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Examining Cryptocurrency Use among Muslim Affiliated Terrorists: Case Typology and Regulatory Challenges in Southeast Asian Countries

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Abstract:

Many policymakers and scholars have discussed concerns regarding terrorist group use of cryptocurrency in recent years. While some argue that the threat is still limited, others argue that the current usage of cryptocurrency does not match the entirety of features that terrorist groups require and desire. In the end, it is still critical to recognize that the cryptocurrency used for terrorist financing frequently depends on several influencing factors. This study aims to (i) investigate the utilization of cryptocurrency by Moslem-affiliated terrorists in Southeast Asia; (ii) map the case typology of cryptocurrency use in Southeast Asian terrorist funding; (iii) describe the

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regulatory challenges raised in Southeast Asia. This research is a type of doctrinal legal one using the statute, case, and conceptual approaches. The results of this study acknowledge the limited but increasing risk of terrorist financing by cryptocurrency over the 2015-2022 timeframe in Southeast Asia. Furthermore, the existing typology of cases uses smurfing and structuring techniques with high and medium levels of risk. This research ends by recommending actions that Southeast Asian country stakeholders can take to reduce the potential of cryptocurrency usage in terrorist funding by harmonizing their counter-terrorist financing regulatory approaches and implementing investigative best practices.

Keywords:

Cryptocurrency; Terrorist Financing; Southeast Asia

Introduction

In the context of blockchain, cryptocurrency is treated as a general term. It is a virtual currency built on a decentralized network and secured with encryption technology for a distributed digital economy.¹ These technologies have proven their global reach and anonymity in attracting progress and radically changing the economic environment.² Emerging criminals have also exploited them by offering opportunities for use as an ecosystem for terrorism financing.³ For terrorist groups in particular, despite their extreme volatility, cryptocurrency as a terrorism financing innovation is attractive for ideological reasons. There is no central issuing and supervisory authority, no borders, almost instant settlement, and if

¹ Mohammad Hashemi Joo, Yuka Nishikawa, and Krishnan Dandapani, "Cryptocurrency, a Successful Application of Blockchain Technology," *Managerial Finance* 46, no. 6 (2019): 715-33.

² Ibid.

³ Sessa Kethineni and Ying Cao, "The Rise in Popularity of Cryptocurrency and Associated Criminal Activity," *International Criminal Justice Review* 30, no. 3 (2020): 325-44.

carefully structured, possible anonymity for end-users who wish to avoid detection by authorities.⁴

It makes sense, therefore, to find that terrorist organizations have experimented with using bitcoins to fund their operations in recent years, hampering complicating anti-terrorism efforts. Terrorist groups turned to cryptocurrency as early as 2014 when the Islamic State of Iraq and Syria (ISIS) began fundraising by announcing that it was on its campaign agenda.⁵ This was followed by the Financial Action Task Force (FATF) issuing a report titled "Emerging Terrorist Funding Risks" in October 2015, examining terrorist financing issues related to virtual currencies which have become a tool for terrorism financing by allowing terrorist groups to move cash quickly worldwide.⁶ In 2016, the Gaza-based Mujahideen Shura Council announced a Bitcoin fundraiser on Twitter and Telegram with a list of weapons, including rockets, rifles, grenades, and other tactical equipment.⁷ Additionally, the book "*Bitcoin wa Şadaqât al Jihâd*," created by some extremists, clearly explains how to send Bitcoin to *jihadists*.⁸ In December 2017, the *Al Şadaqah* group also started posting on Telegram and Twitter asking its sympathizers to transfer Bitcoin through charity wallets.⁹ More recently, authorities have detected that *jihadists* have engaged in cryptocurrency-enabled fundraising operations through charities, media or propaganda offices, and other terrorist groups.¹⁰

At the same time, lack of inter-agency coordination and socialization, weak monitoring and compliance, and challenges in

⁴ Hashemi Joo, Nishikawa, and Dandapani, "Cryptocurrency, a Successful Application of Blockchain Technology."

⁵ Maura Conway and Stuart Macdonald, "Introduction to the Special Issue: Islamic State's Online Activity and Responses, 2014-2017," *Studies in Conflict & Terrorism* 42, no. 1 (2019): 1-4.

⁶ Financial Action Task Force, "Emerging Terrorist Financing Risks," 2015.

⁷ Angela S.M. Irwin and George Milad, "The Use of Crypto-Currencies in Funding Violent Jihad," *Journal of Money Laundering Control* 19, no. 4 (2016): 407-25.

⁸ Gabriel Weimann, "Going Dark: Terrorism on the Dark Web," *Studies in Conflict & Terrorism* 39, no. 3 (2016): 195-206.

