

# War on Terror: Follow the Money

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## Brief Analysis

**T**errorism can be diminished if the flow of money to terrorist organizations is diminished. The first step in this latter effort is to simply acknowledge its importance. After all, the war on terror is not a conventional war. The enemies in question have no unified sovereign, military, or geographical purpose for their activities; rather, they place a premium on the death of innocents. Their principal means of fulfilling this objective is money, which allows them to recruit and train operatives, incite violence, acquire weapons, and evade justice.

### Follow the Money

There are several compelling reasons to focus on terrorist financing. First, combating such financing is within the reach of the United States and its allies. Al-Qaeda's cash flow, which was concentrated in the past, is now widely dispersed. The organization's revenue has been cut by two-thirds since the United States began its campaign against terrorist financing. Second, targeting terrorist funds is a superior means of preventing calamities. Before the September 11 attacks, the United States focused on prosecution and punishment to deter terrorists. Once Washington realized that terrorists cannot be deterred, however, the priorities for law enforcement changed from prosecution to prevention. We cannot limit the imagination or designs of a terrorist cell that has access to a great deal of money. But all of their invention is for naught if their funds never materialize. Third, most other sources of information in the war on terror are suspect -- the products of treachery, deceit, bribes, interrogation, or, in some cases, torture. In contrast, financial information is reliable, particularly because it was never intended to be found. Fourth, while suicide bombers are implacable foes who are beyond deterrence, their would-be bankers are decidedly more cowardly. Such individuals often have a great deal to lose in prestige, money, and freedom, and they are no doubt apprehensive whenever the war on terror focuses on sources of money. Fifth, developing standard intelligence on terrorist activities requires significant manpower, equity, ingenuity, and serendipity. Collecting and successfully analyzing the multifarious pieces of information related to every given terrorist plot would be nothing short of miraculous. In contrast, preventing the capital formation of terrorist plots before they are fully formed, although similarly daunting, is a much more promising strategic choice.

### New Tools

The USA PATRIOT Act is an important tool in the war on terrorist financing. Two of its provisions are particularly noteworthy. First, Section 314 allows the Treasury Department to ask any of 7,000 U.S. financial institutions for immediate information on any account without a subpoena, grand jury permission, or demonstration of probable cause. This power is exercised in a discrete fashion to avoid imposing a burden on these institutions. Second, Section 319 allows the Treasury Department to designate a foreign individual, financial institution, or state as a "primary money-laundering concern." Although there are legitimate legal questions about whether the provision's reach is sufficient to bar a third party abroad from doing business with a designated entity, it remains a very powerful weapon. Yet, it has not been used very often because any evidence used to support the designation must be produced in court if it is challenged. Removing that restriction would greatly strengthen Section 319.

## Saudi Cooperation

Saudi Arabia has played a significant, albeit inconsistent, role in the campaign against terrorist financing. Riyadh has offered dramatic cooperation in addressing systemic regulatory issues. Among other measures, the Saudis have expanded the regulation and licensing of hawalas (which conduct informal person-to-person money transfers); generated more suspicious-activity reports in the banking sector; placed more focus on fund-management responsibilities (echoing provisions in the PATRIOT Act); and enacted more prohibitions on crossborder charitable donations. At the same time, however, the Saudis have shown virtually no initiative to hold individuals accountable. To be sure, they have identified the problem and created a new system for addressing it. Yet, the people responsible for fueling the problem in the first place have been absolved, not explicitly, but by inaction and almost impossible evidentiary burdens. The systemic changes are important in and of themselves, but they are not enough. Those individuals contributing to the problem must be held personally accountable, particularly members of the Saudi elite.

Saudi cooperation has increased exponentially since the bombings in Riyadh in May 2003. Those attacks convinced them to agree to a joint taskforce. The taskforce has a number of immediate priorities. One is to make use of information seized from a number of al-Qaeda associates arrested in the kingdom over the past three months. The computer records of these individuals helped authorities uncover sources of terrorist financing throughout the Persian Gulf. Second, the taskforce is assisting in the investigations of both the May and November bombings in Riyadh. Third, the taskforce is charged with using Saudi domestic police powers (e.g., compulsory process, interrogation) to confirm the validity of U.S. intelligence regarding Saudis suspected of participation in terrorist financing activities. If U.S. allegations are indeed proven valid, Washington will expect Riyadh's cooperation in taking action against the individuals or organizations in question. Fourth, the taskforce is to foster investigations generated by the Saudis themselves. Policing the Saudi financial system is an enormous responsibility, and Riyadh's past track record in doing so is disappointing. The United States should not have to bear the burden of uncovering domestic terrorist financing in the kingdom. The Saudis are more capable of generating that kind of intelligence, if for no other reason than it is their home. Although U.S. authorities (e.g., FBI and Treasury agents) are not currently in charge of Saudi efforts to combat terrorist financing, they are certainly more than mere observers.

One potential problem with the taskforce initiative is that Saudi cooperation is completely focused on domestic concerns. The Saudis will pursue terrorists and financiers who are causing mayhem in the kingdom before addressing problems elsewhere. This domestic effort may require all of their resources; in fact, some of the resources that they should be devoting to investigating terrorist links beyond the kingdom will be diverted domestically in the near term. In any case, if the joint terrorism taskforce has not made material progress toward its goals by March 2004, then Washington will have to assume that no such progress will ever be made, and that the U.S.-Saudi partnership on terrorist financing has failed.

## Hamas, Hizballah, and Iran

Hamas and Hizballah represent one of the most challenging issues in the war on terrorist financing because they hide behind entities that serve important social functions, particularly in Palestine. In fact, Hizballah and Hamas constitute the de facto government in many of the areas in which they operate when it comes to delivering certain necessary services. At the same time, however, these organizations are the source of much of the killing and mayhem in these areas. One of the Bush administration's priorities has been to convince European allies to join the United States in designating Hamas a terrorist organization. Unfortunately, soon after the European Union's September 6, 2003, decision to fully outlaw the group, European authorities declined to freeze the assets of four local fundraising organizations that were indisputably demonstrated to have funneled donations to Hamas. There is no logic to designating Hamas a sponsor of terrorism without denying it the financial support it needs to continue such

sponsorship. Hopefully, the European Union just needs time to build up to the courage of its convictions.

In the long run, Hizballah is the most formidable enemy in the war on terror. It is more organized, far-reaching, and well funded than any other terrorist group, with the possible exception of al-Qaeda. Indeed, Hizballah is coiled and prepared to strike. The organization's strength stems from its status as one of the primary arms of Iranian foreign policy. Until the United States deals with Hizballah, Iran will remain a danger, either directly or through its proxy.

This Special Policy Forum Report was prepared by Jeff Cary.

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