



The Money Trail

Finding, Following, and
Freezing Terrorist Finances

Matthew Levitt and Michael Jacobson

Policy Focus #89 | November 2008

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Front cover: A man holds a stack of Afghani notes at a Kabul currency exchange market in 2002. Afghanistan has since introduced new currency. (AP Photo/Lynne Sladky)

Table of Contents

About the Authors	v
Preface	vii
Acronyms	ix
1. Introduction	1
2. Why Terrorist Financing Matters	3
3. Evolutionary Change in Terrorist Financing	7
4. Efforts to Counter Terrorist Financing	15
5. Conclusion: Signs of Success	40
6. Policy Recommendations	43
7. Case Studies: Current Status of Terrorist Financing	48

About the Authors

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The opinions expressed in this Policy Focus are those of the authors and not necessarily those of the Washington Institute for Near East Policy, its Board of Trustees, or its Board of Advisors.

Preface

U.S. AND INTERNATIONAL efforts to combat terrorist financing are a little-understood—and often unappreciated—aspect of the global counterterrorism campaign. With this in mind, soon after rejoining The Washington Institute after serving in the Treasury Department’s Office of Terrorism and Financial Intelligence, we decided that it would be worthwhile to conduct a comprehensive study of this issue.

We spent more than a year researching and writing this Policy Focus. It is based on open-source information, including media articles, reports by U.S. and foreign governments and international organizations, congressional testimony, and perhaps most important, our field research and interviews. During the course of our research, we interviewed some seventy-five people, ranging from U.S. and foreign government officials to officials in key international organizations such as the United Nations, International Monetary Fund, and the Financial Action Task Force, as well as academics and financial experts in the private sector. While many of the interviews took place in Washington, D.C., and in New York, we also spent considerable time abroad, including multiple trips to Europe and the Middle East. During one extended research trip to the Persian Gulf, we met with government officials, bankers, and industry and academic experts.

We have strived to produce a report that not only explains the threat of terrorist financing and the efforts of governments and international organizations to address it, but also assesses the effectiveness of these efforts. We offer, in addition, our thoughts as to what steps the United States could take to improve international efforts in this area. We hope that this study helps to inform the public debate on this important topic, which has not always received the attention it deserves. A better understanding of both the threat and our response is critical to determining what role combating terrorist financing should play in our overall counterterrorism efforts and what changes should be made to our current approach.

Chapter 1, the introduction to this monograph, provides a broad overview of the subjects we cover, as well as some of our basic findings. In chapter 2, we explain the importance of the little-understood efforts to combat terrorist financing, and why they are and should be an important part of the global counterterrorism campaign. Chapter 3 lays out how terrorist financing—like the terrorist threat itself—is rapidly evolving, frequently in response to international efforts to combat it. As we discuss in this chapter, the terrorist groups’ adaptation in how they raise, store and, move funds can often frustrate governmental efforts to detect and stop them. In chapter 4, we assess U.S. and international efforts to combat terrorist financing since the September 11 attacks—first laying out the many areas where steps forward have been taken, then exploring some of the remaining challenges. In chapter 5, we gauge how effective U.S. and international efforts have been, pointing to specific signs of success in an area in which progress is often difficult to measure. In chapter 6, we offer numerous recommendations for U.S. policymakers to bolster the international regime in this critically important area. Chapter 7 provides three case studies, providing “status checks” on the terrorist-financing-related activities of three key terrorist groups—al-Qaeda, Hamas, and Hizballah.

This project was possible only because the Washington Institute for Near East Policy gave us the space, support, and time to research and write. We are especially grateful for the support of the Institute’s Executive Committee and Board of Trustees, its executive director Dr. Robert Satloff and the deputy director for research, Dr. Patrick Clawson. Special thanks go to our colleagues Simon Henderson and Scott Carpenter for their very helpful comments on the various drafts of this Policy Focus: their input has made this a far better publication. This project would have been difficult to complete without the very able assistance of our research assistants, Albar Sheikh, Becca Wasser, and Sana Mahmood.

Acronyms

AML/CFT	Anti–Money Laundering and Combat- ing the Financing of Terrorism	IRGC	Islamic Revolutionary Guard Corps (Iran)
AQI	al-Qaeda in Iraq	IRSO	Islamic Relief Support Organization
ASP	Association de Secours Palestinien	ITFC	Iraq Threat Finance Cell
CBSP	Committee for Palestinian Welfare and Aid (<i>French</i> : Comité de Bienfaisance et de Secours aux Palestiniens)	JI	Jemaah Islamiyah
CFT	combating the financing of terrorism	LIFG	Libyan Islamic Fighting Group
CSIS	Canadian Secret Intelligence Service	MEK	Mujahedin-e Khalq
CSS	Center for Special Studies	MENAFATF	Middle East and North Africa Financial Action Task Force
CTC	Counterterrorism Committee	MILF	Moro Islamic Liberation Front
DEA	Drug Enforcement Administration	NGO	nongovernmental organization
DHS	Department of Homeland Security	NCTC	National Counterterrorism Center
DNI	Director of National Intelligence	OFAC	Office of Foreign Assets Control
EDA	Educational Development Association	PA	Palestinian Authority
EO	Executive Order	PDP	Public Discourse Project
FARC	Revolutionary Armed Forces of Colom- bia–People’s Army (<i>Spanish</i> : Fuerzas Armadas Revolucionarias de Colombia– Ejército del Pueblo)	PFLP	Popular Front for the Liberation of Palestine
FATF	Financial Action Task Force	PIJ	Palestinian Islamic Jihad
FIU	Financial Intelligence Unit	PKK	Kurdistan Workers’ Party (<i>Kurdish</i> : Partiya Karkerên Kurdistan)
FinCEN	Financial Crimes Enforcement Network	PLO	Palestine Liberation Organization
FTO	foreign terrorist organization	POAC	Proscribed Organization Appeal Commission
GAO	General Accounting Office	PVOE	Palestinian Association in Austria
GCO	Goodwill Charitable Organization	RIHS	Revival of Islamic Heritage Society
HLF	Holy Land Foundation	SAR	suspicious activity report
HMT	Her Majesty’s Treasury	TFI	Office of Terrorism and Financial Intelligence
IIRO	International Islamic Relief Organization	UAE	United Arab Emirates
IMF	International Monetary Fund	UN	United Nations
INR	Bureau of Intelligence and Research	UTA	Union Transport Africaines
IRA	Islamic Relief Agency	WMD	weapons of mass destruction

1 | Introduction

WHILE MOUNTING an individual terrorist attack costs relatively little, money remains of critical importance for terrorist organizations. Without it, terrorist groups would be incapable of maintaining the broad infrastructure necessary to run an effective organization. As such, finding means to quickly and securely raise, launder, transfer, store, and gain access to funds remains a top priority for all terrorist groups, from al-Qaeda and its various globally oriented affiliates to regionally focused groups like Hamas and Hizballah. Terrorist finance is also an area of rapid change, as terrorist organizations seek actively to evade governmental scrutiny and take advantage of emerging technologies. The shift in the nature of the global terrorist threat—from a centralized al-Qaeda to a franchise model—has had an impact on terrorist financing as well.

Until the September 11 attacks, combating terrorist financing was not a strategic priority for the U.S. government. But in the wake of the attacks, the United States dramatically heightened its focus on combating terrorist financing, employing an aggressive, multifaceted response in which it designated and froze the assets of numerous terrorist financiers and support networks, prosecuted individuals and entities for providing material support, and increased its focus on “following the money” as a means of collecting financial intelligence. The U.S. government also made a variety of structural and organizational changes to better address this key concern. The United States was hardly alone in its new focus on terrorist financing: many other countries followed suit. The European Union established terrorist blacklists, among other actions, and a number of the Persian Gulf countries put regulatory regimes in place to govern this arena. The private sector’s role—and its importance—in the global efforts to combat terrorist financing also increased. While the United States led the international charge on these issues, two international organizations, the United Nations and the Financial Action Task Force, also deserve credit for the scale of the global response since September 11.

Despite this progress, a number of obstacles remain, handicapping international efforts to combat terrorist financing. Perhaps most important, there are limits to what the United States can accomplish unilaterally in this arena, and international cooperation is critical to contending with terrorist financing in today’s truly global financial system. Maintaining focus and commitment on counterterrorism issues, including combating the financing of terrorism (CFT), becomes increasingly difficult as September 11 grows more distant. Keeping pace with the rapid changes in how terrorist groups finance themselves is also an uphill struggle for government bureaucracies, which by their nature are often slow to adapt. The evolution in terrorist financing presents particular challenges because the means of financing illicit activities frequently change in ways that are difficult for law enforcement and intelligence to detect. Terrorist groups also continue to abuse the charitable sector, a sensitive issue that few governments have been willing to address.

Additionally, in spite of some positive steps taken by Persian Gulf countries, the region remains a key source of terrorist funds. In Europe as well, efforts to combat terrorist financing remain uneven. Meanwhile, cracking down on the primary state sponsors of terrorism—Iran and Syria—is complicated by their direct access to the international financial system by virtue of being sovereign states. Terrorists are still able to use a number of safe havens for fundraising purposes, as well. Finally, while the private sector has improved its CFT regimes, it could be doing far more were governments willing and able to better engage with the private sector on these issues.

Overall, however, the United States and its international partners have enjoyed considerable success in the CFT arena. In December 2005, the 9-11 Commission’s Public Discourse Project (PDP) issued its final report grading U.S. government compliance with the 9-11 Commission’s recommendations. The project gave the government its highest mark, an “A⁺” for its

“vigorous efforts to combat terrorist financing.”¹ A variety of anecdotes support this assessment, suggesting that CFT efforts are making a difference, not only in constricting the environment for terrorist financing, but also by serving as a valuable intelligence tool for the government. In other words, freezing terrorist funds has proven to be an effective means of disrupting terrorist activity, while following the money has enabled investigators to uncover previously unknown links between terrorist operatives and even thwart attacks.

Combating terrorist financing must remain an important component of every country’s counter-

terrorism strategy, and maintaining international focus and cooperation on this issue is essential. While the challenges are great, the potential benefits are significant, as we will discuss in detail in the following pages. Similarly, failure to build a truly international regime to counter terrorist financing guarantees that the successes seen in this arena to date will be short-lived. And there should be no doubt that if terrorist groups are able to raise, move, store, and gain access to funds with relative ease, the threat they pose to the United States and its allies will increase dramatically.

1. 9/11 Public Discourse Project, *Final Report on 9/11 Commission Recommendations, December 5, 2005*. Available online (www.9-11pdp.org/press/2005-12-05_summary.pdf).

2 | Why Terrorist Financing Matters

A Misunderstood Area

First, it is important to note that much about government efforts to combat terrorist financing is misunderstood. Perhaps most important, although Treasury and State department terrorist designations are public actions, they constitute only one of a broad 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 terrorist financing, such as diplomacy, law enforcement, and intelligence collection. Sometimes, government contributes to this misconception. For example, buried deep in the State Department's 335-page report on terrorism in 2006 is a brief section on "countering terrorism on the economic front." It offers an outline of the government's successful efforts to block funding of terrorists and their supporters, but makes no mention of other tools used to combat terrorist financing. The public is left to believe that overt actions like terrorist designations are the sum total of U.S. and international efforts to combat terrorist financing when, in fact, they are only the most visible.¹

Unfortunately, the metrics most often used to assess efforts against terrorist 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 rather at the choke points 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 obtain 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.

To demonstrate the importance of efforts to combat terrorist financing, the government often resorts, in place of designations, to including declassified anecdotes and examples into congressional testimony or other reports to make its point. While these may be a better reflection of the government's progress, they are hardly sufficient or satisfying for those attempting to gauge the efforts from the outside. In addition, and perhaps most important, while these anecdotes and examples underscore the importance of countering terrorist financing, they do not explain why this endeavor is both an effective and wise use of available resources.

Terrorists Need Money

The primary reason why CFT efforts are both necessary and important is that terrorist groups need money. Although mounting an individual terrorist attack is relatively inexpensive, the cost of maintaining the infrastructure to support terrorist activities is high. Terrorist networks need cash to train, equip, and pay operatives, to secure materials, and to promote their cause. To eliminate or reduce a cell's means of raising and transferring funds is to significantly degrade that cell's capabilities. Additionally, by forcing them to abandon formal financial channels in favor of informal transfers in smaller denominations, the use of targeted measures has the cumulative effect of making the funds-transfer process slower, more cumbersome, and less reliable.

Seized al-Qaeda in Iraq (AQI) records, for example, indicate the facilitation network operating in the Sinjar area of western Iraq incurred significant costs related to salaries and family support.² Recruiting, training,

1. State Department, *Country Reports on Terrorism 2006* (Washington, D.C.: State Department, 2007). Available online (www.state.gov/s/ct/rls/crt/2006).

2. Brian Fishman (ed.), *Bombers, Bank Accounts, and Bleedout: Al-Qai'da's Road in and Out of Iraq*, Harmony Project (Combating Terrorism Center at West Point, 2008), p. 93. Available online (http://www.ctc.usma.edu/harmony/pdf/Sinjar_2_July_23.pdf).

traveling, planning operations, bribing corrupt officials, and other such activities also cost money. All of these expenses can add up quickly. For example, prior to September 11, al-Qaeda's annual budget was approximately \$30 million, according to the findings of the 9-11 Commission.³ One of AQI's branches recorded expenditures of approximately \$175,000 over a four-month period in 2007—with about half of this funding going to purchase weapons.⁴ This demonstrates further how eliminating or reducing an organization's means of raising and transferring funds significantly degrades its capabilities.

Illustrating the importance that al-Qaeda attached to funding-related issues prior to September 11, the organization had a finance committee and Osama bin Laden himself reportedly paid close attention to financial matters. Sheikh Mustafa Abu al-Yazid (aka "Sheikh Said"), head of the committee, took his responsibilities very seriously and was "notoriously tightfisted" with al-Qaeda's money. For example, he vetoed an expense for an al-Qaeda member to travel from Afghanistan to Saudi Arabia to obtain a U.S. visa, which the operative was seeking in preparation for the September 11 plot. Bin Laden himself was forced to step in and overrule Sheikh Said (although it is not clear that Said knew about the September 11 plot when he rejected the expense).⁵ This careful attitude regarding funds appears to have permeated al-Qaeda even at the operational level. According to the 9-11 Commission, the September 11 hijackers returned their unused funds to an al-Qaeda "facilitator" —approximately \$36,000 in all—in the days before the September 11 attacks. Ramzi Binalshib, the Hamburg-based liaison between the hijackers and al-Qaeda leadership, later explained the frugality of Mohammed Atta, the tactical leader of the September 11 plot, noting that Atta considered these funds "blessed and honored."⁶

AQI brought the same type of focus and bureaucratic approach to handling financial matters as did its better-known namesake. AQI put a number of management controls in place to try to ensure that their money was being spent carefully and appropriately. For example, one AQI memo laid out the procedures that its leaders should follow to track the organization's financial transactions. Operatives were required to provide signed forms, acknowledging that they had received the money and explaining how it had been spent. Lower-level managers were required to fill out financial statements, which AQI often audited. Documents seized later by the United States demonstrate AQI managers' concern when they were unable to account for every dollar in their control. Given this context, the highly detailed nature of the group's financial records hardly come as a surprise. For example, the Sinjar documents show that the AQI's border emirate spent \$727 on food during a two-month period, in addition to tracking a number of other different sub-categories for expenditures, including salaries, weapons, document forgeries, and smuggling costs. Given the operational and security risks associated with maintaining such an extensive paper trail, these details help illustrate the importance that AQI's senior leaders have attached to the organization's financial state.⁷

As will be discussed at greater length in the text to follow, one of the main ways that terrorist groups raise these much-needed funds is through criminal activity. While lucrative, such acts leave religiously oriented terrorist groups open to charges of hypocrisy. As such, these groups have expended considerable thought and effort toward justifying this activity. For example, Baz Mohammed, a Taliban-linked narcotics kingpin extradited to the United States in 2005, rationalized his group's involvement in the drug trade, telling members of his organization that "selling heroin in the U.S. was a

3. John Roth, Douglas Greenburg, and Serena Wille, *Monograph on Terrorist Financing* (Washington, D.C.: 9-11 Commission, 2004). Available online (http://govinfo.library.unt.edu/911/staff_statements/911_TerrFin_Monograph.pdf).

4. Fishman, *Bombers, Bank Accounts, and Bleedout*, p. 93.

5. Roth et al., *Monograph on Terrorist Financing*.

6. Ibid.

7. Fishman, *Bombers, Bank Accounts, and Bleedout*. "ISI Border Sector Income, Expense, Equipment and Personnel Report," AQI Financial and Accounting Documents, p. 1. Available online (<http://ctc.usma.edu/harmony/pdf/summaries%20in%20pdfs/Financial%20and%20Accounting.pdf>).

‘jihad’ because they were taking the Americans’ money at the same time the heroin they were paying for was killing them.”⁸ Abu Bakir Bashir, the Jemaah Islamiyah (JI) spiritual leader, offered a similar explanation for his organization’s involvement in jewelry store robberies to help finance operations, stating that “You can take their blood; then why not take their property.”⁹

Issues relating to money have negatively affected terrorist groups in other surprising ways. For example, some terrorists have interpreted inadequate compensation as a sign that they are being treated unfairly. Jamal al-Fadl, one of al-Qaeda’s first operatives, began embezzling funds from the group during its years in Sudan, because of his displeasure with his salary—stealing approximately \$100,000 in all. When bin Laden learned of al-Fadl’s actions, he ordered him to repay the money. Al-Fadl repaid about \$30,000 before fleeing, fearing retribution if he did not refund the full amount.¹⁰

Al-Qaeda’s L’Houssaine Kertchou, for another example, became bitter after one of bin Laden’s aides turned down his request for \$500 to cover the costs of his wife’s cesarean section. His anger level increased when al-Qaeda covered the expenses for a group of Egyptians who were sent to Yemen to renew their passports. “If I had a gun,” Kertchou later testified, “I would [have shot bin Laden] at that time.”¹¹

Overarching Purpose of CFT

It is important to recognize, however, that combating the financing of transnational threats will not, in and of itself, defeat these threats—nor is it intended to do so. Freezing funds will constrict the operating environment for illicit actors and disrupt their activities, and following the money trail will expose donors and operators up and down the financial pipelines of terrorists and insurgents alike. But these tools must be part of a broader strategy that leverages all elements of national power to successfully confront and eliminate the international security threats facing us today.

As intelligence agencies improve their capacity to collect and exploit financial intelligence for preemptive action, they are sure to rely on the experience of law enforcement agencies, which have long employed financial tools to solve crimes and build cases for prosecution. With nearly every recent terrorist attack, the post-blast utility of financial investigative tools has been reaffirmed. Financial data provided investigators with critical and early leads immediately following the attacks on September 11, as they did following the March 11, 2004, attacks in Madrid and the July 7, 2005, attacks in London, among others.

Focusing on the financing of transnational threats has other benefits as well:

- **Deterrent effect.** As difficult as it may be to deter a suicide bomber, terrorist designations can deter non-designated parties, who might otherwise be willing to finance terrorist activity. Major donors inclined to finance extremist causes—who are often heavily involved in business activity throughout the world—may think twice before putting their personal fortunes and their reputations at risk.
- **Preventive intelligence.** Unlike information derived from human spies or satellite intercepts, which require vetting to determine their authenticity, a financial transfer is a matter of fact. Raising, storing, and transferring money leaves a financial trail investigators can follow. Definitively linking people with numbered accounts or specific money changers is a powerful preemptive tool, often leading authorities to conduits between terrorist organizations and individual cells.
- **Disruptive tool.** According to terrorists themselves, while following the money will not stop all plots, it will likely frustrate some of these activities. Back in 1995, captured World Trade Center bomber Ramzi

8. Drug Enforcement Administration, “U.S. Extradites Taliban-Linked Narco-Terrorist,” press release, October 24, 2005. Available online (www.usdoj.gov/dea/pubs/pressrel/pr102405.html).

9. David E. Kaplan, “How Jihadist Groups Use Crime to Pay for Attacks Worldwide,” *U.S. News & World Report*, December 5, 2005.

10. Jamal al-Fadl, testimony in *United States v. Usama Bin Ladin et al.*, February 7, 2001.

11. L’Houssaine Kertchou, testimony in *United States v. Usama Bin Ladin et al.*, February 2001.

Yusef was flown over the twin towers on his way to a New York jail. When an FBI agent pointed out that the towers were still standing, Yusef replied, “They wouldn’t be if I had enough money and explosives.”¹² At a minimum, tracking terrorists’ financial transactions will make it harder for them to travel, procure materials, provide for their own families, and radicalize others. Denying terrorists—as well as insurgents and proliferators—easy access to financial tools forces them to use more costly, less efficient, and often less reliable means of financing.

Even the cat-and-mouse game that follows many of the designations presents opportunities. Forcing terrorists to look over their shoulders and devise alternative 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 it,

counterterrorism efforts are, by their very nature, difficult to assess 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.

