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Does Crypto Finance Terrorism?

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One reason that governments want to regulate cryptocurrencies is their use by terrorists to finance their operations. Crypto is not as good a way to hide money transfers as some thought. However, it works well enough that criminal enterprises and terrorists use it with some degree of success. The recent Hamas attack on Israel brought this thought to mind. However, this issue has been on the minds of those responsible for fighting terrorism for years. Does crypto finance terrorism and, if so, how does that work?

How Terrorists Use Crypto

The Rand Corporation published a report on [terrorist use of cryptocurrencies](#). The folks who are tasked with fighting terrorism track the movement of money. These operations cost money and by identifying sources of funding, it is often possible to stop terrorist attacks and even track down terrorists. As such operations in the traditional banking sector have become more and more efficient, there has been the risk of terrorists moving into crypto to accomplish their money transfers and funding. A problem that terrorists confront is the same one that plagues crypto worldwide. It is easy to move crypto around but not always easy to convert it into the local currency. And as other folks who have tried to hide crypto assets have learned, [crypto tracing](#) is effective in eventually finding assets and their owners.

The Ideal Token For Terrorists

The ideal token for terrorist operations is one with widescale acceptance and convertibility into dollars, euros, yen, etc. It is also one with little or no regulation and oversight. Tokens with enhanced privacy features could make tracing by law enforcement more difficult. Exchanges in the US, Europe, China and elsewhere make pure anonymity hard to achieve. Decentralized exchanges in other nations with poor regulatory oversight make the work of terrorists easier. Darknet markets have become hot spots for crypto use for stolen identities and illicit drugs.

DeFi as a Terrorist Tool

Elliptic reports that terrorist organizations are utilizing the entire crypto space to raise, invest, and use money for their operations. A reasonable estimate is that about a fifth of terrorist financing involves crypto today. They say that the Islamic State, Hamas's al-Qassam Brigades, and al-Qaeda are all involved in these efforts. They seek to get around sanctions, extort, engage in cybercrime, and transfer assets. In addition, they are engaged in crypto mining public fundraising, investing, and decentralized finance businesses.

Which Crypto Assets and Businesses Are Involved in Terrorist Financing?

Elliptic says that more than thirty crypto assets are used for terrorist purposes. These include stablecoins like Tether and DeFi governance tokens. It turns out that they are using Bitcoin less and less as tracing of these tokens has gotten more efficient. To the extent that these terrorist entities engage in otherwise legal crypto

business, it becomes harder to track assets going for nefarious purposes.

Terrorist Attacks as Fundraisers

A particularly disturbing aspect of the recent Hamas attack in Israel was the professional video coverage of the slaughter and hostage taking of civilians. This certainly was meant to instill terror in the Israeli population. However, it is likely also meant to be used to raise money for their operations. Elliptic says that wallets associated with Palestinian Islamic Jihad (PIJ) receive more crypto donations whenever there are terrorist attacks on the West Bank or out of Gaza. As the US, EU, Israel, and others get better at tracking these crypto transfers, terrorists have moved to other tokens exchanges and especially those with stronger privacy features.

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