

# Developing Global Mechanisms to Combat Terror: Stemming the Flow of Terrorist Financing

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## ABOUT THE AUTHORS



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**R**emarks to a conference on "Global Terrorism: If This is World War III, How Do We Win?", Strategic Dialogue Center, New York

### Constrict 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).

While money is fungible, financial transactions almost always leave a tangible money trail. Even the activities of Hawaladars can frequently be traced, despite the complications of dealing with unofficial money transfers that occur outside international financial markets.

The al-Qaeda suicide hijackings underscored not only the post-blast investigative utility of tracking the money trail, but also drove home the critical need to preemptively deny terrorists the funds they need to conduct future attacks.

Indeed, early financial leads in the September 11 investigation established direct links between the hijackers of the four flights, identified coconspirators, and led investigators to logistical and financial support cells in Germany and elsewhere in Europe as well as in the Gulf.

Financial leads pointed to key al-Qaeda operatives and money-men such as Ramzi Bin al-Shibh in Germany and Mustafa Ahmed al-Hawsawi in the United Arab Emirates. Financial analysis provided some of the earliest evidence proving the synchronized suicide hijackings were an al-Qaeda operation, and linked the German cell, the hijackers, and Zacarias Moussaoui. Wire transfers between Moussaoui and Bin al-Shibh played a crucial role leading to Moussaoui's indictment for his role in the attacks. Financial investigation also established links between Moussaoui and members of the al-Qaeda associated cell of Jama'ah al-Islamiah terrorists arrested in Malaysia.

Clearly, following the money trail represents a critical and effective tool both in reacting to terrorist attacks and in engaging in preemptive disruption efforts to prevent future attacks.

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. Much remains to be done. 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.

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.

### 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:

1. Debunking the myth of distinct "wings" within terrorist organizations; and
2. 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.

The EU list now includes the Taliban, al-Qaeda, Palestinian Islamic Jihad (PIJ), the Mujahedin-e-Khalq, and the Izz al-Din al-Qassem Brigades (the military wing of Hamas). It also includes the Kurdistan Workers' Party (PKK), now operating under the new name, the Kurdistan Freedom and Democracy Congress (Kadek).

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.

The latest effort to downplay the role that elements of the Hamas social-welfare network play in financing, supporting, and facilitating Hamas terror attacks came in an International Crisis Group report released this week.

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.

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:

- 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.

Clearly, the multifarious logistical links between international terrorist groups, and their links to state sponsors of terrorism such as Iran and Syria, are most entrenched in the realm of terrorist financing. To ignore these links is to forfeit hope of any real progress toward stemming the flow of funds to terrorist groups.

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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