Beyond its tactical advantages, combating the financing of terrorist threats presents opportunities in the broader, and no less important, battle of ideas regarding the ideology of radical extremism. Although targeted financial measures are commonly presumed to have negative diplomatic consequences, they also provide an opportunity to clearly relay U.S. intentions. For example, the July 2007 designation of Jihad al-Bina, Hizballah’s construction arm, sent the unequivocal message that Hizballah would 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.

12. James Risen and David Johnston, “A Day of Terror: Intelligence Agencies; Officials Say They Saw No Signs of Increased Terrorist Activity,” *New York Times*, September 12, 2001.

3 | Evolutionary Change in Terrorist Financing

The Evolving Terrorist Threat

To understand the many changes in the terrorist-financing arena over the past seven years requires a comprehension of how the terrorist threats and groups themselves have evolved. The transnational threats facing the world today are far different from the ones the United States and its allies faced on September 11. While al-Qaeda itself remains a formidable opponent—particularly with its recent resurgence in north-west Pakistan—its affiliates and homegrown cells pose a growing threat as well.

At the time of the September 11 attacks, al-Qaeda was the main threat facing the United States. It was a centralized, hierarchical organization directing terrorist operations around the world from its base in Afghanistan. The United States now faces a different—and in some ways more complicated—threat than it did in autumn of 2001. This is a threat, and an enemy, that continues to evolve rapidly, often in response to U.S. and international pressure.

Today, according to U.S. counterterrorism officials, the United States and its allies face a threefold threat. The first component is from the core al-Qaeda organization. While al-Qaeda was on its “back foot” from 2004 to 2007, it has now “regained its equilibrium.”¹ National Counterterrorism Center (NCTC) director Michael Leiter echoed this assessment, warning that “I regret to say that the al-Qaeda threat still looms large.”² There are several reasons why core al-Qaeda

continues to pose such a serious threat to the United States. According to Principal Deputy Director of National Intelligence Donald Kerr, the group has “retained or regenerated key elements of its capability, including its top leadership, operational lieutenants, and a de facto safe haven in ... the Federally Administered Tribal Areas (FATA) [of Pakistan] to train and deploy operatives for attacks in the West.”³

Al-Qaeda has also successfully expanded its reach through partnerships with other organizations throughout the Middle East and North Africa, which Dell Dailey, the State Department’s coordinator for counterterrorism, has referred to as the “franchising of al-Qaeda.”⁴ These affiliates include al-Qaeda in the Islamic Maghreb and the Libyan Islamic Fighting Group (LIFG).

Finally, there are more local groups today with less-direct ties to al-Qaeda. In fact, the NCTC determined that almost 300 different groups were involved in terrorist attacks in 2006—most of them Sunni.⁵ According to the State Department, the terrorist threat has been transformed to the point that it is now a “form of global insurgency.”⁶ One recent article cited more than 40 organizations in all that have announced formation and pledged allegiance to al-Qaeda and bin Laden between January 2005 and April 2007. These groups were located in Syria, Iraq, Lebanon, Afghanistan, Saudi Arabia, Yemen, Egypt, and across Europe, among other places.⁷ The attacks in London in 2005

1. Charles Allen, undersecretary of homeland security for intelligence and analysis, “Terrorism in the Twenty-first Century: Implications for Homeland Security” (address presented to a policy forum sponsored by the Washington Institute for Near East Policy, Washington, D.C., May 6, 2008). Available online (www.washingtoninstitute.org/templateC07.php?CID=395).
2. Michael Leiter, acting director, National Counterterrorism Center, “Looming Challenges in the War on Terror,” February 13, 2008. Available online (www.washingtoninstitute.org/html/pdf/20080213leiter.pdf).
3. Donald Kerr, principal deputy director of national intelligence, “Emerging Threats, Challenges, and Opportunities in the Middle East” (paper presented at a conference sponsored by the Washington Institute for Near East Policy, Washington, D.C., May 29, 2008). Available online (www.thewashingtoninstitute.org/templateC07.php?CID=397).
4. Dell Dailey, “An ‘All Elements of Power’ Strategy for Combating Terrorism,” *PolicyWatch* no. 1321 (Washington Institute for Near East Policy, December 18, 2007). Available online (www.washingtoninstitute.org/templateC05.php?CID=2697).
5. National Counterterrorism Center, *Report on Terrorist Incidents—2006* (Washington, D.C.: National Counterterrorism Center, April 30, 2007). Available online (<http://wits.nctc.gov/reports/crot2006nctcannexfinal.pdf>).
6. State Department, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2006* (Washington, D.C.: State Department, April 30, 2007), chapter I. Available online (www.state.gov/s/ct/rls/crt/2006/82727.htm).
7. Michael Scheuer, “Al-Qaeda and Algeria’s GSPC: Part of a Much Bigger Picture,” The Jamestown Foundation, April 6, 2007. Available online (www.jamestown.org/news_details.php?news_id=233).

and 2006 were perpetrated by local groups falling into the second and third categories—where al-Qaeda may still have played a role, but to a lesser degree than it did prior to September 11.

The shift in the terrorist threat is largely attributable to U.S. and international efforts after September 11 to crack down on al-Qaeda. With the increased international focus, al-Qaeda was forced to change its operational approach. Tighter border security, document control, and financial tracking all convinced al-Qaeda that it would be more effective if it began to use local groups to conduct attacks. While the al-Qaeda core is somewhat resurgent, it is still a far more decentralized model than the al-Qaeda of September 11.

Although al-Qaeda and its affiliates may still present the most serious threat to the United States, Rolf Mowatt-Larssen, director of intelligence for the Department of Energy, has contended that focusing on this group alone would be a mistake, from the perspective of stopping a nuclear attack. “The sober reality,” Mowatt-Larssen cautioned, “is that the threat posed by nuclear terrorism is much broader than the aspirations of any single terrorist group.”⁸

Meanwhile, even as the nature of the al-Qaeda threat itself evolves, groups like Hizballah, the Kurdistan Workers Party (PKK), Hamas, and Palestinian Islamic Jihad remain terrorist threats, focused not only on their operations at home but also on maintaining their financial and logistical support networks internationally.

Terrorist Financing: A Moving Target

As the terrorist threat has evolved, the means by which terrorist groups raise, store, and move funds has changed as well—often in ways that have hindered

government efforts to thwart their progress. Studies have long shown that terrorist groups learn from one another, exchange information on new technologies, and share innovations. Little attention, however, has been given to innovations and evolutionary change as related to terrorist financing.⁹

Globalization/technological change. Both globalization and technological improvements have had major impacts on terrorist financing. With globalization, the volume of funds flowing internationally has increased dramatically. In 2000, foreign workers sent \$113 billion back to their home countries. By 2006, the figure had more than doubled to \$255 billion, giving a sense of the scale of international remittance flows.¹⁰ Mirroring the broader shift toward the use of technology in global commerce, shifts have occurred in how funds are actually transferred, using new technology. M-payments, where cell phones are utilized to transfer money electronically, are growing in importance, as is the transfer and storage of funds via online entities such as cashU or e-gold. In countries where the formal financial sector is less than robust—such as in many African countries—using cell phones is a far more attractive option for transferring funds.¹¹ In some cases, terrorists are suspected of using the internet to obtain logistical and financial support for their operations.¹²

Overall, the internet has had a major impact on terrorist financing. It provides a cheap, fast, efficient, and relatively secure means of communication, effectively creating a conveyor belt for self-radicalized foot soldiers who connect and communicate with like-minded jihadists through chat rooms and online message boards. For example, a 2006 U.S. government

8. Rolf Mowatt-Larssen, director, Department of Energy, Office of Intelligence and Counterintelligence, “The Strategic Threat of Nuclear Terrorism” (paper presented at a policy forum sponsored by the Washington Institute for Near East Policy, Washington, D.C., June 16, 2008). Available online (www.washingtoninstitute.org/templateC07.php?CID=404).

9. See, for example, Kim Cragin et al., *Sharing the Dragon's Teeth: Terrorist Groups and the Exchange of New Technologies* (Santa Monica, Calif. et al.: RAND Corporation, 2007).

10. International Monetary Fund, Statistics Department, *International Transactions in Remittances: Guide for Compilers and Users (DRAFT)* (International Monetary Fund, September 2008). Available online (www.imf.org/external/np/sta/bop/remitt.htm).

11. State Department, *International Narcotics Control Strategy Report* (Washington, D.C.: State Department, March 2008). Available online (www.state.gov/documents/organization/102588.pdf).

12. Office of the Director of National Intelligence, “Declassified Key Judgments of the National Intelligence Estimate ‘Trends in Global Terrorism: Implications for the United States’ Dated April 2006,” press release. Available online (www.dni.gov/press_releases/Declassified_NIE_Key_Judgments.pdf).

report assessed that “groups of all stripes will increasingly use the Internet to obtain logistical and financial support.”¹³ The report noted, more generally, 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.

Shift from central control. Perhaps the most important shift of all in terrorist financing is related to broader changes in the nature of the terrorist threat itself. Before September 11, al-Qaeda funded and controlled operations directly from its base in Afghanistan. The funding for the September 11 attacks, and the 1998 East Africa embassy bombings, came from al-Qaeda itself. Even in the period after September 11, al-Qaeda continued to provide the money for operations, such as the \$20,000 it furnished for the 2002 Bali bombings.¹⁴ While today the al-Qaeda core is somewhat resurgent, the group is not funding operations in the way that it did in the past. Budding local terrorist cells are increasingly self-funded, using the proceeds of criminal activity, personal funds, or government welfare benefits. Some of these cells have connections to al-Qaeda senior leadership but are independently and locally funded; others operate on their own in “leaderless” communities with only virtual connections to al-Qaeda.

The case of the July 7, 2005, London subway bombers offers a perfect example of a locally funded cell at work. British authorities concluded that the attacks—which were estimated to have cost less than £8,000 to carry out—were self-financed. Investigators found “no evidence of external sources of income” and stressed that the group raised the necessary funds “by methods that would be very difficult to identify as related to terrorism or other serious criminality.” One cell

member provided the majority of the funds, defaulting on a £10,000 personal loan and overdrawing from his multiple bank accounts.¹⁵ By contrast, Dhiren Barot, a terrorist operative sentenced to thirty years in prison in 2006 on charges of conspiracy to murder, reached out to senior al-Qaeda leaders abroad seeking some £60,000 for a bombing plot he concocted involving limousines packed with explosives in downtown London.¹⁶

In some cases, acts of petty crime, such as welfare fraud, raise limited amounts of money for small operations. In others, aspiring terrorists raise significant sums through brazen crimes. One cell in France netted about 1 million euros when a member whose job was to restock ATMs enacted robberies on several. In another case in France, a cell blew a hole in the wall of a cash distribution center and would have walked away with 4 million euros—had the hole not been too small for them to enter.¹⁷ Both the State Department and NATO have highlighted the PKK’s criminal activities, particularly in Europe. According to a 2007 Europol report, “Two PKK members were arrested in France in 2006 for money laundering aimed at financing terrorism. At the end of 2005, three members of the PKK were arrested in Belgium and another one in Germany suspected of financing the PKK. In Belgium, the authorities seized receipt booklets indicating that the arrested suspects were collecting ‘tax’ from their fellow countrymen.”¹⁸

Drugs/terrorism. The nexus of drugs and terrorism is particularly strong for a variety of reasons. According to the Drug Enforcement Administration (DEA), nineteen of the forty-three designated foreign terrorist organizations (FTOs) are linked definitively to the global drug trade, and up to 60 percent of terrorist organizations are connected in some fashion with

13. Ibid.

14. Roth et al., *Monograph on Terrorist Financing*.

15. Financial Action Task Force (FATF), *Terrorist Financing* (Paris: FATF, February 29, 2008), p. 14. Available online (www.fatf-gafi.org/dataoecd/28/43/40285899.pdf).

16. British counterterrorism official, interview by author, March 6, 2008.

17. French intelligence officials, interview by author, March 25, 2008.

18. Abdulkadir Onay, “PKK Criminal Networks and Fronts in Europe,” *PolicyWatch* no. 1344 (Washington Institute for Near East Policy, February 21, 2008) Available online (www.washingtoninstitute.org/templateC05.php?CID=2720).

the illegal narcotics trade.¹⁹ Not surprisingly, the most important reason why terrorist groups are attracted to the drug trade is profit. The UN estimates that the international drug trade generates \$322 billion per year in revenue, making drugs by far the world's most lucrative illicit activity.²⁰ The revenues from other types of illicit transnational activity, such as arms trafficking and smuggling of aliens, are small by comparison. Drugs provide many different avenues for procuring revenue including through taxing farmers and local cartels, demanding fees for use of roads, and extorting payment for the provision of "security" for production labs, couriers, and more.

Illustrating the potential profit margin from drugs, in the tri-border region in Latin America—where Argentina, Brazil, and Paraguay meet—it is possible to make a profit of \$1 million from the sale of fourteen or fifteen kilograms of drugs, an amount that could be transported in a single suitcase. A package of this size does not necessarily attract the notice of an organization like the DEA, which routinely intercepts much larger shipments. Hamas and Hizballah, in particular, are heavily involved in the drug trade in this region. In Afghanistan, a ledger seized during a raid showed ten months of transactions, which yielded \$169 million from the sale of eighty-one tons of heroin.

In the view of the DEA, as FTOs become more heavily involved in the drug trade, hybrid organizations are emerging. These hybrid FTOs split their time between engaging in terrorist activity and serving as global drug trafficking cartels. According to Michael Braun, the DEA's chief of operations, "The Taliban and FARC [Revolutionary Armed Forces of Colombia—People's Army] are two perfect examples, and they are, in essence, the face of twenty-first century organized crime—and they are meaner and uglier than anything law enforcement or militaries have ever faced. They

represent the most significant security challenge facing governments around the world."²¹

Charities. According to the Financial Action Task Force (FATF), "the misuse of nonprofit organizations for the financing of terrorism is coming to be recognized as a crucial weak point in the global struggle to stop such funding at its source."²² According to the Justice Department, intelligence indicates that terrorists continue to use charities as sources of both financial and logistical support.²³ British officials concur. According to a British government report, a "significant proportion" of terror finance investigations in Britain in 2006 included analysis of links to charities. The report found that "the risk of exploitation of charities is a significant aspect of the terrorist finance threat."²⁴

Charities and humanitarian groups are especially susceptible to abuse by terrorists and their supporters, for whom such organizations are highly attractive fronts. Indeed, terrorist groups have long exploited charities for a variety of purposes. Charities offer a veil of legitimacy for terrorist fundraising, attracting unwitting donors who are unaware that the money they donate for humanitarian purposes actually funds terror. Those social welfare organizations funded by terrorist groups engender grassroots support for the groups and create fertile spotting and recruitment grounds.

Charities are also ideal money-laundering mechanisms. Those used by terrorist groups tend to (1) operate in zones of conflict and (2) involve the flow of money in only one direction, two factors that would be cause for suspicion in other organizations. Such a system enables terrorist groups to move personnel, funds, and material to and from high-risk areas under cover of charity work, and provide terrorist operatives with day jobs that offer both a salary and cover to facilitate their terrorist activities. Moreover, terrorists co-opt

19. Michael Braun, "Drug Trafficking and Middle Eastern Terrorist Groups: A Growing Nexus?" (lecture presented at a policy forum sponsored by the Washington Institute for Near East Policy, Washington, D.C., July 18, 2008). Available online (www.washingtoninstitute.org/templateC05.php?CID=2914).

20. Ibid.

21. Ibid.

22. Financial Action Task Force, *Terrorist Financing*, p. 11.

23. Glenn R. Simpson, "Islamic Charities Draw More Scrutiny," *Wall Street Journal*, February 23, 2008.

24. Her Majesty's (HM) Treasury, "Financial Challenge to Crime and Terrorism," February 28, 2007. Available online (www.hm-treasury.gov.uk/d/financialchallenge_crime_280207.pdf).

charitable giving through a range of diverse tactics. Some charities are founded with the express purpose of financing terror, while others are existing entities that are infiltrated by terrorist operatives and supporters and co-opted from within. Recognizing that analysis of this means of terrorist financing demanded a discerning and discriminating level of scrutiny, Ambassador Francis X. Taylor, then the State Department's coordinator for counterterrorism, noted in 2002 that "any money can be diverted if you don't pay attention to it. And I believe that terrorist organizations, just like criminal enterprises, can bore into any legitimate enterprise to try to divert money for illegitimate purposes."²⁵

A growing challenge in this arena is that banned or exposed charities tied to terrorism often shut down one day only to reopen the next under new names. The Treasury Department noted, for example, that after being designated in March 2002, the Bosnian branch of the al-Haramain Islamic Foundation "reconstituted itself and continued operations under the name 'Vazir.'" In another case, the Treasury Department reported that the Indonesian branch of al-Haramain had also attempted to operate under an assumed name, "Yayasan al-Manahil—Indonesia."²⁶ As recently as July 2008, the department added new aliases under which al-Rashid Trust and al-Akhtar Trust International continued to operate, years after their U.S. and UN designations, in "an apparent effort to circumvent sanctions imposed by the United States and the UN."²⁷

Evolution of terrorists' financing methods have cut across the spectrum of raising, laundering, transferring, storing, and accessing funds. For instance, as authorities have cracked down on charities that were financing illicit activity around the globe, some of these charities have devolved decision making to local offices and personnel. Some charities tied to illicit activities

reportedly instruct donors to fund their regional offices directly, instead of going through central offices. They also hire local people as staff so as not to raise suspicion among authorities. Speaking of radical Islamist efforts to radicalize and recruit young Muslims in Zanzibar, Tanzania, a local Islamic leader noted that "there are some [charitable] agencies that sometimes use a native of the village [to recruit] because the others would be caught by the police."²⁸ Similarly, there has been a shift in funding from investment in specific programs to investment in large infrastructure projects. Such infrastructure is not only much needed but also provides effective cover for the transfer of substantial sums of money overseas. In the Philippines, for example, investigators found that terrorist financiers supporting the Abu Sayyaf Group and Raja Sulayman Movement facilitated the construction of mosques and schools under the supervision of Mohammad Shugair, a Saudi national linked by Philippine authorities to terrorist financing.²⁹

Trade-based money laundering. A particularly effective method of hiding illicit transactions under the cover of legitimate business is by engaging in money laundering through trade. Such a tactic eschews the actual transfer of funds by buying and transferring commodities, such as food or other goods. Such goods can be sent even to internationally sanctioned countries under the guise of humanitarian support. Once they have entered the country, the goods can either be sold directly for cash or transported to a third country for sale. A prominent example of suspected trade-based money laundering reportedly involves the Committee for Palestinian Welfare and Aid (CBSP), a French charity designated as a Hamas front organization by the United States. According to the *Wall Street*

25. State Department, International Information Programs, "State's Taylor Summarizes Annual Global Terrorism Report," *Washington File*, May 21, 2002. Available online (www.usembassy.it/file2002_05/alia/a2052103.htm).

26. Treasury Department, "Treasury Announces Joint Action with Saudi Arabia against Four Branches of al-Haramain in the Fight against Terrorist Financing," press release, January 22, 2004. Available online (www.treas.gov/press/releases/js1108.htm).

27. Ibid., "Treasury Identifies New Aliases of al-Rashid and al-Akhtar Trusts[,] Pakistan-Based Trusts Previously Designated for Supporting al-Qaida," press release, July 2, 2008. Available online (www.ustreas.gov/press/releases/hp1065.htm).

28. Chris Tomlinson, "Islamic Extremists Use Missionary Tradition to Recruit Fighters, Spread Anti-U.S. Message in East Africa," Associated Press, February 20, 2004.

29. Alcuin Papa, "New Terror-Funding Network in Place, Says PNP," *Philippine Daily Inquirer*, July 12, 2008.

Journal, the CBSP cooperated with the pro-Palestinian National Association of Moderation & Development to finance food aid to the Palestinian territories, selecting the local Palestinian company Abu Aker for Export and Marketing to handle the logistics of trade on the ground. Abu Aker was contracted to deliver “lentils, jam jars, and macaroni from the U.S.” and was able to show a receipt for the goods and pictures of “vegetable oil and other foodstuffs being delivered to a large refugee camp in Gaza during the Ramadan holiday in 2005.”³⁰

Nevertheless, officials suspect Iran provided the funding for these transactions—funding that was passed either directly or indirectly along to terrorists through a trade-based money-laundering scheme. Abu Aker has been involved in a number of other suspicious transactions in which foodstuffs or money either reached or was intercepted en route to Palestinian Islamic Jihad (PIJ) through the El Ehssan Charitable Association, one of the PIJ’s charities. In one case, Israel blocked the passage of five containers of vegetable oil paid for by European charities and sent to the Palestinian territories by a Turkish firm.³¹ According to Israeli officials, Iran leveraged a connection between an Iranian company and its European partners to initiate the scheme, while Abu Aker was reportedly in direct contact with PIJ officials in Damascus who pointed him to these same companies.³² Not surprisingly, Assistant Secretary of the Treasury Patrick O’Brien has stressed that trade-based money laundering is a significant problem.³³

Less sophisticated means of transfer. While terrorist organizations are taking advantage of technology for financing purposes, terrorist cells and organizations are also reverting increasingly to far less sophisticated methods in order to avoid official banking systems.

