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“ The fight against terror financing is constant, requiring close cooperation among financial institutions, effective information sharing, and a commitment to adapt to emerging technologies. Israel’s battle against terror financing has entered a crucial stage, shaped by the lessons of October 7. ”

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Israel's War  
Against Terror  
Financing

The daunting task of staunching  
the flow of funding.

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# Introduction

Israel has faced bloodshed for many years, even before its establishment as a state. However, on October 7, a critical turning point occurred. On that day, the Israeli public experienced its deepest fears of fragility in the Middle East. The violence, including murder, rape, and abuse, that took place on October 7 targeted victims solely because of their Israeli identity. These harrowing events also served as a wake-up call, revealing how Israel had allowed Hamas and surrounding terrorist organizations to grow into formidable threats.

While Israel has long engaged in military and intelligence operations, it became clear that insufficient efforts had been made to curb terror financing by means of legal tools against money laundering. The realization emerged: “It’s the funding, stupid!”. Terrorism cannot survive without financial support. It seems so obvious now that one can ask how action was not taken sooner.

On October 18, 2023, the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) imposed sanctions on ten key members, operatives, and financial facilitators of the Hamas terrorist group. These individuals are based in Gaza, as well as in countries such as Sudan, Türkiye, Algeria, and Qatar. Hamas was designated as a Foreign Terrorist Organization by the United States as early as 1997. Yet, in pursuit of containment and the hope that Hamas would focus on governing Gaza rather than engaging in terror, Israel indirectly facilitated the circumvention of sanctions imposed on Hamas by allowing the transfer of cash-filled suitcases from Qatar into the Gaza Strip.

October 7th served as a wake-up call for the Israeli authorities to launch a full-scale war on the methods of terrorist financing. The Israeli Money Laundering and Terror Financing Prohibition Authority (“IMPA”) has redirected much of its resources to collecting intelligence regarding the financing of terrorist organizations. According to the IMPA’s 2023 report, 25% of the criminal activities the IMPA dealt with were related to terror financing, compared to 9% in 2022.

Likewise, Israel significantly intensified its efforts, cooperating closely with allied nations. Within the first week of the war, Israel, along with financial intelligence units from the Netherlands, Germany, and the U.S., established an operational

task force to combat terror financing (Task Financing Terrorism Counter Force - CTFTI Israel). This task force, which now includes financial intelligence units from 17 countries worldwide, aims to consolidate and strengthen efforts to disrupt the flow of funds to Hamas, Hezbollah, and other terrorist groups. As part of this global initiative, Israel collaborates with foreign counterparts to collect up-to-date, relevant, and precise financial intelligence. In appropriate cases, the task force assists law enforcement and security agencies—both in Israel and globally—in freezing or blocking financial accounts and other activities suspected of fundraising for terrorist organizations.

This article discusses Israel's legal framework for addressing terror finance and how it can be applied to the actual financing of a terror organization.

## **LEGAL FRAMEWORK AND CHALLENGES: KEY TYPOLOGIES AND METHODS OF TERROR FINANCING**

Israel's legal framework in countering terror financing aligns with the standards set by the Financial Action Task Force (FATF). The legislation imposes obligations related to preventing terror financing and the proliferation of weapons of mass destruction. Unlike the fight against money laundering, where the focus is on the origin of funds, combating terror financing centers on tracing transfer channels and funding paths to prevent the money from reaching its intended destination. The funds used for terror financing may have either legitimate sources, such as business activities, donations, and state funding, or illegitimate ones, such as drug trafficking and smuggling. In cases where terror financing is conducted using illegal funds, the fight against terror financing also relies on the legal infrastructure designed to combat money laundering.

One of the key typologies of terror financing that Israel faces is the misuse of non-profit organizations (NPOs) for terror purposes, as highlighted in an IMPA report, *'Abuse of Non-Profit Organizations for the Purpose of Terror Financing,'* from May 2023. In the past two years, there has been a significant rise in terror financing inquiries, with 16.5% linked to activities by NPOs.