⁹ Douglas J. Cumming, Sofia Johan, and Anshum Pant, "Regulation of the Crypto-Economy: Managing Risks, Challenges, and Regulatory Uncertainty," *Journal of Risk and Financial Management* 12, no. 3 (2019): 126.

¹⁰ Hashemi Joo, Nishikawa, and Dandapani, "Cryptocurrency, a Successful Application of Blockchain Technology."

looking for the identity and origin of crime assets are deemed to promote cryptocurrency adoption that increases the severe threat to terrorism financing in Southeast Asia. The potential for terrorist groups to exploit and abuse the unlimited access to cryptocurrency as a covert means of transferring funds in Southeast Asian countries is also highlighted.¹¹

In this current research, we focus on the actions of two Moslem-affiliated terrorists, Al-Qaeda and ISIS, for two main reasons. The first one is because it is believed that each of these groups has used cryptocurrencies to help fund terrorism. *Second*, while these groups may have different goals, cryptocurrency can benefit them due to the need for anonymous funding streams to avoid scrutiny from authorities. As cryptocurrency is still a relatively new way of funding terrorism, this study helps to investigate how Muslim-affiliated terrorists in Southeast Asia utilize it to support their operations.

Therefore, this research aims to explore and map the case typology of cryptocurrency usage in terrorist funding and describe the regulatory challenges raised in Southeast Asia. This research shows that cases of cryptocurrency-backed terrorism financing have grown in a limited but increasing manner in Southeast Asia in recent years. Therefore, it emphasizes that stakeholders of each Southeast Asia country should be positioned to align their regulatory approaches while following investigative best practices to effectively address the risks and vulnerabilities of terrorism financing through cryptocurrency.

Method

This research is a type of doctrinal legal research. Doctrinal legal research seeks to find the correct answer to legal issues or questions by making specific inquiries to identify specific pieces of information.¹² Following the problems studied, the approach used is the statute, case, and conceptual.¹³ The first approach is used to investigate issues at the normative level, while the second is to

¹¹ Sylvia Laksmi, "Terrorism Financing in Southeast Asia: Transformations, Continuities and Challenges," *Counter Terrorist Trends and Analyses* 14, no. 5 (2022): 5.

¹² P. Ishwara Bhat, "Doctrinal Legal Research as a Means of Synthesizing Facts, Thoughts, and Legal Principles," in *Idea and Methods of Legal Research* (Oxford University Press, 2020), 143–68.

¹³ *Ibid.*

investigate problems in practice and create case typologies. Meanwhile, the third one is utilized to investigate CTF (Counter-Terrorist Financing) compliance related to cryptocurrency, aiming to maximize risk mitigation measures and avoid becoming a target or a means of terrorism financing by terrorist organizations.

The data used are a form of primary legal materials and secondary legal materials. The primary legal material consists of all cryptocurrency-related regulations in all Southeast Asian countries. To ascertain and examine the growth of terrorist groups interested in funding terrorist activities, secondary legal materials such as publications and websites related to terrorist financing through cryptocurrency were analyzed. We also looked at press releases and other published materials to see if these terrorist groups have used cryptocurrency for fundraising, financial transfers, or recent funding terror incidents.

The method of analysis is qualitative as it involves the compilation and systematization of legal propositions by legal reasoning or in-depth logical deduction. They stem from both primary and secondary data to answer the question of what the law is concerned with the use of cryptocurrency in Southeast Asia by analyzing the form of their application. The article provides an overview of the observations more significantly by highlighting cases seen in Southeast Asia. In the end, it will discuss potential steps that stakeholders in Southeast Asian countries¹⁴ might take to enable counter-terrorism financing measures against cryptocurrency.

Result and Discussion

Cryptocurrency within the Context of Terrorist Financing in Southeast Asia Countries

In this first section, we identified three cases from 2015-2022 in which Muslim-affiliated terrorists run their actions in Southeast Asian countries. They are Bahrun Naim, Abu Ahmed Foundation, and ISIS. While Bahrun Naim affiliates with ISIS, Abu Ahmed belongs to Al-Qaeda. Their three are known to collect, move, hide, and use funds through cryptocurrency.

¹⁴ Milda Istiqomah and Fachrizal Afandi, "The Urgency of Gender-Based Counterterrorism Policy Regulation in Indonesia," *Sriwijaya Law Review*, 2022, 213, <https://doi.org/10.28946/slrev.Vol6.Iss2.1628.pp205-223>.

