Chairman Specter, Ranking Member Graham, and distinguished members of the Committee, I thank you for the opportunity to appear before you today to discuss how terrorist groups raise, launder, transfer and access funds to facilitate their various operational activities and to evaluate how the Justice against Sponsors of Terrorism Act could help disrupt the flow of funds to those engaged in terrorism, political violence, or other forms of transnational threats.¹

Combating terrorist financing must remain an important component of every country’s counterterrorism strategy, and maintaining international focus and cooperation on this issue is essential. While the challenges are great, the potential benefits are significant. Conversely, failure to build a truly international regime to counter terrorist financing guarantees that the successes seen in this arena to date will be short-lived. Similarly, alongside the public sector efforts of governments and international organizations, the private sector can be an enormously effective partner in our collective efforts to stem the flow of funds to terrorists and other illicit actors. And there should be no doubt that if terrorist groups are able to raise, move, store, and gain access to funds with relative ease, the threat they pose to the United States and its allies will increase dramatically. The Justice against Sponsors of Terrorism Act would empower the private sector to be an even more effective partner in combating the financing of terrorism.

Terrorists Need Money

The primary reason why CFT efforts are both necessary and important is that terrorist groups need money. Although mounting an individual terrorist attack is relatively inexpensive, the cost of maintaining the infrastructure to support terrorist activities is high. Terrorist networks need cash to train, equip, and pay operatives, to secure materials, and to promote their cause. To eliminate or reduce a cell’s means of raising and transferring funds is to significantly degrade that cell’s capabilities. Additionally, by forcing them to abandon formal financial channels in favor of informal transfers in

smaller denominations, the use of targeted measures has the cumulative effect of making the funds-transfer process slower, more cumbersome, and less reliable.

Seized al-Qaeda in Iraq (AQI) records, for example, indicate the facilitation network operating in the Sinjar area of western Iraq incurred significant costs related to salaries and family support. Recruiting, training, traveling, planning operations, bribing corrupt officials, and other such activities also cost money. All of these expenses can add up quickly. For example, prior to September 11, al-Qaeda’s annual budget was approximately $30 million, according to the findings of the 9/11 Commission. One of AQI’s branches recorded expenditures of approximately $175,000 over a four-month period in 2007—with about half of this funding going to purchase weapons. This shows further how to eliminate or reduce an organization’s means of raising and transferring funds is to significantly degrade its capabilities.

Illustrating the importance that al-Qaeda attached to funding-related issues prior to September 11, the organization had a finance committee and Usama bin Laden himself reportedly paid close attention to financial matters. Sheikh Mustafa Abu al-Yazid (a.k.a. "Sheikh Said"), head of the committee, took his responsibilities very seriously and was "notoriously tightfisted" with al-Qaeda’s money. For example, he vetoed an expense for an al-Qaeda member to travel from Afghanistan to Saudi Arabia to obtain a U.S. visa, which the operative was seeking preparation for the September 11 plot. Bin Laden himself was forced to step in and overrule Sheikh Said (although it is not clear that Said knew about the September 11 plot when he rejected the expense). This careful attitude regarding funds appears to have permeated al-Qaeda even at the operational level. According to the 9/11 Commission, the September 11 hijackers returned their unused funds to an al-Qaeda “facilitator”—approximately $36,000 in all—in the days before the September 11 attacks. Ramzi Binalshib, the Hamburg-based liaison between the hijackers and al-Qaeda leadership, later explained the frugality of Mohammed Atta, the tactical leader of the September 11 plot, noting that Atta considered these funds "blessed and honored."

AQI brought the same type of focus and bureaucratic approach to handling financial matters as did their better known namesake. AQI put a number of management controls in place to try to ensure that their money was being spent carefully and appropriately. For example, one AQI memo laid out the procedures that its leaders should follow to track the organization’s financial transactions. Operatives were required to provide signed forms, acknowledging that they had received the money and explaining how it had been spent. Lower-level managers were required to fill out financial statements, which AQI often audited. Documents seized later by the United States demonstrate AQI managers’ concern when they were unable to account for every dollar in their control. Given this context, the highly detailed nature of the group’s financial records hardly come as a surprise. For example, the Sinjar documents show that the AQI’s border emirate spent $727 on food during a two-month period, in addition to

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4 Fishman, Bombers, Bank Accounts, and Bleedout, p. 93.