This includes the growing use of cash couriers, bulk cash smuggling, and *hawala* brokers (an informal remittance system for transferring money) to transfer funds, along with the use of alternative commodities such as precious stones. In some areas, the widespread use of cash is not an effort to evade law enforcement, but a common cultural practice. This is true throughout the Middle East, and particularly in the Gulf.

Reacting to counterterrorism efforts, terrorists have begun transferring funds through their members’ personal accounts and those of their families, sometimes directly, sometimes through charities, in an effort to evade the scrutiny given to organizational accounts. In the case of Palestinian groups, once Israel handed over administrative functions to the Palestinian Authority (PA) under the Oslo Accords, Israeli authorities no longer had direct access to Palestinian banking information. Documents seized by Israeli forces in the West Bank in the course of Operation Defensive Shield (April 2002) indicate that Palestinian groups recognized this gap and took advantage of it. In fact, PIJ secretary general Ramadan Shallah himself transferred funds from Damascus to the personal bank accounts of individual PIJ terrorists such as Bassam al-Saadi, an operative responsible for PIJ finances in Jenin.³⁴

Hiding terrorist activity. Much like other transnational criminal organizations, terrorist front groups often respond to the exposure of their activities by attempting to distance themselves from the alleged illegal activity and engage in otherwise legitimate endeavors to paint themselves in a more benign light. Against international efforts to combat terrorism, in which much of the information used to designate individuals and organizations as terrorist entities remains classified, such legitimization campaigns take on even greater importance and utility. For example, some of

30. Glenn R. Simpson and Benoit Faucon, “A Trail of Sugar to Gaza,” *Wall Street Journal*, July 2, 2007.

31. *Ibid.*

32. Israeli intelligence official, interview by author, July 2007.

33. Patrick O’Brien, “Speech Prepared for Delivery at the Washington Institute for Near East Policy,” February 27, 2008. Available online (www.washingtoninstitute.org/html/pdf/20080227OBrienSpeech.pdf).

34. Israel Defense Forces, “The Cooperation Between Fatah and the PA Security Apparatuses with PIJ and Hamas in the Jenin Area,” April 9, 2002. See (<http://dover.idf.il/IDF/English/>).

the charities most closely tied to terrorist financing, including the al-Haramain Foundation, the International Islamic Relief Organization, and the Muslim World League, have hired Washington, D.C., lawyers and public relations experts to repair their images in the United States.³⁵

In terms of specific practices, those who finance illicit activities increasingly go to ever greater lengths to hide the nature of their transactions through money laundering and other deceptive financial practices. As the myriad northern Virginia–based companies, charities, and other suspected terrorist front organizations now under investigation highlights, such organizations are perhaps most useful to terrorist groups as a means of laundering legitimate earnings, donations, and ill-gotten gains through cascading levels of charities and companies, including shell companies and paper charities. Shuffling funds among fronts makes tracing these financial trails immensely difficult, as charities and companies obfuscate the terrorist intentions of their transactions. In this case, authorities suspect one address of ties to dozens of entities, including charities and businesses—even a chicken farm.³⁶

Hizballah, for example, employed deceptive means to seek funding for projects from international development organizations for its construction arm, Jihad al-Bina. According to the Treasury Department, “In cases when intended solicitation targets were thought to object to the group’s relationship with Hizballah and the Iranian government, the organization employed deceptive practices, applying in the name of proxies not publicly linked to Hizballah.”³⁷ Similarly, in September 2006 the Treasury Department designated two Hizballah-controlled financial institutions

as terrorist entities, Bayt al-Mal and the Yousser Company for Finance and Investment. Bayt al-Mal served as a bank, creditor, and investment arm for Hizballah, according to the Treasury Department, and used the Yousser Company to secure loans and finance business deals for the group’s companies.³⁸ And in November 2006, the Italian press reported that a ship said to be carrying refrigerators to Lebanon was impounded in Cyprus after it was found to contain eighteen trucks with mobile anti-aircraft radars and other vehicle-mounted monitoring equipment.³⁹

It should therefore not be surprising that Iran itself engages in a variety of deceptive financial practices to conceal the nature of its sponsorship of terrorist groups. Iran has used Bank Saderat as a preferred means of transferring funds to terrorist organizations such as Hizballah, Hamas, PIJ, and the Popular Front for the Liberation of Palestine–General Command. The Treasury Department revealed one case in which Iran sent \$50 million to a Hizballah-controlled organization between 2001 and 2006.⁴⁰

State sponsorship. Even in the age of franchise terrorist groups and like-minded followers of radical online communities, both active and passive state sponsorship of terrorism remain significant sources of financing and other support for terrorist groups today.

While al-Qaeda has not enjoyed state sponsorship in the classical sense, it has benefited from relationships with governments such as Iran and Syria. Indeed, while active state sponsorship is increasingly rare, states provide terrorist groups with a tangible service by simply allowing terrorists to have access to their territory, facilitating their travel, or by turning a

35. James Morrison, “Embassy Row: Saudi Charity Rules,” *Washington Times*, March 4, 2004.

36. See, for example, “Declaration in Support of Detention,” *United States v. Abdurahman Muhammad Alamoudi*, case no. 03-1009M, Alexandria Division, Eastern District of Virginia, September 30, 2003 (available online at <http://news.findlaw.com/hdocs/docs/terrorism/usalamoudi93003dec.pdf>); and *United States v. Suleiman Beheiri*, “Declaration in Support of Pre-Trial Detention,” August 14, 2003 (available online at <http://news.findlaw.com/hdocs/docs/terrorism/usbiheiri81403knaff.pdf>).

37. Treasury Department, “Treasury Designates Hizballah’s Construction Arm,” press release, February 20, 2007. Available online (www.ustreas.gov/press/releases/hp271.htm).

38. *Ibid.*, “Treasury Designation Targets Hizballah’s Bank,” press release, September 7, 2006. Available online (www.treas.gov/press/releases/hp83.htm).

39. Fausto Biloslavo, “Italian Troops Forgotten and Useless in Lebanon on Verge of Reexploding” [in Italian], *Il Giornale*, November 16, 2008. For more information, see Matthew Levitt, “Shutting Hizballah’s ‘Construction Jihad,’” *PolicyWatch* no. 1202 (Washington Institute for Near East Policy, February 20, 2007). Available online (www.washingtoninstitute.org/templateC05.php?CID=2571).

40. Treasury Department, “Treasury Cuts Iran’s Bank Saderat Off From U.S. Financial System,” press release, September 8, 2006. Available online (www.treas.gov/press/releases/hp87.htm).

blind eye to their activities within their borders. For example, AQI has long benefited from a network of associates in Syria that it uses to facilitate financing, travel to Iraq, and other logistics for members of its European network. Similarly, while Tehran maintains that al-Qaeda leaders in Iran have been under house arrest, U.S. officials have challenged these claims. As detailed in the al-Qaeda case study at the end of this report, recent events suggest Iranian officials maintain at least some level of cognizance of al-Qaeda activity within the country, although it is believed that most such activity is conducted without the full knowledge of the regime.

While Iran's state sponsorship of al-Qaeda is in effect passive, its active support of other terrorist groups in the region is well documented, from terrorist and insurgent groups in Iraq and Afghanistan to Hizballah in Lebanon and Hamas and PIJ in the West Bank and Gaza. The Iranian regime has been described by U.S. officials as the "central banker of terrorism" and has a nine-digit line item in its budget to support terrorism, sending hundreds of millions of dollars to terrorist groups annually.⁴¹ Illustrating how the support for terrorism is part of an official government policy, Iran has used its state-owned financial institutions to dole out these funds.

41. Fox News, "Treasury Official Calls Iran 'Central Banker of Terrorism,'" April 1, 2008. Available online (www.foxnews.com/story/0,2933,344530,00.html).

4 | Efforts to Counter Terrorist Financing

CLEARLY, THE STATE OF terrorist financing continues to evolve along with the nature of the terrorist threat itself. What remains constant is the need to develop and maintain robust, strategic, and cooperative efforts to combat the financing of terrorism. Critical to the success of such efforts is a high level of international cooperation and the ability to constantly assess and reassess the nature of the terrorist threat to keep pace with the evolutionary nature of this moving target.

CFT Efforts Pre–September 11

Prior to the September 11 attacks, combating terrorist financing was not a high priority for the U.S. government or the international community. Senior U.S. policymakers were not focused on terrorist-financing-related issues, and to the extent that they were, reliable information was often hard to come by, particularly on al-Qaeda. The U.S. intelligence community did not have a solid grasp of al-Qaeda's financing situation, as few resources were devoted to collecting information on this difficult target. International counterterrorism cooperation, critical to fighting a transnational enemy, was also often lacking.¹

In many cases in which the U.S. government did possess information on suspected terrorist financiers, little action was taken. The Federal Bureau of Investigation (FBI) collected considerable intelligence on suspected terrorist fundraisers in the United States, but these were primarily intelligence investigations and resulted in few prosecutions. In fact, it only became clear after September 11 how much information the U.S. government had gathered on suspected terrorist activity prior to the attacks. The case involving the Holy Land Foundation (HLF), a Texas-based charity later charged for

its ties to Hamas, is illustrative. The FBI began investigating the HLF in the early 1990s, and by September 11 had learned a great deal about the charity's activities. No action, however, was taken against this organization until after September 11, when it was designated by the Treasury Department² as a terrorist entity and prosecuted by the Justice Department.³

The government's interest in the HLF as an intelligence target may have outweighed its interest in prosecuting the group's suspected illicit activities, but the HLF case was hardly unique. In the pre–September 11 environment, the U.S. government was often reluctant to fully utilize the tools it had available to combat terrorist financing. One of the most powerful potential tools was the so-called material support provision of the 1996 Anti-Terrorism and Effective Death Penalty Act, which made it a criminal offense to provide support for terrorists. The Justice Department was hesitant about pursuing these types of cases at the time, and this provision remained unused as of September 11.⁴ The Treasury Department, which was charged with designating and freezing the assets of international terrorists, was equally unengaged prior to September 11. The department was hampered by its lack of access to intelligence and by the inattention of its senior officials.⁵ Many other regulatory and legislative initiatives had been designed to bolster the government's powers in this area, but by and large, these proposals went nowhere. A number of these proposals were later included in the USA PATRIOT Act, which was passed soon after the September 11 attacks.

While the CFT environment clearly had many deficiencies, some progress was made in the wake of the 1998 bombings of the U.S. embassies in Kenya and Tanzania. Perhaps most important, in 1999 the UN

1. Roth et al., *Monograph on Terrorist Financing*.

2. Treasury Department, "Statement of Secretary Paul O'Neill on the Blocking of Hamas Financiers' Assets," press release, December 4, 2001. Available online (www.ustreas.gov/press/releases/po837.htm).

3. Justice Department, "Holy Land Foundation, Leaders, Accused of Providing Material Support to Hamas Terrorist Organization," press release, July 27, 2004. Available online (www.justice.gov/opa/pr/2004/July/04_crm_514.htm).

4. Roth et al., *Monograph on Terrorist Financing*.

5. Ibid.

passed Resolution 1267, declaring that al-Qaeda and the Taliban were terrorist organizations. The 1267 list represented the first time that the international community had reached a consensus on dealing with terrorism, in sharp contrast to the traditionally paralyzing debates at the UN about terrorists versus “freedom fighters.” The resolution—which required member states to freeze the assets, and restrict the travel and arms trade, of designated individuals and entities tied to al-Qaeda or the Taliban—was designed to pressure the Taliban to evict al-Qaeda from its country.⁶ While the resolution did not achieve its ultimate goal, the increased international scrutiny did have some impact on bin Laden and al-Qaeda. The organization began altering how its members transferred money, moving away from the formal banking sector and turning more frequently to cash couriers and a *hawala* network in Pakistan and Dubai. Of course, Afghanistan’s lack of a banking system also contributed to this shift.⁷

Despite the incremental progress beginning in 1998, U.S. government efforts to crack down on terrorist financing—and specifically on al-Qaeda—had achieved little prior to September 11. As the 9-11 Commission assessed, “al-Qaeda’s cash flow on the eve of the September 11 attacks was steady and secure.”⁸

CFT Efforts Post–September 11

The counterterrorism environment changed dramatically in the wake of the September 11 attacks. The United States responded to the attacks on many fronts, including by employing an aggressive, multifaceted strategy to combat terrorist financing. On the enforcement front, the United States took action against many organizations and individuals who had been on the government’s radar for years. The Treasury Department designated and froze the assets of numerous terrorist

financiers and support networks—approximately 460 in all by late 2007. Those designated were from a wide range of terrorist groups, including al-Qaeda and its affiliates, as well as Hizballah, Hamas, and the PIJ.⁹ The Justice Department began vigorously using the “material support” statute to prosecute individuals and entities for supporting terrorist organizations. Use of the statute has extended beyond just terrorist supporters and financiers, with others prosecuted under the provision including John Walker Lindh, the so-called American Taliban; the six Yemenis in Lackawanna, NY, who attended an al-Qaeda training camp; and an Ohio truck driver who scouted various U.S. sites on al-Qaeda’s behalf.¹⁰

Structural and legal changes. In addition to exploiting existing tools more fully, U.S. government departments and agencies took advantage of extra powers they were given after September 11. For example, the Treasury Department’s ability to target al-Qaeda and its affiliates was increased soon after the attacks, when the president issued Executive Order (EO) 13224 on September 23, 2001. The EO, based on the International Emergency Economic Powers Act,¹¹ allowed the U.S. government to blacklist and freeze the assets of those tied to international terrorist organizations. This EO has served as the primary vehicle for blacklisting al-Qaeda members and others since it was signed. In addition, the Justice Department utilized an expanded material support statute to target suspected terrorists. Yet another notable change: the Intelligence Reform and Terrorism Prevention Act of 2004 broadened the material support statute by making it a criminal offense to “knowingly receive” military training from a designated terrorist organization. In the past, even if someone confessed to knowingly attending an al-Qaeda training camp, that alone would not have been an illegal act.

6. United Nations Security Council Resolution 1267, October 15, 1999. Available online (www.un.org/Docs/sccommittees/1267/1267ResEng.htm).

7. Roth et al., *Monograph on Terrorist Financing*.

8. Ibid.

9. Treasury Department, “Joint Testimony: Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, Adam J. Szubin, Director of the Office of Foreign Assets Control,” press release, April 18, 2007. Available online (www.ustreas.gov/press/releases/hp361.htm).

10. Federal Bureau of Investigation (FBI), “Statement of Gary M. Bald, Assistant Director, Counterterrorism Division, FBI, Before the United States Senate Committee on the Judiciary,” May 5, 2004. Available online (www.fbi.gov/congress/congress04/bald050504.htm).

11. State Department, Office of the Coordinator for Counterterrorism, Fact Sheet, December 20, 2002. Available online (www.state.gov/s/ct/rls/fs/2002/16181.htm).

In terms of terrorist financing, the Patriot Act made it easier for the U.S. government to prosecute individuals believed to be funneling money to terrorists. Before the act passed, people operating unlicensed money-transmitting businesses—which could include *hawalas*—could rely on the plea that they had no knowledge of the state licensing requirements. The Patriot Act made it more difficult for these types of companies to plead ignorance, by requiring that individuals involved in money-transmitting businesses know state licensing requirements.¹²

More recently, the United States has taken steps to improve its export control capabilities—a key part of an effective regime to combat financing for both terrorist activity and weapons of mass destruction (WMD) proliferation. In 2007, the Justice Department created the position of national export control coordinator, in an effort to “improve the investigation and prosecution of illegal exports of U.S. arms and sensitive technology.”¹³

Beyond enforcement—which remains the aspect of the CFT efforts most visible to the general public—the United States has improved its financial intelligence capabilities. This effort was in line with the recommendation of the 9-11 Commission to engage in “vigorous efforts to track terrorist financing.” Stuart Levey, undersecretary for terrorism and financial intelligence at the Department of the Treasury, emphasized that “counterterrorism officials place a heavy premium on financial intelligence”¹⁴ in part because “money trails don’t lie.”¹⁵

The U.S. government also made organizational and structural changes designed to improve its capabilities in combating terrorist financing. The FBI established a

special branch at its headquarters—known as the Terrorist Financing Operations Section—to focus exclusively on these issues and to help direct and coordinate its fifty-six field offices’ investigations. The Justice Department also established an office within its counterterrorism section to handle these issues. Perhaps even more important, the Treasury Department, whose enforcement capabilities had been nearly eliminated with the 2003 reorganization that created the Department of Homeland Security, began to ramp up its efforts once again. In 2004, the department created an Office of Terrorism and Financial Intelligence (TFI), headed by an undersecretary, which included a newly formed in-house intelligence arm, the Office of Intelligence and Analysis.¹⁶ These changes at the Treasury Department helped address the two major challenges facing it prior to September 11—inadequate access to intelligence information in the U.S. government’s possession and inattentive policymakers at senior levels in the department. The Drug Enforcement Agency (DEA) has also assumed a growing role in the U.S. government’s counterterrorism efforts, an important development given the growing ties between Middle East terrorist groups and drug traffickers. In 2006, the DEA officially joined the U.S. intelligence community. Since drug traffickers and terrorist groups are located in many of the same ungoverned locations, and use the same facilitation networks, the DEA is well positioned to address both threats, particularly as they overlap.¹⁷

The terrorist and insurgency financing threat in Iraq has prompted the United States to make structural changes. In 2005, the United States established the Iraq Threat Finance Cell (ITFC), whose mission was to improve U.S. efforts to gather, analyze, and disseminate

12. Justice Department, *Report from the Field: The Patriot Act at Work*, July 2004. Available online (www.usdoj.gov/olp/pdf/patriot_report_from_the_field0704.pdf).

13. Justice Department, “Justice Department Appoints National Export Control Coordinator as Part of Enhanced Counter-Proliferation Effort,” press release, June 20, 2007. Available online (www.usdoj.gov/opa/pr/2007/June/07_nsd_440.html).

14. Treasury Department, “Testimony of Stuart Levey, Under Secretary, Terrorism and Financial Intelligence, U.S. Department of the Treasury, before the House Financial Services Subcommittee on Oversight and Investigations,” press release, July 11, 2006. Available online (www.treas.gov/press/releases/hp05.htm).

15. *Ibid.*, “Statement of Under Secretary Stuart Levey on the Terrorist Finance Tracking Program,” press release, June 23, 2006. Available online (www.treas.gov/press/releases/js4334.htm).

16. *Ibid.*, “Bush Administration Announces Creation of New Office in Ramped Up Effort to Fight the Financial War on Terror,” press release, March 8, 2004. Available online (www.treas.gov/press/releases/js1219.htm).

17. Braun, “Drug Trafficking and Middle Eastern Terrorist Groups.”

intelligence relating to the financial networks of insurgents, terrorists, and militias in Iraq.¹⁸ The ITFC, based in Baghdad, is cochaired by the Treasury and Defense departments. According to a Treasury Department official, the ITFC has been a success, “paying significant dividends to our war fighters” by working with coalition forces to analyze data seized in raids, and identifying notable trends in insurgency financing.¹⁹ While it is impossible to determine the extent of the ITFC’s role in improving overall security in Iraq, the cell at the least appears to have had an impact on U.S. efforts in the counterterrorism financing arena.

New role for finance ministries. In addition to making structural changes, the Treasury Department began to play a more central role in U.S. national security issues, not only on terrorist financing but, more notably, against rogue regimes, such as Iran and North Korea. In the past, the department—like other finance ministries around the world—focused largely on economic and finance issues. But according to Treasury Department Deputy Secretary Robert Kimmitt, “The challenges of counterterrorism and counterproliferation have moved beyond the traditional province of foreign affairs, defense, intelligence, and law enforcement. Treasury and other finance ministries around the globe have evolved since September 11, and the world of finance now plays a critical role in combating international security threats.”²⁰

In the past, the Treasury Department was often reluctant to get involved in these types of issues. As a former Clinton State Department official noted, “Years ago, people at State would go to Treasury and say, ‘We’ve got a lot of financial muscle, we should use

it to pursue political goals.’ But Treasury would always say it didn’t want to mess around with the international financial system.”²¹

With the Treasury Department’s growing role, the United States has been able to take advantage of its status as the world’s leading financial center. As Treasury Secretary Henry Paulson stated, “Treasury can effectively use these tools largely because the U.S. is the key hub of the global financial system; we are the banker to the world.”²² Losing access to the U.S. market for the sake of maintaining business ties to designated terrorists or WMD proliferators is not a worthwhile risk for most banks.²³

As such, banks from around the world refer to the Treasury Department designation list—not only for terrorists, but also for drug traffickers, Iran-related targets, and other rogue actors—and implement U.S. unilateral sanctions voluntarily. As a result, according to the Treasury Department, U.S. unilateral sanctions are “anything but.”²⁴

Financial institutions are particularly eager to avoid being the “next ABN Amro”—the Dutch bank fined \$80 million by the United States in 2005 for having an inadequate program in place to ensure compliance with U.S. sanctions against Iran and Libya. The *Financial Times* noted that the fine sent “seismic waves through the international banking system,” and the “reverberations are still being felt today.”²⁵

The United States is hardly alone in reshaping its finance ministry to handle national security issues. The British government has been a leader in this regard, taking significant steps to transform the role of its finance ministry. In a February 2006 speech, former Chancellor of the Exchequer Gordon Brown outlined his view

18. Treasury Department, “Testimony of Janice Gardner, Assistant Secretary[,] Office of Intelligence and Analysis[,] U.S. Department of the Treasury[,] Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies,” press release, April 6, 2006. Available online (www.treas.gov/press/releases/js4164.htm).