In a more general scope, Al-Qaeda is also known as an affiliated *jihadi* group conducting preliminary experiments on using cryptocurrency to fund their terrorism in Southeast Asia. Before September 11, 2001, it is believed that Al-Qaeda had a significant financial reliance on donations, most of which were sent through the *hawala*.¹⁵ Following the 9/11 attacks, the group was forced to engage in innovative strategies as counter-terrorism efforts by the United States threatened its dominance.¹⁶ Al-Qaeda and its affiliated groups have demonstrated adaptability and innovation in their funding strategies, incorporating various methods. This included applying a combination of taxes and checkpoint fees, diaspora remittances, and trade-based terrorist financing to fund terrorist activities.¹⁷ Similarly, Al-Qaeda has shown that it can use cryptocurrency to fund its fighters, suggesting this trend is too pervasive in Southeast Asia.¹⁸

Moreover, The Middle East Media Research Institute has identified the Abu Ahmed Foundation, a non-governmental fundraising organization based in Indonesia, as having expressed interest in Al-Qaeda's involvement in the Syrian conflict.¹⁹ The foundation has reportedly collaborated with Malhama Tactical, a mercenary *jihadi* army group, to train personnel supporting *Hay'at Tahrir al-Sham*, which has been raising funds with cryptocurrency.²⁰ According to research by Arduino and Soliev, Malhama Tactical can support itself by providing training services and through donations.²¹ Funding from donations obtained through posters, internet platforms, and social networking sites is used to raise funds, including digital

¹⁵ Mark Basile, "Going to the Source: Why Al Qaeda's Financial Network Is Likely to Withstand the Current War on Terrorist Financing," *Studies in Conflict & Terrorism* 27, no. 3 (2010): 169-85.

¹⁶ Ibid.

¹⁷ Juan Zarate, "Learning Curve," in *Treasury's War: The Unleashing of a New Era of Financial Warfare* (New York: Public Affairs, 2013), 362-363.

¹⁸ Christopher Whyte, "Cryptoterrorism: Assessing the Utility of Blockchain Technologies for Terrorist Enterprise," *Studies in Conflict & Terrorism*, 2019, 1-24.

¹⁹ The Middle East Media Research Institute, "Indonesian Fundraising Group Abu Ahmed Foundation Continues To Encourage Supporters To Donate Using Cryptocurrencies," 2018.

²⁰ Alessandro Arduino and Nodirbek Soliev, "Malhama Tactical - The Evolving Role of Jihadist Mercenaries in the Syrian Conflict," 2021.

²¹ Ibid.

payments and cryptocurrency.²² Abu Ahmed Foundation donations were also sent to Malhama Tactical terrorists in Syria via the Bitcoin Transfer Centre where the donated funds were converted into fiat currency so that they can be used to finance jihadist foodstuffs and ammunition.²³

The next identified Muslim-affiliated terrorist is ISIS. Unlike its predecessor Al-Qaeda, ISIS has adopted an economic model that resembles a state.²⁴ This model involves procuring and selling various commodities, including petroleum, at impressive rates to generate revenue.²⁵ It also imposes a strong taxation system on the civilian population, such as levying taxes on agricultural products and other commodities.²⁶ ISIS's emphasis proved to be beneficial after 2013, facilitating the increase of its authority and power.²⁷ Evidently, ISIS managed to gain and maintain territorial control throughout the Middle East region for a long period and infiltrate many parts of the world to expand Islam's Holy War.²⁸

Along the way, the implementation of the funding model was impeded by the global counterterrorism campaign against ISIS which intensified and became more coordinated due to the violent acts of their aggression which was perceived as a flaw in their approach.²⁹ Furthermore, some of its previously occupied territories have been taken from its adversaries, including Al Qaeda and Hezbollah, hindering and reducing ISIS' opportunities to acquire and trade commodities.³⁰ Simultaneously, ISIS has exhibited heightened susceptibility to intervention, and its economic assets persist in being

²² Ibid.

²³ Ibid.

²⁴ Michaela Martin and Hussein Solomon, "Islamic State: Understanding the Nature of the Beast and Its Funding," *Contemporary Review of the Middle East* 4, no. 1 (2017): 18-49.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Yosef Jabareen, "The Emerging Islamic State: Terror, Territoriality, and the Agenda of Social Transformation," *Geoforum* 58 (2015): 51-55.

²⁸ Ibid.

²⁹ Mahmood Monshipouri, Claude E. Welch, and Khashayar Nikazmrad, "Protecting Human Rights in the Era of Uncertainty: How Not to Lose the War against ISIS," *Journal of Human Rights* 16, no. 1 (2017): 1-24.

