

Fighting Illegal Transfers through Alternative Means of Money Transfer

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Constricting the Operating Environment

The war on terror is far from over, even as we find ourselves fighting another -- more conventional but no less critical -- war in Iraq. To be sure, al-Qaeda, its affiliated groups, and other international terrorist organizations continue to attempt to carry out increasingly heinous attacks; all too often they will succeed. Indeed, the edifice of hatred and resentment now permeating the Middle East provides an ideal environment for terrorist groups to exploit, facilitating recruitment of operatives, supporters, and financiers.

And it is therefore an especially painful reality that no counterterrorism technique or effort, however extensive, international, or comprehensive, will put an absolute end to such attacks or uproot terrorism.

There will always be people and groups with entrenched causes, an overwhelming sense of frustration, a self-justifying worldview, and a healthy dose of evil, who will resort to violence as a means of expression.

The goal of counterterrorism, therefore, should be to constrict the environment in which terrorists operate, making it increasingly difficult for them to carry out their plots of destruction and death. This includes cracking down not only on operational cells, but on their logistical and financial support networks as well.

One senior U.S. official involved in combating terror financing commented that "it's Pollyannaish to say that we will stop the flow of all the money, but it's also self-defeating not to try."

I'd put it differently: While we can't stop the flow of all the money, we can constrict the environment in which terrorists operate. We can make it more difficult for terrorists to raise, launder, and transfer funds, and that will make it more difficult for them to conduct attacks.

Follow the Money

The synchronized suicide attacks of September 11, 2001, highlighted the critical role financial and logistical support networks play in the operations of international terrorist organizations. The challenge in tackling these networks, however, is that they are well entrenched, sophisticated, and often shrouded in a veil of legitimacy (such as operating under the camouflage of purportedly charitable or humanitarian activity).

Since September 2001, America -- together with many allies -- has spearheaded a groundbreaking and comprehensive disruption operation to stem the flow of funds to and among terrorist groups. Combined with the unprecedented law enforcement and intelligence efforts to apprehend terrorist operatives worldwide and thereby constrict the space in which terrorists can operate, cracking down on terrorist financing denies them the means to travel, communicate, procure equipment, and conduct attacks.

Though the amount of money frozen internationally remains negligible, the impact of freezing terrorists' assets can be significant if the right accounts, companies, or front organizations are shut down. Denying terrorists access to their preferred means of raising, laundering, and transferring funds complicates their efforts to conduct their activities.

And yet, when it comes to cracking down on terrorist financing, we have barely skimmed the surface. The environment in which terrorists raise, launder, and transfer funds to further their activities remains all too permissive, while the international effort to constrict this environment remains insufficiently coordinated. All too frequently, authorities equate these terms -- raising, laundering and transferring funds -- with official or unofficial banking or money remittance systems. In fact, terrorists raise, launder and transfer much larger sums of money via otherwise legitimate businesses, charities and humanitarian organizations, as well as criminal enterprises and other illegal activity.

Cracking down on terrorist financing demands an all-encompassing approach to have any chance of successfully disrupting terrorist activity. It must target the full array of groups, individuals, businesses, official and unofficial banking systems, criminal enterprises, and purportedly humanitarian organizations that finance terrorism.

Criminal Activity

Criminal enterprises play a critical role in the service of international terrorism, especially as central nodes in the matrix of terrorist financing. Ahmad Omar Sayed al-Sheikh, convicted of the abduction and murder of Wall Street Journal Reporter Daniel Pearl, linked up with Aftab Ansari, a prominent figure in the Indian mafia, to provide al-Qaeda with recruits, false documents, safe-houses and proceeds from kidnappings, drug trafficking, prostitution and other crime. Officials in the Balkans are equally concerned about developing links between terrorism and mafia activity in Chechnya and other parts of the Caucasus spreading to Albania, Bosnia and beyond Southern Europe. Authorities in Belgium issued an arrest warrant for Victor Bout, a notorious arms trafficker suspected of supplying weapons to the Taliban and al-Qaeda as well as warring factions throughout the African continent in an elaborate guns-for-diamonds scheme.