5 Roth et al., Monograph on Terrorist Financing.

6 Ibid.
tracking a number of other different subcategories for expenditures, including salaries, weapons, document forgeries, and smuggling costs. Given the operational and security risks associated with maintaining such an extensive paper trail, these details help illustrate the importance that AQI’s senior leaders have attached to the organization’s financial state.\(^7\)

One of the main ways that terrorist groups raise these much-needed funds is through criminal activity. While lucrative, such acts leave religiously oriented terrorist groups open to charges of hypocrisy. As such, these groups have expended considerable thought and effort toward justifying this activity. For example, Baz Mohammed, a Taliban-linked narcotics kingpin extradited to the United States in 2005, rationalized his group’s involvement in the drug trade, telling members of his organization that “selling heroin in the United States was a ‘jihad’ because they were taking the Americans’ money at the same time the heroin they were paying for was killing them.”\(^8\) Abu Bakir Bashir, the Jemaah Islamiyah (JI) spiritual leader, offered a similar explanation for his organization’s involvement in jewelry store robberies to help finance operations, stating that “You can take their blood; then why not take their property.”\(^9\)

Issues relating to money have negatively affected terrorist groups in other surprising ways. For example, some terrorists have interpreted inadequate compensation as a sign that they are being treated unfairly. Jamal al-Fadl, one of al-Qaeda’s first operatives, began embezzling funds from the group during its years in Sudan, because of his displeasure with his salary—stealing approximately $100,000 in all. When bin Laden learned of al-Fadl’s actions, he ordered him to repay the money. al-Fadl repaid about $30,000 before fleeing, fearing retribution if he did not refund the full amount.\(^10\)

Al-Qaeda’s L’Houssaine Kertchou, for another example, became bitter after one of bin Laden’s aides turned down his request for $500 to cover the costs of his wife’s cesarean section. His anger level increased when al-Qaeda covered the expenses for a group of Egyptians who were sent to Yemen to renew their passports. “If I had a gun,” Kertchou later testified, “I would [have shot bin Laden] at that time.”\(^11\)

**Overarching Purpose of CFT**

It is important to recognize, however, that combating the financing of transnational threats will not, in and of itself, defeat these threats—nor is it intended to do so. Freezing funds will constrict the operating environment for illicit actors and disrupt their activities, and following the money trail will expose donors and operators up and down the financial pipelines of terrorists and insurgents alike. But these tools must be part of a broader strategy that leverages all elements of national power to successfully confront and eliminate the international security threats facing us today.


\(^11\) L’Houssaine Kertchou, testimony in *United States v. Usama Bin Ladin et al.*
As intelligence agencies improve their capacity to collect and exploit financial intelligence for preemptive action, they are sure to rely on the experience of law enforcement agencies, which have long employed financial tools to solve crimes and build cases for prosecution. With nearly every recent terrorist attack, the post-blast utility of financial investigative tools has been reaffirmed. Financial data provided investigators with critical and early leads immediately following the attacks on September 11, as they did following the March 11, 2004, attacks in Madrid and the July 7, 2005, attacks in London, among others.

Focusing on the financing of transnational threats has other benefits as well:

- Deterrent effect. As difficult as it may be to deter a suicide bomber, terrorist designations can deter non-designated parties, who might otherwise be willing to finance terrorist activity. Major donors inclined to finance extremist causes—who may be heavily involved in business activity throughout the world—may think twice before putting their personal fortunes and their reputations at risk.
- Preventive intelligence. Unlike information derived from human spies or satellite intercepts, which require vetting to determine their authenticity, a financial transfer is a matter of fact. Raising, storing, and transferring money leaves a financial trail investigators can follow. Definitively linking people with numbered accounts or specific money changers is a powerful preemptive tool, often leading authorities to conduits between terrorist organizations and individual cells.
- Disruptive tool. According to terrorists themselves, while following the money will not stop all plots, it will likely frustrate some of these activities. Back in 1995, captured World Trade Center bomber Ramzi Yousef was flown over the twin towers on his way to a New York jail. When an FBI agent pointed out that the towers were still standing, Yousef replied, “They wouldn’t be if I had enough money and explosives.” At a minimum, tracking terrorists’ financial transactions will make it harder for them to travel, procure materials, provide for their own families, and radicalize others. Denying terrorists—as well as insurgents and proliferators—easy access to financial tools forces them to use more costly, less efficient, and often less reliable means of financing.