In a media interview, the IMPA's Chair, Adv. Ilit Osterwicz-Levy, explained that Hamas exploits international sympathy for Gaza residents, using crowdfunding via platforms like Telegram, X (formerly Twitter), Facebook, Instagram, and TikTok, under the guise of humanitarian aid. These campaigns, however, fund terror organizations or their affiliates.

According to Osterwicz-Levy, addressing the exploitation of NPOs as fronts for terrorism is a significant challenge. These organizations present themselves as charities but divert funds to terrorism instead of their stated missions, often leaving donors unaware that their contributions support such activities. The main difficulty lies in distinguishing genuine humanitarian fundraising from those financing terrorism. Only through financial intelligence—tracking where funds are raised and how they are used—can the necessary clarity be achieved.

Nonprofit organizations (NPOs) have several characteristics that make them vulnerable to exploitation by terrorist organizations. These include their frequent reliance on cash transactions, operations in conflict zones, donor anonymity, and the involvement of volunteers, which can provide opportunities for terrorists to infiltrate or operate under the guise of humanitarian work. Terrorist groups may exploit NPOs by falsifying bank documents, reporting fictitious projects, forging or inflating invoices, and manipulating tenders.

A notable example is the Turkish Cooperation and Coordination Agency (TIKA). Mohammed Murtaja, the head of TIKA's Gaza office, was arrested by the Shin Bet (Israeli security Agency) for diverting funds intended for humanitarian aid to support Hamas' military wing. By adding Hamas military wing operatives to lists of individuals in need, Murtaja ensured they received financial assistance and food supplies, thereby facilitating terrorist activities under the pretense of charity work.

## **CONCEALING FUNDS THROUGH TRADITIONAL MEANS: HAWALA**

Terrorist organizations are adaptive and highly creative when it comes to concealing methods of fund transfers. One traditional method, widely favored

by terrorist organizations such as Hamas, is the Hawala system. Hawala is a traditional money transfer method in the Muslim world, functioning as an informal banking system that allows money to be transferred from person to person through a complex network of money brokers. Today, powerful terrorist organizations worldwide use this method to move funds around the world.

Terrorist organizations frequently use Hawala to transfer funds to their operatives and to funnel money raised for the organization. This method allows funds to be received in a different part of the world without actual money transfers, but rather through balancing books between two money changers (financial service providers). For example, when a customer in country X wants to send money to a party in country Y, the funds do not physically move between the money changers within the financial system. Instead, the money changer in country Y hands over the money to the recipient in his country and offsets the sum in an internal accounting table managed with the money changer in country X. Periodically, or when the debt exceeds a pre-defined threshold, the two money changers will settle the balance, usually without revealing the identities of the final beneficiaries involved in the transactions.

According to the FATF report, “The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing” (2013), several indicators can be used to detect suspicious activity related to Hawala operations. These include the extensive use of collective accounts, regular transfers of money to international locations such as Dubai, and the routing of funds through Dubai to other destinations via the Hawala channel. Additionally, many hybrid Hawala transactions are funneled through major international hubs like Dubai. Another key indicator is the usage of third-party accounts, often unrelated to the hawaladar or sender, to disguise transactions and evade detection by authorities.

The fight against money changers does not end in offices, but often involves active measures. According to publications on the IDF Spokesperson’s website, in recent months, Israel has conducted strikes against five money changers involved with Hamas’s military wing and two currency exchange offices in Gaza. One of the most prominent figures targeted and eliminated was Sabhi Fuwareena, a key terrorist operative. Together with his brother, he ran the Al-Masat money exchange office, which transferred tens of millions of dollars to Hamas’s military wing.

## THE EVOLUTION OF HAMAS IN USING CRYPTOCURRENCY TO CONCEAL FINANCIAL TRANSFERS

Ironically, one of the IDF's assassinations accelerated Hamas's evolution. In 2019, the IDF assassinated Hamas operative Hamid Ahmad Khudari, who was the main financial agent for Iran in Gaza and closely associated with Yahya Sinwar. Following the assassination, the IDF stated, "Iran will have to find a new financier in Gaza." And they did—this time, a businessman named Zuhair Shamallakh, who managed what appeared to be a legitimate money exchange business called "Al-Mutahadon".

