

## 2. The Challenges of Weak and Failed States

Weak and failed states present important policy challenges to both terrorists and governments. Failed states offer two potential advantages to terrorist groups. First, they may provide a safe haven for hierarchical systems that ease terrorists' core organizational problems. Second, the economic conditions that accompany state failure may create a favorable labor market for recruiting militants. The challenge for terrorists is that these advantages do not exist in all failed states. Despite the group's high expectations, operating in the Horn of Africa provided neither advantage to al-Qa'ida. On the government side, the challenge lies in getting weak states to spend scarce resources on counterterrorism. The challenge is not simply that governments in weak states may prefer to spend money on economic development or traditional military activities; it is that such governments can have strong incentives to maintain at least some level of terrorism in their country.

This chapter provides a theoretical perspective for understanding how to make the policy challenges harder for terrorists and easier for government. Section I outlines the core organizational challenges for terrorists. Section II shows why failed states may not be very helpful for solving these. Section III uses a labor economics perspective to examine why terrorists expect failed states to be a good recruiting ground. Section IV details why Somalia was not a good place for al-Qa'ida to recruit. Section V analyzes the problem of motivating weak states to take terrorism as seriously as Western governments would like.

### I. Organizing Terror

Terrorists' core organizational task is simple to describe: the controlled application of violence in the service of political goals. Hitting the wrong targets, or conducting too many attacks, can be just as damaging to the group's political cause as doing too little.<sup>1</sup> The organizational challenge is that leaders need to work with others to conduct attacks, raise funds, and spread their ideological message. This creates a classic agency relationship in which the principal, the political or ideological leader, sets the goals and delegates operational activities to agents, the rank-and-file terrorists, to achieve these goals.<sup>2</sup> Working directly with operational elements is dangerous for obvious reasons and is simply not feasible if a group wants to conduct more than a few operations at a time or operations over a wide area.

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<sup>1</sup> Examples of counter-productive attacks abound. Indeed, there is evidence that members of al-Qa'ida considered the 9/11 attacks to have been counter-productive. See for example the June 2002 Al Adl Letter from the first Harmony report.

<sup>2</sup> This does not assume any particular level of formalization. An individual motivated by video tapes of Osama bin Laden and who operates outside of any formal organization is still Osama's agent. Likewise, an individual operating under the command of Seamus Twomey in the quasi-military hierarchy of the Belfast Brigade of the Provisional Irish Republican Army (P-IRA) in August 1971 is still the agent of the P-IRA leadership council. The key difference is that Osama bin Laden has much less ability to monitor and control his agent. On the P-IRA see Patrick Bishop and Eamonn Mallie, *The Provisional IRA* (London: Corgi, 1994), 171.

The problem with delegation for terrorists is that there are a host of reasons that the rank-and-file will want to do things differently than leaders might like. Essentially, the preferences of the agents will differ from those of the principals. Scholars who have done extensive interview work with terrorists report their organizations are torn by strife and disagreement.<sup>3</sup> Supporting this view, the Harmony documents are full of sometimes vitriolic letters flying back and forth as members of al-Qa'ida debate ideology, strategy, and tactics.<sup>4</sup> Even when there is no conflict within groups, leaders often engage in costly efforts to monitor their agents, suggesting the potential for disagreement exists.<sup>5</sup>

Historically, the most prominent cause of disagreements between leaders and their agents is the correlation between preferences over violence and skill at conducting violent actions. Simply put, those who are effective at conducting attacks often want to do more violence than is politically optimal. Marxist organizations such as the Russian Social Democratic Labor Party had regular problems in the 1890s and 1900s with local cells conducting revenge attacks that could not be justified by Marxist theory.<sup>6</sup> In like fashion, the Provisional IRA suffered repeated problems with Active Service Units (ASU), made up of combat specialists, pushing for violence when the organization as a whole wanted to limit attacks.<sup>7</sup> As we'll see later, a similar problem creates headaches today for leaders among the foreign elements of the Iraqi insurgency.<sup>8</sup>

Unless their political goals are truly transcendent, terrorist leaders would like to exercise some control over their agents, but doing so is problematic. Controlling the lower levels of an organization entails two tasks: (1) monitoring agents, so that undesirable behavior is detected; and (2) punishing them for not behaving as principals would like. Both of these present specific challenges for terrorist organizations. Monitoring reduces leaders' security because it entails additional communications and creates links between leaders and those most likely to be identified and captured by government. Moreover, the nature of the task means leaders can't monitor perfectly even if they want. Lastly, there is a huge random component in whether or not an attack succeeds. Leaders watching a cell have an inherent difficulty in figuring out if the cell

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<sup>3</sup> See for example J. Bowyer Bell, "Aspects of the Dragonworld: Covert Communications and the Rebel Ecosystem," *International Journal of Intelligence and Counterintelligence* 3:1 (Spring 1989): 15-43; Colin Crawford, *Inside the UDA: Volunteers and Violence* (Ann Arbor, MI: University of Michigan Press, 2003).

<sup>4</sup> Hassan al-Tajiki's Third Letter to the Africa Corps is typical. Hassan writes, "Here once again I remind you of one of your fatal mistakes, which is the quick changing of strategic targets, whereby now every action is tactical and improvised." Harmony, AFGP-2002-600053, 25.

<sup>5</sup> For example, some leaders in Jemaah Islamiyah required members to report their travel expenses in order to know if there was any corruption. That they never had problems with corruption could mean agents did not have different preference from the leaders, or that the monitoring deterred corruption. Author interview, Jakarta, February 20, 2007. We also see this reporting in Africa. See Harmony, AFGP-2002-800573.

<sup>6</sup> Anna Geifman, *Thou Shalt Kill: Revolutionary Terrorism in Russia, 1894-1917* (Princeton: Princeton University Press, 1993), 49-50; Anna Geifman, "Aspects of Early Twentieth-Century Russian Terrorism: The Socialist-Revolutionary Combat Organization," *Terrorism and Political Violence* 4, no. 2 (1992): 28-29.

<sup>7</sup> Bishop and Mallie, *op. cit.*, 203; M.L.R. Smith, *Fighting for Ireland? The Military Strategy of the Irish Republican Movement* (New York: Routledge, 1995), 120-121.

<sup>8</sup> Excessive violence at the operational level is a problem for senior leaders in al-Qa'ida in Mesopotamia. In 2005 they instructed a cell operating in Ramadi to be more careful in whom they kill or else "[the] people will start fighting us in the streets." Harmony, IZ-060316-02.

failed because it was not operating faithfully – perhaps because the member in charge of logistics was misappropriating resources<sup>9</sup> – or because government got lucky.<sup>10</sup> Even when leaders can monitor, punishment is costly because the agents whom leaders want to control wield two threats over the leadership. First, they are specialists in violence. They can attack the leadership. Davie Ervine, a former bomb maker for the Ulster Volunteer Force, a loyalist paramilitary, described the problem as follows: “In a military organization, the Admiral doesn’t have to worry about the sailor getting off watch and shooting him. My admiral did have that concern.”<sup>11</sup> Second, members unhappy with their punishment can go to the government. Jamal Ahmed Al Fadl who testified in the Africa Embassy bombings case followed this path. He had stolen money from al-Qa’ida, got caught, went on the run, and approached the U.S. government asking to join the witness protection program.<sup>12</sup>

Mechanisms that minimize preference divergence are costly and may create security risks for them.<sup>13</sup> For example, many groups use screening strategies to mitigate the preference divergence which creates agency problems. Here leaders require prospective members to participate in time-consuming or dangerous initiation rites, such as demanding that recruits engage in lengthy ideological debates.<sup>14</sup> Essentially, time-consuming debates make the costs of participation too high for anyone not extremely committed to the cause.<sup>15</sup> However, Iraqi insurgent recruiting manuals warn, this strategy can weed out people with useful skills who have neither the patience for lengthy doctrinal debates nor the education to participate in them.<sup>16</sup> Other screening strategies include

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<sup>9</sup> A problem for al-Qa’ida in Afghanistan. See Harmony, AFGP-2002-800581.