³⁰ Hassanein Ali, "The Rise and Fall of Islamic State: Current Challenges and Future Prospects," *Asian Affairs* 51, no. 1 (2020): 71-94.

leveraged against its adversaries and numerous nations in furtherance of the worldwide endeavor to dismantle and fight it.³¹ The difficult geography of ISIS poses challenges in accessing conventional financial services such as banking.³² Therefore, ISIS has started shifting from the conventional realm to the digital realm by exploring cryptocurrencies for new strategies in terrorism funding.³³

Preliminary indications suggest that ISIS has employed digital currency in Southeast Asia. The Indonesian Financial Intelligence Unit has discovered that Bahrin Naim, who operates as the mastermind behind the assaults in Indonesia while being affiliated with ISIS in Syria, is involved in this practice.³⁴ He sent funds worth 70 million bought in Bitcoin via Paypal then transferred it to the Paypal accounts of Arif Hidayatullah's wives and Nurohman, his fellow militants.³⁵ After the transfer, the funds from Paypal were exchanged for fiat currency and used to finance terrorism activities in Indonesia.³⁶ It started in Jakarta with a suicide bombing on MH Tharim Street in January 2016 and ended in Solo Police Station on 5 July 2016.³⁷

Later in 2020, the Philippine Institute for Peace, Violence, and Terrorism Research (PIPVTR) discovered the utilization of cryptocurrency to fund terrorism by ISIS in the southern region of the Philippines.³⁸ ISIS was known to use cryptocurrency in terrorist funding to finance the presence of foreign-trained fighters affiliated with regional terrorist groups such as *Jemaah Ansharut Daulah* (JAD) and *Mujahidin Timur Timur* (MIT).³⁹ According to the findings of PIPVTR, the funds for organizing terrorist activities in Mindanao

³¹ Ibid.

³² Ibid.

³³ Whyte, "Cryptoterrorism: Assessing the Utility of Blockchain Technologies for Terrorist Enterprise."

³⁴ Pusat Pelaporan dan Analisis Transaksi Keuangan, "Bahrin Naim Kirim Dana Lewat Paypal," 2017.

³⁵ Amparo Pamela Fabe, "Terrorism Financing Continues Unabated During the Covid 19 Pandemic," Philippine Institute for Peace, Violence and Terrorism Research, 2020.

³⁶ Ahmad Helmi Hasbi and Remy Mahzam, "Cryptocurrencies: Potential For Terror Financing?," S. Rajaratnam School of International Studies, 2018.

³⁷ Fabe, "Terrorism Financing Continues Unabated During the Covid 19 Pandemic."

³⁸ Ibid.

³⁹ Ibid.

were through the scheme of illegally collecting money before being transferred through new payment mechanisms, such as cryptocurrency exchanges, to mask the funds and make them look legitimate.⁴⁰ In this case, transactions attempt to convert cryptocurrency into a fiat currency which will return to an address associated with the terrorist group.⁴¹

Preliminary research suggests few examples of adoption in Southeast Asia, and there is no reason to expect this trend to reverse soon. Ultimately, groups like Al-Qaeda that do not have much trouble getting funded have not adopted cryptocurrency in a big way because it still combines some of its old ways, including donation and *hawala* created with connected *Jihadist* groups. The likelihood of ISIS adopting cryptocurrency is higher than that of Al Qaeda in Southeast Asia since ISIS has begun to experience strategic shifts in funding terrorists.

Case Typologies Analysis

There is an urgent need to improve understanding, especially among stakeholders, of the current typology as a form of responsiveness to update the necessary risk mitigation in efforts to prevent and eradicate the financing of terrorism through cryptocurrency. Within the scope of this article, typology is understood as a study of a set of methods, techniques, schemes, or instruments used by Muslim-affiliated terrorists in Southeast Asia, including options for avoiding identification and tracking. This typology study is expected to increase awareness, especially for relevant authorities, as well as other critical stakeholders, on the mode and potential risks to optimize the mitigation efforts carried out so as not to become a means and target for Muslim-affiliated terrorists.

Table 1 presents an evaluation of the case typology that utilizes the previous findings we have described before. This section presents an evaluation of the case typologies with respect to their use, technological complexity and capabilities, and the likelihood of their proliferation in the future. The typology is categorized into three risk levels, namely high, medium, and low. The term "high risk" refers to the assertion that instruments in support of the use of

⁴⁰ Ibid.

⁴¹ Ibid.

cryptocurrencies are indispensable to facilitate terrorist activities and that the absence of such instruments would preclude support for such activities. Categorization as "medium risk" implies that instruments in support of cryptocurrency use have a medium level of significance in facilitating terrorist activities, serving to support a fraction of pre-existing operations. While "low risk" relates to instruments in support of the use of cryptocurrencies that are less efficient to implement due to the magnitude of the obstacles encountered.