Even the cat-and-mouse game that follows many of the designations presents opportunities. Forcing terrorists to look over their shoulders and devise alternative means of doing business is an effective counterterrorism tool. Keeping financiers on the defensive and denying them the luxury of time and space puts them under stress, deters donors, restricts the flow of funds, and helps constrict the operating environment.

With more activities out of the public eye than in it, counterterrorism efforts are, by their very nature, difficult to assess and easy to criticize. But financial measures in particular have proven quite successful, and those who follow the money are increasingly being called on to use their skills and tools against the hardest targets.

Beyond its tactical advantages, combating the financing of terrorist threats presents opportunities in the broader, and no less important, battle of ideas regarding the ideology of radical extremism. Although targeted financial measures are commonly presumed to have negative diplomatic consequences, they also

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provide an opportunity to clearly relay U.S. intentions. For example, the July 2007 designation of Jihad al-Bina, Hizballah’s construction arm, sent the unequivocal message that Hizballah would not be permitted to drag Lebanon into a war with Israel and then profit from rebuilding it through Iranian largesse. Following up on terrorist designations with robust public diplomacy initiatives offers a salient opportunity to support U.S. foreign policy objectives and engage in the battle of ideas.

**Terrorist Financing: A Moving Target**

As the terrorist threat has evolved, the means by which terrorist groups raise, store, and move funds has changed as well—often in ways that have hindered government efforts to thwart their progress. Studies have long shown that terrorist groups learn from one another, exchange information on new technologies, and share innovations. Little attention, however, has been given to innovations and evolutionary change as related to terrorist financing.  

Globalization/technological change. Both globalization and technological improvements have had major impacts on terrorist financing. With globalization, to begin with, the volume of funds flowing internationally has increased dramatically. In 2000, foreign workers sent $113 billion back to their home countries. By 2006, the figure had more than doubled to $255 billion, giving a sense of the scale of the international flows. Mirroring the broader shift toward the use of technology in global commerce, shifts have occurred in how funds are actually transferred, using new technology. M-payments, where cell phones are utilized to transfer money electronically, are growing in importance, as is the transfer and storage of funds via online entities such as cashU or e-gold. In countries where the formal financial sector is less than robust—such as in many African countries—using cell phones is a far more attractive option for transferring funds. In some cases, terrorists are suspected of using the internet to obtain logistical and financial support for their operations.  

Overall, the internet has had a major impact on terrorist financing. It provides a cheap, fast, efficient, and relatively secure means of communication, effectively creating a conveyor belt for self-radicalized foot soldiers who connect and communicate with like-minded jihadists through chat rooms and online message boards. For example, a 2006 U.S. government report assessed that “groups of all stripes will increasingly use the Internet to obtain logistical and financial support.” The report noted, more generally, that technology and globalization have also enabled small groups of alienated people not only to connect but to raise resources for attacks without need for an established terrorist organization.  

Shift from central control. Perhaps the most important shift of all in terrorist financing is related to broader changes in the nature of the terrorist threat itself. Before September 11, al-Qaeda funded and controlled operations directly from its base in Afghanistan. The funding for the September 11 attacks,

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13 See, for example, Kim Cragin et al., *Sharing the Dragon’s Teeth: Terrorist Groups and the Exchange of New Technologies* (Santa Monica, Calif. et al.: RAND Corporation, 2007).  
17 Ibid.
and the 1998 East Africa embassy bombings, came from al-Qaeda itself. Even in the period after September 11, al-Qaeda continued to provide the money for operations, such as the $20,000 it furnished for the 2002 Bali bombings.\(^\text{18}\) While today the al-Qaeda core is somewhat resurgent, the group is not funding operations in the way that it did in the past. The budding local terrorist cells are increasingly self-funded, using the proceeds of criminal activity, personal funds, or government welfare benefits. Some of these cells have connections to al-Qaeda senior leadership but are independently and locally funded; others operate on their own in “leaderless” communities with only virtual connections to al-Qaeda.

