

Terror Finance:

The Imperative of Interagency Synergy

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Articles & Testimony

On March 11, 2009, Matthew Levitt, director of the Institute's [Stein Program on Counterterrorism and Intelligence \(templateI02.php?SID=11\)](#), testified before the House Committee on Armed Services Subcommittee on Terrorism and Unconventional Threats and Capabilities. The following is an excerpt from his prepared remarks.

Chairman Smith, Ranking member Miller, committee members, thank you for the opportunity to appear before you today to discuss the imperative of interagency synergy to successfully track and disrupt terrorist financial networks.

I am honored to testify today along with senior leadership from the Office of Secretary of Defense (OSD) and U.S. Special Operations Command (USSOCOM) whose offices play a critical role in combating the financing of transnational threats. I have long enjoyed, both in an out of government, a valued working relationship with the Department of Defense (DoD) elements focused on threat finance, including the OSD and combatant commands. In particular, USSOCOM's Transnational Threats Division, and within that division the Counter-Threat Finance Branch, is uniquely positioned to leverage its special talents against the transnational threats we face today. Under OSD's strategic and policy guidance, USSOCOM's analytical and operational contributions to combating threat finance have been and will continue to be critical to the continued success of our governmentwide efforts to combat the financing of transnational threats.

My comments today are drawn from [The Money Trail: Finding, Following, and Freezing Terrorist Finances, \(templateC04.php?CID=302\)](#) a Washington Institute study I recently coauthored with my colleague Michael Jacobson, who is here with us today. The full study is available on The Washington Institute's website.

U.S. and international efforts to combat terrorist financing are a little-understood -- and often unappreciated -- aspect of global counterterrorism efforts.

For example, while unilateral or U.N. terrorist designations are public actions, they constitute only one of a broad set of tools available to governments, international bodies and their private and public-sector partners around the world. Pundits and the press alike show insufficient appreciation for the extent to which public designations are related to other equally productive ways of combating terrorist financing, such as diplomacy, law enforcement, and

intelligence collection. Indeed, overt actions like designations and prosecutions are not the sum total of international efforts to combat terrorist financing -- they are only the most visible.

One consequence of this misunderstanding is that the metrics most often used to assess efforts against terrorist financing -- the total amount of money seized and the overall number of designations -- are both inadequate and misleading. The Achilles heel of terrorism financiers is not at the fundraising end, but rather at the choke points critical to laundering and transferring funds. It is impossible to "dry the swamp" of funds available for illicit purposes, but by targeting key nodes in the financing network, we can constrict the operating environment to the point that terrorists will not be able to get funds where and when they need them. It is not uncommon for a potential designation target to remain unnamed due to diplomatic or intelligence issues, policy considerations, or ongoing investigations. Designation may not be the most appropriate tool for every case of terror financing.

In a nutshell, that explains why an integrated, coordinated, interagency approach to countering the financing of transnational threats is so critical. The Treasury Department, where I served as deputy assistant secretary for intelligence and analysis, brings to the table a powerful set of tools to protect the U.S. financial system from abuse, deny illicit actors easy access to the U.S. and international financial systems, and to follow the money as a means of identifying terrorist financiers and operators up and down the financial pipeline. But these are only some of the tools available in the CFT toolkit, and they cannot be fully leveraged without the full participation of interagency partners. A successful strategy to combat the financing of transnational threats must leverage all elements of national power -- including designations, prosecutions, intelligence and law enforcement operations, diplomacy, technical assistance and capacity building, military power, and more.

Terrorists Need Money

Efforts to combat terror financing may be little understood, but they are both necessary and important. 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; to bribe officials; 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.

Our adversaries incur significant costs to maintain their infrastructure and to plot attacks, such that targeting their financial pipelines is an effective means of disrupting their ability to go about business as usual. 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. As such, eliminating or reducing 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. Shaikh Mustafa Abu al-Yazid (a.k.a. "Shaikh Said"), the 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 in preparation for the September 11 plot. Bin Laden himself was forced to step in and overrule Shaikh Said (although it is not clear that

Said knew about the September 11 plot when he rejected the expense).

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 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.

Disrupting financial flows have other benefits as well, such as exacerbating fissures within adversary networks. 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.

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."