Table 1. Assesment Case Typologies

Case	Financial Activities	Scheme	Risk Level
Bahrn Naim	Remittances and transfer fund	Smurfing	High Risk
Abu Ahmed Foundation	Fundraising	Structuring	Medium Risk
ISUS	Operational funding	Structuring	Medium Risk

Source: Authors

Based on Table 1, we identified three typologies of Muslim-affiliated terrorism financing activities using cryptocurrency in Southeast Asia. Starting with the case of Bahrn Naim, the instrument was used through Paypal to support terrorist activities in Indonesia. The scheme used was smurfing, a technique to transfer the fund to multiple destination accounts owned by family members or fellow networks. Bahrn Naim was known to transfer the fund to Arif Hidayatullah and Nurohman as his fellow militants. In terms of adoption rates, the use of this tactic is classified as high risk due to the provision of enhanced anonymity and accelerated delivery, making it more difficult to be traced or identified by authorities.

Relating to this, the FATF has highlighted how terrorist organizations that rely on sophisticated financial infrastructures must pay attention to the robustness of their financial systems. This aims to limit or prevent the loss of skillful personnel in using such financial infrastructures.⁴² In this case, Bahrn Naim is considered a potential figure to be an opportunistic expert, providing knowledge on the optimal use of cryptocurrency and security protocols. Despite the high stakes of this tactic, there is a potential risk of price volatility, loss

⁴² Financial Action Task Force, "Emerging Terrorist Financing Risks."

of technological capability, or inability to access cryptographic keys, all of which could lead to a complete loss of funds. This, in turn, reduces the security and dependability of Muslim affiliated-terrorists to continue using cryptocurrency as an alternative terrorism funding tactic.

Meanwhile, Abu Ahmed Foundation and ISIS use a combination between *hawala* and cryptocurrency. In addition, they use a similar structuring scheme, where transactions are broken down into relatively smaller amounts and executed in multiple phases with high frequency over a set period. The difference between the two lies only in the instruments used, which results in different implications for the efficacy of their funding efforts.

In the case of the Abu Ahmed Foundation, they use fundraising instruments. Abu Ahmed Foundation uses social media extensively to reach for fundraising and relies heavily on online solicitation. Initially, sympathizers deposit funds into *hawala* accounts in fiat currency. Afterward, the *hawala* will be converted into cryptocurrency and transferred to an address owned by the terrorist group which will use a Bitcoin transfer center (Bitcoin ATM) to convert it to fiat currency. Regarding adoption, fundraising can be classified as a medium risk because the anonymity of donors and recipients aims to obscure transactions during fundraising.

Furthermore, regarding usability, the process still needs to be completed for donors and recipients, unlike Bahrun Naim's method which requires skilled personnel. This strategy may seem more convenient, but its implementation requires the availability of infrastructure, such as Bitcoin ATMs which may not be easily accessible to Muslim-affiliated terrorists. Similarly to the Abu Ahmed Foundation, the case of ISIS in the Philippines can still be considered as a medium risk given the anonymity of using cryptocurrencies. However, it is challenging to be widespread due to inadequate infrastructure and internet networks in the areas where terrorist groups hide.

Based on the previous findings, the most widespread possibility among the three cases is the use of Bitcoin. Another cryptocurrency that allows for greater anonymity may emerge, but Bitcoin is now more popular because it offers more liquidity when

converted into fiat currency.⁴³ In addition, Bitcoin now has the largest market capitalization among other cryptocurrencies and recently, the price of Bitcoin has also reached new highs.⁴⁴ There is no doubt that the use of Bitcoin is more promising as a hedge against financial markets due to its decentralization and the fact that it is not subject to short-term fluctuations in market supply and demand due to geopolitical considerations.⁴⁵

Despite this preliminary evidence, the conventional method—such as *hawala*, donations, financial institution services, bank transfers, money service businesses, and other financial institutions—is still more frequently used. At the very least, terrorist groups still face difficulties finding vendors accepting cryptocurrency or facilitators that can convert them into fiat currency or other financial assets. This includes locating members who know and master the fundamentals of using cryptocurrency, including attempting to convert it into fiat currency using inadequate telecommunications infrastructure.⁴⁶ In the opinion of Wang and Zhu, although terrorist groups have recognized the advantages of cryptocurrency, the volatility of cryptocurrency compared to *hawala* makes cryptocurrency less attractive for large-scale use.⁴⁷ The main reason is the inability of cryptocurrency to be used in the long term due to the weak control over their poor development.⁴⁸ Additionally, Last, Carroll, and Windle note that terrorist group leaders worry about exercising control over fiat money given to other militants because internet

⁴³ Md Akhtaruzzaman, Ahmet Sensoy, and Shaen Corbet, “The Influence of Bitcoin on Portfolio Diversification and Design,” *Finance Research Letters* 37 (2020): 101344.