<sup>10</sup> This kind of measurement problem is a motivation for vertical integration in business firms. The organizational implications of this kind of uncertainty for terrorist financial systems is explored in Jacob N. Shapiro and David A. Siegel, “Underfunding in Terrorist Organizations,” *International Studies Quarterly* 51 (2007): 405-429.

<sup>11</sup> Author interview, March 8, 2006.

<sup>12</sup> Jane Mayer, “Junior: The clandestine life of America’s top Al Qaeda source,” *The New Yorker* (September 11, 2006).

<sup>13</sup> For discussions of the problems inherent in other screening strategies see Joseph Felter *et al.*, *Harmony and Disharmony: Exploiting Al-Qa’ida’s Organizational Vulnerabilities* (West Point N.Y.: United States Military Academy, 2006). See also Jacob N. Shapiro, “The Terrorist’s Challenge: Security, Efficiency, Control,” Manuscript, Stanford University, 2006; and Jacob N. Shapiro, “Terrorist Organizations’ Vulnerabilities and Inefficiencies: A Rational Choice Perspective,” in Harold A. Trinkunas and Jeanne K. Giraldo, eds. *Terrorist Financing and State Responses: A Comparative Perspective* (Stanford, CA: Stanford University Press, 2007).

<sup>14</sup> Groupe Salafiste pour la Prédication et le Combat (GSPC), an Algerian terrorist organization, uses just such a recruitment system in expatriate Algerian communities in France. See Mohamed Sifaoui’s journalistic account of his penetration of a GSPC fundraising and recruiting cell in Paris, in, *Inside Al-Qa’ida: How I Infiltrated the World’s Deadliest Terrorist Organization* (New York: Thunder’s Mouth Press, 2003).

<sup>15</sup> For a discussion of how education serves as a similar screening mechanism for business firms see A. M. Spence, “Job Market Signaling,” *The Quarterly Journal of Economics* 87 (1973): 355.

<sup>16</sup> Of course, as one Yemeni militant notes, groups do need some members who are educated to carry out effective operations. Harmony, AFGP-2002-800517, 37. On Iraq see Harmony, ISGZ-2004-M1000074-0148. A related problem experienced by Russian Marxist terrorist organizations is the frequent need to lower standards of ideological purity in order to bring in more recruits. Doing so increases the frequency of counterproductive actions and reduces security by bringing people into the group who are susceptible to monetary inducements from government agents. See Geifman, *Thou Shalt Kill*, 160-162.

requiring prospective members to attend arduous training camps or demanding they commit violent acts to prove their allegiance to the group.<sup>17</sup> Unfortunately for terrorist groups, both of these strategies create predicate offenses that make it more likely that law enforcement officials will identify operatives.

Taking these organizational challenges into account makes it clear that terrorist groups and other covert organizations face two fundamental trade-offs. The first is between operational security and operational control. Here agency problems and other group dynamics lead to counterproductive violence. Strategies to mitigate these problems through greater control entail security costs for groups as a whole. The second trade-off is between security and financial efficiency. Here problems of trust and control—agency problems—create inefficiencies in resource allocation. Strategies to mitigate these problems all entail security costs.

At the most basic level, this analysis presumes that organizations configure themselves and operate in ways that seek to maximize their utility given their cognitive constraints and limited information about the world.<sup>18</sup> At a minimum, we assume terrorist organizations, or at least their leaders, intend to be rational in their decision making.<sup>19</sup> For business firms, such rationality usually means attempting to maximize utility measured in terms of profit. For terrorist organizations, political impact is the goal. As this perspective suggests, we see many examples of terrorist organizations struggling to find the appropriate means, in terms of targets and organizational structures, to meet their political ends.<sup>20</sup>

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<sup>17</sup> On al-Qa'ida's use of training camps as a screening mechanism see "Testimony of FBI Agent John Anticev on Odeh," *United States of America v. Usama bin Laden, et al.*, 5 (7) 98 Cr. 1023, 27 February 2001, 1630-1638. On the logic behind requiring members to commit violent acts see Sun-Ki Chai, "An Organizational Economics Theory of Antigovernment Violence," *Comparative Politics* 26:1 (1993).

<sup>18</sup> Recent research by Scott Atran and others shows that the most committed terrorists - failed suicide bombers - exhibit the minimum requirement for this type of rationalist approach ("consistent transitive preferences") when discussing how to achieve their ends. However, they demonstrate irrational, "intransitive preferences" when discussing the morality of their chosen method or the theological justifications for their ends. Since this paper is concerned here with organizations making adjustments to achieve exogenously defined goals, Atran's results suggest the analysis rests on solid behavioral grounds. Scott Atran, "The Moral Logic and Growth of Martyrdom: Instrumental Reasoning vs. Sacred Values," paper presented at the Annual Meeting of the American Association for the Advancement of Science, St. Louis, Feb. 19, 2006.

<sup>19</sup> Terrorist organizations clearly make many decisions in a rational fashion. When one type of attack becomes more difficult, terrorists switch to another type and the baseline rate of attacks remains relatively consistent. Most evidence suggests terrorist leaders demonstrate exactly the kind of consequentialist logic required for intendedly rational behavior. On substitution effects see Walter Enders and Todd, "Patterns of Transnational Terrorism, 1970-1999: Alternative Time-Series Estimates" *International Studies Quarterly* 46 (2002):145-65. On consequentialist decision making in al-Qa'ida, see many examples in Rohan Gunaratna, *Inside Al Qaeda*, (New York: Columbia University Press, 2002). On rational reactions to political competition between terrorist groups, see Mia M. Bloom, *Dying to Kill: The Allure of Suicide Terror*, (New York: Columbia University Press, 2005). On terrorist decision-making more generally, see Gordon H. McCormick, "Terrorist Decision Making," *Annual Review of Political Science* 6 (2003): 473-507.

<sup>20</sup> For a lengthy example of such analysis, see Abu Bakr Naji, *The Management of Savagery*, trans. William McCants (West Point, N.Y.: Combating Terrorism Center, 2006). For an analysis of terrorist groups'

With this basic rational choice-theory approach in mind, we can identify conditions under which groups will prefer to exercise central control over operations or finances. If these conditions exist, groups face agency losses but must balance their desire for control against the security costs it entails.

The security-control trade-off becomes especially challenging when:

- Preferences over tactics are not perfectly aligned, so that some agents want to attack different targets or want to conduct more or fewer attacks than leaders want.<sup>21</sup>
- It is costly to monitor agents' tactical planning or use violence to condition them.<sup>22</sup>
- Leaders' political goals are being placed at risk by the freelancing of operational elements.

The security-efficiency trade-off becomes especially challenging when:

- Agents below the leadership are less than perfectly committed.<sup>23</sup>
- Principals cannot perfectly monitor their agents' uses of money or punish them for observed infractions.
- Resources are sufficiently constrained that leaders won't just accept the financial inefficiencies created by agency problems.

Both trade-offs are minimized to the extent that terrorist organizations have a place where they can build the kinds of hierarchical structures that traditional organizations use to solve agency problems. Al-Qa'ida tried to use Afghanistan for this purpose from the mid-1990s through late 2001, just as the P-IRA used the Republic of Ireland as a safe haven until the mid-1990s.<sup>24</sup> Captured documents and public web

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intendedly rational choice of organizational structures, see Jacob N. Shapiro, "Organizing Terror," manuscript, Stanford University, 2006.

<sup>21</sup> This can occur for two reasons: (1) because operatives have different preferences over violence than leaders; or (2) because leaders and their operatives receive different information about the appropriate targets.

