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## **U.S. Efforts to Combat Terrorism Financing: Progress Made and Future Challenges**

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### **Introduction**

Nearly nine years have passed since al Qaeda's September 11 attacks on the United States. Since that date, the American public by and large has come to view U.S. efforts to defeat al Qaeda almost exclusively through a military lens. This should come as no surprise given the images and arguments Americans have been exposed to on an almost daily basis. Television and print media, as well as official Washington, have been almost exclusively pre-occupied with debating the ins and outs of the U.S. "war" on terrorism, the conflicts in Afghanistan and Iraq, and the various special forces raids and drone strikes targeting Usama bin Laden, his fellow al Qaeda operatives, and those who harbor or abet them.

But, behind the images of collapsed buildings and burnt-out humvees, and largely unmentioned throughout the recurring debate on war funding and withdrawal timetables, U.S. and multilateral efforts in the area of counter-terrorism financing have all but bankrupted al Qaeda and severely marginalized the group's operational capacity to perpetrate another attack on American soil. In fact, things have gotten so bad that one prominent al Qaeda leader, Mustafa Abu al-Yazid, (who was subsequently killed by a U.S. drone strike in Pakistan's tribal area in May 2010) was forced in 2009 to make a public appeal for donations due to a shortage of cash needed to buy food, weapons, and supplies.<sup>1</sup>

This appeal was one of four public appeals made by al Qaeda in 2009 alone. And, according to the Assistant Secretary of the Treasury for Terrorist Financing, David Cohen, a dearth of cold hard cash has now forced the al Qaeda network to abandon its old reliable ways of Islamic charitable fundraising and money laundering for more desperate and high-risk methods that pay-off more quickly, like extortion, kidnapping, and drug running.<sup>2</sup> Undoubtedly, the battle will not be won until al Qaeda is put permanently out of business. As Cohen noted, "no one is arguing that because al Qaeda's core is in a weakened financial state that it is disabled," but the group "is in its weakest financial condition in several years, and, as a result, its influence is waning."<sup>3</sup>

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<sup>1</sup> Levey, Stuart A. "Loss of moneyman a big blow for al Qaeda". *The Washington Post*. 6 June 2010. A19.

<sup>2</sup> Vardi, Nathan. "Is al Qaeda bankrupt?" *Forbes*. 15 March 2010. Bliss, Jeff and Tony Capaccio. "Al-Qaeda turns to extortion as funds cut, U.S. says". *Bloomberg Businessweek*. 7 April 2010.

<sup>3</sup> Cohen, David S. Assistant Secretary for Terrorist Financing. Remarks to the American Bankers Association Money Laundering Enforcement Conference. 12 October 2009.

The opposite of this was true in the years leading up to September 11: al Qaeda's finances were at their strongest, its network of charities and financiers operated largely unfettered, and U.S. and foreign authorities had little to no intelligence or authority to prosecute.

*Which leads us to the primary question of this essay: So, what changed?*

In an attempt to answer this question, this piece will dig deep into the largely unnoticed and unheralded world of counter-terrorism financing, paying particular attention to the finance methods employed by the al Qaeda terrorist network. It will begin by assessing the nature and prevalence of terrorism financing prior to September 11 and government policies in place that failed to combat it during that period. After that baseline is developed, it will detail the specific steps taken by the United States, foreign governments, and international organizations to combat terrorism financing after September 11 and evaluate the progress that has been made. Finally, it will conclude by offering recommendations aimed at improving the current framework to consolidate progress and eventually succeed in suffocating the beast that is al Qaeda.

## **Al Qaeda Financing before September 11**

United States and other western intelligence and law enforcement agencies knew remarkably little about al Qaeda finances prior to the September 11 attacks. But, Central Intelligence Agency (CIA) estimates indicated that it cost al Qaeda in Afghanistan approximately \$30 million per year to operate its network of training camps, support the families of its members, pay an estimated \$10-20 million to the Taliban for refuge, and fund terrorist operations.<sup>4</sup> Contrary to popular belief and the myth perpetuated in the western media, this stream of funding cannot be attributed to the personal family wealth of Usama bin Laden. Despite rumors that bin Laden had inherited up to \$300 million in family wealth, when he was forced out of the Sudan in 1996 and sought safe harbor under the Taliban in Afghanistan, the terrorist mastermind had no great personal fortune.<sup>5</sup> In fact, bin Laden's finances were quite dire.