⁴⁴ Laith Almaqableh et al., “An Investigative Study of Links between Terrorist Attacks and Cryptocurrency Markets,” *Journal of Business Research* 147 (2022): 177–88.

⁴⁵ Michael Freeman, “The Sources of Terrorist Financing: Theory and Typology,” *Studies in Conflict & Terrorism* 34, no. 6 (June 2011): 461–75, <https://doi.org/10.1080/1057610X.2011.571193>.

⁴⁶ See Andrew T. H. Tan, “Evaluating Counter-Terrorism Strategies in Asia,” *Journal of Policing, Intelligence and Counter Terrorism* 13, no. 2 (2018): 155–69.

⁴⁷ Shacheng Wang and Xixi Zhu, “Evaluation of Potential Cryptocurrency Development Ability in Terrorist Financing,” *Policing: A Journal of Policy and Practice* 15, no. 4 (January 2022): 2329–40, <https://doi.org/10.1093/police/paab059>.

⁴⁸ Freeman, “The Sources of Terrorist Financing: Theory and Typology.”

networks are not accessible in some regions where terrorist groups hide.⁴⁹

In other words, the use of cryptocurrency does have some impact on the use of terrorist financing in the Southeast Asia region, although it is still in its infancy and not yet massive. However, given the potential growth of cryptocurrency and blockchain technology in the years to come, it is unlikely that this level of use will stay low.⁵⁰ Moreover, perhaps most significantly, each Southeast Asia country should consider regulating cryptocurrency even though they are still a relatively new funding source for terrorism. This is due to the significant consequences of the weak regulatory regime that allows terrorist groups to innovate and better use this new mode of transportation. Furthermore, severe repercussions of a lax regulatory framework allow terrorist groups to move, hide and obscure the flow of transactions against state intervention from CTF measures not available in cryptocurrency.⁵¹ In this regard, dealing with it should be watchful while seeking ways to enhance cryptocurrency regulatory systems primarily to prevent terrorist funding through these channels in Southeast Asia countries.

Supervision and Compliance of Southeast Asia Countries: Regulatory Challenges Raised

Christine Lagarde, the Managing Director of the IMF (International Monetary Fund), once said that since cryptocurrencies have no geographical boundaries, their regulatory framework must also be global.⁵²⁵³ Experts and researchers have said the same thing. Teichmann, among others, states that because cryptocurrencies are decentralized, which circumvents almost all national laws, international legislation is needed to provide effective measures to

⁴⁹ Paul Carroll and James Windle, "Cyber as an Enabler of Terrorism Financing, Now and in the Future," *Journal of Policing, Intelligence and Counter Terrorism* 13, no. 3 (2018): 285–300.

⁵⁰ Freeman, "The Sources of Terrorist Financing: Theory and Typology."

⁵¹ Ibid.

⁵² Christine Lagarde, "An Even-Handed Approach to Crypto-Assets," International Monetary Fund, 2018.

⁵³ Dinda Rosanti Salsa Bela et al., "Meta-Analysis at the Root of Terrorism from the Perspective of Islamic Movement in Indonesia," *Al-Ihkam: Jurnal Hukum Dan Pranata Sosial* 16, no. 02 (2021): 392–420, <https://doi.org/10.19105/al-ihkam.v16i2.4817>.

curb its use in terrorist financing.⁵⁴ Therefore, an international regulatory framework like the one proposed by Fletcher et al is essential if it is to be effective in the fight against the threat of terrorist financing of cryptocurrency.⁵⁵

The same was expressed by Kfir who urges the international community to adopt a strong and binding regulatory regime to tackle the threat of terrorist financing of cryptocurrency considering it as a global problem.⁵⁶ Furthermore, Schmidt makes it clear that the guidance of the FATF as an intergovernmental body representing more than 200 countries can play an important role by offering the establishment of a common regulatory framework due to its mandate as a global body.⁵⁷ For this matter, we revisit the previous explanation of Schmidt that bases on the FATF guidance recommendations.

Since 2012, the risk-based approach and standard have been urged by the FATF to be implemented by states, relevant authorities, and financial institutions to reduce the risk of money laundering and terrorist financing.⁵⁸ The FATF's decades of experience and success in developing standard measures, implementing the CTF, and ensuring their compliance make it an ideal global authority for developing and setting recommendations for new standards of virtual assets which include cryptocurrency.⁵⁹ Moreover, because of the emergence of cryptocurrency, the FATF has been actively setting international guiding standards which we have summarised in Table 2 as follows.

Table 2. Overview of FATF Guidance for Cryptocurrency Responses

FATF Guidance	Remarks
Guidance for a Risk-Based Approach: Virtual	This guide did not officially compel business providers to implement CTF and only include virtual

⁵⁴ Fabian Maximilian Teichmann, "Current Trends in Terrorist Financing," *Journal of Financial Regulation and Compliance* 30, no. 1 (2022): 107-25.