The case of the July 7, 2005, London subway bombers offers a perfect example of a locally funded cell at work. British authorities concluded that the attacks—which were estimated to have cost less than £8,000 to carry out—were self-financed. Investigators found “no evidence of external sources of income” and stressed that the group raised the necessary funds “by methods that would be very difficult to identify as related to terrorism or other serious criminality.” One cell member provided the majority of the funds, defaulting on a £10,000 personal loan and overdrawning from his multiple bank accounts.\(^\text{19}\) By contrast, Dhiren Barot, a terrorist operative sentenced to thirty years in prison in 2006 on charges of conspiracy to murder, reached out to senior al-Qaeda leaders abroad seeking some £60,000 for a bombing plot he concocted involving limousines packed with explosives in downtown London.\(^\text{20}\)

In some cases, acts of petty crime, such as welfare fraud, raise limited amounts of money for small operations. In others, aspiring terrorists raise significant sums through brazen crimes. One cell in France netted about 1 million euros when a member whose job was to restock ATMs enacted robberies on several. In another case in France, a cell blew a hole in the wall of a cash distribution center and would have walked away with 4 million euros—had the hole not been too small for them to enter.\(^\text{21}\) Both the State Department and NATO have highlighted the PKK’s criminal activities, particularly in Europe. According to a 2007 Europol report, “Two PKK members were arrested in France in 2006 for money laundering aimed at financing terrorism. At the end of 2005, three members of the PKK were arrested in Belgium and another one in Germany suspected of financing the PKK. In Belgium, the authorities seized receipt booklets indicating that the arrested suspects were collecting ‘tax’ from their fellow countrymen.”\(^\text{22}\)

Drugs/terrorism. The nexus of drugs and terrorism is particularly strong for a variety of reasons. According to the Drug Enforcement Administration (DEA), nineteen of the forty-three designated foreign terrorist organizations (FTOs) are linked definitively to the global drug trade, and up to 60 percent of terrorist organizations are connected in some fashion with the illegal narcotics trade.\(^\text{23}\) Not surprisingly, the most important reason why terrorist groups are attracted to the drug trade is profit.

\(^{18}\) Roth et al., *Monograph on Terrorist Financing.*


\(^{20}\) British counterterrorism official, interview by author, March 6, 2008.

\(^{21}\) French intelligence officials, interview by author, March 25, 2008.


The United Nations (UN) estimates that the international drug trade generates $322 billion per year in revenue, making drugs by far the world’s most lucrative illicit activity. The revenues from other types of illicit transnational activity, such as arms trafficking and smuggling of aliens, are small by comparison. Drugs provide many different avenues for procuring revenue including through taxing farmers and local cartels, demanding fees for use of roads, and extorting payment for the provision of “security” for production labs, couriers, and more.

Illustrating the potential profit margin from drugs, in the tri-border region in Latin America—where Argentina, Brazil, and Paraguay meet—it is possible to make a profit of $1 million from the sale of fourteen or fifteen kilograms of drugs, an amount that could be transported in a single suitcase. A package of this size does not necessarily attract the notice of an organization like the DEA, which routinely intercepts much larger shipments. Hamas and Hizballah, in particular, are heavily involved in the drug trade in this region. In Afghanistan, a ledger seized during a raid showed ten months of transactions, which yielded $169 million from the sale of eighty-one tons of heroin.

In the view of the DEA, as FTOs become more heavily involved in the drug trade, hybrid organizations are emerging. These hybrid FTOs split their time between engaging in terrorist activity and serving as global drug trafficking cartels. According to Michael Braun, the DEA’s chief of operations, “The Taliban and FARC [Revolutionary Armed Forces of Colombia] are two perfect examples, and they are, in essence, the face of twenty-first century organized crime—and they are meaner and uglier than anything law enforcement or militaries have ever faced. They represent the most significant security challenge facing governments around the world.”