## **Usama bin Laden's "Golden Chain"**

During bin Laden's formative years leading the mujahedeen against the Soviets in the 1980s, and through his years leading al Qaeda in the Sudan and Afghanistan, bin Laden's main stream of financing in fact consisted of an extensive network of wealthy individual donors, institutional charities, facilitators, and cash couriers in Arab and Gulf states, what is informally known as the "Golden Chain".<sup>6</sup>

At the core of al Qaeda's financial model were dozens of large international Islamic charities, some of which were aware that their donations and actions were contributing to al Qaeda, while

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<sup>4</sup> Rollins, John and Liana Sun Wyler. "International Terrorism and Transnational Crime: Security Threats, U.S. Policy, and Considerations for Congress". Report for Congress. Congressional Research Service. 18 March 2010. p. 28; *Monograph on Terrorist Financing*. Staff Report to the National Commission on Terrorist Attacks Upon the United States. August 2004. p. 30.

<sup>5</sup> *Monograph on Terrorist Financing*. p. 20.

<sup>6</sup> Blanchard, Christopher M. "Saudi Arabia: Terrorist Financing Issues". Report for Congress. Congressional Research Service. 11 June 2008. pp. 2-7.

others were covertly infiltrated by al Qaeda facilitators who fraudulently used the charity as a front through which to raise, mask, transfer, and distribute the funds. The largest and most important charities linked to al Qaeda were based in Saudi Arabia and included such organizations as the International Islamic Relief Organization, the Benevolence International Foundation, the al Haramain Islamic Foundation, the Blessed Relief Foundation, and the Rabita Trust.<sup>7</sup> These organizations have branches in the immediate Gulf region as well as Pakistan, Central Asia, Europe, and even in the United States engaged educational, social and humanitarian activities aimed at spreading radical Wahhabi beliefs and culture. Through these charities and their subsidiary units, al Qaeda would solicit cash donations at mosques and civic centers, place operatives in key positions to facilitate the flow of money, and inter-mingle funds destined for terrorist operations with “legitimate” international financial transfers that were claimed to be for social and humanitarian activities in impoverished areas. Al Qaeda’s supporters and financial facilitators also used a network of companies, shell companies, and offshore trusts to raise money, filter funds, transfer assets, and protect their identity and the identity of the terrorist recipients. Most of these companies appeared to be legitimate private enterprises to government authorities at the time.

While the charities, wealthy individual donors and facilitators, and front companies used by al Qaeda relied on financial institutions and banks to draw and move funds, the group itself did not use banks and had no established central account or “war chest”.<sup>8</sup> Operational cells, however, did use bank accounts and ATMs once in the target region to receive funds and pay out expenses necessary to the mission. To move cash and transfer funds within and across borders, al Qaeda relied primarily on informal and unregulated methods of money movement. The group relied extensively, as it does today, on the hawala system permeating the Gulf region and Central Asia. Hawala is a quick, convenient, and paperless funds transfer method where parties in two separate geographic locations provide cash and settle payments based on trust. It is essentially a type of Islamic Western Union with no paper trail and no formal offices. Al Qaeda used about a dozen hawaladars to transfer funds. Hawalas are extremely attractive to terrorist groups because there is no government oversight and no paper trail. Al Qaeda also relied extensively on couriers to move cash across international borders, another method that operated entirely outside of government oversight.

### **Other Sources of Financing?**

Although analysts have found strong links between terrorist fundraising and transnational criminal activities like narcotics trade, diamond trade, human trafficking, and extortion, al Qaeda before September 11 largely steered clear of these types of criminal endeavors and enterprises.<sup>9</sup> One possible reason for this may be the strict Islamic beliefs against certain criminal activities of al Qaeda’s leadership. Figures such as bin Laden and Ayman al-Zawahiri would possibly risk losing their ideological and theological legitimacy among al Qaeda members and new recruits if

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<sup>7</sup> Comras, Victor. “Al Qaeda Finances and Funding to Affiliated Groups”. Terrorism Financing and State Responses: A Comparative Perspective. Eds. Jeanne K. Giraldo and Harold A. Trinkunas. Stanford UP: Stanford CA. 2007. p. 118.