<sup>22</sup> It's important to keep in mind that the costs to monitoring/punishment don't just arise from government action. The need to maintain cohesion within groups can also limit leaders' options. Again quoting Davie Ervine: "We had some really heinous, counter-productive stuff going on. But we couldn't put a stop to it because we needed to keep the hearts and minds within the organization." Author interview, March 8, 2006.

<sup>23</sup> The agents can have the exact same preferences as the leaders, but the leaders have a problem unless everyone below them is perfectly committed. No matter what their preferences are between spending on attacks and allocating resources to salaries or other private goods, leaders want every cent passed down allocated to achieving political impact, often through violent operations.

<sup>24</sup> Just how far they moved towards having functioning hierarchical structures is a matter of debate, but the Harmony data show a clear intent to move in that direction. On al-Qa'ida's use of Afghanistan see Felter, *Harmony and Disharmony*, 9, 37. See also Shapiro, "The Terrorist's Challenge," 4. On the P-IRA, note the group's use of the border counties for military training and indoctrination from the 1970s onwards. See also Shapiro, "Organizing Terror," 23.

postings demonstrate that al-Qa'ida has been thinking about the necessity to exploit such weakly-governed spaces since their organizational founding. The importance of safe havens is evident in the documents where jihadi commanders argue for the need to preserve strong, secure rear areas in places like Sudan and Afghanistan while launching offensive strikes into Russia, Tajikistan and Uzbekistan.<sup>25</sup> In the context of the theoretical framework presented here, the existence of usable security vacuums greatly eases groups' organizational trade-offs. If there is a safe rear area for the hierarchy, then exercising a given level of control has much smaller security implications.

## II. Failed states: an (un)safe haven for terrorists.

Do failed states actually serve as an effective safe haven for terrorists? There are a number of reasons to suspect not. In the first place, areas without functioning state institutions do not provide safety for their residents. The security vacuum creates problems for the terrorists too.<sup>26</sup> As a result, terrorist strategists do not think such spaces are very useful.<sup>27</sup> Here two documents are instructive. The first, from Somalia, identifies a five-point strategy to unite Somali forces and create an Islamic national front.<sup>28</sup> The author argues for: (1) expulsion of the foreign international presence; (2) rebuilding of state institutions; (3) establishment of domestic security; (4) comprehensive national reconciliation; and (5) economic reform and combating famine. This approach parallels that of the June 2005 Zawahiri letter addressed to Abu Musab al-Zarqawi in Iraq.<sup>29</sup> In that letter, Zawahiri argues that jihad in Iraq should proceed incrementally, according to the following phases: (1) expel the Americans from Iraq; (2) establish an Islamic authority or emirate, then develop it and support it; and (3) extend the jihad wave to the secular countries neighboring Iraq.

Notice that what is important to these thinkers is not the existence of a security vacuum but what comes next: establishing functioning state institutions under jihadi control.<sup>30</sup> What made Afghanistan so useful to al-Qa'ida from 1995 onwards was not an absence of state institutions; it was that al-Qa'ida could operate under the protection of a sovereign state, relying on that state's sovereignty to shield its infrastructure from potential attack by Western forces. Operating in a security vacuum, where training camps and the like can be more readily attacked directly by the United States and indirectly by local allies, is much less attractive.<sup>31</sup> In fact, existing security vacuums have not proven

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<sup>25</sup> Harmony, AFGP-2002-600053.

<sup>26</sup> In a series of reports from Somalia in the 1990s, Mohammed Atef (also known as Abu Hafis) details the challenges of operating in a failed state. Prominent among these are problems with local bandits, the costs of corruption in neighboring states, and the ability of Western forces to act in ungoverned spaces. See Harmony, AFGP-2002-600104, AFGP-2002-600110, and AFGP-2002-800597.

<sup>27</sup> For a thorough development of this argument by a very influential jihadi thinker, see Abu Bakr Naji, *The Management of Savagery*, trans. William McCants (West Point, NY: Combating Terrorism Center, 2006).

<sup>28</sup> Harmony, AFGP-2002-600053, 6.

<sup>29</sup> Available online at: [http://www.dni.gov/release\\_letter\\_101105.html](http://www.dni.gov/release_letter_101105.html) [accessed April 27, 2006].

<sup>30</sup> A similar argument is made in Naji, *The Management of Savagery*. The core argument there is that the jihadi movement should win public support by showing it can manage state institutions and provide public goods such as order and contract enforcement more effectively than secular governments.

<sup>31</sup> For example, in 1996 Ethiopian forces entered Somalia to conduct an offensive against Islamist forces in the Gedo region. In the same year the Ethiopians used a local proxy force, the Secularist National Front, to take a number of towns where foreigners had been operating. Harmony, AFGP-2002-600110, 1-2.

to be a viable base for exporting attacks abroad. No major international attacks have been supported out of Afghanistan, Iraq, or Somalia since the US military operations began in 2001. From this perspective, policy-makers should be concerned with ungoverned spaces only so far as they are allowing terrorists to operate openly and at reasonable expense.

The Horn of Africa does not afford terrorists such benefits. The Harmony documents reveal four problems al-Qa'ida and like-minded groups have had operating in the Horn. The first problem was that the lack of government-enforced order in many areas imposed what was effectively a tax on all operations. This tax came in two forms: (1) the need to provide security against local bandits,<sup>32</sup> and (2) the increased cost of getting personnel and resources into poorly governed areas.<sup>33</sup> The second problem was the unreliability of local allies.<sup>34</sup> The third problem was that the better an area was for training, the more remote and sparsely populated it was and thus the harder it was to meet basic sustenance needs.<sup>35</sup> The fourth problem was the challenge of getting fiscal resources in place. Financial services in the region were and continue to be weak, and groups did not seem able to effectively use the *hawaladars* who provide key financial services in weakly governed areas of the Horn.

In fact, these problems were so bad that after visiting the training camps his personnel established in Lu'uq, Somalia, Abu Hafs writes back to his superiors and suggests:

“We found out that it is difficult to do this in the areas that we visited because of dangers pertaining to security. This is why it is preferred that the courses be done by you in Khartoum. As a result this will save us transportation expenses and others.”<sup>36</sup>

As we will see in our country study of Somalia, there is little reason to think this region has become any more hospitable to jihadis since Abu Hafs rendered his judgment. So while the Horn should remain an area of concern, the implication is not that Western governments must take on the impossible task of preventing ungoverned spaces from emerging throughout the region. That would take immense resources and might produce unintended benefits rather than costs for terror groups.

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<sup>32</sup> In August 1994, Saif al-Islam writes a journal of his trip to Somalia to establish training camps on behalf of Abu Hafs, a senior al-Qa'ida military leader. Saif describes how it took a caravan of 80 local men to guard 8 Arabs on the trip through the Ogaden region to Lu'uq, Somalia. Harmony, AFGP-2002-600104, 4.

<sup>33</sup> In fact, the logistical challenges of moving from Kenya into Somalia were so great that in January 1994 al-Qa'ida operative Saif al-Adel suggested buying a boat for transportation and to raise funds through fishing. The biggest challenge he notes is that because the local can't be trusted, the group will have to train one of their own as a sailor. Harmony, AFGP-2002-600114, 1-2. Harmony, AFGP-2002-600053, 5.

<sup>34</sup> Harmony, AFGP-2002-800640.

<sup>35</sup> For a description of some of the challenges of operating in Somalia see AFGP-2002-600104, 5. On the problems of moving during the rainy season in areas with few paved roads, see AFGP-2002-600114, 5. In a March 1993 letter to “Brother Othman,” Saif al-Islam describes the poor food in camps in the Ogaden, camps whose major expenditure was on food. Harmony, AFGP-2002-800621, 4.

<sup>36</sup> Harmony, AFGP-2002-800597.