19. Ibid., “Remarks by Robert M. Kimmitt at the Virginia Military Institute,” press release, January 29, 2008. Available online (www.treas.gov/press/releases/hp786.htm).

20. Robert Kimmitt, “The Role of Finance in Combating National Security Threats” (paper presented at a conference sponsored by the Washington Institute for Near East Policy, Washington, D.C., May 10, 2007). Available online (www.washingtoninstitute.org/templateC07.php?CID=337).

21. Bay Fang, “Treasury Wields Financial Sanctions; U.S. Strategy Straddles the Line between Diplomacy, Military Might,” *Chicago Tribune*, April 23, 2007.

22. Henry Paulson, remarks at the Council on Foreign Relations, June 14, 2007.

23. Mark Rice-Oxley, “U.S. Cautions Europe on Iran Investment,” *Christian Science Monitor*, September 22, 2006.

24. Adam Szubin, director, Office of Foreign Assets Control, testimony before the Senate Banking Committee, September 12, 2006.

25. Stephanie Kirschgaesner, “Banks Braced for Fines,” *Financial Times*, August 29, 2007.

of how his position on the matter had evolved, stating that “[a]n increasingly important part of the role of a finance minister is to address issues of international terrorism...in effect the Treasury itself had to become a department for security. As chancellor I have found myself immersed in measures designed to cut off the sources of terrorist financing.”²⁶

In early 2007, the British government unveiled a comprehensive strategy to combat terrorist financing and money laundering, titled “The Financial Challenge to Crime and Terrorism.” Perhaps most important in the strategy were additional tools provided to Her Majesty’s Treasury (HMT) to crack down effectively on terrorist financing in Britain. For example, the British established a “Terrorist Asset Freezing Unit” within HMT to work closely with British law enforcement and intelligence agencies. HMT was also, for the first time, allowed to use classified information to freeze assets in certain cases.²⁷ “Our aim is simple,” Brown asserted. “Just as there be no safe haven for terrorists, so there be no hiding place for those who finance terrorism.” Brown described this effort as a “modern ‘Bletchley Park’ with forensic accounting of such intricacy and sophistication in tracking finance and connections that it can achieve, for our generation, the same results as code breaking at the original Bletchley Park sixty years ago.”²⁸

As Kimmitt noted, other finance ministries throughout the world have also assumed greater national security responsibilities. Soon after September 11, finance ministers from the G7 nations released an action plan to combat the financing of terrorism.²⁹ The G20 finance ministers and central bank governors subsequently issued their own plan designed to “deny terrorists and

their associates access to, or use of, our financial system, and to stop abuse of informal banking networks.”³⁰

The international front. There have been many other positive developments on the international front in combating terrorist funding. Two international organizations, the UN and the FATF, deserve considerable credit for the scale of the global response since September 11. In the first few years after September 11, the UN’s so-called 1267 list was an important component of the international effort to target al-Qaeda and its affiliates. By late 2003, almost three hundred al-Qaeda and Taliban members and entities were on the list. All UN members were required to freeze the financial assets and restrict the travel and arms trade of designated entities. While the resolution was originally passed in an unsuccessful effort to pressure the Taliban to evict al-Qaeda in 1999, the fact that al-Qaeda and the Taliban were already blacklisted certainly helped the United States build international support quickly after September 11.

The UN also passed Resolution 1373 in late September 2001, creating a Counterterrorism Committee (CTC) and calling on all member countries to improve their capabilities to combat terrorist financing.³¹ The international community heeded the UN’s call. By early 2004, 132 countries had signed the UN’s Convention for the Suppression of Terrorist Financing and 112 of these countries had ratified it—up from 4 on September 11.³²

The FATF, a relatively obscure Paris-based organization that seeks to set global standards for combating money laundering and terrorism financing, has

26. Gordon Brown, “Securing Our Future” (speech given at the Royal United Services Institute, London, February 13, 2006). Available online (www.hm-treasury.gov.uk/press_11_06.htm).

27. “Move to Combat Terror Gang Funding,” *Guardian*, February 28, 2007. See also HM Treasury et al., “The Financial Challenge to Crime and Terrorism Strategy,” February 2007; available online (www.hm-treasury.gov.uk/d/financialchallenge_crime_280207.pdf).

28. HM Treasury, “Speech by the Rt. Hon. Gordon Brown, MP, Chancellor of the Exchequer, on ‘Meeting the terrorist challenge’ given to Chatham House,” press release, October 10, 2006. Available online (www.hm-treasury.gov.uk/1946.htm).

29. Canadian Department of Finance, “Statement of G-7 Finance Ministers and Central Bank Governors,” Washington, D.C., October 6, 2001. Available online (www.fin.gc.ca/activty/G7/g7102001e.html).

30. Ibid., “Statement of G-20 Finance Ministers and Central Bank Governors,” Ottawa, November 16–17, 2001. Available online (www.g7utoronto.ca/g20/newsreleasenov2001.html#action).

31. United Nations Security Council Resolution 1373, September 28, 2001. Available online (www.un.org/docs/scres/2001/sc2001.htm).

32. International Convention for the Suppression of the Financing of Terrorism, March 2004. Available online (www.unaosa.org/site/pp.asp?c=fvKRI8MPJpF&b=337343).

played a similarly important role. Launched by the G7 in 1989, the FATF includes thirty-four member countries.³³ In October 2001, in response to the September 11 attacks, the FATF added combating terror financing to its mission and put out nine broad “special recommendations” in this area. Requirements include criminalizing terrorism financing, developing a system of freezing terrorist assets, and enacting adequate oversights for nonprofit organizations and the informal financial sector, among other measures.³⁴ While the FATF has no enforcement powers, it has had remarkable success in pushing its recommendations in countries worldwide. Many have incorporated the FATF recommendations against both money laundering and terrorist financing into their regulatory regimes.

The Egmont Group, another multilateral organization whose responsibilities include combating terrorist financing, has also become a player in the international effort.³⁵ Egmont is the global network of Financial Intelligence Units (FIUs)—the centralized, national agencies responsible for detecting and fighting terrorist financing and money laundering. An FIU’s primary functions, as defined by Egmont, are to receive, analyze, and disseminate information about suspicious financial activity in the unit’s respective country.³⁶ Established in 1995, Egmont has grown rapidly, from fourteen participating countries to more than one hundred;³⁷ the number of FIUs worldwide is even greater when one considers units that do not qualify, or have not yet qualified, for Egmont membership. In the United States, the Financial Crimes Enforcement Network (FinCEN),

a bureau of the Treasury Department, serves as Washington’s representative in the group.³⁸ FIUs are supposed to share this information not only with law enforcement officials in their own countries, but also with other units throughout the world.³⁹ Egmont was a late arrival to the counter-terrorist-financing arena, as it was not until 2004 that Egmont revised its mission to require that FIUs focus specifically on terrorist financing. Previously, their primary focus had been criminal activity in the financial arena, particularly money laundering.⁴⁰

Finally, the private sector’s role, and its importance, in global efforts to combat terrorist financing has expanded. While the private sector in most countries—in line with the Egmont recommendations—has an obligation to file suspicious activity reports (SARs) with the government, the number of these reports filed since September 11 has increased exponentially. In the United States, such reports have often proven valuable for counterterrorism investigations. In addition, according to Patrick O’Brien, assistant secretary for Terrorist Financing and Financial Crimes at the Treasury Department, there is a 20 percent correlation between SARs and open FBI investigations. John Pistole, the FBI’s deputy director, stated that a sampling of FBI investigations showed that, in 42 percent of cases, Bank Secrecy Act reports such as SARs or currency transaction reports (CTRs) were part of the investigative file—giving a sense of how critical this data is in the counterterrorism arena.⁴¹ In Britain, the private sector’s potential value in counterterrorism was illustrated in the July 7, 2005, attacks in London, when in the first few days after the

33. For more information, see www.fatf-gafi.org/pages/0,3417,en_32250379_32236836_1_1_1_1_1,00.html.

34. FATF, “9 Special Recommendations (SR) on Terrorist Financing (TF).” Available online (www.fatf-gafi.org/document/9/0,3343,en_32250379_32236920_34032073_1_1_1_1,00.html).

35. This is not to say, however, that the Egmont Group is free of serious problems. For a more detailed discussion of some of these issues, see Matthew Levitt, “Global Anti-Terrorism Financing Group Challenged by Syria’s Application,” *PolicyWatch* no. 1238 (Washington Institute for Near East Policy, May 31, 2007); available online (www.washingtoninstitute.org/templateC05.php?CID=2609).

36. Egmont Group, “Financial Intelligence Units (FIUs).” Available online (www.egmontgroup.org/about_egmont.pdf).

37. *Ibid.*

38. *Ibid.*, “Financial Intelligence Units of the World.” Available online (www.egmontgroup.org/list_of_fius.pdf).

39. *Ibid.*, “Financial Intelligence Units (FIUs).”

40. *Ibid.*, “Statement of Purpose of the Egmont Group of Financial Intelligence Units,” June 23, 2004, Guernsey, UK. Available online (www.egmontgroup.org/statement_of_purpose.pdf).

41. John S. Pistole, in a speech given at the American Bankers Association/American Bar Association Money Laundering Enforcement Conference, October 22, 2007. Available online (www.fbi.gov/pressrel/speeches/pistole102207.htm).

attacks, the most critical information came from British banks.⁴²

One reason the private sector is now more involved in national security issues is the expansion of regulatory requirements. Not surprisingly then, the amount of money the private sector is spending on ensuring that it satisfies these many requirements has also increased. A survey by KPMG, the international auditing firm, found that from 2004 to 2007, banks in 55 jurisdictions increased their spending by 58 percent on anti-money laundering and combating the financing of terrorism (AML/CFT) compliance. This included beefed up spending for training, technology, and compliance.⁴³ What is encouraging in the same survey is that, despite this increased cost, few companies worldwide opposed the regulatory burden; 93 percent of those surveyed responded that the AML/CFT burden was acceptable.⁴⁴

The British have developed one particularly innovative mechanism to improve the private sector's ability to detect terrorist financing. The mechanism finds its form in a "vetted group," which facilitates the government's ability to share sensitive intelligence information with select private-sector entities. The vetted group is described by the British government as a "multi-agency forum comprised of experts from law enforcement agencies and the regulated private sector which considers sensitive intelligence on new money laundering risks."⁴⁵ In addition to identifying risks, it helps produce declassified intelligence for the private sector's use, issued as an "industry alert." According to the British, this joint venture allows the private sector to play more of a role in intelligence analysis and enables the government to more readily share information with the private sector.⁴⁶

Regional improvements. The European Union has been one of the leaders in improving its CFT regimes. For example, the EU established two terrorist lists—one for al-Qaeda/Taliban members and one for other terrorist organizations. All twenty-seven European countries are mandated to freeze the assets of designated entities.⁴⁷ In addition, European countries have created or designated specific government agencies to lead counter-terrorist-financing efforts; criminalized terrorist financing; and developed systems to freeze assets, among other changes. In particular, Spain established the Commission for the Activities of Terrorist Funding, and France now appoints an economic and financial investigating judge to assist the antiterrorism magistrate in terrorist financing cases.

The EU and its member states have also been active participants in the FATF. The European Commission (the EU's bureaucratic arm) and a number of European countries are among the thirty-three FATF members. Perhaps as a result, Europe has been among the leaders in implementing the FATF's nine "special recommendations" to combat terrorist financing. All twenty-seven EU member states are also now members of the Egmont Group.

The Persian Gulf countries have taken many steps in the right direction since September 11 as well. Many of the Gulf countries, including Bahrain, Qatar, and the United Arab Emirates (UAE), are trying to establish themselves as major international financial centers, and recognize that terrorism—and terrorist financing more specifically—could put these efforts at risk. The UAE has been particularly willing to take on difficult challenges in this area. After September 11, it became clear that al-Qaeda had used Dubai both as a transit point for the hijackers traveling onward to

42. British banker, interview by author, September 2007.

43. KPMG, *Global Anti-Money Laundering Survey*, 2007, page 7. Available online (www.kpmg.com/SiteCollectionDocuments/Global%20Anti-money%20laundering%20survey%202007.pdf).

44. Ibid.

45. Ibid.

46. HM Treasury et al., "The Financial Challenge to Crime and Terrorism Strategy."

47. "Council Common Position of 27 May 2002 concerning Restrictive Measures against Usama bin Laden, Members of the al-Qaida Organization and the Taliban and Other Individuals, Groups, Undertakings and Entities Associated with Them, and Repealing Common Positions 96/746/CFSP, 1999/727/CFSP, 2001/154/CFSP and 2001/771/CFSP," *Official Journal of the European Communities*. Available online (http://eur-lex.europa.eu/pri/en/oj/dat/2002/l_139/l_13920020529en00040005.pdf).

the United States, and more generally for the trusted *hawala* brokers in the country. The UAE was forward leaning in its attempts to tackle these issues and opened its books to U.S. investigators looking into whether a UAE-based charity, al-Barakat, had ties to al-Qaeda.⁴⁸

More recently, the UAE also launched an initiative to try to regulate the many *hawalas* located within its borders. As of May 2008, 369 *hawala* brokers had submitted applications to register and 265 had actually completed the process.⁴⁹ To try to bring the *hawala* brokers into the open, Abu Dhabi encouraged them to reach out to the government for guidance and promised not to divulge information they supplied about their counterparts in other countries.⁵⁰ The UAE has taken some important steps recently to more closely regulate its business sector. In August 2007, it passed a law allowing for the restriction of exports for national security reasons. Soon after, the Emiratis detained a ship bound for Iran to determine whether chemicals on board represented violations either of pertinent UN resolutions or its recently passed export-control law. Although these actions were taken primarily in response to U.S. pressure to tighten restrictions on trade with Iran, the closer scrutiny has had benefits for the UAE's counterterrorist financing efforts as well.

Kuwait has made some—albeit limited—progress in cracking down on terrorist financing. In September 2006, for example, the government dispatched monitoring teams during Ramadan to ensure that fundraising proceeds were not being diverted to terrorist causes. In addition, donations in cash were banned, and charities were prohibited from sending funds abroad without governmental approval.⁵¹

Bahrain has taken steps similar to the Kuwaitis, particularly for charitable funds leaving the kingdom

and destined for conflict zones. The government put in place a law on charities, mandating that they all must register with the Ministry of Security Affairs and must report any transaction that exceeds a certain threshold.⁵² When humanitarian disasters occur outside of Bahrain that require large-scale financial support, the Bahraini cabinet gets involved. A committee, headed by a government minister, ensures that any funds that are sent actually go to the intended victims, and are not diverted. The Bahrainis generally work with foreign governments or international organizations, such as the UN, and do not just hand out large sums in cash. In some cases—such as in offering aid to Kashmir—the government has actually sent out teams to the region in question to investigate where the money is going.⁵³

While the Saudis have been the subject of considerable criticism from Washington, they too have made improvements since the September 11 attacks. Saudi charities are now officially prohibited from sending funds outside of the kingdom, after the government recognized that it could not control where the funding was going. The government has also taken the rather far-reaching measure of removing the collection boxes from mosques.⁵⁴ There have even been cases in which the Saudis engaged in joint terrorist designations with the United States on Saudi-based charities—such as the 2002 and 2004 black-listing of six of al-Haramain's branch offices.⁵⁵ In fact, some bankers in the Gulf outside of Saudi Arabia describe the Saudis' regulatory body—the Saudi Arabian Monetary Authority—as the most effective in the region.⁵⁶ The Saudis have also conducted several terrorist-financing-related arrests. According to then FBI assistant director John Pistole, some of the arrested individuals were identified in a joint FBI-

48. Roth et al., *Monograph on Terrorist Financing*.

49. Special Investigation Commission (Lebanon), "Regulations Curb *Hawala* Transfers," May 2, 2008 (accessed at www.sic.gov.lb/_NewsLetter.php?Date=2008-05-02); UAE officials, interview by author.

50. UAE central bank officials, interview by author, January 2008.

51. Omar Hassan, "Kuwait Steps Up Monitoring of Charities During Ramadan," Agence France-Presse, September 24, 2006.

52. Bahraini official, interview by author, January 2008.

53. Ibid.

54. Saudi official, interview by author, July 2008.

55. Treasury Department, "Treasury Announces Joint Action with Saudi Arabia Against Four Branches of al-Haramain," January 22, 2004.

56. UAE bank officials, interview by author.

Mabahith (Saudi Arabia's version of the FBI run out of its Ministry of Interior) operation.⁵⁷

An even more significant development in Saudi efforts to combat terrorist financing took place in October 2007, when Sheikh Abdel-Aziz al-Asheikh—the most senior Wahhabi cleric in Saudi Arabia—released a rather surprising religious edict. In the *fatwa*, the Grand Mufti of Saudi Arabia instructed Saudis not to leave the kingdom to participate in jihad—a statement directed primarily at those considering going to Iraq. Al-Asheikh said that he decided to speak up “after it was clear that over several years Saudis have been leaving for jihad” and that “our youth . . . became tools carrying out heinous acts.” Al-Asheikh also addressed potential donors, urging them to “be careful about where [their money is] spent so it does not damage Muslims.”⁵⁸ Beyond the obvious, the grand mufti's statements were notable because they implicitly acknowledged that Saudi Arabia was a source of funds for terrorism. The Saudis are generally reluctant to concede either that there is Saudi-based financial support for terrorism or that Saudi counterterrorism efforts are inadequate.

Many countries in the Arab world have joined the Middle East and North Africa Financial Action Task Force (MENAFATF), established in November 2004 as a regional body modeled after the FATF. Among others observers, the United States, the International Monetary Fund (IMF), the World Bank, and the FATF itself provide an oversight role for MENAFATF, which is headquartered in Bahrain. Like the FATF, the MENAFATF imposes a variety of requirements on its members, including that they submit to a “mutual evaluation” by other members.⁵⁹ The MENAFATF's most high-profile and important action to

date was its mutual evaluation of Syria, completed in November 2006.⁶⁰ In performing the assessment, the evaluation team was able to interview officials from numerous Syrian government agencies as well as from the private sector. This stands in stark contrast to the UN investigation into former Lebanese prime minister Rafiq Hariri's assassination, in which Damascus repeatedly refused requests for interviews and documents.⁶¹

The subsequent report—though overly focused on analyzing Syrian laws instead of their implementation—summarized the status of Syrian efforts to comply with FATF recommendations in great detail. It criticized the government's efforts in a number of areas, which is somewhat surprising given Arab governments' notorious reluctance to publicly take each other to task. For example, the evaluation team expressed its concern that terrorism financiers and money launderers may be able to exploit gaps in Syria's financial and banking regulations. It also stated that “a few” Syrian officials underestimated these risks. Finally, the report criticized Syria's limited ability to freeze terrorist assets, its system of reporting suspicious financial transactions, and its record-keeping practices.⁶²

In addition to its mutual evaluations, the MENAFATF has issued several studies on key subjects. In 2005, it released papers on *hawalas* and charities, describing best practices to prevent terrorists and money launderers from abusing these entities. The papers are far from perfect—leaving out, for example, the possibility that a charity could be established by terrorists to support their activities, and not just infiltrated and misused by terrorists—but they nevertheless represent a step in the right direction.⁶³

57. FBI, “Testimony of John Pistole, Assistant Director, Counterterrorism Division, FBI, before the House Financial Services Committee,” September 24, 2003. Available online (www.fbi.gov/congress/congress03/pistole092403.htm).

58. Reuters, “Saudi Cleric Issues Warnings over Militants,” October 1, 2007. Available online (www.reuters.com/article/topNews/idUSL0117164820071001?feedType=RSS&feedName=topNews).

59. MENAFATF, “Mutual Evaluation” reports. Available online (www.menafatf.org/TopicList.asp?cType=train).

60. Ibid., “Mutual Evaluation Report of the Syrian Arab Republic on Anti-Money Laundering and al-Qaeda in Iraq of Terrorism,” November 15, 2006. Available online (www.menafatf.org/images/UploadFiles/MutualEvaluationReportofSyria.pdf).

61. Michael Slackman, “Syria Shows Another Sign of Seeking to Quell Internal Critics,” *New York Times*, January 18, 2006. Available online (www.nytimes.com/2006/01/18/international/middleeast/18cnd-syria.html?scp=6&sq=Damascus%20refuse%20interview%20Rafiq%20Hariri%20assassination&st=cse).