<sup>8</sup> *Monograph on Terrorist Financing*, pp. 25-26.

<sup>9</sup> *IBID*, pp. 22-23; Rollins and Wyler, p. 27.

they allowed the group to engage in criminal activities that run counter to the tenets of Islam.<sup>10</sup> Although heroin trade in Afghanistan certainly played an important role in keeping the Taliban in power and thereby providing a safe harbor for al Qaeda before September 11, there is little evidence to show that bin Laden or other top al Qaeda figures invested in, facilitated, or had any other operational role in the prolific heroin trade in Afghanistan.<sup>11</sup>

Besides the Sudan turning a blind eye to bin Laden from 1992 through 1996, and the Taliban providing safe harbor to bin Laden and al Qaeda from 1996 through 2001, there is little evidence to indicate the group received direct support, financial or otherwise, from a national government before or since September 11.<sup>12</sup> To be sure, the large majority of Islamic charities, wealthy Arab donors, financial facilitators, and cash footmen hailed from and operated predominantly in Saudi Arabia and other Gulf states, and the region was al Qaeda's central front for collecting and moving funds. But, there is no evidence to indicate that the governments of Gulf nations directly funded al Qaeda.<sup>13</sup>

### **Government Efforts before September 11**

Prior to the September 11 attacks, government efforts to combat the financing of al Qaeda and other international terrorist groups can be characterized as lethargic, fruitless, and ineffective. Both within the United States and internationally, there was no sense of urgency as to the exact threat posed by international terrorism and no multilateral consensus on what groups or movements were considered "terrorist" in nature. Furthermore, the phenomenon of radical Islamism was poorly understood by western nations and not seen as a threat to peaceful societies and government institutions, as it is considered today. As a result of these factors, national governments and international organizations had few legal authorities and little motivation to disrupt or halt the flow of funds to terrorist groups, and al Qaeda's cash flow on the eve of September 11 was considered by the CIA to be "steady and secure".<sup>14</sup>

### **United States**

Within the United States, the Federal Bureau of Investigation (FBI) and Department of Justice (DOJ) never gained a systematic understanding of nature of al Qaeda fundraising and financing, the role that U.S. charities and front companies played in the endeavor, and the international scope of bin Laden's Golden Chain. FBI field offices in New York, Chicago, Detroit, San Diego, and Minneapolis initiated intelligence investigations against charities suspected to be collecting and routing funds to al Qaeda and other groups, but the lack of a legal endgame through which to bring prosecutions, poor information sharing between field offices and DOJ headquarters, and the political sensitivities of targeting Islamic charities and companies in particular all hampered law enforcement efforts to bring prosecutions.<sup>15</sup>

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<sup>10</sup> Rollins and Wyler. "International Terrorism and Transnational Crime: Security Threats, U.S. Policy, and Considerations for Congress". p. 27.

<sup>11</sup> *Monograph on Terrorist Financing*, p. 23.

<sup>12</sup> *Ibid*, p. 20.

<sup>13</sup> *Ibid*, p. 20-22; *Update on the Global Campaign Against Terrorist Financing*. Report of an Independent Task Force Sponsored by the Council on Foreign Relations. 15 June 2004. Blanchard, Christopher M. pp. 2-7.

<sup>14</sup> *Monograph on Terrorist Financing*, p. 30.

<sup>15</sup> *Ibid*.

Above all, gaping holes in U.S. money laundering and anti-terrorism statutes prevented FBI and DOJ officials from pursuing terrorism financing cases against al Qaeda's supporters in the United States. Prior to September 11, law enforcement authorities in the United States had at their disposal a rather ad hoc, incomplete, and disaggregated collection of laws and regulations with which to investigate and prosecute terrorist finances:<sup>16</sup>

- The Bank Secrecy Act (BSA) of 1970 requires banks and other consumer financial institutions to keep records and establish audit trails of suspicious and unreasonably large transactions to report to federal investigators.
- The International Emergency Economic Powers Act (IEEPA) of 1977 allows the President to freeze the assets of individuals or institutions in response to an "unusual and extraordinary" foreign threat.
- The Anti-Terrorism Act of 1990 made material support, including funding and financial facilitation of the activities of terrorist organizations, illegal under federal law.
- The 1996 Anti-Terrorism and Effective Death Penalty Act established strict criminal penalties for providing support for terrorism and allows civil suits against a foreign state or institution which provides support for terrorist acts.

