

## Follow the Money:

# Challenges and Opportunities in the Campaign to Combat Terrorism Financing

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### ABOUT THE AUTHORS



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### Brief Analysis

On February 23, 2007, Matthew Levitt and Todd Hinnen addressed The Washington Institute's Special Policy Forum. Dr. Levitt recently rejoined the Institute as a senior fellow and director of the Michael Stein Program on Terrorism, Intelligence, and Policy. From November 2005 to January 2007, he served as deputy assistant secretary for intelligence and analysis at the Treasury Department. Mr. Hinnen, a former director in the National Security Council's Counterterrorism Directorate, is currently counsel to the Senate Judiciary Committee. The following is a rapporteur's summary of Dr. Levitt's remarks; Mr. Hinnen's remarks were off the record.

The U.S. government's much-discussed but little-understood effort to combat terrorism financing faces both challenges and opportunities. Terrorist groups continue to evolve, proactively working to evade existing sanctions and minimize the impact of future ones. Meanwhile, interagency efforts are being called upon to meet some of the most pressing national security threats through targeted financial measures.

### Little Understood

Both the process of implementing financing measures against terrorism and the interagency partners involved are frequently misunderstood. Although Treasury Department designations are public actions, they constitute only one in a comprehensive set of tools drawing on the expertise of various U.S. government agencies 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 terrorism financing, such as diplomacy, law enforcement, covert activity, and intelligence collection. Treasury designations are often mistaken for the sum total of U.S. government efforts to combat terror financing when, in fact, they are only the most visible.

### Challenges

Technological challenges to countering such financing abound, such as the development of internet-based money services businesses like Cash-U and E-Gold. Fortunately, these challenges can be addressed through technological fixes and regulation. The single most pressing challenge facing interagency efforts then becomes the need to streamline the decisionmaking and designation processes. Although we face an agile adversary with the ability to

change tactics quickly, our bureaucracy is inherently slow to change. Preparing the robust evidentiaries underlying each designation takes time, and interagency reviews take still longer. While protecting sensitive sources and methods is imperative, this goal must be balanced with the need to make each designation's case as thorough and aggressive as possible. Such declassification is integral to the battle of ideas in the war on terror.

Internationalizing terrorism designations presents another challenge. Unilateral sanctions imposed by the United States are less effective than broad measures adopted by the UN and implemented internationally. Even when broad multilateral sanctions are imposed, a cat-and-mouse game frequently ensues in which terrorist front organizations reinvent themselves under innocuous-sounding names to evade sanctions. Another challenge lies in the fact that the mandate of the UN's "1267 Committee" -- a sanctions monitoring regime formed by the Security Council resolution of the same name -- is limited to entities tied to al-Qaeda and the Taliban, excluding independent networks and groups like Hamas and Hizballah.

Finally, the metrics most often used to assess efforts against terrorism 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 at those key chokepoints 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. The number of overall designations is also misleading. It is not uncommon for a potential designation target to remain unnamed due to diplomatic or intelligence issues, policy considerations, or ongoing investigations. What we are left with are trends and anecdotes -- most of them classified -- that point to success. For example, officials report that in one case, a terrorist cell abandoned a plot because of a dearth of cash, while groups like al-Qaeda and Hamas have at times been pressed for funds.

### Opportunities

Despite the inherent challenges, combating terrorism financing is both an effective and wise use of available resources. Although mounting an individual terrorist attack is relatively inexpensive, the cost of maintaining the infrastructure of terrorism is high. Terrorist networks need cash to train, equip, and pay operatives, to secure materials, and to promote their cause. By forcing them to abandon formal financial channels in favor of informal transfers in smaller denominations, targeted measures have the cumulative effect of making the funds transfer process slower, more cumbersome, and less reliable.

Financial intelligence has become a reliable counterterrorism resource as well. Unlike human intelligence or signals intelligence, which require considerable vetting to determine their veracity, a financial transfer is a matter of fact. Definitively linking people with numbered accounts is a powerful intelligence tool. Indeed, following the money often leads authorities to conduits between terrorist organizations and individual cells. The 2003 capture of Riduan bin Isomuddin (a.k.a. "Hambali"), operational commander of the Southeast Asian terrorist network Jemaah Islamiyah, is but one example of such success.

Although targeted financial measures are commonly presumed to have negative diplomatic consequences, they also provide an opportunity to clearly relay U.S. intentions. Indeed, the recent designation of Jihad al-Bina, Hizballah's construction arm, sent the unequivocal message that Hizballah will 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.

The prospect of increased engagement and cooperation with the private sector presents the most intriguing and potentially rewarding opportunity in efforts to combat terrorism financing. Worldwide financial institutions'

voluntary use of the designated entities list published by the Treasury Department's Office of Foreign Assets Control is instructive. Such institutions engage in due diligence and risk assessment out of their own self-interest in balancing profit and risk. The ability to leverage this interest is a powerful tool. Do major international banks really want to provide import-export lines of credit to Iran, which lacks controls on money laundering and terrorism financing? Some may, some may not -- but they will not dismiss the question out of hand.

Even the cat-and-mouse game that follows each designation presents opportunities. Forcing terrorists to look over their shoulders and engage in less efficient and more costly 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, counterterrorism efforts are, by their very nature, difficult to judge 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.

This rapporteur's summary was prepared by Jake Lipton. ❖

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