

The Money Trail:

Finding, Following, and Freezing Terrorist Finances

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Brief Analysis

On November 17, 2008, Matthew Levitt and Michael Jacobson addressed a Policy Forum luncheon at The Washington Institute. Dr. Levitt is a senior fellow and director of the Institute's [Stein Program on Counterterrorism and Intelligence](http://www.washingtoninstitute.org/templateI02.php?SID=11&newActiveSubNav=Stein%20Program%20on%20Counterterrorism%20and%20Intelligence&activeSubNavLink=templateI02.php%3FSID%3D11&newActiveNav=researchPr) (<http://www.washingtoninstitute.org/templateI02.php?SID=11&newActiveSubNav=Stein%20Program%20on%20Counterterrorism%20and%20Intelligence&activeSubNavLink=templateI02.php%3FSID%3D11&newActiveNav=researchPr>). Michael Jacobson is a senior fellow in the Stein Program. The following is a rapporteur's summary of their remarks.

Matthew Levitt

The next administration needs to employ an "all elements of national power" strategy when addressing the multiple national security issues facing the country today. Such a strategy recognizes that no one tool can achieve U.S. foreign policy goals and that employing a variety of instruments in a coordinated fashion is likely to produce the best results. In particular, the combating of terrorist financing shows promise for success against this transnational threats when used in concert with other policy tools.

Combating terrorist financing is effective at three levels: deterrence, prevention, and disruption. Freezing terrorist funds has a deterrent effect on major donors, pressing financiers to rethink their support because of the potential hindrance to their day-to-day business activities. Countering terrorist financing will not dry up all the funding available to terrorists, but it is, however, an effective and efficient means of constricting our adversaries' operating environment by making it difficult to fund illicit activities. The financial sector provides reliable and substantive intelligence to investigators tracing money both upstream and downstream, from funding sources to potential operators. Following the "money trail" enables authorities to thwart attacks, and despite the difficulty of permanently disabling terrorist entities, disrupting their financial transactions constrains their ability to function.

Terrorist groups require extensive resources to train, equip, and pay operatives; bribe officials; support members' families; secure materials; and publicly promote the cause. Since even inexpensive attacks require funding, small-scale interventions can effectively thwart terrorists if they are unable to access necessary funds when and where they need them. These efforts have proven successful, since "al-Qaeda had difficulty in raising funds and sustaining themselves" in the past eight to twelve months, as stated by director of national intelligence Mike McConnell in February 2008.

Since the September 11 attacks, the terrorist threat has evolved structurally and financially. The National Counterterrorism Center estimates that nearly 300 groups were involved in terrorist attacks in 2006. This decentralized, global insurgency differs drastically from the relatively hierarchical monolith of al-Qaeda in 2001. Financial relationships have also shifted toward the periphery, with al-Qaeda's core in control of some assets while its affiliates access local resources. Globalization has exponentially increased the flow of transactions through the international financial system, in part making it easier to conduct illicit transactions in plain sight. Authorities are increasingly concerned about this decentralized and digitized financial structure, since technological developments have added new tools for transferring money, such as M-payments via cell phones and online transfer sites like cashU and E-gold.

At the same time, international efforts have deterred terrorists from using the formal financial sector, forcing them to find less efficient, indirect methods or informal channels for transferring money. Terrorist groups have compensated in innovative ways, such as passing money through female relatives' accounts or local affiliate branches of suspect business and charities, and by using couriers and hawalas (money-exchanging networks). Although counterterrorism authorities have adapted to these challenges, terrorist use of charities remains a sensitive issue, particularly as charitable giving is both a pillar of Islam (zakat) and an American value that complements our international diplomatic efforts. As our financial toolbox is further refined, finding a balanced approach to facilitating charity while preventing misuse should be a critical focus for the next administration.

Michael Jacobson

Before the September 11 attacks, counterterrorism was not a high governmental priority, and combating terrorist financing was even less so. The complete shift in priorities that occurred after the attacks extended beyond U.S. borders, with the United Nations, European and Persian Gulf countries, and a supportive private sector joining to create a new and more rigorous counterterrorist financing regime. Despite the admirable progress, the next administration will have to address the remaining challenges in order to fully benefit from these efforts.

Two critical developments before the September 11 attacks were the 1996 U.S. law criminalizing material support to terrorist organizations and the 1999 UN Resolution declaring al-Qaeda and the Taliban as terrorist elements. Despite these measures, terrorist fundraising and financing activities were fairly secure, but they prepared the way for further action after the attacks. Although the Department of Justice did not use the 1996 law before September 11 (it was reluctant to move until it had the perfect first case), it has prosecuted nearly eighty cases since. The UN Resolution was symbolically important in coalescing support for the later U.S. counterterrorism efforts and in normalizing the practice of designation lists.

After the attacks, aggressive use of the material support statute and terrorist designations were only two aspects of the new and vigorous attention paid to combating terrorist financing. Legal changes gave additional powers to the departments of Treasury and State and added tracking and enforcement mechanisms for financial transactions. Structurally, the Federal Bureau of Investigation (FBI), the Justice and Treasury departments, and other governmental branches formed counterterrorism finance sections. Overseas, other finance ministries took on national security responsibilities, and multilateral organizations, such as the Financial Action Task Force, laid out broad, systemic recommendations. Private-sector engagement also has been a crucial and valuable part of these efforts; 42 percent of FBI investigations include suspicious activity reports filed by private entities.

The financial centers in the Persian Gulf likewise have created regulatory regimes and taken some discrete actions to demonstrate their seriousness about combating terrorist financing. The United Arab Emirates has openly admitted the widespread use of hawalas and has started registering them. Bahrain established a cabinet committee to monitor charitable donations sent to Kashmir after the devastating earthquake there in 2005. During Ramadan, Kuwait monitored charitable transfers and prohibited cash donations.

Further progress, however, may be met by several challenges. The UN list is outdated and lacks credibility, which results in low enforcement and even public flaunting of the sanctions. The European lists also suffer from mixed implementation, and the European Court of Justice has issued several adverse rulings on the European designation system, charging that it lacks proper due process and transparency.

The emphasis on regulations and process obscures the need for implementation and follow-through; this is one of the major problems in the Persian Gulf, where laws exist but are not always effectively carried out. Compliance officers at financial institutions in the Gulf, for example, often encounter resistance in performing "know your customer" duties on clients. This is particularly true when it comes to well-respected, established families in the region. The cash-based culture has also proven difficult to reform. More broadly, countries that do not feel existentially threatened are often unwilling to take aggressive measures. Kuwait is a particularly good example of this phenomenon. Meanwhile, the terrorists' shift away from the formal financial system has also complicated governmental efforts.

To ensure progress in combating terrorist financing, the next administration should update the designation lists and aim to improve international cooperation. It should shift to a more risk-based approach, building on the solid foundation of rules already in place. The United States must also emphasize and explain more clearly to its international partners why countering terrorist financing is an effective tool and must be an important part of every country's national security strategy.

This rapporteur's summary was prepared by Larisa Baste. ❖

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