Despite having such laws on the books, it remained nearly impossible for banks and federal investigators to work collaboratively to identify and take action against suspect customer accounts or transactions. The BSA, in particular, was effective at establishing tracking methods and reporting requirements on financial accounts, but it was practically useless in identifying which accounts may be tracked to al Qaeda and other terrorist organizations or the individuals and charities that supported them. As the 9/11 Commission Report notes, "[F]or terrorist financial transactions, the amount of money is often small or consistent with the customer's profile (such as a charity raising money for humanitarian aid) and the transactions seemingly innocuous. As a consequence, banks generally are unable to separate suspicious from legitimate transactions."<sup>17</sup> Government authorities, on the other hand, may have had the classified intelligence to separate legitimate from illegal transactions, but there was no framework through which to share classified government information with private banks. In 1999, to get greater information on customer accounts federal regulators proposed changes to the BSA that included more stringent "know your customer" rules and better record keeping on international wire transfers, but these changes were met with fury from the banking industry and never implemented.<sup>18</sup> Due to the inability of the FBI and DOJ to gain accurate information on suspected terrorist-linked financial accounts, it was nearly impossible for federal prosecutors to bring charges against suspected terrorist financiers and charities in accordance with the authorities granted to them through the 1990 and 1996 anti-terrorism statutes.

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<sup>16</sup> Clunan, Anne L. "U.S. and International Responses to Terrorist Financing". *Strategic Insights*. Vol. 4, Issue 1. January 2005.

<sup>17</sup> *Monograph on Terrorist Financing*, p. 52.

<sup>18</sup> Clunan, Anne L. "U.S. and International Responses to Terrorist Financing".

The IEEPA was perhaps the one legal mechanism that had real teeth in blocking suspected terrorist funding flows and was used with some effectiveness before September 11. President Bill Clinton used IEEPA authorities to freeze funds associated with bin Laden in 1998 and the Taliban in 1999, blocking the use of assets worth over \$34 million held in private U.S. banks and \$217 million in gold and deposits held at the Federal Reserve.

At the Central Intelligence Agency (CIA), intelligence collection and covert actions to disrupt terrorist financing was largely considered a subordinate and fruitless activity. The CIA's intelligence on bin Laden and al Qaeda was mostly vague and speculative. This was due to a number of possible factors: the CIA had few financial, analytic, or linguistic resources to devote solely to collecting terrorist-financing intelligence, the units dedicated to financial intelligence analysis were walled off and separated from those responsible for counter-terrorism analysis, and financial targets affiliated with al Qaeda were either too difficult to identify or too dangerous to pursue.<sup>19</sup> Although it certainly had the legal authority and means to covertly disrupt al Qaeda's international financial network, the U.S. intelligence community simply did not have sufficient motivation and credible information to pursue worthwhile terrorism financing targets. This left federal authorities with virtually no evidence with which to prosecute the individual financiers, hawaladars, and cash couriers that operated almost entirely outside of the formal banking system and sustained al Qaeda before September 11.

## United Nations

Leading up to September 11, international efforts to combat al Qaeda financing largely centered on efforts at the United Nations (UN) to "name and shame" the Taliban for providing bin Laden safe harbor and urging all nations to freeze Taliban, al Qaeda, and associated terrorist assets. After al Qaeda's bombing of the U.S. embassies in Kenya and Tanzania on 7 August 1998, the UN took the following major actions aimed at isolating the Taliban and squeezing al Qaeda:

- On 15 October 1999, the UN Security Council passed resolution 1267, which called on the Taliban to surrender bin Laden and called on all states to freeze Taliban funds and other financial resources, but did not specify those associated with bin Laden or al Qaeda.
- On 19 October 1999, the UN Security Council passed resolution 1269, which broadly called on all states to prevent and suppress terrorist financing and apprehend and prosecute those who commit such acts within its borders.
- On 9 December 1999, under French leadership the UN unveiled the International Convention for the Suppression of the Financing of Terrorism, which requires parties to the convention to prosecute terrorist financing and freeze known terrorist assets. The Convention did not actually enter force until 9 April 2002, when the required threshold of 22 ratifications by member states was reached.