Indeed, terrorists fund their operations, cover their living expenses, pay for logistical support activities, and raise, transfer and launder funds via a wide variety of criminal and otherwise legal activity rarely considered in the context of alternative means of money transfer. Just last month, Italian investigators busted an al-Qaeda support network accused of "using private businesses and cooperatives" as cover for their fundraising and false document procurement operations. The group trafficked in stolen cars, human smuggling and other criminal activities and transferred funds to accounts in some 16 countries in Europe, the Middle East and North America in what appears to be classic money laundering activity.

Al-Qaeda, Hizballah and The Revolutionary Armed Forces of Columbia (FARC) each raise millions of dollars in drug money to support their operations. By one account, al-Qaeda raised as much as 35% of its operating funds from the drug trade. In much the same way al-Qaeda profited from the drug business in Afghanistan until coalition forces destroyed the group's base of operations there, Hizballah benefits from the drug business in Lebanon (which in turn is linked to the group's activities in other drug producing areas like South America and Southeast Asia).

Hizballah, for example, not only benefits financially from the Beka'a Valley's poppy crop, but operationally as well.

Israeli authorities have broken up a series of Israeli-Arab cells working for Hizballah in return for money and, frequently, drugs. Some of these cells, like the one from the Galilee village of Abu Snan, were planning to kidnap Israeli soldiers. Other operatives, like Jihad "Gerard" Shuman -- a Lebanese Shi'a with a British passport -- were dispatched to Israel to execute bombing attacks. In September 2002, an Israeli military court indicted a Lieutenant Colonel in the Israeli army, part of a ten member gang, for spying for Hizballah. The officer, who reportedly lost an eye fighting Hizballah guerillas, passed classified information to Hizballah operatives in return for money, hashish and heroin.

Hizballah and other terrorist groups also traffic narcotics in North America to fund their activities back in the Middle East. A Drug Enforcement Agency (DEA) investigation into a pseudoephedrine smuggling scam in the American Midwest led investigators as far as Jordan, Yemen, Lebanon "and other Middle Eastern countries" and to bank accounts believed to be tied to Hizballah and Hamas. Commenting on the case, DEA chief Asa Hutchinson confirmed that "a significant portion of some of the sales are sent to the Middle East to benefit terrorist organizations." A senior U.S. law enforcement official added that overall "there is a significant amount of money moved out of the United States attributed to fraud that goes to terrorism."

Paralleling their connections to the international drug trade, groups like al-Qaeda and Hizballah capitalize on other parts of the black market, especially the gold and diamond markets. Speaking of the diamond trade and its links to Middle Eastern terrorist groups, one official recently noted the "influx of hard-core Islamist extremists" in the Congo, over the past three years. He added, "We know Hezbollah is here, we know other groups are here, but they can probably operate a long time before we know enough to stop them."

Smuggling, kidnapping and extortion are also well-established techniques employed by various terrorist groups. For example, in June, Mohammed and Chawki Hamoud, two brothers involved in a Hizballah support cell in Charlotte, North Carolina, were found guilty of a variety of charges including funding the activities of Hizballah from the proceeds of an interstate cigarette smuggling ring and procuring dual-use items such as night vision goggles, laser range finders and other equipment for use in Hezbollah operations. Seven other defendants had already pled guilty to a variety of charges stemming from this case, including conspiracy to provide material support to terrorists, cigarette smuggling, money laundering and immigration violations. Maximizing their profit, the network engaged in credit card fraud to purchase many of the dual use items they then smuggled into Lebanon.

In South America, Hizballah operatives engage in a wide range of criminal enterprises to raise, transfer and launder funds in support of their terrorist activity. These activities include small-scale businesses that engage in a few thousand dollars worth of business but transfer tens of thousands of dollars around the globe, mafia-style shakedowns of the local Arab community, and sophisticated import-export scams involving traders from India and Hong Kong, to name just a few.

Taking a page from Hizballah operatives in the Tri-border area (where Paraguay, Brazil and Argentina meet), Hamas and other Palestinian groups have taken to supplementing their funding with the proceeds of pirated multimedia. The business of copying intellectual property brings in funds in the range of "millions of dollars a year" from "royalties" the terrorist groups collect from common criminals engaged in the counterfeit multimedia business. According to Israeli investigators, Hamas, Fatah, and even senior members of the Palestinian Authority all participate in such underworld shakedowns to fund their anti-Israel activities. Middle East state sponsors of terrorism engage in similar techniques. Prior to the war in Iraq, Iraqis were reportedly "buying thousands of stolen Saudi passports" which were then smuggled through Jordan by Iraqi agents and subsequently "used in unspecified criminal activity."