⁵⁵ Emily Fletcher, Charles Larkin, and Shaen Corbet, "Countering Money Laundering and Terrorist Financing: A Case for Bitcoin Regulation," *Research in International Business and Finance* 56 (2021): 101387.

⁵⁶ Isaac Kfir, "Cryptocurrencies, National Security, Crime and Terrorism," *Comparative Strategy* 39, no. 2 (2020): 113-27.

⁵⁷ Alicia Schmidt, "Virtual Assets: Compelling a New Anti-Money Laundering and Counter-Terrorism Financing Regulatory Model," *International Journal of Law and Information Technology* 29, no. 4 (2022): 332-63.

⁵⁸ Freeman, "The Sources of Terrorist Financing: Theory and Typology."

⁵⁹ Ibid.

Currencies (2015)	currencies, which were understood, among other things, as a medium of exchange and/or unit of account.
Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers (2019)	<p>This updated guide introduces a definition of virtual assets (“VA”) that broadens the previous guide's narrower emphasis on the cryptocurrency scope. Furthermore, the guide emphasizes Virtual Asset Service Providers (“VASPs”) as business providers to implement tracking gateways. This mainly includes:</p> <ul style="list-style-type: none">• Recommendation 10 sets the standard for VASPs to perform Customer Due Diligence (“CDD”) on transactions above USD 1000 for occasional VA transactions.• Recommendation 15 mentions that all VASPs need strong monitoring and supervision systems, including registration and licensing, preventive measures such as CDD, recording and reporting of suspicious transactions, including enforcement and sanctions, as well as international cooperation actions.• Recommendation 16 dubs the 'travel rule' in the form of an obligation to immediately obtain, store, and transmit the necessary originator and beneficiary information to regulators when making VA transfers.
Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers (2021)	<p>The focus of this update includes: (i) clarifying how broadly VA and VASP are defined so that no financial assets are excluded from this guide; (ii) explaining how VAs fit into this guide and making it clear that different organizations involved in VA regulation can be considered; (iii) providing up-to-date guidance on VASP licensing and registration; and (iv) providing additional guidance to the public and private sectors on the application of the 'travel rule'.</p>

Sources: FATF (2015, 2019, 2021)

Regarding supervision and compliance, most Southeast Asian countries have taken basic steps to transfer the FATF guidance into their national laws. When looking at Table 3, the fragmented

regulatory framework response in the Southeast Asian countries is clear in combating the threat of financing terrorism through cryptocurrency. ASEAN-5, including Indonesia, Thailand, Malaysia, Singapore, and the Philippines, have prohibited using cryptocurrency for in-person payments but have permitted their usage as virtual assets. They are concerned that the broad use of cryptocurrency could jeopardize the country's economic and financial stability. Meanwhile, Vietnam and Cambodia are still starting in-depth studies on cryptocurrency to reform the industry from a legal perspective. Brunei Darussalam, Laos, and Myanmar, on the other hand, do not precisely regulate the legislation although their central banks strongly prohibit using cryptocurrency for payments.

Table 3. Regulation Status Relating to Cryptocurrency in Southeast Asia Countries (Update on December 2022)

Country	Asset/Trading Commodities	Payment	Registration and Licensing	Customer Due Diligence	Travel Rule
Indonesia	✓	—	—	—	✓
Malaysia	✓	—	✓	✓	✓
Singapore	✓	—	✓	✓	✓
Thailand	✓	—	✓	✓	—
Philippines	✓	—	✓	✓	✓
Brunei Darussalam	Not yet available - unregulated				
Vietnam	Not yet available - under review				
Cambodia	Not yet available - under review				
Laos	Not yet available - unregulated				
Myanmar	Not yet available - unregulated				

Sources: Financial Intelligence Consultative Group (2022) and PwC (2023)

At the same time, the trend of using cryptocurrency is expanding at an unprecedented rate across Southeast Asia. Over 14% of all cryptocurrency transactions worldwide originate from Southeast Asia, highlighting the importance of this developing trend.⁶⁰ A recent study by White Star Capital, a venture capital firm, found that over 600 crypto and blockchain start-ups are headquartered in Southeast

⁶⁰ White Star Capital, "White Star Capital Launches New Asian Investment Hub with the Opening of Its Singapore HQ," 2022.

Asia.⁶¹ Having a sizeable global cryptocurrency trading market, regulators in every Southeast Asian country inevitably have to start paying attention, mainly considering the region as home to a significant portion of worldwide cryptocurrency trading. This data also implies the increase in money laundering and terrorism financing cases that it calls for more regulations to protect customers from speculative trading activities and businesses from risky financial investments.⁶² Additionally, it is also needed to observe investigative best practices from more experienced regions/nations to cope with cryptocurrency use in funding terrorism financing, then align it to the current situation of each Southeast Asian country.