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<sup>19</sup> *Monograph on Terrorist Financing*, pp. 18, 34-37.

- On 19 December 2000, the UN Security Council passed resolution 1333, which specifically called on all states to freeze financial assets of bin Laden, al Qaeda, and any known facilitators.

While these Security Council actions represent significant progress in consolidating international pressure against bin Laden and al Qaeda, particularly its financing network, these resolutions and conventions had little practical effect in actually stopping the flow of funds as few nations took the steps called for by the Security Council.

## **Saudi Arabia and Gulf Region**

As the central front for al Qaeda fundraising, Saudi Arabia made little to no effort to crack down on the Islamic charities, wealthy donors, and money footmen that formed the nucleus of al Qaeda's international financial network. The Saudi government placed virtually no controls on international money flows, did not regulate the activities of its many international charities, and largely refused U.S. requests to investigate donors and institutions suspected of funding al Qaeda. The same holds true for states like the United Arab Emirates, Bahrain, Kuwait, and Qatar, whose banking sectors were considered "wide open" and did very little to verify the legitimacy and legality of the origin and destination of the financial transactions they process.<sup>20</sup>

## **Government Efforts since September 11**

In contrast to the years before the September 11 attacks, the United States government, foreign governments, United Nations, and other multilateral institutions have since displayed a sense of urgency to combat the terrorist financing threat and taken significant steps to put in place the legal, formal, and informal mechanisms to better share financial information, improve disclosure of financial transactions, freeze questionable assets, and directly disrupt terrorist activities.

## **United States**

In the United States, a flurry of legislative and regulatory followed in the immediate wake of the September 11 attacks and within months the federal government had dramatically improved its ability to slow or freeze the assets of al Qaeda and other international terrorist groups.

On 23 September 2001, just weeks after the attacks, President George W. Bush signed Executive Order 13224, which authorizes the freezing of all U.S. assets and transactions of foreign individuals, groups, and entities designated by the President, the Secretary of State, or Secretary of the Treasury as posing a significant risk of committing acts of terrorism threatening the U.S. national security, foreign policy or economy. Treasury officials have testified that the broad new designating and sanctioning authority under EO 13224 has become the agency's primary tool in preventing terrorist activity and bankrupting terrorist operations.<sup>21</sup> Working with international

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<sup>20</sup> Levitt, Matthew and Michael Jacobsen. *The Money Trail: Finding, Following, and Freezing Terrorist Assets*. pp. 26-29.

<sup>21</sup> Bodman, Samuel W. Deputy U.S. Treasury Secretary. Testimony before the Senate Committee on Banking, Housing and Urban Affairs. 29 April 2004.

partners, by the end of 2009 the U.S. government has been able to designate more than 539 individuals, companies, charitable organizations, and entities as supporters and financiers of terrorism, and is currently blocking over \$19.8 million in terrorist funds worldwide.<sup>22</sup> Of particular significance are the designations of over a dozen international Islamic charities linked to bin Laden and al Qaeda whose assets Treasury was able to block.<sup>23</sup> Two U.S.-based charities with ties to al Qaeda were completely shut down by Treasury and prosecuted by the Department of Justice: the Holy Land Foundations for Relief and Development, based in Richardson, Texas; and the Benevolence International Foundation, based in Chicago, Illinois.

