

“The beauty of shell companies is being able to hide. [...] This lack of transparency is an impediment for law enforcement and the intelligence community.”

Dennis Lormel, a former FBI special agent and expert on terrorist financing

Although it is difficult to link shell companies to their owners, security experts and law enforcement officials all agree that shell companies, or other forms of legal entities like trusts, pose a threat to national security and make it nearly impossible to find the people who are actually financing terrorism and other criminal activities, and can be ideal vehicles for terrorist financing.<sup>14</sup> For instance, owners of shell companies can remain anonymous while still being able to open bank accounts, transfer money and enjoy the legitimacy of being incorporated in countries with sophisticated financial sectors. American shell companies have allegedly been used to launder money and facilitate the illegal activities of such notorious criminals as an Eastern Europe arms dealer charged with selling weapons to terrorists and a Balkan crime boss tied to the murder of his country's Prime Minister.<sup>15</sup> Hezbollah reportedly financed its activities in part by using shell companies in the US state of North Carolina to smuggle cigarettes.<sup>16</sup>

Even when criminals behind the shell companies get caught, the registered agents who help set them up are often left untouched. Many continue to make money by registering fronts for potentially dangerous criminals.

## OECD'S ROLE

Terrorism is a multidimensional challenge and tackling it efficiently requires integrating social, economic, and political factors into the security analysis and response. The OECD is well placed to do this in collaboration with the international community, including the G20, national authorities, civil society and other international organisations such as the FATF and the United Nations (including UNESCO on trafficking in antiques and UNCRI on organised crime aspects) to maximise complementarity of effort. Because of the range of issues it deals with, the OECD already has a significant foundation it could build on to tackle this challenge. The OECD published work on

the economic consequences of terrorism as far back as 2002<sup>17</sup> and since then has examined regional, sectoral and broader aspects of the issues, for example terrorism and conflict over resources in Africa<sup>18</sup>, the connections between terrorism and organised crime through illicit trade<sup>19</sup>, the implications for the transport industry<sup>20</sup>, and how to help fragile states.<sup>21</sup>

But more needs to be done. The first milestone should be to offer governments and relevant international bodies a trustworthy, and where necessary confidential, platform to identify issues and share experience in dealing with the terrorism threat, its linkages with corruption, including bribery of foreign public officials, and any other illegal activities (such as illicit trade). This platform for dialogue and action will benefit from the expertise of the OECD in advising decision makers on public policy options and strategies. As a starting point, the OECD can offer access to its network of law enforcement officials<sup>22</sup> that is open to prosecutors specialising in combating transnational crime. In particular, the network can study the connections between terrorism and corruption, terrorist financing and natural resources, as well as the challenges of cross-border exchange of information and intelligence among judicial authorities and beyond. This is an area where synergies with other international organisations such as the FATF need to be strengthened. New initiatives can also be promoted in the context of existing OECD work programmes such as the OECD Working Party of Senior Public Integrity Officials (SPIO) and the OECD GOVNET Anti-corruption Task Team that support policy makers, donors and developing countries to better fight corruption.

Other OECD initiatives should address:

- **Corruption in the defence sector that harms countries' capacity to fight terrorism:** the OECD should continue to address the vulnerability of the defence sector to corruption. Preventing corruption in this sector requires strengthening the public sector entities involved, reaching out to the private sector, and promoting corporate governance and accountability. A specific focus should be put on promoting more transparency and accountability in public procurement. This is an area where the OECD's unique expertise should be more widely shared.

- **Corruption in the police and the judiciary:** since the entry into force of the Anti-Bribery Convention, countries have strengthened their capacities to investigate, prosecute and sanction transnational corruption. The Convention addresses in particular the need to preserve the law enforcement community as well as the judiciary from undue influences in high profile corruption cases. The unique experience gained by the OECD in this area should serve as the basis for future initiatives to support countries' efforts in enhancing institutional and legal frameworks to fighting corruption. The OECD integrity framework and conflict of interest guidelines also promote more integrity in police and judicial systems.
- **Corruption and terrorist financing:** prosecutors and investigators are increasingly relying on innovative uses of anti-corruption laws not only against terrorists and authoritarian regimes, but also against companies that have assisted them. Anti-corruption enforcement equips authorities with powerful weapons to fight the financing of terrorism. Through recent investigations of multinational corporations, enforcement officials have also developed an enormous repository of information about corrupt practices. OECD leadership in promoting the fight against transnational corruption should inspire new policy responses to address the risks of terrorism as related to corruption.
- **Criminal exploitation of oil resources, corruption and terrorism:** the OECD could consolidate information on ISIL involvement in the production and trade of oil, outlining typologies of risk that would be relevant for due diligence along the supply chain. This work should also identify the key actors, locations, and stages in the supply and value chain and recommend actions to improve private sector due diligence to prevent financing ISIL through supply or services in oil. It should look into the particular aspect of corruption as a facilitator to illegal trade of oil resources.
- **Criminal exploitation of wildlife, corruption and terrorism:** the OECD could further explore the connections between these three phenomena, measure the value and flows of illegal trade in wildlife, highlight the shifts over time in source, transit and destination countries and identify policy gaps and remedies.
- **The misuse of companies and trusts by terrorists and other criminals:** the OECD will work with others, including the FATF, to gather further evidence and envisage mechanisms to assist national authorities and other relevant international bodies in promoting more transparency and better access to up-to-date, reliable information on the beneficial ownership of companies and trusts in order to prevent their misuse.

## NOTES

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