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. Consider just a few examples:

- As the director of national intelligence highlighted in testimony before this committee earlier this week, the international financial crisis is already having far reaching consequences for a variety of key U.S. foreign policy and security concerns. While the financial crisis may dry up some sources of funds for terrorists, proliferators, and insurgents, it will also impact governments' ability to finance efforts to counter illicit finance. It is my sincere hope that successful efforts like the Iraq and Afghanistan Threat Finance Cells continue to receive the necessary funding to fulfill their critical missions in those respective theatres.
- Both globalization and technological improvements have had major impacts on terrorist financing. Consider the sharp increase in the volume of funds flowing internationally. In 2000, foreign workers sent \$113 billion back to their home countries. By 2006, remittances 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 several 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.

- Terrorist groups are increasingly resorting to acts of crime to finance their activities. In some cases, acts of petty crime, such as welfare fraud and credit card bust-out schemes, raise limited amounts of money for small operations. In others, aspiring terrorists raise significant sums through brazen crimes. One cell in France netted about one million Euros when a member whose job was to restock ATMs enacted robberies on several.
- 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.
- 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." 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."
- Trade-based money laundering is a particularly effective method of hiding illicit transactions under the cover of legitimate business. Instead of actually transferring funds, one simply purchases and transfers 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.
- Illicit actors have not only taken advantage of technology to finance their activities; they have also reverted to older, less sophisticated methods 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. 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.

Keeping pace with the evolutionary nature of the transnational threats we face today, and the means of financing these threats in particular, demands close interagency cooperation and timely and actionable intelligence.

What CFT is Intended to Achieve

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. However, 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.

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 nondesignated 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 sources 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 tools. 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. 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 their 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. That said, 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 provide an opportunity to clearly relay international intentions. For example, the information made public by the United States and United Nations in the course of designations of individuals, groups and charities found to have funded Lashkar-e-Taibah, the group responsible for the Mumbai attacks, laid the groundwork not only for effective counterterrorism measures following the attacks in Mumbai but also for a strategic communication strategy that exposed some of Lashkar-e-Taibah's terrorist facilitation and financing networks.

Following up on terrorist designations with robust public diplomacy initiatives offers a salient opportunity to support international counterterrorism and counterradicalization objectives and offer a counternarrative to the radical global narrative proffered by ideological radicalizers and terrorist recruiters.

Signs of Success

While the international community faces some difficult challenges in its efforts to combat terrorist financing, an examination of the record to date indicates positive results.

Despite the challenges, there are clear signs of success in our collective efforts both to deny terrorists access to funds and to follow the money for intelligence purposes.

Speaking before Congress in February 2008, Director of National Intelligence (DNI) Michael McConnell commented that over the previous twelve to eighteen months the U.S. intelligence community noticed that "al-Qaeda has had

difficulty in raising funds and sustaining themselves."

In early April, 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."

Additionally, while there is evidence that the al-Qaeda core is resurgent, funding difficulties may be preventing the organization from growing even stronger. In his July 2005 letter to Abu Musab al-Zarqawi, Ayman al-Zawahiri humbly asked the leader of al-Qaeda in Iraq (AQI) if he could spare "a payment of approximately one hundred thousand" because "many of the lines have been cut off." Similarly, in May 2007 al-Qaeda leader in Afghanistan Sheikh Mustafa Abu al-Yazid (Shaikh Said) highlighted the group's desperate needs for funds:

"As for the needs of the Jihad in Afghanistan, the first of them is financial. The Mujahideen of the Taliban number in the thousands, but they lack funds. And there are hundreds wishing to carry out martyrdom-seeking operations, but they can't find the funds to equip themselves. So funding is the mainstay of Jihad."

Other recent cases suggest al-Qaeda's senior leadership is indeed lacking funds. Consider a recent case in Bahrain. According to Bahraini investigators, members of an al-Qaeda affiliated cell tried and convicted in Bahraini courts twice delivered funds to al-Qaeda operatives in Afghanistan. The funds appear to have been self-generated, totaled only a few thousand dollars, and were sent not from al-Qaeda leadership to a terrorist cell abroad but from a budding terrorist cell to al-Qaeda leaders in Afghanistan.

In a recent case in Saudi Arabia, a taped message from Ayman al-Zawahiri distributed via cell phones asked for "donations for hundreds of the families of captives and martyrs in Pakistan and Afghanistan." Saudi authorities subsequently arrested some fifty-six individuals suspected of belonging to al-Qaeda and using the recording to raise funds.

Investigations in Europe and Asia offer other examples of local cells raising funds for themselves as well as sending funds to Pakistan. In Spain, for example, authorities have seen Pakistani terrorists involved in petty crime through which they not only finance their activities in Spain but also send millions of dollars back home, some of which, it is suspected, finances extremist groups there. In Singapore, a "self-radicalized" cell leader collected contributions from fellow cell members with the intent of sending the money as a donation to support violent causes abroad.