Also using EO 13224 authority, Treasury set up the Terrorist Finance Tracking Program, which subsequently issued a subpoena for access to financial data held by a Belgian-based consortium of international banks as SWIFT, or the Society for Worldwide Interbank Financial Telecommunications. The SWIFT program has since evolved into a quasi- information sharing agreement between the U.S. and European Union. According to Treasury, U.S. authorities have shared over 1,550 leads from the SWIFT data with EU governments and many of these leads have helped in the prevention or investigation of terrorist attacks in Europe.<sup>24</sup>

On 26 October 2001, Congress approved and President Bush signed into law the most wide-ranging overhaul of counter-terrorism authority for U.S. law enforcement and intelligence personnel, the USA Patriot Act. Title III of the Patriot Act, in particular, is considered by many as the most significant and wide-ranging expansion of federal anti-money laundering laws since the BSA in 1970. Title III expands federal anti-money laundering laws to a range of commercial and financial institutions that were previously untouched by tracking and reporting requirements. In addition, to gain more information on suspect accounts, it codifies the “know your customer” and wire transfer tracking requirements blocked by the banking industry in 1999. It also broadens and enhances information sharing between the government and the U.S. banking system. Section 311 of the Act also grants broad new authority to the Treasury Department to designate and sanction foreign countries or institutions that fail to meet minimum anti-money laundering requirements, restricting such institutions access to the U.S. financial system. According to Stuart Levey, Treasury Undersecretary for Terrorism and Financial Intelligence, the USA Patriot Act, and Section 311 in particular, “is an important and extraordinarily powerful tool” that has been “extremely effective ... [and] spurred actions by other countries that have the result of protecting the broader international financial system.”<sup>25</sup>

On 17 December 2004, Congress approved and President Bush signed into law the Intelligence Reform and Terrorism Prevention Act. In doing so, the federal government established a new National Counterterrorism Center (NCTC), where a variety of intelligence officials work side-by-side and share information on a wide range of counterterrorism objectives. Housed at NCTC is the Foreign Terrorist Asset Targeting Group, the principal inter-agency body responsible for

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<sup>22</sup> *Terrorist Assets Report for Calendar Year 2009*. Office of Foreign Assets Control. U.S. Department of the Treasury. p. 6.

<sup>23</sup> Gurulé, Jimmy. *Unfunding Terror: The Legal Response to the Financing of Global Terrorism*. Edward Elger: Northampton, MA. 2008. p. 215-216.

<sup>24</sup> Archick, Kristin. “U.S.-EU Cooperation Against Terrorism”. Report for Congress by the Congressional Research Service. 9 July 2010. p. 5.

<sup>25</sup> Levey, Stuart. Undersecretary of the Treasury for Terrorism and Financial Intelligence. Testimony before the U.S. Senate Committee on Finance. 1 April 2008. pp. 14-15.



analyzing intelligence on terrorist financing. As opposed to before September 11, the intelligence community now benefits from an inter-agency headquarters where officials can not only dedicate greater time and effort strictly to analyzing terrorist finance, but also complement that analysis by sharing intelligence with a variety of other sources from across government agencies.

The U.S. government made additional organizational and structural changes to better position federal authorities to combat the terrorist financing threat through a more comprehensive government-wide approach and greater information sharing and collaboration. The FBI established a special terrorist financing branch at its headquarters, labeled the Terrorist Financing Operations Section; Treasury created the Office of Terrorism and Financial Intelligence; U.S. Customs and Border Protection established Operation Green Quest to investigate terrorist money laundering at the border; and the Joint Terrorism Task Force was created to combine the efforts of the FBI, Justice, Treasury, Customs, and the IRS.

## **Europe**

Many European nations have followed the United States in enhancing the authority of their Ministries of Finance to designate terrorist financiers and block their assets. The European Union has established a dedicated list for al Qaeda-linked suspects and a separate list for other terrorist organizations. All 27 member states are required to freeze the assets of entities on this list. The United Kingdom, Spain, and France have also been very active in creating national-level authorities to better investigate and prosecute terrorist financing.<sup>26</sup>

## **Saudi Arabia and Gulf Region**

Even after the tragic events of September 11, Saudi Arabia remained ignorant of the problems within its borders and resisted U.S. pleas to crack down on the charities and wealthy donors that it surely knew were funding terror. Only after terror struck home, when al Qaeda bombed Riyadh in May 2003, did the Kingdom awaken to the problem. Immediately after the bombings, Saudi authorities arrested and killed numerous al Qaeda operatives and effectively dismantled its Saudi-based operational infrastructure. In the years that followed, the Saudis also got more aggressive in preventing terrorism finance: Saudi officials have actively begun to share financial information with international counterparts, state banking authorities are asserting greater oversight of outgoing financial transactions, and last year 330 individuals were convicted under a new specialized terrorism court.<sup>27</sup> Despite improved efforts, Saudi Arabia and its Gulf neighbors remain a major source of financing for terrorist groups, mainly from private donors and institutions, and will continue to present enforcement challenges for U.S. and western authorities.