62. MENAFATF, “Mutual Evaluation Report of the Syrian Arab Republic.”

63. Ibid., “Best Practices Issued by the Middle East and North Africa Financial Action Task Force Concerning the Hawala,” December 2005 (available online at www.menafatf.org/images/UploadFiles/best%20practices%20on%20Hawala.pdf); and *ibid.*, “Best Practices Issued by the Middle East and

Systemic issues. Despite clear progress since September 11 by the United States, its allies, and the international community in combating terrorist financing, continued success is far from guaranteed. While many of the limitations have to do with inadequate governmental and international efforts, there are other broader factors at play. One factor is the evolution in terrorist financing, including the use of cell phones and cash couriers to transfer funds, abuse of charities and nongovernmental organizations (NGOs), and trade-based money laundering. These rapid changes, attributable in part to U.S. and international CFT efforts as well as broader technological changes, have at times made it more difficult for law enforcement and intelligence to stay on top of terrorist-financing trends and activities. With globalization, for example, the volume of funds flowing internationally has increased, often making it harder for government investigators to identify all the criminal activity, let alone the terrorist financing. As a senior UN official lamented, “How do you pick the terrorist financing out of the billions of dollars in mortgage fraud?”⁶⁴

International cooperation. Another key obstacle to countering terrorist financing involves limits to what the United States can accomplish unilaterally and, as a recent National Intelligence Estimate noted, international cooperation is likely to wane as September 11 grows more distant.

Moreover, the UN—an organization that played an important role in bolstering international counterterrorist-financing efforts in the first few years after September 11—has seen its counterterrorism role shrink since 2004. In the last few years, the importance of its Resolution 1267 list of al-Qaeda and Taliban has greatly diminished, as the UN itself has acknowledged. A recent report issued by the UN team responsible for monitoring compliance with Resolution 1267 outlined

a broad array of problems. Perhaps of greatest concern, the list has grown stagnant, with the volume of names being added dropping sharply. Currently, only a handful of countries regularly submit names. The monitoring team reported that only five names had been added in 2007, which was on pace for the lowest annual total since the list was established. One reason for the decline, in the monitoring team’s view, is that many countries lack confidence in the list, believing that it “is not a useful operational tool in counterterrorism.” In the view of the monitoring team, one of the underlying problems is the team’s own lack of authority to propose individual names.⁶⁵ Their counterparts for other sanctions regimes, such as Sudan and Congo, do have this power.⁶⁶

The list’s credibility with the international community has also declined sharply, contributing to the current stagnation. The head of the 1267 committee describes the list as “creaky” and in need of considerable updating. Some people on the list are long dead, while other prominent terrorists who should be on the list are not included.⁶⁷ Private-sector officials complain that there are too many overly vague entries that do not include the basic biographical information necessary for the names to be useful. Similarly, a European banker accused the UN of “polluting the sanctions environment” by including too many listings without adequate identifying data.⁶⁸ An underlying difficulty has been member states’ reluctance to share intelligence information with the UN, which could help it make a better case for the enforcement action. Some of the nominating submissions are no more than several lines long and frequently do not take advantage of the public, open-source information that could be used.⁶⁹ Further, any member of the UN Security Council is permitted to place a hold on nominations to the list, for any reason and for any length of time, which has occurred frequently. The numerous holds have caused

North Africa Financial Action Task Force Concerning the Charities, September 2005 (available online at www.menafatf.org/images/UploadFiles/CharitiesEng.pdf).

64. Richard Barrett, interview by author, March 2008.

65. Ibid.

66. UN officials, interview by author.

67. Barrett, interview by author.

68. British banker, interview by author, September 2007.

69. Barrett, interview by author.

great frustration, and a number of member states have lost interest in the process as a result, particularly when the holds are enacted for political reasons.⁷⁰

In addition, many countries' record of implementing UN sanctions against names on the list has been poor. A 2004–2005 study by the World Bank and IMF found that none of the eighteen countries reviewed was fully compliant with the UN obligations in this area.⁷¹ The UN's efforts are also hindered because it now knows less about how—and even whether—the member states are fulfilling their responsibilities than it did previously. Member states have tired of the UN's reporting requirements and, according to the monitoring team, are “no longer as ready to devote time and energy to preparing written reports to the Council's counter-terrorism committees as they were in the period immediately following the attacks in September 2001.”⁷² Many countries are also failing to circulate the list appropriately within their government. In some cases, this may be due to a lack of political will or interest, while in others the government may simply lack the necessary resources. For example, one African country informed the UN that it could not circulate the list because the printouts used too much toner, and the office was limited to one cartridge a month.⁷³

In terms of the specific measures, while the asset-freezing requirement is the best known and most effective aspect of the UN regime, its utility has been diminishing. Few assets are now being frozen and, in fact, many countries still have not put in place the legal framework necessary to take action. A number of countries remain skeptical of imposing these types of measures in a nonjudicial proceeding.

The arms embargo has been used far less often and effectively than even the asset-freezing powers. According to a UN monitoring team assessment of the three measures, the arms embargo was receiving the least attention and focus from member states.⁷⁴ The UN noted that individuals on the 1267 list have actually received terrorist training and weapons in Iraq, Afghanistan, and Somalia.⁷⁵ One reason is that the requirement to impose an arms embargo on terrorist organizations is a measure deemed by many to be ill suited in this context, as it was originally intended to be used against state actors.⁷⁶ In addition, most countries—the United States being a notable exception—do not have criminal penalties in place to prosecute arms embargoes.⁷⁷

The travel ban is also poorly implemented. The case of Swedish national Ahmed Ali Yusuf is illustrative. After he was delisted by the UN in 2006, he agreed to speak to UN investigators. He acknowledged that while he was on the UN's list, he was able to travel throughout Europe by car, plane, and other means even though he was traveling under his true name. The UN has speculated on why he was able to do so, offering many possible reasons, including his use of a slightly different spelling of his name than was on the UN list. Regardless, this case helps demonstrate how poorly the travel ban is enforced.⁷⁸ According to the UN, Yemeni national Abd al-Majid al-Zindani, a prominent cleric added to the list in 2004, was also able to travel after being listed. For example, in December 2005, Sheikh al-Zindani traveled from Yemen to Saudi Arabia without encountering obstacles from either country.⁷⁹

70. State Department official, interview by author, March 2008.

71. To read the joint report, *Anti-Money Laundering and Combating the Financing of Terrorism: Observations from the Work Program and Implications Going Forward*, see www.imf.org/external/np/pp/eng/2005/083105.pdf.

72. UN Security Council Report, *Sixth report of the Analytical Support and Sanctions Monitoring Team appointed pursuant to Security Council Resolutions 1526 (2004) and 1617 (2005) concerning Al-Qaida and the Taliban and associated individuals and entities*, March 2007. Available online (<http://daccess-dds.un.org/doc/UNDOC/GEN/N06/622/70/PDF/N0662270.pdf?OpenElement>).

73. Barrett, interview by author.

74. United Nations Security Council Monitoring Team Report 1267, November 15, 2007. Available online (www.un.org/sc/committees/1267/monitoringteam.shtml).

75. *Ibid.*

76. Barrett, interview by author.

77. UN officials, interview by author.

78. United Nations Security Council Monitoring Team Report 1267, November 15, 2007.

79. State Department, *Country Reports on Terrorism 2006* (available online at www.state.gov/documents/organization/83383.pdf); and *Fourth Report of the Analytical Support and Sanctions Monitoring Team concerning al-Qaeda and the Taliban*, March 8, 2006 (available online at www.eyeontheun.org/assets/).

There appear to be few, if any, consequences for countries that fail to fulfill their UN obligations in enforcing the asset freeze or travel bans. In fact, a number of government leaders have made public statements indicating that they would continue to defy the UN and the international community in this area. Yemen's president, Ali Abdullah Saleh, publicly defended al-Zindani against the charges leveled against him and took no actions to either freeze his assets or stop him from traveling, as is mandated by the UN.⁸⁰ Turkish leaders have repeatedly spoken out in defense of Yasin al-Qadi, a Saudi businessman, who was designated a terrorist by the UN in November 2001 for his ties to al-Qaeda. In 2006, Turkey's prime minister, Recep Tayyip Erdogan, took issue with the UN listing of al-Qadi, calling him a "charitable person." His spokesman went further, commenting that "being mentioned on this list does not mean that these persons are guilty," and adding that member states should be allowed to defend themselves before being forced to take the actions mandated by the UN Security Council.⁸¹

The Persian Gulf states. While countries in the Persian Gulf have made some progress in combating terrorist financing, the area is still an important source of terrorist funds. As Treasury Department Undersecretary Stuart Levey noted in a February 2008 trip to the region, millions of dollars are still being raised in the Gulf and sent to terrorists.⁸² In this regard, Saudi Arabia remains a particular challenge. In a June 2007 speech, Treasury Secretary 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."⁸³ 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."⁸⁴

The United States has backed up its recent tough talk about Saudi Arabia with enforcement actions. In June 2008, the Treasury Department designated the entire al-Haramain organization, including its headquarters in Saudi Arabia, for its support for terrorism. The Saudis, who had joined with the United States in earlier designations against al-Haramain branches outside the kingdom, did not do so in this case.⁸⁵ In 2006, the Treasury Department blacklisted several branches of another Saudi-based charity—the International Islamic Relief Organization (IIRO). Abd al-Hamid Sulaiman al-Mujil, the executive director of the Eastern Province branch of IIRO in Saudi Arabia, was also designated. Al-Mujil, according to the Treasury Department, was known as the "million-dollar man" for his support of Islamist terrorist groups.⁸⁶

At times, the Saudis have moved very slowly to enact promised changes. The most well-publicized example of this involves the infamous Charities Commission, which was to have oversight over all Saudi charities with foreign operations. While the Saudis declared in 2002 that they were creating this commission, by the end of 2007 they

attachments/documents/monitoring_team_4th_report_al_qaeda_taliban.doc).

80. State Department, *Country Reports on Terrorism 2007*. Available online (www.state.gov/documents/organization/105904.pdf).

81. Glenn Simpson, "Well Connected, a Saudi Mogul Skirts Sanctions," *Wall Street Journal*, August 29, 2007 (available online at http://online.wsj.com/article_email/SB118835025334911761-lMyQjAxMDE3ODI4OTMyNTkwWj.html); NTV-MSNBC, "Erdogan's Position on Saudi Citizen El Qadi Unchanged," July 17, 2006 (available online at www.ntvmsnbc.com/news/379918.asp); and NTV-MSNBC, "Erdogan Defends Yasin El Kadi," July 12, 2006 (available online at www.ntvmsnbc.com/news/379581.asp).

82. Stuart Levey, quoted in "Millions of Dollars Being Raised in the Gulf to Finance Terrorism—U.S. Treasury Official Alleges," *Gulf Daily News*, February 28, 2008. Available online (www.tradearabia.com/news/newsdetails.asp?Sn=FOOD&artid=139344).

83. Paulson, remarks at the Council on Foreign Relations.

84. Stuart Levey, interview by Brian Ross, ABC News, September 11, 2007. Available online (<http://blogs.abcnews.com/theblotter/2007/09/us-saudis-still.html>).

85. Treasury Department, "Treasury Designates al-Haramain Islamic Foundation," press release, June 19, 2008; available online (www.ustreas.gov/press/releases/hp1043.htm). One Saudi official noted in an interview that the Saudi government did not object to this designation, an area of concurrence that he argued was important symbolically.

86. Ibid., "Treasury Designates Director, Branches of Charity Bankrolling al-Qaeda Network," press release, August 3, 2006. Available online (www.treas.gov/press/releases/hp45.htm).

still had not done so.⁸⁷ Further, Saudi efforts to establish an FIU have been both well publicized and openly criticized. In 2005, Riyadh announced the opening of an FIU that was to report to the ministry of the interior, staffed by personnel from the Saudi Arabian Monetary Agency and internal security service. Despite being reassured by the Saudis that the unit was operational, during a 2005 trip to the country, then U.S. representative Sue Kelly (R-NY), who chaired a House Financial Services subcommittee, said that it consisted of “an empty floor in a building under construction.”⁸⁸

Judging the Saudi efforts from the outside, however, remains a difficult challenge, given the country’s lack of transparency. The U.S. government has criticized the Saudis repeatedly for their secretiveness. The State Department’s 2006 *International Narcotics Control Strategy Report*, an annual study that covers money laundering and terrorist financing, gives a sense of the difficulties in assessing Saudi efforts, noting:

- A definitive determination on the scope of financial crimes in Saudi Arabia is difficult to make “because of the absence of official criminal statistics.”⁸⁹
- Saudi Arabia’s “unwillingness” to provide statistics on its money-laundering prosecutions “impedes the evaluation and design of enhancements to the judicial aspects of its [anti-money laundering] system.”⁹⁰

Kuwait’s efforts contain problems as well. Although Kuwaiti police and internal security have proven willing to crack down on domestic terrorists over the years, Islamists enjoy political and social support in the country, a factor that has made the government tolerant of some preaching and fundraising on behalf of jihadist

causes abroad that are directed against both Israel and the United States. Indeed, the State Department’s 2006 report on international terrorism duly noted Kuwait’s “continued reluctance to confront domestic extremists and Kuwaiti supporters of terrorism active in Iraq and Afghanistan.”⁹¹

As in Saudi Arabia, one of the main problems in Kuwait remains the activities of the charitable sector. A March 2007 State Department report noted that terrorist financing “through the misuse of charities continues to be a concern”—perhaps in part because terrorist financing is still not a crime in Kuwait.⁹² In June 2008, the Treasury Department designated a Kuwait-based charity, the Revival of Islamic Heritage Society (RIHS), for its support to terrorist groups, including al-Qaeda and several of its affiliates. According to the Treasury Department, RIHS senior officials in Kuwait were well aware that its funds were being diverted to terrorist groups. The RIHS branches in Afghanistan and Pakistan had been blacklisted by the United States and the UN back in 2002 but, as the Treasury Department noted in announcing the more recent action, “at the time there was no evidence that ... the Headquarters knew” that the branch offices were financing al-Qaeda.⁹³

In addition to targeting charities, the Treasury Department and the UN have focused their attention on individual Kuwaitis involved in terrorist financing activity. In January 2008, the UN added three Kuwaitis—Hamid al-Ali, Jaber al-Jalamah, and Mubarak al-Bathali—to its so-called 1267 list of nearly five hundred individuals and entities tied to al-Qaeda and the Taliban. According to the Treasury Department—which designated the three figures more than a year earlier—al-Ali recruited individuals in Kuwait to fight

87. Arabic News, “Saudi Arabia: A Commission to Monitor Charity Societies,” September 13, 2002. Available online (www.arabicnews.com/ansub/Daily/Day/020913/2002091303.html).

88. Former U.S. Rep. Sue Kelly, “Combating Terrorist Financing and the 110th Congress” (address given at an event hosted by the Hudson Institute, January 30, 2007). Available online (www.eurasianpolicy.org/files/publications/SueKellyCTConferenceSpeech.pdf).

89. State Department, *International Narcotics Control Strategy Report*, vol. 2, March 2006. Available online (www.state.gov/documents/organization/62393.pdf).

90. Ibid.

91. State Department, *Country Reports on Terrorism*, April 2007, chapter. Available online (www.state.gov/s/ct/rls/crt/2006/82733.htm).

92. State Department, *International Narcotics Control Strategy Report*, March 2007. Available online (www.state.gov/documents/organization/81447.pdf).

93. Treasury Department, “Kuwaiti Charity Designated for Bankrolling al-Qaeda Network,” press release, June 13, 2008. Available online (www.treas.gov/press/releases/hp1023.htm).

for AQI. His *fatwas* supported suicide bombings and condoned the September 11 attacks, arguing that it was permissible to crash an airplane into “an important site that causes the enemy great casualties.”⁹⁴

Al-Jalamah’s offenses included providing financial and logistical support to AQI. According to the Treasury Department, he recruited “a significant number of men” to fight for the organization, including potential suicide bombers, and had direct contact with Osama bin Laden. For his part, al-Bathali helped raise funds for a range of terrorist organizations—including al-Qaeda, Ansar al-Islam in Iraq, and Lashkar-e-Taiba in Pakistan—by speaking at mosques in Kuwait. Both al-Bathali and al-Jalamah were also accused of meeting with an individual involved in a 2003 attack against two U.S. contractors in Kuwait and discussing the possibility of financing his “militant training operations.”⁹⁵

In terms of Kuwait’s systemic deficiencies, while the government has established an FIU, it does not measure up to the internationally accepted standard for such bodies. Also problematic is that Kuwait does not require currency-reporting upon people’s exit from the country, making it easy to smuggle cash to Iraq, Afghanistan, and elsewhere. Several U.S. officials compared Kuwait’s present efforts against terrorist financing to Saudi Arabia’s before the May 2003 attack in Riyadh, when the Saudis first realized the extent of the threat on their hands.⁹⁶

A broader problem throughout the Gulf is that while many of the countries have put in place robust AML/CFT regimes, they often lack the capability to implement them effectively. The UAE is a good example of this phenomenon. As one U.S. official noted, the UAE runs well “on the surface” and always attempts to reassure the United States that it has problems under

control. But, in fact, the Emiratis’ capabilities are still limited. The UAE has only two analysts in the Dubai police who are responsible for CFT issues—far too few to cover this area in the Middle East’s leading international financial center. Beyond resource issues, the UAE government is only now learning how to track internet protocol (IP) addresses, and still has only a limited understanding of how to “follow the money.” Within the UAE -- a young country lacking bureaucratic structures and trained professionals -- only senior officials can make decisions on AML/CFT issues, big and small.⁹⁷ Perhaps as a result, the UAE has not convicted a single person for terrorism financing or money laundering. This is quite problematic in a country where, according to the State Department, “the threats of money laundering and terrorism financing are particularly acute.”⁹⁸ In Qatar, explained one U.S. official, the attitude is often that “a law has been passed, and therefore the problem has been solved.”⁹⁹

Law enforcement and customs officials in the region need to be far more proactive in identifying troublesome behavior. The latest State Department report assessing AML/CFT efforts around the world criticizes the UAE, Saudi Arabia, and Kuwait for being overly reliant on SARs to begin investigations.¹⁰⁰ While these reports are useful tools, they should hardly be the primary source of leads for investigations.

In the view of one UAE banker, at least some of the problems with the Gulf AML/CFT regimes relate to the systems’ relative newness. Europe and the United States have been developing their systems and approaches to tackling these issues for many years now, while the Gulf and Middle Eastern countries are struggling to catch up.¹⁰¹

Unfortunately, the United States and some of its Western allies are not always in a position to help

94. For more on the al-Ali designation, see Treasury Department, “Treasury Designations Target Terrorist Facilitators,” press release, December 7, 2006. Available online (www.treas.gov/press/releases/hp191.htm).

95. Ibid.

96. State Department official, interview by author, March 2008.

97. U.S. government diplomats, interview by author, January 2008 and October 2008.

98. State Department, *International Narcotics Control Strategy Report*, March 2007.

99. State Department official, interview by author, January 2008.

100. State Department, *International Narcotics Control Strategy Report*, March 2008. Available online (www.state.gov/documents/organization/100917.pdf).

101. UAE banker, interview by author, February 2008.

sufficiently. The United States has provided capacity-building training to a number of the Gulf countries, but far too few funds are available for this type of assistance.¹⁰²

Private-sector challenges in the Persian Gulf. In many Gulf countries, the private sector struggles to fulfill its “know your customer” obligations. The compliance departments in Gulf banks exemplify this difficulty. They are generally staffed and run by expatriates, often from Western countries, who face cultural limitations as to the extent and types of questions they can ask of the host-country nationals—particularly when the clients or prospective clients are from prominent local families. One UAE compliance official explained that culturally, as a foreign national, he could not even ask an Emirati client for his wife’s passport information, as this request would be deemed too sensitive. If he determined that he needed additional information from an Emirati, he would have to approach one of the senior Emirati officials at the bank to ask the question. Needless to say, it is often easier to avoid asking the tough questions altogether in this environment.¹⁰³

For banks in Bahrain, trying to learn the source of clients’ funds, an important part of compliance obligations, is often an uphill battle. This is particularly true when it comes to Saudi clients. Often investors will simply refuse to answer the questions, providing some general statement that does not shed adequate light on the situation. The senior officials in the bank will generally overrule their compliance departments’ concerns, both to avoid offending prominent Gulf families and to generate additional business.¹⁰⁴

Qatar faces similar issues, with several other factors at play. A fairly small country in which most of the prominent families are related, Qatar has both advantages and disadvantages from a compliance

perspective. On the one hand, hiding incriminating information is more difficult in a small society in which everyone knows one another. On the other, asking family members sensitive questions about their finances that appear to indicate a lack of trust presents even greater difficulties.¹⁰⁵

State sponsors. The United States and its allies have made little progress in cracking down on the main state sponsors of terrorism—particularly Iran and Syria. While al-Qaeda remains the most serious threat to the United States, state sponsors of terrorism still pose a major counterterrorism challenge. Syria is the longest-standing member of the overall list, having been added in 1979, while Iran was put on the list in 1984. Sudan and Cuba are on this list as well, while North Korea and Libya have recently been removed. The U.S. government maintains a series of sanctions against designated countries. These include a number of trade-related restrictions, including bans on arms sales and control over exports of dual-use items, as well as prohibitions on financial aid.¹⁰⁶

In addition to enacting punitive measures against all these sponsors, the U.S. government has taken other steps to ratchet up the economic pressure against Damascus and Tehran for their terrorist activities. In targeting Syria, the administration of George W. Bush has focused not only on its support for terrorism, but on a broader array of illicit activity as well. In terms of terrorism, the most important U.S. action was the 2006 Treasury Department blacklisting of the Commercial Bank of Syria—the major player in the Syrian financial sector—for its support for terrorism, among other illicit activities.¹⁰⁷ President Bush also issued several executive orders directed at Syria, which have targeted: the elite in Syria involved in corruption;¹⁰⁸ those actors involved in interfering in the

102. Ambassador Kenneth B. Keating, director of the Security Council report, interview by author.

103. UAE banker, interview by author, February 2008.

104. Bahraini banker, interview by author, January 2008.

105. Qatari banking regulator, interview by author, January 2008.

106. See the State Department website at www.state.gov/s/ct/c14151.htm.

107. Treasury Department, “Treasury Designates Commercial Bank of Syria as Financial Institution of Primary Money Laundering Concern,” press release, May 11, 2004. Available online (www.ustreas.gov/press/releases/js1538.htm).