Charities. According to the Financial Action Task Force (FATF), “the misuse of non-profit organizations for the financing of terrorism is coming to be recognized as a crucial weak point in the global struggle to stop such funding at its source.” According to the Justice Department, intelligence indicates that terrorists continue to use charities as sources of both financial and logistical support. British officials concur. According to a British government report, a “significant proportion” of terror finance investigations in Britain in 2006 included analysis of links to charities. The report found that “the risk of exploitation of charities is a significant aspect of the terrorist finance threat.”

Charities and humanitarian groups are especially susceptible to abuse by terrorists and their supporters for whom such organizations are highly attractive fronts. Indeed, terrorist groups have long exploited charities for a variety of purposes. Charities offer a veil of legitimacy for terrorist fundraising, attracting unwitting donors who are unaware that the money they donate for humanitarian purposes actually funds terror. Those social welfare organizations funded by terrorist groups engender grassroots support for the groups and create fertile spotting and recruitment grounds.

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24 Ibid.  
25 Ibid.  
Charities are also ideal money laundering mechanisms. Those used by terrorist groups tend to (1) operate in zones of conflict and (2) traditionally involve the flow of money in only one direction, two factors that would be cause for suspicion in other organizations. Such a system enables terrorist groups to move personnel, funds, and material to and from high-risk areas under cover of charity work, and provide terrorist operatives with day jobs that offer both a salary and cover facilitating their terrorist activities. Moreover, terrorists co-opt charitable giving through a range of diverse tactics. Some charities are founded with the express purpose of financing terror, while others are existing entities that are infiltrated by terrorist operatives and supporters and co-opted from within. Recognizing that analysis of this means of terrorist financing demanded a discerning and discriminating level of scrutiny, Ambassador Francis X. Taylor, then the State Department’s coordinator for counterterrorism, noted in 2002 that “any money can be diverted if you don’t pay attention to it. And I believe that terrorist organizations, just like criminal enterprises, can bore into any legitimate enterprise to try to divert money for illegitimate purposes.”

A growing challenge in this arena is that banned or exposed charities tied to terrorism often shut down one day only to reopen the next under new names. The Treasury Department noted, for example, that after being designated in March 2002, the Bosnian branch of the al-Haramain Islamic Foundation “reconstituted itself and continued operations under the name ‘Vazir.’” In another case, the Treasury Department reported that the Indonesian branch of al-Haramain had also attempted to operate under an assumed name, “Yayasan al-Manahil—Indonesia.” As recently as July 2008, the department added new aliases under which al-Rashid Trust and al-Akhtar Trust International continued to operate, years after their U.S. and UN designations, in “an apparent effort to circumvent sanctions imposed by the United States and the UN.”

Evolution of terrorists’ financing methods have cut across the spectrum of raising, laundering, transferring, storing, and accessing funds. As authorities have cracked down, for example, on charities that were financing illicit activity around the globe, some of these charities have devolved decisionmaking to local offices and personnel. Some charities tied to illicit activities reportedly instruct donors to fund their regional offices directly, instead of going through central offices. They also hire local people as staff so as not to raise suspicion among authorities. Speaking of radical Islamist efforts to radicalize and recruit young Muslims in Zanzibar, Tanzania, a local Islamic leader noted that “there are some [charitable] agencies that sometimes use a native of the village [to recruit] because the others would be caught by the police.” Similarly, there has been a shift in funding from investment in specific programs to investment in large infrastructure projects. Such infrastructure is not only much needed but also provides effective cover for the transfer of substantial sums of money overseas. In the Philippines, for example, investigators found that terrorist financiers supporting the Abu Sayyaf Group and Raja

Sulayman Movement facilitated the construction of mosques and schools under the supervision of Mohammad Shugair, a Saudi national linked by Philippine authorities to terrorist financing.33

Trade-based money laundering. A particularly effective method of hiding illicit transactions under the cover of legitimate business is by engaging in money laundering through trade. Such a tactic eschews the actual transfer of funds by buying and transferring commodities, such as food or other goods. Such goods can be sent even to internationally sanctioned countries under the guise of humanitarian support. Once they have entered the country, the goods can either be sold directly for cash or transported to a third country for sale. A prominent example of suspected trade-based money laundering reportedly involves the Committee for Palestinian Welfare and Aid (CBSP), a French charity designated as a Hamas front organization by the United States. According to the Wall Street Journal, CBSP cooperated with the pro-Palestinian National Association of Moderation & Development to finance food aid to the Palestinian territories, selecting the local Palestinian company Abu Aker for Export and Marketing to handle the logistics of trade on the ground. Abu Aker was contracted to deliver “lentils, jam jars, and macaroni from the U.S.” and was able to show a receipt for the goods and pictures of “vegetable oil and other foodstuffs being delivered to a large refugee camp in Gaza during the Ramadan holiday in 2005.”34