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<sup>26</sup> Levitt, Matthew and Michael Jacobsen. *The Money Trail: Finding, Following, and Freezing Terrorist Assets*. Policy Focus No. 89. The Washington Institute for Near East Policy. November 2008. p. 21.

<sup>27</sup> Jacobsen, Michael. *Saudi Efforts to Combat Terrorist Financing*. Policy Watch No. 1555. The Washington Institute for Near East Policy. 21 July 2009.

## **United Nations**

At the UN, on 28 September 2001 the Security Council passed resolution 1373, calling on all member states to formally designate individuals and institutions providing financial support of terrorism and freeze their assets. In the weeks after September 11, more than 100 nations drafted and enacted laws addressing terrorist finance. Contrary to the UN's resolutions prior to September 11, resolution 1373 created real momentum and goaded the international community into taking concrete steps that have degraded terrorist financing.

## **Financial Action Task Force**

The Financial Action Task Force (FATF) was formed in 1989 in an effort to establish international best practices and standards to prevent money laundering and criminal finance. The body currently has 34 member states. In 1990, FATF issued 40 recommendations for states to combat criminal finance, which it updated in 1996. After September 11, the body included 9 additional recommendations aimed specifically at terrorist finance as a part of its mission. As a result, FATF has been particularly useful in setting standards and best practices for states and banks to abide to identify and freeze terrorist funds. Although the body has no enforcement power, FATF has been remarkably successful in pressuring nations to adopt its standards, mostly through the publication of a "black list" that identifies states with poor money laundering laws.<sup>28</sup>

## **Al Qaeda Financing after September 11**

As a result of the above actions taken by U.S. and international authorities, as well as the overthrow of the Taliban, al Qaeda's international funding network has been dramatically degraded and transformed since September 11. The al Qaeda of today more closely resembles a multi-headed Hydra as opposed to a one-eyed Cyclops, as it was before September 11. Because of the extreme difficulty in raising and transferring funds across borders, Al Qaeda cells have been forced into self-funding through the proceeds of local mosques, Internet solicitations, drug trade, and petty criminal enterprises, especially in Europe where many disaffected Muslim communities reside.<sup>29</sup> And with greater scrutiny placed on international financial transactions, al Qaeda today is relying to an even greater extent on cash couriers and hawala, which are the slowest and least efficient method of finance. All of the above factors have severely limited al Qaeda's operational reach and ability and prevented further attacks.

So, while there are clear signs of progress as a result of greater attention and action by government authorities, there is also a significant downside to be mindful of: terrorist attacks by al Qaeda and its affiliates are getting cheaper and cheaper, thereby rendering the intricate and extensive financial network that existed before September 11 somewhat obsolete from al Qaeda's perspective. The September 11 attacks were estimated to cost upwards of \$500,000 to execute, but the 2002 Bali bombing cost \$60,000, the Madrid train bombings \$12,000, and the

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<sup>28</sup> Levitt, Matthew and Michael Jacobsen. *The Money Trail: Finding, Following, and Freezing Terrorist Assets*. p. 20.

<sup>29</sup> Napoleoni, Loretta. "Terrorist Financing: How the New Generation of Jihadists Funds Itself". *RUSI Journal*. Vol. 151, Iss. 1. February 2006. p. 64.

London bus and subway bombings only \$1,800. Clearly, government efforts have forced al Qaeda and its affiliates to evolve into a more disaggregated, less sophisticated, and more cost effective network, which will again present a new set of very different challenges.

