

Extremism's Deep Pockets:

The Growing Challenge of Fighting Terrorist Financing

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Articles & Testimony

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The United States and its allies have made considerable progress in tackling terrorist financing since 9/11 -- one of the few areas of success in the global counterterrorism efforts. Serious challenges have emerged, however, which could threaten the record to date. As governments have cracked down on terrorist financing, the growing number of terrorist cells and organizations have found new ways to raise, store, and move funds. Keeping pace with these rapid changes is an uphill struggle for government bureaucracies. International cooperation on these issues also continues to decrease as 9/11 grows more distant. Additionally, in spite of some positive steps taken by the Persian Gulf countries, the region remains a key source of terrorist funds, and European efforts in this area are still uneven. Addressing all of these issues will be essential for continued success in combating terrorist financing.

A Successful Approach

Since the 9/11 attacks, the U.S. government has used an aggressive, multifaceted strategy to combat terrorist financing. The Treasury Department has used its enforcement powers to freeze the assets of terrorist financiers and support networks. Since 9/11, Treasury has publicly designated approximately 500 individuals and entities as terrorists, associating them with a wide range of terrorist groups, including Al-Qaeda and its affiliates, Hezbollah, Hamas, and Palestinian Islamic Jihad. The Justice Department has used the "material support" statute to prosecute numerous individuals and entities for supporting terrorist organizations.

The U.S. has also -- as the 9/11 Commission recommended -- engaged in "vigorous efforts to track terrorist financing." Stuart Levey, Under Secretary for Terrorism and Financial Intelligence at the U.S. Department of Treasury emphasized that "counterterrorism officials place a heavy premium on financial intelligence" in part because "money trails don't lie."

Other countries have taken similar steps to improve their counterterrorist financing capabilities. In early 2007, for example, the British government unveiled a comprehensive strategy to combat terrorist financing and money laundering. The strategy provided their government with additional tools to crack down effectively on terrorist financing. This included the establishment of a "Terrorist Asset Freezing Unit" within the U.K.'s ministry of finance to work closely with British law enforcement and intelligence agencies. Additionally, the U.K. could now use classified information in the asset freezing process for the first time.

The U.S. and the U.K. have hardly been alone in giving their finance ministries greater responsibilities in this area. In the wake of 9/11 the G7 finance ministers released an action plan to combat the finance of terrorism. The finance ministers committed their governments to implementing the various relevant U.N. resolutions, to establishing financial intelligence units, and to pressing financial supervisors and regulators to ensure that terrorists are not abusing the private sector. Soon after, the G20 finance ministers and central bank governors issued their own action plan on terrorist financing because of their determination to "deny terrorists and their associates access to, or use of,

our financial system, and to stop abuse of informal banking networks."

Many countries have also passed legislation criminalizing terrorist financing and developed systems to freeze terrorists' assets. The European Union, for example, established two terrorist lists -- one for Al-Qaeda/Taliban members and one for other terrorist organizations. All 27 European countries are mandated to freeze the assets of designated entities.

Two international organizations -- the United Nations and the Financial Action Task Force (FATF) -- deserve considerable credit for the scale of the global response since 9/11. In fact, the U.N. first took on Al-Qaeda and the Taliban before 9/11, passing resolution 1267 in 1999 to pressure the Taliban to evict Al-Qaeda from Afghanistan. While the Taliban resisted, the fact that Al-Qaeda and the Taliban were already blacklisted certainly helped the U.S. build international support quickly after 9/11. By late 2003, almost 300 Al-Qaeda and Taliban members and entities were on the U.N.'s "1267 list." All U.N. members were required to freeze the financial assets and restrict the travel and arms trade of designated entities.

The U.N. also passed Resolution 1373 in late September 2001, creating a Counterterrorism Committee (CTC) and calling on all countries to improve their capabilities to combat terrorist financing. The international community heeded the UN's call. By early 2004, 117 countries had ratified the U.N.'s Convention for the Suppression of Terrorist Financing -- up from four on 9/11.

FATF, a relatively obscure Paris-based organization, which seeks to set global standards on combating money laundering and terrorism financing, has also played an important role. Launched by the G7 in 1989, FATF includes 34 member countries. In response to the September 11 attacks, FATF added combating terror financing to its mission in October 2001 and put out nine broad "special recommendations" in this area. Requirements include criminalizing terrorism financing, developing a system of freezing terrorist assets, and adequately overseeing nonprofit organizations and the informal financial sector, among other measures.

With so many countries taking action, it is hardly surprising that there have been some concrete results. For example, in a letter intercepted by the U.S. government in late 2005, Al-Qaeda deputy Ayman al-Zawahiri asked then-Al-Qaeda in Iraq chief Abu Musab al Zarqawi for \$100,000, noting that "many lines [of support] had been cut off."

Financial intelligence, according to Treasury officials, has also played an important role in individual operations, such as the investigation that led to the capture of Hambali, Jemaah Islamiya's operations chief who masterminded the Bali bombings in 2002. Additionally, 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 U.S.

The CIA's former Deputy Director, John McLaughlin, testified that the government's success in this area was attributable to the "relentless grinding away at other essential components of the terrorist networks -- the couriers, the facilitators, the fundraisers, the safehouse keepers, the technicians."

International Support Diminishing

Continued success in combating terrorist financing, however, is far from guaranteed. One key reason is that there are limits to what the U.S. can accomplish unilaterally in this arena, and as a recent National Intelligence Estimate noted, international cooperation is likely to wane as 9/11 grows more distant.