108. *Ibid.*, “Rami Makhlef Designated for Benefiting from Syrian Corruption,” press release, February 21, 2008. (www.treas.gov/press/releases/hp834.htm).

internal affairs of Lebanon;¹⁰⁹ and former Iraqi regime elements supporting the insurgency (some of whom relocated to Syria).¹¹⁰ A number of top Syrian officials have been designated by the Bush administration on the strength of these directives. In addition, the Syria Accountability Act of 2003—implemented by a presidential order—restricted further trade between the two countries and prohibited Syrian aircraft from landing in the United States.¹¹¹

While most U.S.-led efforts to ratchet up the financial pressure against Iran have been directed against the regime's nuclear-related activities, Iran's terrorist activities and support have been a focus as well—albeit a secondary one.¹¹² Most of the Treasury Department's targeted financial measures, or “smart sanctions,” against Iran have focused on entities and individuals involved in the nuclear or ballistic missile programs. Only a handful of Iranian entities have been blacklisted specifically for support for terrorism. These include the Islamic Revolutionary Guard Corps's (IRGC's) Quds Force, Bank Saderat, and the Martyrs Foundation.^{113, 114}

To maximize the impact of its unilateral enforcement actions under U.S. law against those Iranian entities and individuals involved in terrorism and WMD proliferation, the Treasury Department has engaged in extensive international outreach to foreign governments and their private sectors. Senior Treasury Department officials met with government counterparts from “tens of countries” and with more than forty non-U.S. banks.¹¹⁵ In these sessions, officials outlined the range

of Iran's deceptive financial activity, as illustrated by the actions of those blacklisted Iranian entities.¹¹⁶ The Treasury Department argued that Iran's business practices—including its use of front companies—make it difficult for business partners to “know your customers.” Furthermore, Secretary Paulson cautioned that “it is increasingly likely that if you are doing business with Iran, you are somehow doing business with the IRGC”—a disturbing prospect given the important role that this paramilitary organization plays in Iran's terrorism and proliferation activities.¹¹⁷ In light of this reality, the Treasury Department warned that doing business with Iran is a risky endeavor, and could ultimately cause companies great reputational harm.¹¹⁸

The deficiencies in Iran's AML/CFT regime have also been a focus of both U.S. and international attention. The FATF issued several warnings specifically addressing the dangers that Iran poses to the integrity of the international financial system. In October 2007, the FATF stated publicly that “Iran's lack of a comprehensive anti-money laundering/combating the financing of terrorism regime represents a significant vulnerability within the international financial system.”¹¹⁹ In February 2008, the FATF reiterated its warning about Iran, calling on member financial institutions to use “enhanced due diligence” when dealing with the country. Former FATF president James Sassoon also urged Tehran to immediately address “shortcomings” in its AML/CFT regimes.¹²⁰

In March 2008, the Treasury Department followed up on the FATF warning by issuing a broad alert to the financial sector about the problems with Iran's AML

109. *Ibid.*, “Treasury Designates Director of Syrian Military Intelligence [Asif Shawkat],” January 18, 2006. Available online (www.treas.gov/press/releases/js3080.htm).

110. *Ibid.*, “Testimony of Treasury Acting [Assistant Secretary Daniel] Glaser on Financing for the Iraqi Insurgency,” July 28, 2005. Available online (www.treas.gov/press/releases/js2658.htm).

111. David Schenker, senior fellow at The Washington Institute, testimony before the House Committee on International Relations, June 7, 2006. Available online (www.washingtoninstitute.org/templateC07.php?CID=296).

112. Treasury Department, “Testimony of Stuart Levey[,] Under Secretary for Terrorism and Financial Intelligence[,] before the Senate Committee on Banking, Housing, and Urban Affairs,” press release, March 21, 2007. Available online (www.ustreas.gov/press/releases/hp325.htm).

113. *Ibid.*, “Fact Sheet” on terrorist designations, October 25, 2007. Available online (www.ustreas.gov/press/releases/hp644.htm).

114. *Ibid.*, “Twin Treasury Actions Take Aim at Hizballah's Support Network,” press release, July 24, 2007. Available online (www.treas.gov/press/releases/hp503.htm).

115. *Ibid.*, “Testimony of Stuart Levey,” March 21, 2007.

116. Paulson, remarks at the Council on Foreign Relations.

117. *Ibid.*

118. *Ibid.*

119. “FATF Statement on Iran,” October 11, 2007. Available online (www.fatf-gafi.org/dataoecd/1/2/39481684.pdf).

120. “FATF Statement [on Uzbekistan],” February 28, 2008. Available online (www.fatf-gafi.org/dataoecd/16/26/40181037.pdf).

efforts, noting that Iran “disguises its involvement in proliferation and terrorism activities through an array of deceptive practices specifically designed to evade detection.” Consistent with the FATF statements, the Treasury Department urged financial institutions to utilize enhanced due diligence when dealing with Iran. The alert went well beyond its earlier statements on Iranian financial institutions, listing fifty-nine banks that pose threats, including Iran’s Central Bank.¹²¹

While the UN has focused almost entirely on combating Iran’s nuclear efforts, the it has also touched on Iran’s support for terrorism. In March 2008, the UN Security Council passed Resolution 1803—the third resolution by the international body directed against Iran’s nuclear activities.¹²² Resolution 1803 builds on the two previous resolutions by expanding the blacklist of entities and individuals tied to Tehran’s nuclear program, banning the sale of dual-use components to the regime, calling on member states to inspect cargo going to or coming from Iran, and urging countries to “exercise vigilance” in any trade incentives or guarantees they seek to broker with Iran.¹²³ The resolution also calls for similar vigilance over international financial institutions regarding their dealings with a number of Iranian banks. From a terrorism perspective, this aspect is significant, since the list of banks named by the UN includes Bank Saderat, which was designated by the United States for its terrorism-related support.

The United States has had only limited success in reducing Iran’s and Syria’s support for terrorism. On the Syrian front, while the robust international pressure after the assassination of former Lebanese prime minister Rafiq Hariri in early 2005 clearly helped

push the Syrians out of Lebanon, U.S. economic pressure itself has had a far smaller impact. As Treasury Department Assistant Secretary Patrick O’Brien acknowledged, U.S. influence over Syria is constrained by limited economic ties and the fact that Syria is largely a cash economy not fully integrated into the international financial system.¹²⁴ In addition, Syria has little political will to crack down on any type of illicit financing. As the State Department described in its 2007 *International Narcotics Control Strategy Report*, the Syrian political and business elites are extensively engaged in illicit financial activity, which the State Department described in its report as the “biggest obstacle to Syria fully choking off money laundering and terrorist financing activities.” In the State Department’s view, the lack of political will is likely to prevent Syria from taking the necessary steps to “punish terrorist financing, to classify what it sees as legitimate resistance groups as terrorist organizations, or to address the corruption that exists at the highest levels of government and business.”¹²⁵

While the United States has not yet prompted Iran to rethink its support for terrorism, the U.S.-led effort has had considerable success in ramping up the financial pressure—perhaps the first step toward effecting a behavioral change by the regime. Major global financial institutions—including three large Japanese banks, Switzerland’s Credit Suisse, Germany’s Deutsche Bank and Commerzbank, and Britain’s HSBC—have either terminated or dramatically reduced business with Iran.¹²⁶ Even more surprisingly, in recent months, it appears that banks in the UAE¹²⁷ and China¹²⁸ are beginning to exercise greater caution in their business dealings with Iran.

121. Treasury Department, Financial Crimes Enforcement Network, “Guidance to Financial Institutions on the Continuing Money Laundering Threat Involving Illicit Iranian Activity,” March 20, 2008. Available online (www.fincen.gov/statutes_regs/guidance/pdf/fin-2008-a002.pdf).

122. UN Security Council Resolution 1803 (2008). Available online (www.state.gov/t/isn/rls/fs/102891.htm).

123. Ibid.

124. Patrick O’Brien, assistant secretary of the treasury (address to the Washington Institute for Near East Policy, Washington, D.C., February 23, 2008).

125. State Department, *International Narcotics Control Strategy Report*, March 2007. Available online (www.state.gov/documents/organization/82214.pdf).

126. David Blair, “Banks Recruited to Wage Financial War on Teheran,” *Telegraph*, September 18, 2007. Available online (www.telegraph.co.uk/news/worldnews/1563482/Banks-recruited-to-wage-financial-war-on-Teheran.html).

127. Roula Khalaf, Simeon Kerry, and Daniel Dombey, “Dubai Reacts to U.S. Pressure on Iran,” *Financial Times*, December 20, 2007; available online (http://us.ft.com/figateway/superpage.ft?news_id=fto122020071454599391&page=2). Banks in the UAE are cutting back on lines of credit to Iranian financial institutions, for example, which has hurt Iran’s ability to work around the sanctions.

128. Reuters, “Chinese Banks Cut Back Business with Iran—Paper,” February 2, 2008. Available online (<http://in.reuters.com/article/businessNews/idINIndia-31733220080202>).

Inflation in Iran has risen to 25 percent,¹²⁹ and Iranian businesses are carrying cash to pay for transactions, due to the difficulty of opening foreign-currency accounts with non-Iranian banks.¹³⁰ In addition, Iranian importers are now having to pay in advance for commodities, they are no longer able to receive revolving lines of credit,¹³¹ and their costs are up 20 to 30 percent.¹³² The Iranian banking community has been hit particularly hard by the sanctions and U.S. pressure. Bank Sepah is reportedly “on the brink of collapse” and other Iranian banks are struggling as well.¹³³ Bank Saderat has seen its corresponding banking relationships—which are essential for a bank to operate effectively internationally—fall from twenty-nine in August 2006 to eight by early 2008.¹³⁴

Sanctions have also scared off many foreign investors. In December 2006, then oil minister Kazem Vaziri Hamaneh confirmed that the industry was having difficulty financing its development projects, since “overseas banks and financiers have decreased their cooperation.”¹³⁵ As a result, Iran’s oil production is falling, and is likely to decrease further without significant foreign investment.¹³⁶ This could be a potentially devastating trend for Iran, as some experts believe that without major foreign investment in its aging oil fields, the country’s oil exports could disappear by 2015.¹³⁷ Iran’s deputy oil minister Mohammed Hadi Nejad-Hosseini expressed the government’s concern that “there will

not be any oil for export” within ten years if the situation did not change.¹³⁸

Several factors, however, have limited the economic impact of sanctions on Tehran—and perhaps contributed to Iran’s decision to stay the course on terrorist financing. First, the Iranians have found numerous ways to circumvent the U.S., UN, and European sanctions. Most problematic has been the emergence of other countries and smaller banks to fill the vacuum left by the scaled-back presence of the Europeans and large global financial institutions.¹³⁹ This is not surprising, given the lack of international focus on compliance with the sanctions. In fact, the UN has not yet put a team in place to monitor compliance with its sanctions—a tool the UN has used effectively for many of its other sanctions regimes, including those targeting Sudan, Somalia, Liberia, and al-Qaeda and the Taliban.¹⁴⁰ These independent teams, consisting of consultants hired for their expertise in the particular area at issue, operate with considerable autonomy. They are generally based in the field, away from the UN bureaucracy in New York, and exist only for a limited period, with a clearly and narrowly defined mandate.

Another more basic reason why the United States has not made much progress in combating Iran’s support for terrorism is that the main beneficiaries of Iranian support—Hizballah, Hamas, and PIJ—are not widely considered to be terrorist organizations by the

129. *Economist*, “The Big Squeeze,” July 19, 2007. Available online (www.economist.com/specialreports/displaystory.cfm?story_id=9466874).

130. Fredrik Dahl and Edmund Blair, “Iranian Firms Feel the Heat as Sanctions Bite,” Reuters, September 26, 2007. Available online (www.reuters.com/article/inDepthNews/idUSBLA94936220070926?feedType=RSS&feedName=inDepthNews&rpc=22&sp=true).

131. Robin Wright, “Iran Feels Pinch as Major Banks Curtail Business,” *Washington Post*, March 26, 2007. Available online (www.washingtonpost.com/wp-dyn/content/article/2007/03/25/AR2007032501084.html).

132. Blair, “Banks Recruited to Wage Financial War on Teheran,” September 18, 2007.

133. *Ibid.*

134. Najmeh Bozorgmehr and Daniel Dombey, “Iranian Bank Shrugs Off Cost of U.S. Sanctions,” *Financial Times*, January 4, 2008. Available online (http://us.ft.com/ftgateway/superpage.ft?news_id=fto010420081741080706&page=2).

135. Wright, “Iran Feels Pinch as Major Banks Curtail Business.”

136. *Economist*, “The Big Squeeze.”

137. Barbara Slavin, “Iran’s Economic Conditions Deteriorate,” *USA Today*, February 6, 2007. Available online (www.usatoday.com/news/world/2007-02-06-iran-economy_x.htm).

138. Kim Murphy, “U.S. Puts the Squeeze on Iran’s Oil Fields,” *Los Angeles Times*, January 7, 2007. Available online (<http://articles.latimes.com/2007/jan/07/world/fg-iranoil7>).

139. See, for example, Farnaz Fasshi and Chip Cummins, “Iranians Scheme to Elude Sanctions,” *Wall Street Journal*, February 13, 2008, A1.

140. The UN’s Sudan panel has repeatedly demonstrated the importance of such expert teams. The Ethiopia-based team has put together damaging reports with detailed evidence—including photographs—on how the Sudanese and others are violating the sanctions. Perhaps most notably, the Ethiopian team have described how the Sudanese are bombing the civilian population using aircraft painted white to make them appear to be UN or African Union planes. This revelation, which sparked a worldwide outcry, has helped build international pressure against the Sudanese government. See Warren Hoge, “Sudan Flying Arms to Darfur, Panel Reports,” *New York Times*, April 18, 2007; available online (www.nytimes.com/2007/04/18/world/africa/18sudan.html?_r=1&oref=slogin).

international community. The UN's list includes only the Taliban and al-Qaeda and its affiliates; none of the Palestinian rejectionist groups fall into this category. Only a handful of countries have designated Hizballah as a terrorist group, and while Hamas and PIJ are black-listed by the EU, individual member states have taken few steps to crack down on their activities in Europe.

In addition to its efforts to combat Iran's financing of terrorist groups, the United States has targeted Iran's beneficiaries, such as Hizballah, more directly. In the summer of 2006, Washington demonstrated its ability to quickly intensify sanctions and financial pressure in response to events on the ground. As Hizballah and Israel engaged in their thirty-four-day war, the United States began designating key entities tied to the terrorist organization. In August, the Treasury Department blacklisted the Islamic Relief Support Organization (IRSO), which the United States said was a "key Hizballah fundraising organization." In its public statement announcing the enforcement action, the department noted that "[w]hile some terrorist-supporting charities try to obscure their support for violence, IRSO makes no attempt to hide its true colors. IRSO's fundraising materials present donors with the option of sending funds to equip Hizballah fighters or to purchase rockets that Hizballah uses to target civilian populations."¹⁴¹ The following month, the Treasury Department designated two Hizballah financial companies—Bayt al-Amal and Youser Company—as supporters of terrorism, accusing them of "serving as intermediaries between Hizballah and mainstream banks."¹⁴²

While Hamas was never included in the "state sponsor" category, the group is worth considering in this framework, given the complications that emerged for the United States in the wake of Hamas's victory in the 2006 Palestinian legislative elections. Washington was confronted with a difficult dilemma: how to continue

to work with and support its allies in the Palestinian government, such as President Mahmoud Abbas, while ensuring that this effort did not bolster Hamas, which controlled the government. The United States developed a tailored sanctions program to accomplish this difficult balancing act. In April 2006, the United States prohibited those under its jurisdiction from engaging in transactions with the Hamas-controlled Palestinian Authority (PA) but allowed business with the Office of the President. U.S. persons were also permitted to do business with nongovernmental actors (including banks) in the West Bank and Gaza.¹⁴³

The United States was forced to readjust this sanctions regime once again in June 2007 when Hamas took over Gaza in a coup, and Fatah regained power in the West Bank. The Treasury Department determined that it was "in the national interest" to authorize transactions with the PA, which was now under the control of newly appointed prime minister Salam Fayyad. Business ties to Hamas, however, were still illegal.¹⁴⁴

There is a great deal of debate about whether the U.S. approach to the Palestinians has been effective. Hamas remains in control in Gaza, and has found ways to circumvent the sanctions. Also, the humanitarian crisis in Gaza after the Hamas takeover has been blamed in part on the U.S.-led sanctions regime. Setting aside the results, what the U.S. effort does illustrate is the flexibility of the financial tools in its arsenal. Since the U.S. sanctions programs operate largely under executive orders, no additional legislation or congressional action is necessary for the government to make changes.

Europe. While individual European countries, such as Britain, have made progress in countering terrorist financing, the EU's efforts remain uneven. On the one hand, the EU has been able to effectively target and freeze the assets of entities associated with al-Qaeda and the Taliban—at least those already designated by

141. Treasury Department, "Treasury Designates Key Hizballah Fundraising Organization," press release, August 29, 2006. Available online (www.treas.gov/press/releases/hp73.htm).

142. Ibid., "Treasury Designation Targets Hizballah Bank," press release, September 7, 2006. Available online (www.treas.gov/press/releases/hp83.htm).

143. Ibid., Office of Foreign Assets Control (OFAC), "Recent OFAC Actions," April 12, 2006. Available online (www.treas.gov/offices/enforcement/ofac/actions/20060412.shtml).

144. Ibid.

the UN's 1267 committee. In adherence to the obligations imposed on UN members by Security Council resolutions, any individual or entity designated under Resolution 1267 is added automatically to the EU's own list of terrorist subjects. Under EU law, all member states are then required to freeze the assets of those persons and groups within their jurisdiction.¹⁴⁵

The EU 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 consent of all twenty-seven member states. This unanimity requirement has prevented the Europeans from taking action against important terrorist organizations. The EU, for instance, has not designated Hizballah due to French-led opposition, and until 2003 only Hamas's military wing was on the list.

Europe's record on implementation of measures against terrorist financing is also mixed. According to the Department of Homeland Security (DHS), the vast majority of funds actually seized or frozen in Europe has been done by a handful of countries.¹⁴⁶ Altogether, countries tend to interpret their EU obligations very differently. For example, while Britain has put out guidelines of several hundred pages for its lawyers, explaining how and when to file SARs, the Spanish directive is two pages long. While northern European countries tend to take the directives and develop detailed implementations, some countries in southern Europe as well as the EU's newer members take these obligations far less seriously. As one British lawyer stated, "The British goldplate the EU directives, while many other countries regard them as polite suggestions."¹⁴⁷

A growing problem that the Europeans are facing, which could seriously undermine their efforts to counter terrorist financing, is that the various terrorism lists are under increasing fire in Europe. For several years,

most of the criticism was directed at the EU's non-al-Qaeda list, but this situation has changed, and now the EU's al-Qaeda designations (implementing the UN 1267 blacklist) are coming under scrutiny as well.

The EU's ability to take action against entities not associated with al-Qaeda or the Taliban suffered a blow in December 2006, when an EU court ruled that the European Council had illegally listed the Iranian opposition group Mujahedin-e Khalq (MEK). In its finding, the court faulted the council for failing to provide MEK with adequate reason or sufficient information on the basis for the designation. The EU interpreted the ruling loosely, leaving the group on its list but giving the MEK some additional information about the designation.