Going forward exposure to the risk of terrorism financing through cryptocurrency should be appropriately mitigated through comprehensive risk considerations complemented by meaningful CTF measures. There is room for further development to fill the gaps that have been found. Therefore, we encourage Southeast Asian countries to adopt CFT regulations following the most recent FATF guidance to lessen the possibility of terrorist organizations accessing cryptocurrency usage in terrorist funding.

Although this is interesting, it is undeniable that this will also have its challenges and concerns, like the previous ASEAN Convention on Counter-Terrorism (ACCT). ACCT has been hailed as the Southeast Asia countries' achievement in developing joint counter-terrorism efforts in the security sector. On the other hand, its implementation is generally considered to have failed because it was done based on each country's preferences.⁶³ It becomes evident that the challenge of adopting regulations in the ASEAN region is proved difficult, especially with the existence of the 'ASEAN Way' which respects the principle of each state sovereignty and the principle of non-intervention.⁶⁴ As these principles persist, member states' domestic interests take precedence at the expense of regional

⁶¹ Ibid.

⁶² Iwa Salami, "Terrorism Financing with Virtual Currencies: Can Regulatory Technology Solutions Combat This?," *Studies in Conflict & Terrorism* 41, no. 12 (2018): 968-89.

⁶³ See Seng Tan and Hitoshi Nasu, "ASEAN and the Development of Counter-Terrorism Law and Policy in Southeast Asia," *University of New South Wales Law Journal* 39, no. 3 (2016): 1219-38.

⁶⁴ Ibid.

associations, making regional legislation feeble because it is only half-hearted and has been misunderstood.⁶⁵

Moreover, due to the perception of the source of terrorism coming from neighboring countries, it is seen as not being a significant matter compared to other security issues. Instead, it ultimately brings about political conflict in ASEAN member countries that has hampered the adoption of counter-terrorism efforts which are carried out in accordance with the preferences of each own political agenda.⁶⁶ Even more challenging, ASEAN as a regional organization does not have the will or ability to monitor each other or to impose adequate corrective sanctions against public order.⁶⁷ This makes it even more difficult to deal with cross-border conflicts seamlessly, especially since ASEAN was not founded to be a court-like forum but was meant to function in such a way that it remains non-intrusive.⁶⁸ Since the 'ASEAN Way' has proven successful so far, it is still likely to win out in the future.

⁶⁵ Ibid.

⁶⁶ Marguerite Borelli, "ASEAN Counter-Terrorism Weaknesses," *Counter Terrorist Trends and Analyses* 9, no. 9 (2017): 14-20.

⁶⁷ Sanae Suzuki, "Why Is ASEAN Not Intrusive? Non-Interference Meets State Strength," *Journal of Contemporary East Asia Studies* 8, no. 2 (2019): 157-76.

⁶⁸ Ibid.

Conclusion

Cryptocurrency efficacy in terrorist financing strategies is currently indeterminate. Despite this, there have been recent developments in the utilization of cryptocurrency by Muslim-affiliated terrorists, such as al-Qaeda-affiliated *jihadist* groups and ISIS in Southeast Asia, to facilitate the funding of terrorism. The results of our study indicate that the adoption of cryptocurrency and its susceptibility to exploitation by Muslim-affiliated terrorists may escalate in the event of increased usage, enhanced security measures, and inadequate or inconsistent regulation. This may lead to a higher likelihood of Muslim-affiliated terrorists utilizing cryptocurrency to finance their operations in Southeast Asia. In particular, certain factors tend to deter the use of cryptocurrency, such as the persistent instability of use in the context of terrorism financing. These factors are often associated with progress in regulatory measures and enforcement actions taken by authorities. This study's results provide an initial overview of how cryptocurrencies are most likely to be used, which methods should be scrutinized, and which sources of funds should be most watched or stopped by analyzing the typology of three terrorists in Southeast Asia. This article supports the view that to enhance the early detection of terrorist financing, and it is recommended that stakeholders in Southeast Asian countries monitor the tactics and techniques employed by perpetrators through adherence to regulatory frameworks and implementation of best practices in investigative procedures. However, how that should be done given that the use of cryptocurrencies in facilitating terrorist financing is also new, and its synergistic effects on the ASEAN Way have not been explored more extensively. This article recognizes its limitations and suggests that future studies must explore insights supported by in-depth interviews with various relevant parties, including cryptocurrency exchange platform providers, regulators, academics, banks, expert practitioners, and other stakeholders to complement the current findings.

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