In the United States, law enforcement officials are investigating a variety of criminal enterprises suspected of funding Middle East terrorist groups. These investigations include stealing and reselling baby formula, food stamp

fraud, and scams involving grocery coupons, welfare claims, credit cards and even unlicensed T-Shirts. U.S. officials believe "a substantial portion" of the estimated hundreds of millions of dollars raised by Middle Eastern terrorist groups come from the \$20 million to \$30 million annual illicit scam industry in the U.S. Recent examples of such activity include an Arab-American in Detroit caught smuggling \$12 million in fraudulent cashiers checks into the United States, and a fitness trainer in Boston accused of providing customers' social security and credit card numbers to Abdelghani Meskini, an associate of Ahmed Ressay, the Algerian convicted of plotting to blow up Los Angeles international airport during millennial celebrations.

Each of these trends is significant in its own right, and all the more so when applied in tandem. Humanitarian organizations, however, have played a particularly disturbing role in terrorist financing, and present an especially sensitive challenge as authorities are faced with discerning between legitimate charity organizations, those unknowingly hijacked by terrorists who divert funds to finance terrorism, and others proactively engaged in supporting terrorist groups. A key challenge that arises in this regard is the government's effort to balance the need to share information linking such organizations to terrorism against the cost of exposing intelligence sources and methods.

Conceptual Obstacles

Governments and international organizations involved in combating terrorist financing face a long list of practical obstacles, from insufficient international cooperation to a lack of domestic legislation criminalizing terrorist financing and money laundering, and a host of other issues.

The practical obstacles, however, are further complicated -- and the effort to combat terrorist financing further undermined -- by two significant conceptual obstacles:

First, debunking the myth of distinct "wings" within terrorist organizations; and second, untangling the terror -- al Qaeda is not the only element

Debunking the Myth of the "Wings"

On May 3, 2002, the EU added 11 organizations and seven individuals to its financial-blocking list of "persons, groups, and entities involved in terrorist acts." The action was particularly significant because it marked the first time that the EU froze the assets of non-European terrorist groups.

Far more telling than the names that were added to the list, however, are the names that were omitted -- Hizbollah, the Popular Front for the Liberation of Palestine (which was later added), and Hamas itself. According to press accounts, the EU was looking to maintain a distinction between terrorist groups' political and charitable activities on the one hand, and their direct terror wings on the other.

Consistent with this interpretation, the EU placed several individual Hizbollah terrorists on its list, but not the organization itself. The implication is that these Hizbollah operatives somehow work independently of the group that recruits, trains, and funds them for terror missions.

Similarly, listing only the military wing of Hamas but not the group itself suggests that Hamas is solely a charitable and political organization somehow disconnected from the heinous suicide bombings coordinated, funded, and lauded by its leaders in the Palestinian territories and Syria.

In fact, Hamas social welfare support organizations play a direct role in facilitating its terrorist attacks, including suicide bombings. In a November 2001 memorandum on the Holy Land Foundation for Relief and Development, which served as a Hamas front organization in the United States until it was closed down in December 2001, the FBI provided convincing evidence that social welfare organizations (e.g., charity committees and hospitals) form the core of the logistical and financial support network for Hamas, including support for terror attacks. The FBI memo

noted that Hamas "benevolent programs are used to enhance its image and earn goodwill in the Palestinian community." FBI surveillance of a 1993 Hamas meeting in Philadelphia captured Hamas fund-raisers deciding that "most or almost all" funds collected from that point on "should be directed to enhance the Islamic Resistance Movement [Hamas] and to weaken the self-rule government [PA]." To that end, the Holy Land Foundation funded zakat committees tied to Hamas, many of whose activists are closely tied to the group's terror cells, or are themselves current or former terror-cell members.

Such evidence led David Aufhauser, general counsel to the Treasury Department and chair of the National Security Council's policy coordinating committee on terrorist financing, to describe the logic of making distinctions between terrorist groups' charitable and military wings as "sophistry." By his assessment, "the idea that there's a firewall between the two defies common sense."