Nevertheless, officials suspect Iran provided the funding for these transactions—funding that was passed either directly or indirectly along to terrorists through a trade-based money laundering scheme. Abu Aker has been involved in a number of other suspicious transactions in which foodstuffs or money either reached or was intercepted en route to Palestinian Islamic Jihad (PIJ) through the El Ehssan Charitable Association, one of the PIJ’s charities. In one case, Israel blocked the passage of five containers of vegetable oil paid for by European charities and sent to the Palestinian territories by a Turkish firm.35 According to Israeli officials, Iran leveraged a connection between an Iranian company and its European partners to initiate the scheme, while Abu Aker was reportedly in direct contact with PIJ officials in Damascus who pointed him to these same companies.36 Not surprisingly, Assistant Secretary of the Treasury Patrick O’Brien has stressed that trade-based money laundering is a significant problem.37

Less sophisticated means of transfer. While terrorist organizations are taking advantage of technology for financing purposes, terrorist cells and organizations are also reverting increasingly to far less sophisticated methods in order to avoid official banking systems. This includes the growing use of cash couriers, bulk cash smuggling, and hawala brokers (an informal remittance system for transferring money) to transfer funds, along with the use of alternative commodities such as precious stones. In some areas, the widespread use of cash is not an effort to evade law enforcement, but a common cultural practice. This is true throughout the Middle East, and particularly in the Gulf.

Reacting to counterterrorism efforts, terrorists have begun transferring funds through their members’ personal accounts and those of their families, sometimes directly, sometimes through charities, in an effort to evade the scrutiny given to organizational accounts. In the case of Palestinian groups, once

35 Ibid.
Israel handed over administrative functions to the Palestinian Authority (PA) under the Oslo Accords, Israeli authorities no longer had direct access to Palestinian banking information. Documents seized by Israeli forces in the West Bank in the course of Operation Defensive Shield (April 2002) indicate that Palestinian groups recognized this gap and took advantage of it. In fact, PIJ secretary general Ramadan Shallah himself transferred funds from Damascus to the personal bank accounts of individual PIJ terrorists such as Bassam al-Saadi, an operative responsible for PIJ finances in Jenin.38

Hiding terrorist activity. Much like other transnational criminal organizations, terrorist front groups often respond to the exposure of their activities by attempting to distance themselves from the alleged illegal activity and engage in otherwise legitimate endeavors to paint themselves in a more benign light. against international efforts to combat terrorism, in which much of the information used to designate individuals and organizations as terrorist entities remains classified, such legitimization campaigns take on even greater importance and utility. For example, some of the charities most closely tied to terrorist financing, including the al-Haramain Foundation, the International Islamic Relief Organization, and the Muslim World League, have hired Washington, D.C., lawyers and public relations experts to repair their images in the United States.39

In terms of specific practices, those who finance illicit activities increasingly go to ever greater lengths to hide the nature of their transactions through money laundering and other deceptive financial practices. As the myriad northern Virginia–based companies, charities, and other suspected terrorist front organizations now under investigation highlights, such organizations are perhaps most useful to terrorist groups as a means of laundering legitimate earnings, donations, and ill-gotten gains through cascading levels of charities and companies, including shell companies and paper charities. Shuffling funds among fronts makes tracing these financial trails immensely difficult, as charities and companies obfuscate the terrorist intentions of their transactions. In this case, authorities suspect one address of ties to dozens of entities, including charities and businesses—even a chicken farm.40

Hizballah, for example, employed deceptive means to seek funding for projects from international development organizations for its construction arm, Jihad al-Bina. According to the Treasury Department, “In cases when intended solicitation targets were thought to object to the group’s relationship with Hizballah and the Iranian government, the organization employed deceptive practices, applying in the name of proxies not publicly linked to Hizballah.”41 Similarly, in September 2006 the Treasury Department designated two Hizballah-controlled financial institutions as terrorist entities, Bayt al-Mal and the Youser Company for Finance and Investment. Bayt al-Mal served as a bank, credit, and investment arm for Hizballah, according to Treasury, and used the Youser Company to

secure loans and finance business deals for the group’s companies. And in November 2006, the Italian press reported that a ship said to be carrying refrigerators to Lebanon was impounded in Cyprus after it was found to contain eighteen trucks with mobile anti-aircraft radars and other vehicle-mounted monitoring equipment.