In November 2007, the Council of Europe (a non-EU body, not to be confused with the Council of the European Union) released a draft report by one of its investigators criticizing both the UN and EU lists on due-process grounds. The report called both lists "totally arbitrary" and said they "violate the fundamental principles of human rights and rule of law." The investigator remarked at a press conference that a "serial killer in Europe has a lot more rights" than someone added to these lists.¹⁴⁸ In January 2008, the council voted for a formal resolution on the UN and EU blacklists, based on the earlier report. In the resolution, the council argued that these designations must respect "certain minimum standards of procedural protection and legal certainty."¹⁴⁹

That same month, an advocate to the European Court of Justice issued an advisory report recommending that the court annul the EU's terrorist designation of Yasin al-Qadi. The advocate took issue with the EU's contention that it had no discretion in this case and its claim to be obligated to act once al-Qadi was placed on the UN's 1267 list. The advocate wrote that the member states had human-rights-related considerations that

145. The EU also, for all intents and purposes, maintains a third list of internal terrorist groups, such as the Spain-based ETA and the Irish Republican Army. For internal groups, member states are free to devise their own mechanisms for how sanctions should be implemented.

146. Department of Homeland Security (DHS) officials, interview by author, February 2008.

147. British lawyer, interview by author, September 2007.

148. Molly Moore, "Panel Decries Terrorism Blacklist Process," *Washington Post*, November 13, 2007. Available online (www.washingtonpost.com/wp-dyn/content/article/2007/11/12/AR2007111200707.html).

149. "United Nations Security Council and European Union Blacklists," Council of Europe Resolution 1597, January 23, 2008. Available online (www.assembly.coe.int/Main.asp?link=/Documents/AdoptedText/ta08/ERES1597.htm).

were being ignored and that the designation “infringes [on] Mr. Qadi’s right to property, his right to be heard and his right to effective judicial review.”¹⁵⁰

As many in the counterterrorism community had feared, the European Court of Justice heeded the advocate’s objection, ruling in September 2008 that the designations of al-Qadi and al-Barakat were illegal. The court found that the EU—in automatically designating the individuals and entities on the UN’s list—had not provided the necessary due process for the accused. While the judgment officially is limited to these two cases, it certainly calls into question the security of the entire blacklisting regime.¹⁵¹

The terrorist lists have suffered blows in legal challenges in individual member states, alongside the challenges in broader Europe. Perhaps the greatest single setback to the lists in Europe at the national level was a decision by Britain’s Proscribed Organization Appeal Commission (POAC), a quasi-judicial body established to review government designations. In this case, the POAC found that the MEK should not be on Britain’s list, and gave the government no further recourse to challenge this ruling. This ruling could have a far-reaching impact because, unlike those decisions and reports discussed earlier, this decision was based on substantive, not procedural, grounds. In making its ruling, the POAC reviewed all the underlying evidence—including classified information—and concluded that the group was no longer a terrorist organization. It had renounced terrorism, had not committed any recent acts of terrorism, and, in fact, no longer appeared capable of carrying out attacks.¹⁵² If the public begins to question not only whether the listing processes provide adequate due process, but whether listed organizations and individuals should even be included, confidence in the entire regime could be seriously undermined.

Rules-based approach. The FATF has been the most important player internationally in setting standards and guidelines for AML/CFT regimes. The group has used more of a rules-based than a risk-based approach. The FATF’s forty recommendations on AML and nine on CFT are fairly specific, focusing on the types of regulations a country needs to put in place to meet international standards, as opposed to addressing specific risks presented by conditions in a given jurisdiction. This approach has a number of important benefits. Perhaps most important, it means countries around the world are all using similar models, making it easier to communicate, work together, and make comparisons on these issues.

There are also associated downsides. As the State Department observed in its 2007 annual assessment of the AML/CFT environment, “[T]oo many countries are getting caught up in the AML/CFT process and losing sight of the objective.”¹⁵³ In other words, countries are far more focused on whether they have put the recommended regulations and laws in place than on whether the measures are actually having any impact on terrorist financing. As a senior IMF official noted, “Too many countries focus only on whether they meet international standards, and not the underlying reality of terrorist financing.”¹⁵⁴ In this environment, countries have little flexibility to adapt their regime to their specific risk conditions.¹⁵⁵

A risk-based approach built on the foundation of a set of basic rules would be more likely to yield success because of its focus on the actual conditions on the ground instead of broad international standards. Unfortunately, the international community would likely struggle to shift quickly to a risk-based approach. One reason is that there is little understanding of the underlying terrorist financing threat that each nation faces. As a 2006 UN report noted, solid knowledge

150. Constant Brand, “EU Court Adviser Recommends Unfreezing Assets of Saudi with Suspected al-Qaida Links,” Associated Press, January 16, 2008. Available online (www.iht.com/articles/ap/2008/01/16/europe/EU-GEN-EU-Court-Terror-List.php).

151. Renata Goldirova, “EU Terror Blacklist Suffers Judicial Blow,” *EUobserver*, September 4, 2008 (accessed at <http://euobserver.com/9/26685>).

152. Patrick Clawson, “A Roadmap for the Foreign Terrorist Organizations List,” *PolicyWatch* no. 1366 (Washington Institute for Near East Policy, April 25, 2008). Available online (www.washingtoninstitute.org/templateC05.php?CID=2808).

153. State Department, *International Narcotics Control Strategy Report*, vol. 2, March 2007.

154. IMF official, interview by author, March 2008.

155. *Ibid.*

of al-Qaeda and Taliban funding issues is lacking, and far more time and effort need to be expended on bolstering the international community's capability to combat that funding.¹⁵⁶ The FATF itself would not be well positioned to provide this type of assessment in its current configuration. The organization has only a small permanent staff, whose efforts are largely devoted to mutual evaluations.

Informal financial systems. Terrorist cells and organizations are increasingly using cash couriers and bulk cash smuggling to transfer funds. Although these methods are less efficient than banks, they make the job of tracking the funds more difficult for law enforcement. Trying to urge the Persian Gulf countries, in particular, to regulate cash couriers has been an uphill struggle, in a region where carrying bulk cash is a common practice.

The Saudis have been particularly reluctant to head down this path. The United States pressured the Saudis to put in place a regulation to govern bringing cash in and out of the country. After some delay, the Saudis finally put a provision on the books but never created the form to be filled out by those required to meet the new rules. It took another push from Washington for the Saudis to take this step.¹⁵⁷ Even with this rule now in place, its impact will be limited. The Saudis will be unlikely to require royal family members to submit to searches, and the measure probably will be targeted largely at foreign nationals.¹⁵⁸ As one U.S. official noted, in discussing Qatar, "It is unrealistic to expect that the government is going to ask the sheikhs how much money they are carrying."¹⁵⁹

Some countries have been reluctant to admit that there is even a problem with informal financial systems. The Qataris illustrate this. In interviews with an IMF

team assessing the country's AML/CFT capabilities, the Qatari government maintained that there were no *hawalas* in the country, a position they have repeated consistently.¹⁶⁰ The IMF team members were skeptical, given the number of expatriate workers in the country, and returned to their hotel and asked the foreign nationals how they sent money home. Their answer was hardly surprising: "*hawalas*."¹⁶¹

Even where regulations have been put in place, the implementation has often been inadequate. This is not only a problem outside the United States. Even though it is now a criminal offense to operate an unlicensed money remitter in the United States, the problem has hardly been solved. The federal government estimates that fewer than 20 percent of the country's money-services bureaus have actually fulfilled the registration requirements.¹⁶²

Stored value cards—which represent money on deposit with the issuer, and are similar to a debit card but are often issued anonymously—represent another uphill struggle. Under current law, these cards are not considered a monetary instrument. There is, consequently, no regulation over the amount of money that can be put onto one of these cards and taken out of the country. As one DHS official noted, "You could put three hundred thousand dollars onto a stored value card, walk out of the country, and withdraw funds elsewhere" without having committed any offense. If a courier was detained with a stored value card, someone else could remove the money from the card, without the government's knowledge.¹⁶³

Safe havens. The State Department's *Country Reports on Terrorism 2006* highlighted the threat posed by "ungoverned, under-governed, or ill-governed areas of a country ... where terrorists that constitute a threat

156. UN Security Council, *Fifth Report of the Analytical Support and Sanctions Monitoring Team concerning al-Qaeda and the Taliban*, September 18, 2006. Available online (<http://daccessdds.un.org/doc/UNDOC/GEN/N06/529/76/PDF/N0652976.pdf?OpenElement>).

157. DHS officials, interview by author, February 2008.

158. Ibid.

159. State Department official, interview by author, January 2008.

160. Senior Qatari official, interview by author, January 2008.

161. Qatari Banking Regulator, interview by author, January 2008.

162. State Department, *International Narcotics Control Strategy Report*, March 2008.

163. DHS officials, interview by author, February 2008.

to U.S. national security interests are able to organize, plan, raise funds, communicate, recruit, train, and operate in relative security because of inadequate governance capacity, political will, or both.¹⁶⁴ Indeed, terrorist groups still have a variety of safe havens throughout the world where they can operate in relative security. Most notable, from the U.S. perspective, is Pakistan's Federally Administered Tribal Areas, which was transformed into an al-Qaeda/Taliban safe haven in late 2001 with the influx of al-Qaeda and Taliban militants from Afghanistan. In Africa, the trans-Sahara and Somalia are safe havens for al-Qaeda and its affiliates, while East Asia has been—at least until recently—a comfortable operating environment for JI and the Abu Sayyaf Group.¹⁶⁵ Hizballah and Hamas have been able to exploit the loosely governed tri-border region in Latin America—where Paraguay, Brazil, and Argentina meet—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.”¹⁶⁶

Other areas could possibly become safe havens as well. By the State Department definition noted earlier, today's Gaza Strip certainly constitutes a terrorist safe haven. Governed by a U.S.-designated FTO, Gaza is home to operationally active cells of Hamas, PIJ, al-Aqsa Martyrs Brigades, Popular Front for the Liberation of Palestine, Popular Resistance Committees, and an array of small, amorphous militant groups like the “Army of Islam” and the “Sword of Islamic Justice.” Small numbers of Hizballah operatives reportedly gained entry into Gaza even before Hamas came to power, and Israeli authorities describe communication between extremist networks operating in Egypt's Sinai Peninsula and those in Gaza. Without proper controls at Gaza's points of entry—including its border crossing

with Egypt, Mediterranean coastline, and Rafah tunnel network—there is no telling who or what enters Gaza under Hamas rule.

Charitable sector. As was discussed in the section on the Persian Gulf, the charitable sector remains vulnerable to terrorist financing efforts. One reason for this, according to the FATF, is that charities are still subjected to lesser regulatory requirements than other entities, such as financial institutions or private companies.¹⁶⁷ The United States has been largely alone in cracking down on abuse of charities and NGOs. Many other countries have been reluctant to take steps to tackle this problem, often out of concern that they will appear to be targeting Muslim humanitarian efforts. Countries in the Middle East have been particularly resistant to taking action against charities. Since charity or *zakat* is one of the five pillars of Islam, the governments are worried that they will be portrayed as anti-Islamic. In Europe, the member states have resisted EU efforts to develop solutions, pushing back against a 2005 EU initiative in this area. The member states regard this as an issue within their sovereignty, and the charities themselves are resistant to EU oversight. For some European member states, regulating charities is more than just a sensitive matter, it actually raises constitutional issues. In Sweden and Denmark even the prospect of registering charities triggers constitutional considerations.¹⁶⁸

Against widespread criticism, the U.S. government has been aggressive in trying to crack down on the abuse of the charitable sector by terrorist organizations. The Treasury Department has designated more than forty charities with ties to al-Qaeda, Hizballah, and Hamas among others, some with branch offices in the United States. The United States has also prosecuted charities and their leaders serving as fronts for

164. State Department, *Country Reports on Terrorism 2006*.

165. The Indonesian government has made major progress in cracking down on JI over the past year. See, for example, NCTC director Michael Leiter's remarks at the Washington Institute, February 13, 2008. Available online (www.washingtoninstitute.org/templateC07.php?CID=388).

166. State Department, *Country Reports on Terrorism 2007*, chapter 5. Available online (www.state.gov/s/ct/rls/crt/2007/104103.htm).

167. FATF Financial Action Task Force on Money Laundering, *Combating the Abuse of Non-Profit Organisations* (Paris: FATF, October 11, 2002). Available online (www.fatf-gafi.org/dataoecd/53/53/34260889.pdf).

168. European Commission official, interview by author, September 2007.

terrorist organizations, as exemplified by the HLF case discussed earlier. Washington has defended its actions in this arena on a number of grounds, which include: (1) corrupt charities dupe unwitting donors who intend to give funds for humanitarian causes; (2) humanitarian work itself creates fertile recruiting grounds for terrorists; and (3) the charities generate public support for these organizations.

Private sector. While the private sector has improved its CFT regimes overall, a lot more could be done. There is considerable frustration in the private sector about how to approach terrorist-financing-related issues. One British banker complained that even with the “vetted groups,” the government does not provide enough guidance about what it is looking for.¹⁶⁹ A former Treasury Department official now in the private sector explained that the government’s lack of information puts the private sector in a difficult position when it comes to deciding whether to do business with a particular entity or person. The private sector often relies on reports from private companies that are often inaccurate, using unreliable sources.¹⁷⁰ The U.S. government does not allow the private sector to use a risk-based approach in combating terrorist financing, requiring instead a rules-based approach for determining if a transaction is suspicious or not. Ultimately, the emphasis is on whether the private sector has checked the right boxes, not on the overarching objective.¹⁷¹ Although government officials have claimed publicly that SARs and other reports from the private sector are very valuable in their investigations, members of the private sector have expressed considerable skepticism themselves. As one former Treasury Department

official noted, “Companies are spending huge money on compliance, but not necessarily catching anything.”¹⁷² A British lawyer complained that he has filed thousands of SARs with the government and has never received a response. He was so concerned that some of his reports were not receiving the attention they deserved that he developed his own system to mark the important SARs as “urgent.” Even then, he heard nothing back.¹⁷³

Capacity Building

In some respects, the global effort to combat terrorist financing is only as effective as its weakest links. Terrorist groups take advantage of vulnerabilities and gaps in the system, and gravitate toward countries and regions whose efforts are lacking. Capacity building—designed to improve countries’ legal, regulatory, and enforcement capabilities—is therefore critical to strengthening the international system. Fortunately, there is no shortage of countries and international organizations involved in and willing to provide this type of training and assistance. The United States has allocated significant resources for its capacity building programs worldwide. Within the U.S. government, the departments of Treasury, State, and Justice, among other agencies, are engaged in this arena.¹⁷⁴ Japan and Britain, as well as regional bodies such as the EU and the G8 (which formed a counterterrorism advisory group to address these issues), also play key roles in this global effort.¹⁷⁵ Further, the World Bank, IMF, FATF, and UN are engaged in this effort, and are focused on identifying countries most in need of technical assistance and ensuring that they receive the necessary support.¹⁷⁶

169. British banker, interview by author, September 2007.

170. Robert Werner, “U.S. Efforts against Terrorism Financing: A View from the Private Sector,” (paper presented at a forum sponsored by the Washington Institute for Near East Policy, Washington, D.C., June 26, 2007). Available online (www.washingtoninstitute.org/templateC05.php?CID=2627).

171. *Ibid.*

172. Former Treasury Department official, interview by author, June 2007.

173. British lawyer, interview by author, September 2007.

174. Juan Zarate, deputy assistant secretary, Treasury Department, testimony before the Senate Foreign Relations Committee, March 18, 2003.

175. U.S. government official, interview by author, August 2008.

176. IMF and World Bank, Twelve Month Pilot Program and AML/CFT Assessments and Delivery of AML/CFT Technical Assistance, March 31, 2003 (available online at <http://www.imf.org/external/np/aml/eng/2004/031604.pdf>). See also UN Security Council Resolution 1373 (2001), “UN Action Plan to Counter Terrorism,” September 8, 2006. It should be noted, however, that the IMF has scaled back the resources it is devoting to AML/CFT generally, and to capacity building more specifically, according to an author interview with a U.S. government official, August 2008.

Despite the number of actors involved and the funding devoted to these critical tasks, the efforts are not yet producing the necessary and desired results—in large part because such efforts are not well coordinated. This is true even within the U.S. government itself. For example, the Treasury Department has multiple offices involved in capacity building, including its Office of International Affairs, the Office of Terrorist Financing and Financial Crime, and FinCEN. Various bureaus at the State Department play a role, as do different parts of the Justice Department and the U.S. Agency for International Development. Moreover, no one official within the U.S. government bureaucracy is in charge of this complicated interagency effort to ensure that the many players are on the same page and that their initiatives complement one another. This picture becomes even more confused, and the scene less well coordinated, when the efforts of numerous foreign governments and international organizations are added to the mix.

A second major problem in the capacity building arena is the overemphasis on individual training courses, and a corresponding underemphasis on long-

term programs. While short training workshops and seminars may be of some assistance, their value is limited—particularly when the various training courses are not designed as part of a larger strategic effort to bring a country up to speed. Unfortunately, due to the serious coordination problems among entities offering the technical assistance, the individual seminars do not always fit together well, and are at times redundant, inconsistent, or do not match the given country's specific needs. Embedding experts for long-term assignments in foreign countries to work with the local government has been far more effective and successful. This type of arrangement has a number of benefits. First, it allows the expert advisor to tailor the training as needed, and to respond to questions and issues as they arise. Second, and perhaps more important, it allows the advisors to develop relationships with the governments they assist, and to win their trust. Most countries would be far more likely to heed the advice of an expert with whom they have developed a long-term relationship than with someone whom they met once at a seminar.¹⁷⁷

177. U.S. government official, interview by author, August 2008.

5 | Conclusion: Signs of Success

WHILE THE UNITED STATES and its allies are encountering growing difficulties in their efforts to combat terrorist financing, an examination of the record to date indicates positive results. Speaking before Congress in February 2008, Director of National Intelligence (DNI) Michael McConnell commented that over the previous twelve to eighteen months the intelligence community noticed that “al-Qaeda has had difficulty in raising funds and sustaining themselves.”¹ In early April, Undersecretary of the Treasury Stuart Levey echoed the DNI’s assessment, adding that the government’s efforts to combat terrorist financing “are more integrated than ever before” and have enabled the government to disrupt or deter some sources of al-Qaeda finance and make “significant progress mapping terrorist networks.”² The Central Intelligence Agency’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.”³

In addition to this testimony, anecdotal reporting indicates that U.S. and international efforts are having an effect on the cash supply of a variety of terrorist groups. For example, while there is evidence that the al-Qaeda core is resurgent, funding difficulties may be preventing the organization from growing even stronger. In his July 2005 letter to Abu Musab al-Zarqawi, Ayman al-Zawahiri humbly asked the leader of AQI if he could spare “a payment of approximately one hundred thousand” because “many of the lines have been cut off.”⁴ Similarly, in May 2007 al-Qaeda leader in

Afghanistan Sheikh Mustafa Abu al-Yazid (Sheikh Said) highlighted the group’s desperate needs for funds:

As for the needs of the Jihad in Afghanistan, the first of them is financial. The Mujahideen of the Taliban number in the thousands, but they lack funds. And there are hundreds wishing to carry out martyrdom-seeking operations, but they can’t find the funds to equip themselves. So funding is the mainstay of Jihad. They also need personnel from their Arab brothers and their brothers from other countries in all spheres: military, scientific, informational and otherwise....And here we would like to point out that those who perform Jihad with their wealth should be certain to only send the funds to those responsible for finances and no other party, as to do otherwise leads to disunity and differences in the ranks of the Mujahideen.⁵

Other recent cases suggest al-Qaeda’s senior leadership is indeed lacking funds. Consider the situation in Bahrain, noted earlier. According to Bahraini investigators, cell members twice delivered funds to al-Qaeda operatives in Afghanistan. The funds appear to have been self-generated, totaled only a few thousand dollars, and were sent not from al-Qaeda leadership to a terrorist cell abroad but from a budding terrorist cell to al-Qaeda leaders in Afghanistan.⁶

In a recent case in Saudi Arabia, a taped message from Ayman al-Zawahiri distributed via cell phones asked for “donations for hundreds of the families of captives and martyrs in Pakistan and Afghanistan.” Saudi authorities subsequently arrested some fifty-six individuals suspected of belonging to al-Qaeda and

1. U.S. House of Representatives, “Hearing of the House Permanent Select Committee on Intelligence, *Annual Worldwide Threat Assessment*,” February 7, 2008. Available online (www.dni.gov/testimonies/20080207_transcript.pdf), pp. 16–18.
2. Treasury Department, “Under Secretary for Terrorism and Financial Intelligence Stuart Levey[,] Testimony Before the Senate Committee on Finance,” April 1, 2008. Available online (www.treas.gov/press/releases/hp898.htm).
3. John McLaughlin, Testimony prepared in support of the Senate Foreign Relations Committee Hearing on “The Changing Face of Terror – A Post 9/11 Assessment,” June 6, 2006. Available online (<http://www.senate.gov/~foreign/testimony/2006/McLaughlinTestimony060613.pdf>).
4. Globalsecurity.org, “Letter from al-Zawahiri to al-Zarqawi.” Available online (www.globalsecurity.org/security/library/report/2005/zawahiri-zarqawi-letter_9jul2005.htm).
5. Evan Kohlmann, “Al-Qaida Leader in Afghanistan Beggars for Cash Donations,” Counterterrorism Blog. Available online (http://counterterrorismblog.org/2007/05/alqaida_leader_in_afghanistan.php).
6. Bahraini law enforcement officials, interview by both authors, January, 30, 2008.

using the recording to raise funds.⁷ Nor has this been the only time the Saudis have taken such action. In September 2003, a senior FBI official noted in the context of testimony on efforts to combat terrorist financing, that the Saudis had recently “taken steps to apprehend a number of individuals that were identified in a joint FBI-Mabahith operation.”⁸

Investigations in Europe and Asia offer other examples of local cells raising funds for themselves as well as sending funds to Pakistan. In Spain, for example, authorities have seen Pakistani jihadists involved in petty crime through which they not only finance their activities in Spain but also send millions of dollars back home, some of which, it is suspected, finances extremist groups there.⁹ In Singapore, a “self-radicalized” cell leader collected contributions from fellow cell members with the intent of sending the money as a donation to support violent causes abroad.¹⁰

A lack of funds has frustrated terrorists’ intentions elsewhere as well. Philippine police reported that plans by Abu Sayyaf Group to set off bombs in Manila and target a chemical plant in 2006 were never executed due to a lack of funds.¹¹ Following the international financial embargo of the Hamas-led government in Gaza, the group acknowledged being broke and lacking funds to pay employees.¹²

Jemaah Islamiyah, al-Qaeda’s Southeast Asian affiliate, has also suffered from major financial setbacks due to the international efforts to combat terrorist financing. According to JI expert Sydney Jones from the International Crisis Group—an NGO—JI has not received significant external funding since

2003. Not surprisingly, then, the group is facing financial shortfalls. As evidence, in late 2007, JI told members planning to participate in one of the organization’s projects that they would have to cover their own expenses. Earlier that year, captured JI members told Indonesian authorities that most of JI’s funding came from its own members, not from outside sources.¹³

Several other cases highlight how the United States and its allies have been able to use financial intelligence to disrupt plots and prevent attacks.