Denying terrorists the benefits of ungoverned spaces in the Horn is a much more feasible strategy. The massive troop deployment in Iraq has so far denied terrorists the use of that country as a staging ground for attacks in the West. Meanwhile, terrorists are denied the benefits of a potential Afghan security vacuum with the deployment there of only 22,000 troops. A mere 1,600 troops based in Djibouti, Combined Joint Task Force-Horn of Africa (CJTF-HOA), have effectively denied Islamic terrorists the use of Somalia and the rest of the Horn of Africa.<sup>37</sup> In all three cases, these deployments are far less resource-intensive than would be required to actually impose government or support effective control by a central government. A more cost-effective strategy is thus to maintain the capability to act decisively when necessary while cultivating local allies who will monitor these spaces. Such a strategy prevents ungoverned spaces from easing terrorists' fundamental organizational challenges.

### **III. Why Terrorists Choose Failed States: A Labor Economics Perspective**

In the first release of Harmony documents, we found that al-Qa'ida faced a familiar set of organizational challenges, leading to a trade-off between operational security and control of outlying agents acting on behalf of the organization. This perspective helped explain problems within the organization. However, it provided limited leverage for understanding why the organization made particular strategic choices, like trying to establish operations in the Horn of Africa. A labor economics perspective can be useful here in explaining why al-Qa'ida ventured into the Horn and why it faced such difficulties recruiting there despite poor economic conditions.

We can think of al-Qa'ida as a firm that produces terrorism against Western nations, specifically the United States.<sup>38</sup> Attacks require a combination of two factors of production: capital and labor.<sup>39</sup> For al-Qa'ida, capital includes durable goods like weapons and vehicles, training facilities, and the good will of local governments like Somali clans or the governments of Sudan and Afghanistan.<sup>40</sup> Labor is the individual terrorist recruits who provide services in exchange for wages and non-pecuniary compensation.

Just as firms locate themselves where they can minimize costs and maximize production and profits, terrorist groups choose operational venues in an essentially

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<sup>37</sup> Ken Menkhaus, *Somalia: State Collapse and the Threat of Terrorism* (Routledge, 2004).

<sup>38</sup> Wright's *The Looming Tower* provides a very effective discussion of the evolution of al-Qa'ida's strategic doctrine, including the relevant importance of attacks on Western targets versus providing militants to fight in defense of Islamic communities.

<sup>39</sup> In traditional firms, capital includes "inventory (stock) of a plant, equipment, and other (generally durable) productive resources held by a business firm, an individual, or some other organization." William J. Baumol and Alan S. Binder, *Economics: Principle and Policy*, 9<sup>th</sup> ed. (Mason, OH: South-Western, 2003).

<sup>40</sup> Sometimes the connection is very clear. A cornerstone of al-Qa'ida's operations in Sudan was the establishment of business endeavors to finance operations and earn the support of local leaders. Upon arrival in Khartoum, Sudan in 1992, Osama Bin Laden quickly established himself as a businessman as much as a terrorist leader. He invested heavily in the construction and agriculture industry and became "a generous employer by Sudanese standards, paying \$200 per month to most of his workers, with senior managers making from \$1,000 to \$1,500." Wright, *The Looming Tower*, p. 168.

rational fashion.<sup>41</sup> The Horn of Africa presented important production advantages for al-Qa'ida. The Sudanese government provided safe harbor for operational planning, thus easing security concerns. Additionally, the Sudanese economy was very weak in the early 1990s, so labor was cheap. Bin Laden hired more than five hundred people in Sudan and “those employees who were actual members of Al-Qaeda received a monthly bonus between \$50 and \$120.”<sup>42</sup> The Horn of Africa also presented al-Qa'ida with opportunities to strike against the United States. Bin Laden, still angered by the “continued presence of American troops in Saudi Arabia,” felt compelled to take action against American forces that were present in Somalia as part of a UN Peacekeeping mission.<sup>43</sup> Al-Qa'ida leaders also thought Somalia would present a good environment in which to produce attacks against the U.S. and continue to grow its movement. They expected security costs to be low because of the lack of a central government and, on account of the pervasive poverty, they looked forward to a large pool of recruits. Neither expectation was met.<sup>44</sup>

Al-Qa'ida's reasons for venturing into the HOA appear obvious. However, analysts and pundits rarely reverse the question and attempt to determine whether individuals from the Horn of Africa would want to be part of al-Qa'ida and the broader Salafi-jihadi movement. In Somalia, those with the skills for militancy are in demand as the lack of a central government has led to a proliferation of militias. In this competitive labor market, al-Qa'ida had to provide a competitive compensation package to attract good recruits. While the average Somali's economic prospects were, and still are, undoubtedly very bad, it is not clear that this was true for those who would make good terrorist recruits.

Following the labor economics perspective, we assume individuals decide to work as terrorists based on a perceived level of compensation consisting of wages and intangible benefits.<sup>45</sup> When the compensation for joining the jihad exceeds that of the next best option, individuals join.<sup>46</sup> In the first set of Harmony documents, we found al-Qa'ida in the 1990s had clearly outlined its compensation package, understanding it had to provide wages to recruit and maintain its work force. These pecuniary benefits are stated outright in al-Qa'ida's employment contract where “the salary of a married Mujahed is 6500 Pakistani Rupee, and 500 Rupee for every newborn ... [and] the salary of the bachelor Mujahed is 1000 Pakistani Rupee.” Total compensation for an al-Qa'ida member included in-kind benefits, such as vacations, as well as wages. The group's

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<sup>41</sup> For example, the Provisional Irish Republican Army (P-IRA) in the 1970s chose rural, less populated areas of the Republic of Ireland for training operations. When a P-IRA training officer was captured with documents describing training facilities in County Galway and County Mayo, the groups leaders decided to move training in the Republic of Ireland to County Kerry and to prohibit other activities in that area. Sean O'Callaghan, *The Informer* (London: Bantam Press, 1998), 97-99.

<sup>42</sup> Wright, *The Looming Tower*, 169.

<sup>43</sup> Ibid.

<sup>44</sup> There is an important point here; terrorist organizations have a limited ability to understand their operational environment, even when they are operating as openly as al-Qa'ida in the early 1990s.

<sup>45</sup> Rogert G. Ehrenberg and Robert S. Smith, *Modern Labor Economics: Theory and Public Policy*, 9th ed. (Boston: Pearson/Addison Wesley, 2006), 170.

<sup>46</sup> This perspective is consistent with the enlistment process described in Marc Sageman's *Understanding Terror Networks* (Philadelphia: University of Pennsylvania Press, 2004). The over-educated, under-employed, socially-isolated ex-patriots that became involved in al-Qa'ida and its affiliates are people for whom the non-pecuniary benefits of terrorism were quite powerful.

contract for new recruits states, “the married have a vacation by rotation for a week every three weeks.... A bachelor can have a vacation by rotation for five days every month.”<sup>47</sup> Al-Qa’ida also helps its members with consumption smoothing, routinely providing loans to its employees for things ranging from basic necessities to alimony.<sup>48</sup> The provision of non-salary benefits is not unique to al-Qa’ida. Jemaah Islamiyah, an Indonesian jihadi organization, provides death benefits to its members’ families, but only when they are killed while on assignment for the group.<sup>49</sup> Terrorist groups compete for labor with both the legitimate economy and with like-minded militant organizations.

Terrorists receive a unique set of non-pecuniary benefits from joining al-Qa’ida, distinguishing it from other militant organizations in the Horn. In particular, al-Qa’ida’s religious doctrines provide members with an attractive set of spiritual benefits. Moreover, relying on these spiritual benefits as part of the compensation package effectively provides a screening mechanism that eases the organizational challenges identified above.<sup>50</sup> The group’s media campaigns bring the terror recruit a sense of purpose, being part of a team, unparalleled adventure, and often fame. As the organization’s stature increases in recruits’ communities, the non-pecuniary benefits of participating increase, easing the problems of recruiting members.<sup>51</sup> From this perspective, the group’s devotion to create an image as an elite institution is driven as much by the exigencies of the labor market as anything else.