Fearing the same fate as Khudari, Shamallakh decided to change his strategy, making it much harder to identify the financial pipeline from Tehran to Gaza and, more importantly, more difficult to trace him. He shifted to digital currencies right at the peak of the crypto boom during the COVID-19 pandemic.

Initially, Hamas used cryptocurrency solely to receive small-scale donations, but by 2020, crypto had become the almost exclusive method for large-scale transfers between Iran and Gaza-based terrorist organizations. This complicated the pursuit of Hamas's funding methods, which was already a challenging task.

According to terror financing experts, Hamas's military wing was one of the earliest adopters of cryptocurrencies. Since 2021, Israel has tracked payments of tens of millions of dollars from Iran to Shamallakh's Al-Mutahadon exchange, intended for weapons procurement and salary payments. The National Bureau for Counter Terror Financing of Israel (NBCTF) has issued at least seven orders in the past three years to seize crypto assets from three exchanges in Gaza. According to an investigation by The Wall Street Journal, digital wallets identified by the NBCTF as linked to Hamas and the Islamic Jihad have reportedly received over \$130 million.

A key platform Hamas used for transferring funds via crypto was Binance, the world's largest cryptocurrency exchange. One of the NBCTF's earliest orders against Shamallakh's exchange targeted 47 accounts on Binance. Binance's involvement in transferring funds to terrorist organizations may

have become the last straw for the U.S. government, which intensified its pressure on the crypto industry leaders over the past two years.

On November 21, 2023, Binance pleaded guilty to violating U.S. anti-money laundering laws and failing to implement adequate compliance measures. As part of a settlement with the U.S. Department of Justice and other agencies, Binance agreed to pay \$4.3 billion in penalties, one of the largest fines ever imposed on a cryptocurrency platform. Binance's CEO and founder, Changpeng Zhao, admitted liability, resigned from his role, and agreed to pay a personal fine of \$50 million. He was also sentenced to four months in prison in April 2024. "Binance turned a blind eye to its legal obligations in the pursuit of profit. Its willful failures allowed money to flow to terrorists, cybercriminals, and child abusers through its platform," said Secretary of the Treasury Janet L. Yellen. "Today's historic penalties and monitorship to ensure compliance with U.S. law and regulations mark a milestone for the virtual currency industry. Any institution, wherever located, that wants to reap the benefits of the U.S. financial system must also play by the rules that keep us all safe from terrorists, foreign adversaries, and crime or face the consequences."

The penalties imposed on Binance, both on the company and its leadership, are the largest in history, underscoring that October 7 marked a turning point in the U.S.'s stance toward the entire crypto industry. A few weeks after October 7, over 100 American lawmakers signed a letter expressing concerns over the "serious national security threats" posed using crypto in terror financing. "The world watched in horror as Hamas carried out brutal acts of terror against Israel," stated Senator Sherrod Brown, a Democrat from Ohio and chair of the Senate Banking Committee. "This committee has repeatedly warned about crypto and its role in illegal financing—including funding terrorists. When law enforcement agencies attempt to track or block crypto funds, it becomes a game of whack-a-mole. They stop one transaction, and the criminals move to another platform with a different alias. We must be far more aggressive against them because this cannot continue."

In April, Hamas announced that it would cease its fundraising efforts in Bitcoin, but that doesn't mean it stopped using crypto. As Senator Brown warned, Hamas simply switched to another platform: Tron, the new favorite among Iran-supported terrorist organizations, from Hamas to Hezbollah.



This rapidly growing crypto network is faster, cheaper than Bitcoin, and even harder to track.

A few weeks after October 7, Israel announced the largest crypto account seizure to date, freezing around 600 accounts connected to an exchange in Gaza. However, this is merely a drop in the ocean, as Hamas's economic operations remain vast and diverse.

## CONCLUSION

The fight against terror financing is constant, requiring close cooperation among financial institutions, effective information sharing, and a commitment to adapt to emerging technologies. Israel's battle against terror financing has entered a crucial stage, shaped by the lessons of October 7. This challenge demands not just military and intelligence responses but also legal and financial strategies. By strengthening international cooperation, tightening legal frameworks, and adapting to technological changes, Israel and its allies can disrupt the financial networks that fuel terrorism, contributing to a safer world.

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