Palestinians face dire social-welfare needs unaddressed by the PA, a situation Hamas eagerly exploits. Tolerating this exploitation is neither in the interest of Israeli-Palestinian peace nor Palestinian humanitarian aid. Indeed, Islamic social welfare groups that contaminate their benevolent activities with support for terrorism muddy the waters of charitable giving and good works, making the job that much harder for those simply trying to better conditions in the West Bank and Gaza.

The international community must insist that humanitarian support for Palestinians be divorced from support for terrorist activity -- both to obstruct Hamas efforts to torpedo President Bush's peace initiative and to clear the names of humanitarian groups untainted by terror. It is essential that the EU, Gulf states and others strictly regulate which Palestinian charities receive international aid and shut down front organizations raising funds for Hamas and other terrorist groups.

Mr. Aufhauser hit the nail on the head when he said, "No one is at war with the idea of building hospitals or orphanages or taking care of people who are displaced. But the same people that govern how to apply the money to hospitals govern how to apply the money to killing people, and you cannot abdicate responsibility for one and celebrate what you're doing on the other: it remains blood money." For the president's peace initiative to succeed, the international community must endorse this basic principle.

David Aufhauser, the General Counsel to the Treasury Department and Chair of the National Security Council's policy coordinating committee on terrorist financing, describes the logic of making distinctions between terrorist groups' charitable and military wings as "sophistry" and maintains -- correctly -- that "the idea that there's a firewall between the two defies common sense."

Indeed, Aufhauser notes that, "No one is at war with the idea of building hospitals or orphanages or taking care of people who are displaced. But the same people that govern how to apply the money to hospitals govern how to apply the money to killing people, and you cannot abdicate responsibility for one and celebrate what you're doing on the other: it remains blood money."

A key lesson learned so painfully on September 11, 2001, is that counterterrorism efforts must target logistical cells with the same vigor as operational cells. The 19 hijackers were funded and facilitated by dozens of individuals, front organizations, and affiliates that provided essential logistical support. Long-term logistical planning also went into the bombing of the USS Cole and the embassies in East Africa.

Accordingly, individuals, groups, or states that provide funds, travel documents, training, or other support for terrorist activity are no less important to a terrorist network than the operatives who detonate the bomb, pull the trigger, or crash the airplane. The very "wings" of Hamas, Hizbollah, and other groups that some are reluctant to recognize as terrorist are the ones engaged in terrorist financing. September 11, 2001, was, in part, the result of this fundamentally flawed distinction between "good" and "bad" terrorists.

In an interesting twist, the EU's decision to distinguish between the political and military wings of these terrorist organizations came at the same time that Spain -- which then held the rotating presidency of the EU -- boldly moved in the opposite direction on its own home front. Referring to pending Spanish legislation outlawing Batasuna, the political party affiliated with the terrorist group Basque Homeland and Liberty (ETA), Spanish prime minister Jose Maria Aznar stated, "I make no distinction between terrorists, none at all, whether they are here in the Basque country or in New York. Nothing can justify a terrorist act." Spain's law would outlaw any group that "encourages hatred, violence and social confrontation to further its political objectives" -- a criterion that Hizbollah, Hamas, and the PFLP easily meet. Noting Batasuna's refusal to condemn ETA terrorist attacks, a leader of the Basque Socialist party observed that "in a democracy you cannot allow political groups to mock the system by acting as shields for terrorists."

In fact, if authorities are serious about cracking down on terrorist financing, they must not only "not allow" the purportedly political or social-welfare "wings" of terrorist groups to flourish, but must also take concrete steps to disrupt their activities. After all, it is there that the fundraising, laundering, and transferring take place.

We also need to Untangle the Terror Web: al-Qaeda is Not the Only Element

Nineteen months after the 9-11 attacks, Middle Eastern terrorist groups other than al-Qaeda and state sponsors of terrorism still receive inconsistent attention despite a sharp rise in their activity. In fact, militant Islamist groups from al-Qaeda to Hamas interact and support one another in an international matrix of logistical, financial, and sometimes operational terrorist activity. Inattention to any one part of the web of militant Islamist terror undermines the effectiveness of measures taken against other parts of that web.