The challenge for groups like al-Qa’ida is that other institutions also provide valued non-pecuniary benefits. Societies in the Horn of Africa present a complex set of overlapping motivations which made al-Qa’ida’s recruitment efforts more difficult than the group anticipated. In many cases, the individual motivations of local Somali residents diverged from the group motivations and core tenets of al-Qa’ida. This meant there was a mismatch between the value of the non-pecuniary compensation package al-Qa’ida thought it was offering and what local Somalis perceived as the benefits to joining al-Qa’ida. The result was poor recruitment and excessive operational costs for the Africa Corps.<sup>52</sup>

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<sup>47</sup> Harmony, AFGP-2002-600045, 3.

<sup>48</sup> In the most recent documents, for example, we find what might be a bank document in the U.S., where, “Brother Omar Tajuddin has received the sum of 2,000 Bir to pay his personal debts.” Harmony, AFGP-2002-800573, 21.

<sup>49</sup> Author interview, Jakarta, February 21, 2007.

<sup>50</sup> An excellent overview of the economics of religious militancy is presented in Laurence R. Iannaccone and Eli Berman, “Religious extremism: The good, the bad, and the deadly,” *Public Choice* 128 (2006):109-129.

<sup>51</sup> This pattern holds true across groups. In the late 1980s the leaders of the Ulster Defense Association were replaced by younger members unhappy with the old leadership’s focus on lining their own pockets. Once it became known that a new leadership committed to violence against Catholics was in charge, the group began to get more high quality recruits. Crawford, *Inside the UDA*, 157-8.

<sup>52</sup> The labor economics approach used here is adapted from a larger work. See Clinton Watts, “Jihadi Seeking Challenging Martyrdom Opportunity; Will Travel,” (Working Paper, Combating Terrorism Center, May 2007).

#### IV. Al-Qa'ida's franchise in Somalia

Analysis tends to focus on whether al-Qa'ida wanted to operate and expand into the Horn of Africa. The information in these documents overwhelmingly supports the notion that it did. Al-Qa'ida leaders like Abu Hafs clearly expected that Somalia would provide a low cost recruiting ground where a disaffected and isolated people would gladly come under the Salafi banner. Al-Qa'ida expected Somalis to join the fight to expel foreign occupiers in the form of the UN peacekeeping mission. In the mind of the al-Qa'ida leadership, Somalia represented a new safe haven for planning and operating terrorist attacks. With little or no functioning government and a poor Muslim populace, Somalia appeared on the surface to be another Afghanistan. Confident from their recruitment success in the Pakistan-Afghan tribal regions, al-Qa'ida ventured into Somalia with mujahideen visions reminiscent of the 1980s.

But reality turned out to be far different from their expectations. Three major themes emerge from our analysis. First, al-Qa'ida leaders greatly underestimated the costs of operating in Somalia. Second, they overestimated the value to Somalis of their version of jihad, of the non-pecuniary benefits they were offering. Labor markets have two sides, supply and demand. On the supply side, we need to ask "Do people from the Horn of Africa want to be part of al-Qa'ida?" It is on this score that al-Qa'ida's expectations and the realities of Somalia diverged in 1993 and 1994. Third, where al-Qa'ida did find success in Somalia, it was by providing local order and not ideological motivation. By providing security, al-Qa'ida fulfilled the functions normally reserved for clan militias.

The difference between al-Qa'ida headquarters' perception and on-the-ground reality is clearly illustrated by the disparity between the guidance from Afghanistan and reports coming from the operational team leaders. In September 1993, Abu al-Waleed writes to Saif al-Islam, his team leader in Somalia, from the Jihad Wal training camp in Afghanistan. He suggests that "the political effort is clearly there and effective ... [and] likewise, the military effort is simple, effective, and inexpensive."<sup>53</sup> When Saif has trouble motivating the Somalis during military training, he reports asking them, "don't you want us to come here and do this training in your poor country? You have no [other] opportunities here.... They said yes."<sup>54</sup> Despite this apparently pleasing response, Abu al-Waleed seems surprised by reports from Saif about materiel shortfalls, commenting, "I learned from your letter that there are very few weapons or ammunition in the area.... I recall when the events began many weapons were readily available and cheap.... Where did they go?"<sup>55</sup>

The low operational costs expected by the Somali franchise never materialized. Abu Hafs, the overall expeditionary leader, repeatedly discusses the high operational costs in Somalia, writing about a "brother" who "is in desperate need for the monies because he did not receive the amount of \$21,600."<sup>56</sup> These high costs were encountered

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<sup>53</sup> Harmony, AFGP-2002-600053, 3.

<sup>54</sup> Harmony, AFGP-2002-600104, 13.

<sup>55</sup> Ibid.

<sup>56</sup> Harmony, AFGP-2002-800597, 9.

within Somalia and en route. Abu Hafs cites Kenya as an expensive route of transit for mujahideen and lists Djibouti as having an “abnormal high cost of living,” where “Brother Khaled has no money ... [and] his debts reached \$4000.”<sup>57</sup>

The documents suggest two reasons for this pattern. First, getting in and out of Somalia was very expensive. Abu Hafs refers to this problem in stating, “the operation pertaining to the transfer of the brothers from Nariobi to Luuq will be costly: \$150 for rent per person, and the roadways are not good.”<sup>58</sup> The transportation costs for operating in this region were substantial and paralyzing for the Somali franchise. Accounting documents reveal that shipping and transportation costs consumed a vast amount of their resources.<sup>59</sup> The very reasons that al-Qa’ida sought Somalia- an isolated safe haven for preparing and conducting terrorist operations- also made it nearly impossible to sustain operations.<sup>60</sup>

Second, the poor security environment and unreliable allies effectively imposed a tax on all operations. For example, getting into the Ogaden region of Somalia apparently came at great risk and with large financial costs. Abu Bilal describes movement through this area with an Islamist group: “I was saying to the leader of [the] caravan that the road is dangerous (unintelligible) let us choose another road, and he was saying that all these tribes here are Somali and are sympathetic to us.”<sup>61</sup> Shortly after this discussion, the group becomes engulfed in a roadside ambush. According to Abu Bilal, they ultimately win this skirmish but still sustain casualties. The route from Djibouti through the Ogaden to Somalia proves difficult since the Islamist tribes lack vehicles that can traverse the terrain and they lack “a good and sharp guide of the region.”<sup>62</sup>

In addition to these shipping costs, the firm sustained continual leakage through extortion from local clans and unintended losses during transportation as convoys and clan movements fell victim to banditry.<sup>63</sup> Greed and theft routinely enter the equation, leading Saif al-Islam to bitterly criticize the Somalis:

“...even though the thorny trees I described have sap and gum, no one uses them for anything. All the people there prefer to subsist off wheat and camel milk, and because of this, they are stingy and greedy. There are some stories so you can know about these people, such as the one about the man who left his wife to die of hunger because he wouldn’t slaughter a camel from his herd of more than 100. If they see a caravan of fair skinned-people approaching them, they will welcome them if the caravan looks rich. You would think this is so they can offer the caravan some hospitality, but it is exactly the opposite.”<sup>64</sup>

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<sup>57</sup> Ibid., 11.

<sup>58</sup> Harmony, AFGP-2002-800597, 10.

<sup>59</sup> Harmony, AFGP-2002-800621, 4.

<sup>60</sup> Harmony, AFGP-2002-600104, 17.

<sup>61</sup> Harmony, AFGP-2002-800640, 7.

<sup>62</sup> Ibid., 6.