It should therefore not be surprising that Iran itself engages in a variety of deceptive financial practices to conceal the nature of its sponsorship of terrorist groups. Iran has used Bank Saderat as a preferred means of transferring funds to terrorist organizations such as Hizballah, Hamas, PIJ, and the Popular Front for the Liberation of Palestine–General Command. The Treasury Department revealed one case in which Iran sent $50 million to a Hizballah-controlled organization between 2001 and 2006.

State sponsorship. Even in the age of franchise terrorist groups and like-minded followers of radical online communities, both active and passive state sponsorship of terrorism remain significant sources of financing and other support for terrorist groups today.

While al-Qaeda has not enjoyed state sponsorship in the classical sense, it has benefited from relationships with governments such as Iran and Syria. Indeed, while active state sponsorship is increasingly rare, states provide terrorist groups with a tangible service by simply allowing terrorists to have access to their territory, facilitating their travel, or by turning a blind eye to their activities within their borders. For example, al-Qaeda in Iraq has long benefited from a network of associates in Syria that it uses to facilitate financing, travel to Iraq, and other logistics for members of its European network. Similarly, while Tehran maintains that al-Qaeda leaders in Iran have been under house arrest, U.S. officials have challenged these claims. As detailed in the al-Qaeda case study at the end of this report, recent events suggest Iranian officials maintain at least some level of cognizance of al-Qaeda activity within the country, although it is believed that most such activity is conducted without the full knowledge of the regime.

While Iran’s state sponsorship of al-Qaeda is in effect passive, its active support of other terrorist groups in the region is well documented, from terrorist and insurgent groups in Iraq and Afghanistan to Hizballah in Lebanon and Hamas and PIJ in the West Bank and Gaza. The Iranian regime has been described by U.S. officials as the “central banker of terrorism” and has a nine-digit line item in its budget to support terrorism, sending hundreds of millions of dollars to terrorist groups annually. Illustrating how the support for terrorism is part of an official government policy, Iran has used its state-owned financial institutions to dole out these funds.

Individual major donors. Speaking in the Persian Gulf, Treasury Department Undersecretary Stuart Levey noted that “terrorist organizations and al-Qaeda raise money in the Gulf by going to individual...”

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This was evident in 2006, when the department designated Abd al-Hamid al-Mujil, executive director of the Eastern Province office of the IIRO, described by fellow jihadists as the “million dollar man” for his support of Islamic militant groups. According to the public statement announcing his designation, Mujil had a long history of financing al-Qaeda and its Southeast Asian affiliates, the Abu Sayyaf Group and JI.\textsuperscript{47}

In January 2007, the Treasury Department designated Farhad Ahmed Dockrat and Junaid Ismail Dockrat, two South African al-Qaeda financiers. Farhad funded al-Qaeda and the Taliban through an al-Qaeda charity on the UN 1267 committee’s terrorism list, and Junaid raised $120,000 for then-al-Qaeda operations chief Hamza Rabia.\textsuperscript{48} In January, the UN listed three Kuwaitis—Hamid al-Ali, Jaber al-Jalamah, and Mubarak al-Bathali—as al-Qaeda financiers. Designated a year earlier by the Treasury Department, the three actively recruited and financed al-Qaeda activities, including those taking place in Kuwait, Iraq, Afghanistan, and Pakistan.\textsuperscript{49}