September 11, 2001, produced a political will, markedly absent after previous attacks, to take concrete action to counter and disrupt the terrorist threat to America and its allies. Yet, while efforts targeting Osama bin Laden and his associates are concerted and continuous, similar efforts are lacking when it comes to other terrorist groups of global reach and state sponsors of terrorism.

Hamas, Hizbollah and Palestinian rejectionist groups in Lebanon have all called for suicide attacks against U.S. forces in Iraq, while the Palestinian Islamic Jihad dedicated a suicide bombing in Israel to the Iraqi cause and announced it had already sent suicide bombers to Iraq.

Far more disturbing, however, are the financial and logistical links between groups that are not known to cooperate operationally -- such as Hamas and al-Qaeda. Such links reveal a matrix of illicit terrorist activity on an international scale.

Consider the following examples of the terror web:

- Several individual European countries recently joined the United States in freezing the assets of the al Aqsa International Foundation, a Hamas front organization funding "Palestinian fighters" while recording its disbursements as "contributions for charitable projects." Significantly, al Aqsa's representative in Yemen, Mohammed Ali Hasan al-Moayad, was arrested not only for funding Hamas, but also for providing money, arms, communication gear and recruits to al Qaeda. According to a new Israeli report on Hezbollah's global activity, the head of the al Aqsa International Foundation office in the Netherlands indicated the office raised funds for Hezbollah in coordination with the group's main office in Germany.
- The al Qaeda cell uncovered in Madrid has been tied directly to the Hamburg cell that planned the 9-11 attacks, including Muhammad Atta, Ramzi Binalshibh, and others. The cell provided funds to members of the Hamburg cell, and is suspected of conducting preoperational surveillance of the Twin Towers, as well as the Empire State Building, the Statue of Liberty and the Golden Gate Bridge.

When Spanish authorities searched the home of Muhammad Zouaydi, a senior al Qaeda financier, they found he was funding not only a host of al Qaeda cells and operatives but the Hebron Muslim Youth Association.

According to Spanish prosecutors, "the Hebron Muslim Youth Association is an organization known to belong to the Palestinian terrorist organization Hamas which is financed by activists of said organization living abroad."

- The International Islamic Relief Organization (IIRO) finances the activities of a diverse cross-section of international terrorist groups. From 1986 to 1994, bin Laden's brother-in-law Muhammad Jamal Khalifa headed the IIRO's Philippine office, through which he channeled funds to al-Qaeda affiliates, including Abu Sayyaf and the Moro Islamic Liberation Front.

In 1999, an IIRO employee in Canada was linked to the Egyptian Islamic Jihad. More recently, official Palestinian documents seized by Israeli forces in April 2002 established that the IIRO donated at least \$280,000 to Palestinian charities and organizations that U.S. authorities have linked to Hamas.

- The al-Taqwa banking system, which was added to U.S. terrorism lists in November 2001 because of its al-Qaeda links, was established in 1988 with financing from the Egyptian Muslim Brotherhood.

According to the U.S. Treasury Department, "\$60 million collected annually for Hamas was moved to accounts with Bank al-Taqwa," whose shareholders include known Hamas members and individuals linked to al-Qaeda.

A 1996 report by Italian intelligence further linked al-Taqwa to Hamas and other Palestinian groups, as well as to the Algerian Armed Islamic Group and the Egyptian al-Gama'a al-Islamiyya.

Such conceptual obstacles have already undermined efforts to combat terror financing. A senior delegation of U.S. Treasury officials traveled to Europe in November 2002 to solicit European cooperation in a trans-Atlantic effort to block the international assets of about a dozen of the most egregious terror financiers. The effort failed, because European officials were unsatisfied that the majority of evidence the Americans presented to support their request focused on these financiers' support of groups like Hamas. Material pointing to their financing of al-Qaeda activities was limited out of fear of exposing sensitive sources and methods behind such intelligence, while evidence of their funding Hamas was more readily available. The Americans were told they would have to produce evidence these financiers were funding "more than just Hamas" (i.e., al-Qaeda) if they expected European cooperation.

The War on Terror must have a strategic focus on the full matrix of international terrorism, including all its parts and all its members. The next phase of the war on terror -- and of the war on terrorist financing in particular -- demands greater international cooperation and more focused attention to the web of financial, logistical and operational interaction among these various terrorist groups and state sponsors. ❖

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