<sup>63</sup> Harmony, AFGP-2002-800573.

<sup>64</sup> Harmony, AFGP-2002-600104, 7.

An additional, somewhat surprising expense was incurred because of Somali clan leaders' parochial concerns. Although many Somali clan leaders wanted to expel foreign occupiers, their first goal ultimately was always the security of their clan against local competitors. Abu Hafs routinely runs into difficulties building consensus among Somali leaders to focus on foreign occupiers instead of other Somalis. He has to spend scarce resources to create and maintain alliances between the tribes. Saif al-Islam complains, "we had Abd al-Salam [in the Revolutionary Council], who had taken \$20,000 from Abu Fatima (aka Abu Hafs) on behalf of the council! As for military affairs, they didn't even have any maps with enemy locations and movements."<sup>65</sup>

While the costs for operating in Somalia were greater than expected, the value of al-Qa'ida's compensation package to the locals was much lower than expected. The two major practical benefits al-Qa'ida offered to local allies were money for tribes and military training. The group's accounting records reveal that funding went to expected expenses such as individual salaries, personal loans, and a host of equipment needs such as socks, shoes, dishes, and camels.<sup>66</sup> Saif al-Islam outlines that meeting basic needs for "every individual will cost \$1.50 daily- \$45 monthly.... [T]herefore the camp force (30) will cost \$13,500 per month."<sup>67</sup> But operating his camp for three months will cost a minimum of \$130,000, and "this does not cover the administration, media and the tribe's expenses."<sup>68</sup> Clearly al-Qa'ida had to do more than just offer training; it had to directly pay "tribe's expenses".

Indeed, pecuniary benefits were the anchor for gaining support with the locals. Omar al-Sumali, a.k.a. Saif al-Adl, the expeditionary commander for Ras Kamboni, begs for resources with which to provide pecuniary benefits. He writes, "Give this locality a chance by supporting it financially and supplying good personnel. The potential is very good. We should move very quickly, and seize this opportunity for Jihad. It is a good locality, from which we can establish the expected (base for) work in Somalia."<sup>69</sup> The idea seems to have been to use pecuniary benefits as a foothold to begin providing the non-pecuniary benefits of Salafism and jihad.

Al-Qa'ida expected it to be quite easy to win the locals with money; after all, their country was poverty-stricken. However, once on the ground, al-Qa'ida's leaders realized that they had competition in Somalia. Their offer of pecuniary benefits bought only temporary commitments from the Somali clans. Even in the unstable environment of early-1990s Somalia, businessmen were a threat to al-Qa'ida's ability to recruit. Saif al-Islam explains how "a man came from Jarbo with money to distribute to the people, especially the tribal Sheikhs.... [H]e said that, 'we don't want political parties in our countries, and weapons either.... Our best interests are not being followed because the Islamic Union is here'."<sup>70</sup> Saif responds by recalibrating the al-Qa'ida strategy, establishing new "priorities of the jihadist effort: (which is) specify the primary enemy

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<sup>65</sup> Harmony, AFGP-2002-600104, 19.

<sup>66</sup> Harmony, AFGP-2002-800573.

<sup>67</sup> Harmony, AFGP-2002-800621, 13.

<sup>68</sup> Ibid.

<sup>69</sup> Harmony, AFGP-2002-600113, 7.

<sup>70</sup> Harmony, AFGP-2002-600104, 21.

(the businessmen), and postpone [efforts against] other groups.”<sup>71</sup> By eliminating business people Saif seeks to reduce the value of the pecuniary benefits he must offer to gain local recruits. Essentially draining an area of all outside financial support is seen as a way to increase al-Qa’ida’s leverage in recruiting individual terrorists and co-opting other groups to their cause. However, the group clearly recognized that to maintain the loyalty of the people, such a strategy must be followed by “supervision of liberated areas and securing of lives, funds, and property of all members of the populace.”<sup>72</sup>

Once financial benefits gained a foothold, the group planned to use the ideas of Salifism and violent jihad to provide non-monetary motivations for continued support. However, al-Qa’ida encountered unexpected challenges in winning the hearts and minds of Somalis. First, the majority of Somalis are Sufi and not Salafi. Saif al-Islam writes, “this problem [of Sufi vs. Salafist] was beginning to chafe me – I had heard about it before – and the day began in a very unsatisfactory way for me.”<sup>73</sup> In Somalia, overtaking traditional Sufi doctrine proved difficult for two reasons. First, the non-pecuniary benefits that Salafism offered did not exceed the tradition older Somalis valued in Sufism. Second, al-Qa’ida’s non-pecuniary membership benefits were less than the costs of leaving one’s clan. Even if they did find value in Salafism, individual recruits found the opportunity cost of leaving their established place in a clan far greater than the benefits of employment with al-Qa’ida. As Abu Bilal describes, “each member of the movement is fanatically attached to his tribe.”<sup>74</sup> The risks of joining al-Qa’ida were high as a new recruit could not be: (1) certain that he would not be severely punished for leaving the clan; (2) sure that al-Qa’ida would not be overwhelmed by surrounding tribes; nor (3) certain that al-Qa’ida would continue to operate in Somalia for the long term, especially if foreign interventions were eliminated.

In the final analysis, al-Qa’ida’s efforts to move into Somalia fell short for many of the same reasons that Western interventions there failed. Like United Nations and U.S. forces that ventured into Somalia, al-Qa’ida did not understand the political, economic and social dynamics of the country. The costs of this misunderstanding were felt in two ways. First, the lack of any form of governance created excessive operational costs for al-Qa’ida in Somalia. Instead of finding a safe haven like the tribal areas of Pakistan, al-Qa’ida in Somalia found a lawless land of shifting alliances, devoid of Sunni unity. Second, the Somali laborers ultimately placed a lower-than-expected value on the compensation package al-Qa’ida had to offer. The group could not provide benefits sufficient to overcome local loyalties. Although al-Qa’ida was successful in buying their way into a few tribes, the benefits of Salafism in 1993 did not outweigh the cost of tribal exclusion. The primacy of tribalism in Somalia ultimately frustrated al-Qa’ida’s efforts to recruit long term and develop a unified coalition against foreign occupiers. Al-Qa’ida mistook its call for jihad in Afghanistan as a universal motivator for which Muslims in Somalia would join at an equal rate. In 1993 Somalia, this call fell on somewhat deaf ears as survival against local competitors trumped jihad.

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<sup>71</sup> Ibid., 23.

<sup>72</sup> Harmony, AFGP-2002-600053, 3.

<sup>73</sup> Harmony, AFGP-2002-600104, 21.

<sup>74</sup> Ibid., 5.

Al-Qa'ida did find success in certain distinct areas which may provide some clarity for analyzing the threat from foreign terrorists operating in Somalia today. One area where al-Qa'ida was successful was in recruiting some youth away from clans in 1993 and 1994. There are three reasons for this success. First, the call to jihad resonated more with younger individuals seeking adventure. Secondly, the costs for youth to leave the clan were markedly smaller than for more elder individuals. The longer one has been in a tribe or clan, the more benefits, tangible and intangible, the clan member gains from remaining in the tribe. Recognizing the vulnerability of the youth to recruitment techniques, al-Qa'ida sought "to establish a coordination and communications center to connect the youth in the different areas in and out of the country.... [I]t is important to strengthen the unity between the people.... [T]his is very important in Jihad."<sup>75</sup> Thirdly, successful jihadi operations resonated more with young people. Saif found that after conducting operations, "now many Muslim youth from the surrounding cities want to join up with them [al-Qa'ida in Ras Kamboni]."<sup>76</sup>