Documents seized in a September 2007 raid on a suspected al-Qaeda in Iraq (AQI) safe house in Sinjar, in western Iraq, revealed that in the 2006–2007 timeframe the group depended heavily on donations, much of which came from AQI leaders, foreign fighters, and local Iraqis.\textsuperscript{50} Among the foreign fighters who contributed to AQI, Saudis were the most prolific. They gave significantly larger amounts than the other fighters, with an average contribution of just more than $1,000. Additionally, of the twenty-three fighters who contributed more than $1,000, twenty-two were Saudi.\textsuperscript{51}

**Potential Impact of the Justice against Sponsors of Terrorism Act**

Beyond punishing terrorists and their supporters, and beyond providing victims of terrorism and their families a sense of justice, holding people financially responsible for their illicit actions by targeting the finances can also effectively stem the flow of funds available for future terrorist activity. Not only do successful civil suits remove funds from the pockets of terrorists and their supporters, they can also send a powerful message to other potential donors who may think twice before being named and shamed as terror financiers. Most of the major donors found to have been supporting terrorism have not been terrorist operatives themselves. These are prominent businessmen, wary of exposing themselves and their financial empires to the financial and litigation risk that comes with being added to a government or UN terrorism list or being indicted for supporting a terrorist group. Consider the time and money individuals such as Yasin al Qadi, a Saudi businessman designated as a terror financier by both the United States and UN, have spent trying to get off these lists.

Indeed, the financial front in the battle against terrorism may be the last area where traditional deterrence theory still applies within the context of modern counterterrorism. In the extreme, deterring a suicide bomber – who is willing to die himself so long as he takes you with him – is unlikely. In fact,

\textsuperscript{46} Gulf Daily News, “Millions of Dollars May Fund Terrorism,” February 27, 2008.
\textsuperscript{47} Treasury Department, “Treasury Designates Director, Branches of Charity,” August 3, 2006.
\textsuperscript{49} Treasury Department, “Treasury Designations Target Terrorist Facilitators,” December 7, 2006.
\textsuperscript{50} Fishman, Bombers, Bank Accounts, and Bleedout, p. 68.
\textsuperscript{51} Ibid., p. 70.
terrorist groups actively work to remove any disincentives that may affect the suicide bomber’s
determination, such as promising to take care of the suicide bomber’s family in way the bomber himself
never could. Then-Secretary of State Colin Powell lamented how terrorist groups would “incentivize”
suicide bombings. But major donors may indeed be deterred from putting themselves, their families
and the financial empires they have spent a lifetime building at risk by supporting terrorist groups.
Public sector actions such as designations and prosecutions are covered by the media and provide a
deterrent message for other potential donors. Civil cases can do the same, and could do much more with
the passage of the Justice against Sponsors of Terrorism Act.

Conclusion

While challenges remain, an examination of the record to date indicates positive results. Speaking before
Congress in February 2008, Director of National Intelligence (DNI) Michael McConnell commented
that over the previous twelve to eighteen months the intelligence community noticed that “al-Qaeda has
had difficulty in raising funds and sustaining themselves.” In April 2008, Undersecretary of the
Treasury Stuart Levey echoed the DNI’s assessment, adding that the government’s efforts to combat
terrorist financing “are more integrated than ever before” and have enabled the government to disrupt
or deter some sources of al-Qaeda finance and make “significant progress mapping terrorist networks.”

But it is still premature to celebrate al Qaeda’s financial demise. Speaking at The Washington Institute
for Near East Policy three months ago, Treasury Assistant Secretary David Cohen noted that while on
the one hand al Qaeda “is now in the worst financial shape it has been in for years,” the fact remains that
“al Qaeda is not disabled, nor is it bankrupt, and our progress in degrading its financial strength will not
be lasting without continued, vigorous efforts.” Such efforts require using all the tools at our collective
disposal, including those available to both the public and private sectors. To that end, passage of the
Justice against Sponsors of Terrorism Act would be a welcome development.

52 Colin Powell, interview by Tony Snow, Fox News Sunday, Fox News Channel, June 30, 2002
53 U.S. House of Representatives, “Hearing of the House Permanent Select Committee on Intelligence,
54 Treasury Department, “Under Secretary for Terrorism and Financial Intelligence Stuart Levey[,]
Testimony Before the Senate Committee on Finance,” April 1, 2008. Available online
(www.treasury.gov/press/releases/hp898.htm).
Institute for Near East Policy, April 7, 2010,