The United Nations -- an organization potentially well positioned to improve worldwide capabilities and to foster international cooperation -- has seen its counterterrorism role greatly diminished since 2004. The independent group responsible for monitoring compliance with the UN resolutions was fired and replaced with a team with far less autonomy, the number of entities added to the terrorist list has slowed, and countries have tired of the UN's

reporting requirements.

In terms of specific regions, while countries in the Persian Gulf have taken some steps, the area is still an important source of terrorist funds. Saudi Arabia remains a particular challenge. In a June 2007 speech, Treasury Secretary Henry Paulson cautioned that although the Saudis are "very effective at dealing with terrorists within the kingdom," they "need to do a better job holding accountable people who finance terrorism around the world." Treasury Under Secretary Stuart Levey issued a harsher assessment in September 2007, remarking, "If I could somehow snap my fingers and cut off the funding from one country [for terrorism], it would be Saudi Arabia." Levey also criticized the Saudis for failing to prosecute terrorist financiers, calling on the Saudis to treat the financing of terrorism as "real terrorism because it is."

There are problems with Kuwait's and the UAE's efforts as well. A March 2007 State Department report noted that terrorist financing is still not a crime in Kuwait, despite the fact that such potential financing "through the misuse of charities continues to be a concern." Additionally, while Kuwait has established a Financial Intelligence Unit -- an agency responsible for receiving, analyzing, and disseminating information about suspicious activity from the private sector -- the agency does not measure up to the internationally accepted standard for such bodies.

The UAE, on the other hand, has never convicted anyone for terrorism financing or money laundering. This is quite problematic in a country where, as the State Department assesses, "the threats of money laundering and terrorism financing are particularly acute." Iran, which has been described by U.S. officials as the "central banker of terrorism," remains the most serious problem. According to Treasury officials, Iran has a "nine digit line item" in its budget to support terrorism, sending hundreds of millions of dollars to terrorist groups, including Hamas, Hezbollah, and Palestinian Islamic Jihad.

The problems in tackling terrorist financing are not limited to the Persian Gulf, however. While individual European countries, such as the U.K., have made progress in tackling terrorist financing, the EU's efforts remain uneven. For example, while the EU is able to effectively target and freeze the assets of entities associated with Al-Qaeda or the Taliban, it has been far less successful in its efforts to designate other terrorist groups. Under the EU system, blacklisting terrorists who are not affiliated with Al-Qaeda or the Taliban requires the unanimity of all 27 member states. This unanimity requirement has prevented the Europeans from taking action against important terrorist organizations. The E.U., for instance, has not designated Hezbollah due to French-led opposition, and until 2003 only Hamas' military wing was on the list.

Evolution in Terrorist Financing

The terrorist threat today is a far different one than the U.S. and its allies faced on 9/11. While Al-Qaeda itself remains a formidable opponent -- particularly with its recent resurgence in Northwest Pakistan -- its affiliates and homegrown cells pose a growing threat as well. For example, the National Counterterrorism Center determined that there were almost 300 different groups involved in terrorist attacks in 2006 -- most of them Sunni. In fact, according to State, the terrorist threat has been transformed to the point that it now is a "form of global insurgency."

As the terrorist threat has evolved, how terrorist groups raise, store, and move funds has changed as well -- often in ways which have hindered the governments' efforts. 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 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.

These terrorist cells and organizations are also increasingly using cash couriers and bulk cash smuggling to transfer funds. Although less efficient, it is more difficult for law enforcement to track. Trying to urge the Gulf countries, in particular, to regulate cash couriers has been an uphill struggle, in a region where carrying bulk cash is a common

practice. Even where regulations have been put in place, the implementation has often been inadequate.

The terrorist groups also still have a variety of safe havens throughout the world, where they can raise funds, communicate, plan, recruit, and train in relative security. Most notable, from the U.S. perspective, is Pakistan's Federally Administered Tribal Areas (FATA), which was transformed into an Al-Qaeda/Taliban safe haven in late 2001. In Africa the Trans-Sahara and Somalia are safe havens for Al-Qaeda and its affiliates, while East Asia is a comfortable operating environment for Jemaah Islamiya and the Abu Sayyaf Group. Hezbollah and Hamas have been able to exploit the loosely governed Tri-Border region in Latin America, where they conduct illicit activity in order to raise funds for their organizations. Finally, according to the U.S. government, terrorists now view Iraq as a "potential safe haven and are attempting to make it a reality."

Staying on Course

Despite its success in this arena, the U.S. and its allies, given these challenges, cannot afford to grow complacent. Terrorist groups will continue to adapt the way they raise and move funds as they deem necessary to evade governmental scrutiny. Governments must closely monitor evolving trends in terrorist financing and develop effective strategies to respond quickly. Combating terrorist financing must also remain an important component of every government's overarching counterterrorism strategy, and maintaining international focus and cooperation on this issue is also essential. While these are difficult challenges, if the U.S. and its allies are unsuccessful in this regard, their efforts to fight terrorist financing will no longer stand out as one of the counterterrorism success stories.

Michael Jacobson, a senior fellow in The Washington Institute's [Stein Program on Counterterrorism and Intelligence \(http://www.washingtoninstitute.org/templateI02.php?SID=11\)](http://www.washingtoninstitute.org/templateI02.php?SID=11), is author of [The West at War: U.S. and European Counterterrorism Efforts, Post-September 11 \(http://www.washingtoninstitute.org/templateC04.php?CID=237\)](http://www.washingtoninstitute.org/templateC04.php?CID=237). Previously, he served as a senior advisor in the Treasury Department's Office of Terrorism and Financial Intelligence. ❖

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