More interestingly, in the one area in Somalia where al-Qa'ida may have established an enduring presence, it did so by providing local order. Omar al-Sumali won one village over by providing security and then immediately began ideological efforts. He writes, "we already formulated a political program for the Bajuni and the region ... [and] next week we will ask Sheikh Hassan to adopt the plan."<sup>77</sup> Al-Qa'ida was apparently able to effectively provide law and order near Ras Kamboni. The Bajuni, a tribal population of the east African coast, residing in the vicinity of Ras Kamboni, actually requested that al-Qa'ida operatives "stay and govern, and secure the city." As Omar al-Sumali explains, the Bajuni:

"...have noticed that the presence of the brothers prevented the highwaymen from entering the city, and the fishermen began coming to the shore to spend the night in the city.... [T]hey told our people that they do not want them to leave. They await the arrival of our wives and children. They freely gave fish to our people, and our people guarded the well while reading the Koran, and helped the fisherman get water."<sup>78</sup>

Today, Ras Kamboni is considered a hotbed of radical Islam and a stronghold of the Islamic Courts Movement. Since 2001, numerous reports suggested that Ras Kamboni served as a terrorist training camp and that jihadis from outside Somalia have taken over the area.<sup>79</sup> In interviews with Kenyan fishermen, there were people in Ras Kamboni that "were not locals, but rather, Arabs and other more 'European-looking type people' but who were Muslims."<sup>80</sup> Over the past two years, the Union of Islamic Courts essentially took control of many parts of Somalia due to its ability to provide law and order. The nature of its very name, "Islamic Courts," suggests that the benefits of security may be the foothold that al-Qa'ida can use in an attempt to spread its ideology.

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<sup>75</sup> Harmony, AFGP-2002-800640, 3.

<sup>76</sup> Harmony, AFGP-2002-600113, 6.

<sup>77</sup> Harmony, AFGP-2002-600113, 3.

<sup>78</sup> Ibid.

<sup>79</sup> Author interview, Kenyan fisherman, 28 September, 2001. See Appendix C-I.

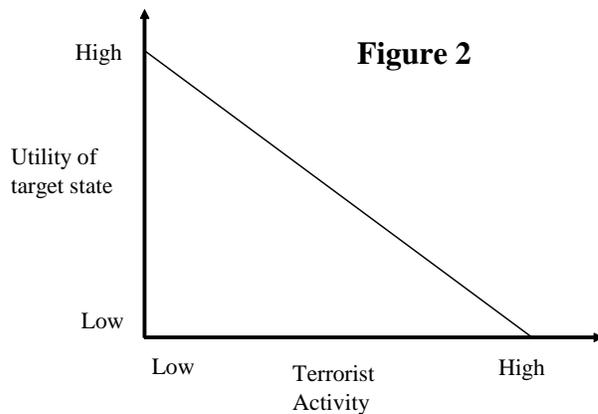
<sup>80</sup> Ibid.

However, despite the apparent local successes of Islamic militants, the dangers of operating in a failed state were dramatically illustrated during the recent Ethiopian invasion into Somalia. On January 8-10, 2007, American forces conducted a series of air raids on the area around Ras Kamboni in attempt to kill al-Qa'ida operatives seeking sanctuary there.<sup>81</sup> Such attacks are much less likely to occur against operatives working under the umbrella of state sovereignty.

## V. Weak states and counterterrorism.

The basic problem faced by developed nations seeking to support counterterrorism in weakly governed states is that these weak states often derive benefits and positive externalities from tolerating some degree of terrorist activity within their borders. The overall utility for weak states is not always reduced as the level of terrorism decreases. This leads to an agency problem similar to that faced by terrorist leaders.

In an ideal world, donor and recipient states would strictly prefer less terrorist activity to more, thus deriving the highest level of utility when no terrorism exists and incrementally less as terror levels increase. The utility curve for this hypothetical state is depicted in Figure 2.<sup>82</sup>



This relationship seems intuitive. Terrorism and the reputation for being at risk for terrorism inflict serious costs on a state. Domestic sources of terror can destabilize the government, call into question its legitimacy, and degrade its ability to govern effectively. Terrorists inflict casualties on civilians and the members of the military, police and internal security forces trying to

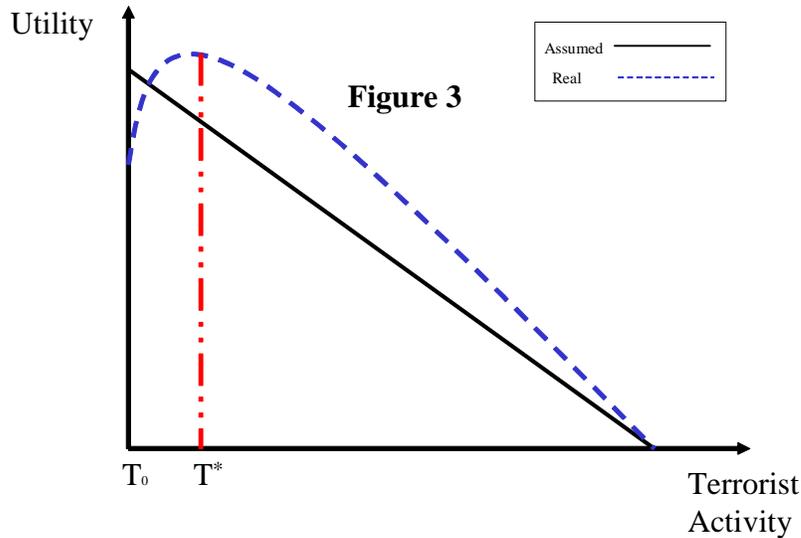
combat the threat. Foreign investors, wary of the risks of investment in terrorist-prone states, are encouraged to move capital to safer, more stable markets. The economies of states that depend on tourism—like Kenya—are especially hard hit when their state is considered at risk for terrorism and subject to travel advisories initiated by foreign governments. Terrorism is detrimental to states' interests on many levels and its downside effects are quite evident.

Unfortunately, the impact of terrorist problems on important actors in a number of states is not always strictly negative. In some cases, local government officials, internal security organizations and other institutions derive benefits from tolerating a certain level of terrorism. In other cases, leaders may experience strong domestic political pressure to tolerate or condone some limited presence and activity of groups that enjoy popular support, despite the fact that they meet or approach threshold U.S. definitions of a

<sup>81</sup> "Somalia says al-Qaida embassy bombing suspect believed killed," *The Guardian*, January 10, 2007.

<sup>82</sup> The following figures and analysis are adapted from Joseph H. Felter, "Aligning Incentives to Combat Terror," in Rohan Gunaratna, ed., *Combating Terrorism* (Singapore: Marshall Cavendish Academic, 2005).

terrorist organization.<sup>83</sup> Ultimately, it may not be politically viable for some state leaders to move from  $T^*$  to  $T_0$  as depicted below given the internal demands and aggregated interests of their constituents (See Figure 3). In such states, the optimal level of terrorism from the government’s perspective is greater than zero.