### **Recommendations for Further Action**

While great progress has been made in suffocating the international financial network used by al Qaeda and its affiliates before September 11, the group's evolution and the inaction of some states in the Gulf Region and Central Asia has presented new challenges that cannot be confronted with the authorities and mechanisms provided to law enforcement after September 11. Below are some recommendations for policymakers to consider in weighing options to confront this new set of challenges.

1) **Crack down on Hawala**: As al Qaeda and other groups have moved away from formal transactions in favor of cash couriers and hawala, Treasury should more vigorously press countries and banks to license, regulate, and report on the transactions of hawaladars in accordance with FATF special recommendation VI, especially countries like Afghanistan, Pakistan, and Iran where money laundering through the hawala system is rampant. Western officials estimate that \$10 million a day (an amount that corresponds to \$3.65 billion a year) leaves Afghanistan, mostly through the country's borders with Iran and Pakistan.<sup>30</sup> Most of this is development and humanitarian aid provided by the U.S., NATO, and other western nations. Surely a significant portion of this money makes its way into terrorists' hands.

2) **Focus on Alternative Financing Methods**: Again, stricter enforcement within the formal banking sector has caused al Qaeda and its affiliates to resort to tried-and-true hard-cash movement methods, but it has also forced them to experiment with new and unfamiliar activities like counterfeiting, tobacco smuggling, and drug trafficking. The extent of terrorists' use of these methods is unknown simply because government authorities have not attempted to collect, organize, and share the data available across federal agencies. Customs has a wealth of information on counterfeiting, the IRS has reams of data on tobacco smuggling, and the DEA is constantly engaged in illegal narcotics seizures, but is the data on these activities shared across the intelligence and law enforcement spectrum? No, or not adequately enough, according to the U.S. Government Accountability Office.<sup>31</sup>

3) **Increase pressure on Saudi Arabia and Gulf States**: The United States must focus on bringing greater international diplomatic pressure to bear on Saudi Arabia and other Gulf states to get them to do more to improve transparency and crack down publicly on terrorist support in the financial and charitable sectors. This will not only disrupt current streams of illicit finance, but deter individuals and organizations from filtering funds through those states' private financial

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<sup>30</sup> Rosenberg, Matthew. "Corruption Suspected in Airlift of Billions in Cash from Kabul". *The Wall Street Journal*. 25 June 2010.

<sup>31</sup> *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms*. Report to Congressional Requestors by the U.S. Government Accountability Office. November 2003.

institutions. These states, too, must be pressured to do more to combat hawala and other illegal methods of money laundering across their borders.

4) **Training and Capacity Building Abroad:** To help foreign governments contribute to U.S. objectives in combating terrorist financing, especially those in the Gulf and Central Asia, federal agencies can play a more proactive role in providing more comprehensive technical assistance and capacity building programs.<sup>32</sup> Many countries are eager and willing to make improvements to track and prosecute money laundering and terrorism financing, but lack the necessary resources, expertise, and manpower to do so. U.S. partnership can help foreign governments build capabilities along the lines of the U.S. system, which will enable collaborative relationships and better information sharing.

## **Conclusion**

The United States and the international community have made great strides against al Qaeda since September 11, and counter-terrorist financing policies will remain a vital component of future efforts. The successes in tightening and shoring up the international financial system in the post-September 11 era, however, cannot be taken for granted. Al Qaeda and its affiliates have shown remarkable resilience and an ability to structurally evolve to survive the best efforts of the international community. To maintain progress in squeezing al Qaeda's finance, governments will need to continually adapt counter-terrorist financing policies to address the simpler but untraceable methods of moving cash and assets such as hawala, and work collaboratively to combat alternative methods of finance that capitalize on the ever-present and growing field of international criminal activity.

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<sup>32</sup> The GAO found that Treasury's Office of Foreign Assets Control does not have a strategic and integrated plan for training and capacity building, lacks adequate measures to assess partner states' results, and reports insufficient information to Congress to assess progress in this area. See *Terrorist Financing: Agencies Can Improve Efforts to Deliver Counter-Terrorism-Financing Training and Technical Assistance Abroad*. Testimony of Comptroller General David M. Walker before the house Committee on Financial Services. U.S. Government Accountability Office. 6 April 2006.

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