And this lack of funds has frustrated terrorists' capabilities. Philippine police reported that plans by Abu Sayyaf Group to set off bombs in Manila and target a chemical plant in 2006 were never executed due to a lack of funds.

Jemaah Islamiyah (JI), al-Qaeda's Southeast Asian affiliate, has also suffered from major financial setbacks due to the international efforts to combat terrorist financing. According to one study, JI has not received significant external funding since 2003. Not surprisingly, then, the group is facing financial shortfalls. As evidence, in late 2007, JI told members planning to participate in one of the organization's projects that they would have to cover their own expenses.

Several other cases highlight how the international community has been able to use financial intelligence to disrupt plots and prevent attacks.

- According to the U.S. Treasury Department, financial intelligence played an important role in individual operations, such as the investigation that led to the capture of Hambali (Riduan Isamuddin), the JI operations chief who masterminded the Bali bombings in 2002.
- British authorities foiled the summer 2006 liquid explosive aviation plot thanks in large part to critical financial intelligence.

- Four different terrorist attacks abroad have been disrupted, according to the FBI, based in part on their investigations of the financial activities of terrorist supporters in the United States.
- The U.S. Treasury Department reported that a financial intelligence collection program supplied a key piece of evidence confirming the identity of a major Iraqi terrorist facilitator and financier.

The transnational threats facing the United States and its allies today in terrorism, proliferation, insurgencies and more are not static threats; rather, they are constantly evolving in response to events on the ground -- including our efforts to combat them. Our response to these threats will be as successful as it is coordinated internally across our own interagency and more broadly among the U.S. and its allies.

The Iraq Threat Finance Cell (ITFC), based in Baghdad, is perfect example of one such interagency effort that works. Co-led by the DoD and Treasury, it was established in 2005 with the purpose of enhancing the collection, analysis and dissemination of timely financial intelligence on the Iraqi insurgency. It has become a key component of interagency and MNF-I efforts to detect, identify, and disrupt financial networks supporting insurgent and terrorist elements operating in Iraq. The new Afghan Threat Finance Cell builds on the demonstrated success of the ITFC.

We have undoubtedly made great strides in our counterterrorism efforts in general, as well as in counterinsurgency efforts in Iraq, and our measures to combat the financing of such threats in particular, even as we have far to go. Interagency efforts like threat finance cells in Iraq and Afghanistan are one reason for these successes.

Still, when it comes to financing transnational threats like al-Qaeda, its affiliated franchises and homegrown cells, much has changed even as much has stayed the same. Consider a recently declassified August 1993 intelligence report written by the U.S. State Department's Bureau of Intelligence and Research. The report describes several trends that remain issues of serious concern today, including some of the same streams of financial support that fund today's terrorist groups. To the present-day reader, who will digest this 1993 report with an eye toward the conflict in Iraq, perhaps the most disturbing analytical judgment (which could have been pulled out of a current intelligence assessment) is this:

The war-era network of state sponsors and private patrons which continues to support the mujahidin has no rigid structure and no clearly defined command center, but receives guidance from several popular Islamic leaders and financial support from charitable Islamic organizations and wealthy individuals. Key figures who have emerged as the mentors of the mujahidin provide one another with the contacts and conduits needed to keep the militant groups they support in business.

The network circa 1993 is not an exact parallel to today's combination of al-Qaeda operatives and like-minded followers of a virtually networked, leaderless network of terrorists and their supporters. But the 1993 warning about an unstructured network of terrorists moving from their current area of operations to other battlefronts could have been written today. What remains to be seen is if al-Qaeda senior leadership's lack of funds degrades the core group's power to control activities and direct operations. Without the power of the purse, would local terrorist cells still need the al-Qaeda core as much as that core would need these cells? According to some experts, part of what drew the GSPC in Algeria into the al-Qaeda fold was the financial dividend offered by such a relationship. Should the current trend continue, it could lead to the further degeneration of the al-Qaeda core and the devolution of al-Qaeda's organized global insurgency into a more localized -- and controllable -- terrorist threat. Toward that end, and in light of recent successes disrupting and deterring al-Qaeda's financial activity, constricting the terrorist operating environment -- with an eye toward al-Qaeda's financial streams in particular -- should remain a strategic interagency priority.

Thank you. ❖

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