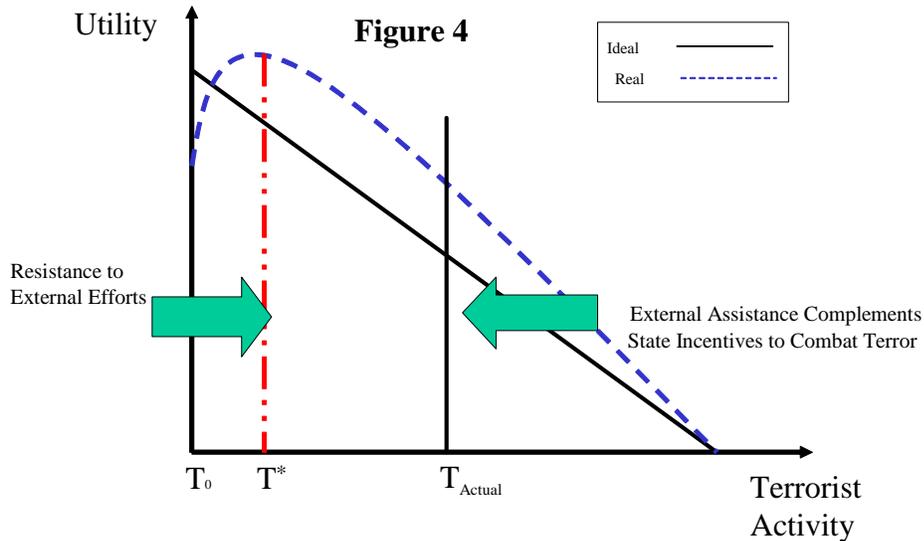


Disaggregating the state to its institutional components helps reveal factors that could modify a state’s commitment to “finishing the task” of defeating the terrorist threat within its borders. Consider the institutional interests and biases of a state’s military, particularly in states like Kenya that have serious internal security threats and where the military is employed to maintain order. The military may secure a larger portion of the central government’s expenditures, maintain higher force levels, and enjoy greater institutional prestige and autonomy if an internal threat such as terrorism exists. Thus members of organizations responsible for maintaining internal security may prefer a level of terror  $T^*$  to no terror at all.

When the actual level of terror is greater than the ideal level for a given state or key institutions within the state ( $T_{Actual} > T^*$ ), external assistance to combat terrorism can complement and empower the state’s efforts to reduce terror. While the assistance for combating terror may not be used as efficiently as the provider desires, the target state does have the incentive to implement strategies to reduce the overall level of terrorism to its ideal point  $T^*$ .

<sup>83</sup> Consider for example the Indonesian government’s tepid response to Jemaah Islamiyah (JI) and their less-than-aggressive pursuit of Abu Bakar Bashir, the former emir of Jemaah Islamiyah who was released from prison in June 2006 after serving a reduced sentence for his role in inspiring the 2002 Bali bombings.

The challenge for effective strategies to combat terror from an external state's perspective arises when the actual level of terror approaches a given state's ideal level of terrorism. This shift in incentive compatibility is depicted at Figure 4.



When the actual terrorist presence or level of activity in a state ( $T_{Actual}$ ) is reduced to a point close to  $T^*$ , a rational state leader or influential stakeholder within the government will resist efforts to reduce the level of terror beyond  $T^*$ . Reductions beyond this point may be in the interests of the aid provider but not the target state. Strategies intended to reduce terror further must anticipate the fact that leaders and key institutions may reach a point where they face negative returns from continued cooperation.

The dynamic described in Figure 4 confronts bilateral cooperation efforts in a variety of other circumstances beyond combating terror. For example, U.S. initiatives to assist and cooperate with other states to interdict threats from drugs, transnational crime, and insurgency also meet resistance when the incentives to cooperate diverge.

Since 9/11, divergent incentives between provider and recipient states have become an obstacle to combating terrorism. The United States-led Global War on Terror initiated a huge increase in foreign aid disbursed to states cooperating in efforts to defeat terrorist threats. Table 1 depicts some of the largest increases in foreign appropriations from the beginning of U.S. operations through the end of 2003. Clearly many countries have received a significant windfall from U.S. aid provided to support this effort.

**Table 1: Foreign Appropriations (in millions)**

| <b>Country</b> | <b>2001<br/>(Pre 9/11)</b> | <b>Post 9/11<br/>-2003</b> | <b>Real Increase</b> |
|----------------|----------------------------|----------------------------|----------------------|
| Pakistan       | \$3.50                     | \$1,293.50                 | \$1,290.00           |
| Colombia       | \$4.67                     | \$573.18                   | \$568.51             |
| Uzbekistan     | \$28.10                    | \$171.10                   | \$143.00             |
| Georgia        | \$4.98                     | \$116.30                   | \$111.32             |
| Philippines    | \$7.40                     | \$82.90                    | \$75.50              |
| Tajikistan     | \$16.70                    | \$70.40                    | \$53.70              |
| Kyrgystan      | \$35.30                    | \$87.80                    | \$52.50              |
| Yemen          | \$5.30                     | \$38.60                    | \$33.30              |
| Nepal          | \$0.20                     | \$29.50                    | \$29.30              |
| Indonesia      | \$49.90                    | \$76.90                    | \$27.00              |
| Turkmenistan   | \$7.30                     | \$19.20                    | \$11.90              |
| Djibouti       | \$0.60                     | \$6.40                     | \$5.80               |

Federation of American Scientists Arms Sales Monitoring Project.<sup>84</sup>

This windfall has in turn created a set of perverse incentives for states with a terrorist presence.<sup>85</sup> Consider two states, a recipient and a donor. The donor state conditions its assistance on the level of terror observed in or projected from the recipient state. The donor state provides more assistance to states experiencing greater terrorist threats. Knowing it will get more aid in the future if it does not fully eradicate the terrorist threat, the recipient state has strong incentives to maintain some level of terrorism. This dynamic played out in the Philippines where local government officials profited from various terrorist activities by the Communist Terrorist Movement and later the Abu Sayyaf Group. Incentives to tolerate—in some cases even promote—a certain level of terrorism at local levels challenges efforts by the central government to combat the threat.<sup>86</sup>

<sup>84</sup> Pre-9/11 figures reflect all sources of aid appropriated by the Foreign Operations and Appropriations Act for the year 2001. Post 9/11 figures include two supplemental appropriations acts passed in late 2001 and in 2002 as well as the aid included in the 2003 Foreign Operations Appropriations Act. Some aid was given to states to interdict terrorists with links to al-Qa’ida within their borders, e.g. Georgia, Philippines, and Yemen, while other states were cooperating with the U.S. in its operations in Afghanistan as part of Operation Enduring Freedom. In cases such as Colombia, special aid to interdict narco-terrorists was provided. This table was adapted from data compiled by Tamar Gabelnick and Matt Schroeder of the Federation of American Scientists Arms Sales Monitoring Project and published in the January/February 2003 *Bulletin of the Atomic Scientists*.

<sup>85</sup> For a game-theoretic analysis of this problem see Felter, “Aligning incentives.”

<sup>86</sup> This agency problem between the Philippine central government and local officials stemmed from how resources were allocated by the central government to address terrorist challenges. Resources were committed based on the presence and level of terrorist activities in a certain area. This created perverse incentives to promote/signal a level of terrorist activity that could capture government rents conditioned on such activities. The increase in external assistance provided by the United States following 9/11 made this particularly problematic as good governance at local levels was in a sense being punished while the

The conditions for states to prefer a non-zero level of terrorism are likely to occur in states like Kenya where terrorism ranks low on the list of internal security problems, where the state faces no significant external threat, and where the presence of terrorism leads to large aid flows. In such states, providing economic and security assistance to combat terrorism based on the presence of terrorists, or the severity of its threat, actually risks *increasing* the expected future level of terror in that target state. Aid conditioned on *level* of terror provides a perverse incentive to tolerate more terror with the expectation of receiving even greater aid in the future. Conditioning foreign aid on the amount of measurable effort a state makes to combat terror, however, provides states the incentives to actively reduce their terrorist threats. Ultimately, states interested in combating terrorism are better off not providing *any* additional foreign aid to a state than they are disbursing aid based on the target state's level of terrorism or terrorist activity.

Successful counterterrorism assistance to weak states requires creating incentives that promote effective internally generated and sustainable counterterrorism measures. To do this, cooperative bilateral and multilateral efforts to help weak states must be based on how hard states try to fight terrorism. Basing such efforts on the threat of terrorism creates perverse incentives that may lead local officials to prefer low levels of terrorism to no terrorism at all.

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opposite was rewarded. See Joseph H. Felter, "Taking Guns to a Knife Fight: A Case for Empirical Study of Counterinsurgency" (Ph.D. diss., Stanford University, 2005).