- According to the Treasury Department, financial intelligence played an important role in individual operations, such as the investigation that led to the capture of Hambali (Riduan Isamuddin), the JI operations chief who masterminded the Bali bombings in 2002.
- British authorities foiled the summer 2006 liquid-explosive aviation plot thanks in large part to critical financial intelligence.¹⁴
- 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 United States.¹⁵
- The Treasury Department reported that a financial intelligence collection program supplied a key piece of evidence confirming the identity of a major Iraqi terrorist facilitator and financier.¹⁶

7. Reuters, “Saudi Says Arrests Qaeda Suspects Planning Attacks [sic],” March 3, 2008.

8. FBI, “Testimony of John Pistole,” September 24, 2003.

9. Elaine Sciolino, “Terror Threat from Pakistan Said to Expand,” *New York Times*, February 10, 2008.

10. Singapore Ministry of Home Affairs, “Jemaah Islamiyah (JI) and Moro Islamic Liberation Front (MILF) Detention and Restriction Order Cases,” January 28, 2008. Available online (http://www.mha.gov.sg/news_details.aspx?nid=1159).

11. “Militants in SE Asia Rely on Donations – Experts,” Reuters, July 9, 2008.

12. Sarah El Deeb, “Palestinians Wonder Where the Money Will Come from as EU Cuts Off Aid,” Associated Press Worldstream, April 7, 2006.

13. Sidney Jones, “Briefing for the New President: The Terrorist Threat in Indonesia and Southeast Asia,” *Annals of the American Academy of Political and Social Science*. Available online (<http://ann.sagepub.com/content/vol618/issue1>).

14. HM Treasury, Foreign and Commonwealth Office, “The Financial Challenge to Crime and Terrorism,” February 2007. Available online (www.hm-treasury.gov.uk/d/financialchallenge_crime_280207.pdf).

15. FBI, “Identifying, Tracking and Dismantling the Financial Structure of Terrorist Organizations,” testimony by John S. Pistole before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, September 25, 2003. Available online (www.fbi.gov/congress/congress03/pistole092503.htm).

16. Treasury Department, “Treasury Designates Financial Supporter of Iraqi Insurgency,” press release, June 17, 2005. Available online (www.treas.gov/press/releases/js2500.htm).

- According to British authorities, a suspected al-Qaeda associate in Britain was using multiple identities to finance the purchase and supply of explosives components for use in another country. Forensic financial investigation revealed that this person used multiple accounts to purchase high-resolution maps of a third country over the internet. Following the money enabled investigators to track the international travel of the suspect and his co-conspirators as well as the delivery by international courier of components for improvised explosives to the same foreign country over several months. Multiple transactions involving accounts controlled by an associate of the original suspect revealed a wider conspiracy. In a joint operation with a foreign law enforcement agency, British authorities tracked the original suspect to a third country, where he was arrested in a makeshift bomb factory.¹⁷

How Far Have We Come?

When it comes to financing al-Qaeda and its affiliated components of the global jihadist movement, much has changed even as much has stayed the same. Consider a recently declassified August 1993 report, “The Wandering Mujahidin: Armed and Dangerous,” written by the State Department’s Bureau of Intelligence and Research. The report describes several trends that remain issues of serious concern today, including some of the same streams of financial support that fund today’s militant Islamist groups. To the present-day reader, who will digest this 1993 report with an eye toward the conflict in Iraq, perhaps the most disturbing analytical judgment (which could have been pulled out of a current National Intelligence Estimate) is this:

The war-era network of state sponsors and private patrons which continues to support the mujahidin has no rigid structure and no clearly defined command center, but receives guidance from several popular Islamic leaders and financial support from charitable Islamic organizations and wealthy individuals. Key figures who have emerged as the mentors of the mujahidin provide one another with the contacts and conduits needed to keep the militant groups they support in business.¹⁸

The network *circa* 1993 was not an exact parallel to today’s combination of al-Qaeda operatives (a smaller but no less committed cadre) and like-minded followers of a virtually networked, leaderless jihad. But the 1993 warning about an unstructured network of jihadists moving from their current area of operations to other battlefronts could have been written today. What remains to be seen is if al-Qaeda’s senior leadership’s lack of funds degrades the core group’s power to control activities and direct operations. Without the power of the purse, would local terrorist cells still need the al-Qaeda core as much as that core would need these cells? Part of what drew the Salafist Group for Call and Combat in Algeria into the al-Qaeda fold, according to intelligence analysts, was the financial dividend offered by such a relationship.¹⁹ Should the current trend continue, it could lead to the further degeneration of the al-Qaeda core and the devolution of al-Qaeda’s organized global insurgency into a more localized—and controllable—terrorist threat. Toward that end, and in light of recent successes disrupting and deterring al-Qaeda’s financial activity, constricting the terrorist operating environment—with an eye toward terrorists’ financial streams in particular—should remain a strategic priority.

17. HM Treasury, “The Financial Challenge to Crime and Terrorism,” February 2007.

18. State Department, Bureau of Intelligence and Research, “The Wandering Mujahidin: Armed and Dangerous,” August 21–22, 1993. Available online (http://blogs.law.harvard.edu/mesh/files/2008/03/wandering_mujahidin.pdf).

19. Mideast intelligence analysts, interview by author, July 9, 2007.

6 | Policy Recommendations

DESPITE SOME SUCCESS in the struggle against terrorist financing, the United States and its allies cannot afford to grow complacent. Serious challenges have emerged that 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, move, and gain access to funds. The evolutionary nature of this aspect of the terrorist threat requires regular and ongoing reassessment to identify potential vulnerabilities and adapt our counter-terrorist-finance posture accordingly.

The United States should take a number of steps to ensure that its efforts in combating the financing of terrorism will continue to stand out as a counterterrorism success story.

Explain the nature of the CFT threat. There is too little understanding of the terrorist financing threat, particularly among governments in the Middle East and Latin America. Designing effective systems to combat terrorist financing is especially difficult without a thorough understanding of how terrorist groups raise, store, and move funds.

- The United States performs regular, comprehensive assessments focused specifically on terrorist financing. These assessments—or at least sanitized versions of them—should be shared with key countries whose assistance is needed in this global effort.
- While the FATF has performed admirably in establishing international standards in the AML/CFT arena and pressing countries to adopt these measures, there is too little focus on risk—ensuring not only that countries adopt the model AML/CFT regime but also that they are actually focusing on the specific problems they face.
- The FATF needs to perform broader assessments covering not only whether countries have adequate AML/CFT regimes, but also whether they are

taking the necessary steps to address their particular terrorist financing threat. To fulfill these growing responsibilities, the United States should press for the FATF's budget and resources to be dramatically increased.

Make CFT a priority. There is a great deal of skepticism in the public and even among some Western allies about the impact of CFT efforts. The United States must continue to explain and emphasize the importance of CFT, and ensure that combating terrorist financing remains an important component of every government's overarching counterterrorism strategy.

- Washington should work with its allies to develop robust CFT regimes, including both asset-freezing authorities and the capability to follow the money trail. The United States should make the case that CFT efforts are effective to its partners and allies—and their constituencies—by providing confidential assessments to governments and unclassified versions of those assessments to the public on an ongoing basis.
- The United States should focus on ensuring that key Middle Eastern countries, particularly those in the Persian Gulf, are not only developing adequate regimes to prevent terrorism financing but also are taking the necessary follow-up actions. Policymakers should closely monitor these countries' success in criminalizing terrorism financing, prosecuting and convicting terrorism financiers, and overseeing the activities of charities and NGOs. Countries should be pressed to develop strong oversight mechanisms for charities and NGOs that operate within their jurisdictions and are sending funds to conflict zones—which are ripe for exploitation.
- Washington should approach the CFT challenge strategically—using different approaches for different problems. Some countries have the political will to improve their CFT regime but lack the technical or financial capabilities; others have no desire to

tackle these issues. For the former, the United States should work with its allies and with international organizations such as the UN and the FATF to provide assistance and support. For the latter, the United States and others must be more aggressive in pushing for improvements—including by publicizing a given country’s shortcomings. “Naming and shaming”—most effective when done by an international organization—must once again become an important part of the international effort to counter terrorist financing.

Pushing the bureaucracy to keep pace. Terrorist groups are rapidly adapting their financing-related activities in response to U.S. and international pressure. Governments must closely monitor evolving trends in terrorist financing and develop ways to respond quickly.

- The United States must ensure that it can more quickly designate as terrorist elements successor or component entities that are created to circumvent sanctions. Authorities should be drafted that clearly enable the Treasury and State departments to target a successor entity or component organization of a foreign terrorist organization or a specially designated global terrorist as an “AKA” of the designated entity.
- Washington must ensure that it is able to more quickly designate, under U.S. law, entities banned under UN Security Council resolutions. When the United States is slow to designate entities and individuals that the UN has blacklisted, U.S. credibility is harmed.
- Transparent due-process procedures for the delisting of designated entities should be put in place.
- The United States should highlight not only entities that are designated, but also those that have been removed from the list. This will help demonstrate both that the blacklisting process is fair and that entities and individuals can be rewarded for renouncing terrorist activity.

International cooperation. There are real limits to what the United States can accomplish on its own

against al-Qaeda and other transnational terrorist organizations, particularly in combating terrorist financing. Therefore, the United States must bolster international cooperation on counterterrorism efforts, which has been decreasing as September 11 grows more distant. Despite its limitations, the UN is potentially well positioned to improve worldwide capabilities and to foster international cooperation in fighting terrorism.

- One important action would be to reinvigorate the role of the UN with respect to the al-Qaeda/Taliban 1267 Committee and Counterterrorism Executive Directorate. The list of al-Qaeda and Taliban members should be updated (by removing people who have died, adding individuals who should be on the list, and removing entries too vague to be useful), which will help restore its credibility. Increasing the power of the nonpolitical monitoring team to nominate entities and individuals for addition and removal from the list would also be a step forward. The UN terrorist list provides a solid basis for joint counterterrorism action by its member states. The UN is also well positioned to build international consensus, since a UN-led effort would not carry the same stigma as one pushed by the United States. For many countries, it is far more politically palatable to take action based on a UN—rather than a U.S.—imprimatur.
- The United States should continue to use a variety of multilateral forums to push the AML/CFT agenda, from the Egmont Group to the FATF to the Wolfs-berg Group, an association of eleven global banks. For example, the FATF could develop guidelines to protect the charitable sector from abuse by terrorist groups, something the U.S. Treasury Department has done unilaterally by developing voluntary best practices for U.S.-based charities.
- The United States should encourage a growing role for FATF-style regional bodies, such as the Middle East and North Africa Financial Action Task Force. Despite MENAFATF’s limitations, continued encouragement of the task force’s development is in Washington’s interests. The United States may, further, want to

make greater use of its role as an FATF member and a MENAFATF observer to press member countries to take the necessary steps to establish robust regimes against terrorism financing and money laundering. Although progress is likely to be gradual at best, policymakers' ongoing focus on these aspects of the fight against terrorism financing is time well spent, given how critical these issues are to U.S. security.

Public diplomacy. The U.S. government has increasingly recognized that strategic communication and public diplomacy must be an integral part of its counterterrorism strategy. While the U.S. government paid some attention to its communication strategy in the first few years following the September 11 attacks, counterterrorism officials were far more focused on capturing or killing terrorists.

- The United States must ensure that all aspects of counterterrorism, including CFT efforts, are incorporated into the government's strategic public diplomacy campaign.
- Some actions taken in the terrorism financing realm are very sensitive, such as designating charities and other NGOs as supporters of terrorism. Washington must do a better job of explaining not only why these actions are taken, but should also take measures to reassure the international community that the United States is neither targeting Muslim entities because of their religious ties nor Middle Eastern groups for their ethnicity, but rather illicit entities for their criminal conduct.
- Humanitarian aid in the Muslim world should be handled carefully as the United States takes enforcement actions. For example, when designating a terrorist-affiliated charity that may have also provided some legitimate aid, efforts should be made to support other charities operating in the same area to assure needed assistance still reaches the local population.
- The declassified public statements that accompany U.S. designations should be more proactively

disseminated beyond U.S. government websites. This could include translating these brief statements into foreign languages such as Arabic, Urdu, and Farsi.

- The United States should highlight corruption within terrorist organizations, where funding is being diverted from "the cause," to demonstrate the groups' hypocrisy and to give potential donors pause.
- Washington should engage with charities and donors alike to help them fulfill their due diligence requirements to protect charitable giving from abuse.

Capacity building. While many countries still have only limited CFT capabilities, there is too little international emphasis on capacity building in this important area. Many countries are eager to make improvements in their AML/CFT regimes but lack the necessary resources, expertise, and training to do so.

- The United States should ensure that capacity building is a CFT priority—requesting significant additional resources from Congress for this important task.
- The United States must take steps to ensure that its AML/CFT capacity-building efforts are better coordinated internally. To this end, Washington should designate a lead agency to have overarching responsibility for capacity building.
- The United States, the European Union, and Japan—the major players in the AML/CFT arena—should form a capacity building organization to lead international AML/CFT efforts, and to ensure that the many disparate pieces are better coordinated.
- The United States and its partners should focus more of their efforts on long-term capacity building. One effective method would be to send expert advisors for long stays to countries in need of counsel, where they could be embedded in local ministries, rather than sponsoring short-term training courses.

- Washington should press key international bodies and countries to increase their focus on capacity building. Even small amounts of funding can go a long way toward improving such basic CFT necessities as ensuring the ability of third-world countries to electronically disseminate UN designations in a timely manner.

Deal with state sponsors. State sponsorship of terrorism remains an acute threat, especially from groups outside the al-Qaeda orbit that also carry out acts of political violence targeting civilians.

- A major problem in tackling the state sponsorship of terrorism is that the sponsored groups—Hizballah, Palestinian Islamic Jihad, and Hamas—are not considered terrorists by the international community. Since the UN is unlikely to broaden its terrorist list beyond al-Qaeda/Taliban, the United States should try to expand the blacklisting of these groups at the regional and country level. Washington should enlist the support of countries such as Canada, Australia, and the Netherlands, which have already taken this action for Hizballah, to make the case.
- The international community’s focus on the Iranian nuclear program is understandable, but the scope of Iran’s and Syria’s terrorist activities should raise serious concerns as well. After all, Iran’s nuclear activities are not the only violations of UN resolutions; Iranian and Syrian support for terrorist organizations are as well. Although Hizballah has not been designated a terrorist organization by the UN or EU, Iranian and Syrian efforts to rearm the group violate Security Council Resolution 1701 (passed following the 2006 war) and Resolution 1747 (which prohibits Iran from exporting arms).

Strengthen terrorism lists. The UN and EU terrorist-designation lists have in recent months come under fire, facing both legal and public opinion challenges,

particularly in Europe. If the public begins to question not only whether the listing processes provide adequate due process but also whether listed organizations and individuals are actually involved in terrorism, confidence in the entire regime could be undermined seriously.

- Work with the UN and EU to strengthen their lists, clarify the systems for designation and delisting, and make more transparent the basis for designations. (For example, the United States currently produces a fact sheet explaining each designation, but no other country does so, nor does the EU.)¹

Increase the focus on implementation. While additional punitive measures are important and necessary to combat the financing of terrorist groups, better enforcement of the various sanctions regimes already in place could have an equally significant impact.

- The United States should devote additional resources and attention to ensuring that existing sanctions regimes are fully implemented. It should also push other countries, regional bodies, and international organizations to do far more to enforce existing sanctions regimes.
- The United States should also intensify its enforcement of sanctions violations. Until recently, Washington’s ability to crack down on sanctions’ violators was limited by the severity of the penalties it could impose. Congress recently changed the law in this area, dramatically increasing the fines for groups that violate U.S. sanctions. If the United States were to aggressively utilize these new powers, companies would have a harder time treating the prospect of fines as the “cost of doing business.”
- The United States should perform many more assessments on the impact of its enforcement actions, determining which ones are effective and which are not, and using this study to guide future actions.

1. The UN took an important step in this direction with the passage of Resolution 1822 in June 2008.

Conduct intelligence-driven investigations. It is increasingly clear that successful investigations into the financing of terrorism are almost always driven by intelligence and law enforcement data. Such is the nature of these illicit financial activities that covert actors go to great lengths to hide from the public eye.

- The United States should press its allies to bolster the national security capabilities of their finance ministries. While the G7, G8, and G20 finance ministers have all agreed in principle to embark on this mission, in practice few countries have built up the necessary capabilities to do so. For example, no finance ministry other than that of the United States has an in-house intelligence office.² As a result, other ministries generally do not receive all of their governments' relevant intelligence and thus are not in a position to assess the scope of the terrorist financing threat. Frequently, only the finance ministries have the necessary expertise to analyze the financial intelligence and advise policymakers on the most effective action to take. The Treasury Department's intelligence arm—the Office of Intelligence and Analysis—was created by Congress in 2004. It has played a significant role in enhancing the department's national security capabilities, demonstrating that transformation can be rapid.³

Create necessary legal authorities. Many governments still lack the domestic legal authorities to target and freeze the assets of terrorists and their supporters.

- The United States should push other governments to obtain domestic legal authorities to target and freeze the assets of terrorists in noncriminal proceedings. Many foreign governments do not have these tools in spite of UN obligations under Resolution 1373.⁴ Relying entirely on the UN list and obligations or on the EU list is not sufficient. Countries need to develop independent capabilities.

Engage the private sector. The private sector can and should be an important partner for the governments in combating terrorist financing. While the private sector is far more engaged today than it was prior to 9-11, this private-public partnership must be improved.

- The private sector has little understanding of the terrorist threat. To address this shortcoming, the United States needs to improve information sharing with the private sector. Britain's "vetted group" would be a good model for Washington to consider. Working groups composed of government and private-sector officials should be developed and modeled on relationships between the Defense Department and its contractors. If appropriate, officials at financial institutions should receive security clearances to participate constructively in these discussions.
- The federal government should help facilitate information sharing between financial institutions. Financial institutions already pool information relating to fraud, under the "fraudnet" databases, and similar databases should be created for terrorist financing.
- The U.S. government should allow financial institutions to adopt a more risk-based approach to combating terrorist financing. This would not only be a more cost-effective means of approaching the problem, but also a more successful one. The United States should press allied governments to do the same.
- The United States should continue to engage its charitable sector and provide clear guidance on how to comply with government requirements, while also making clear that charities need to take responsibility and maintain strong oversight over all of their activities throughout the world.

2. Robert Kimmitt, "The Role of Finance in Combating National Security Threats," May 10, 2007.

3. Treasury Department, "Testimony of Janice Gardner," April 6, 2006.

4. UN Security Council resolution 1540, passed on April 28, 2004, requires countries to develop national-level authorities specifically to combat WMD proliferation. Available online (www.state.gov/t/isn/73519.htm).

7 | Case Studies: Current Status of Terrorist Financing

WHILE BROAD TRENDS in financing, including raising, moving, and storing funds, cut across all terrorist groups, it is worth exploring in more detail the patterns of individual Middle Eastern terrorist groups, particularly al-Qaeda, Hizballah, and Palestinian groups like Hamas and PIJ.

Case Study: Al-Qaeda Finance

Osama bin Laden's personal wealth has not been a factor since the mid-1990s (indeed, there is considerable debate if it ever really was), and terrorists tied to al-Qaeda are increasingly raising funds through criminal activity and moving funds via cash couriers. Even with the proliferation of local and self-led terrorist cells, traditional methods of terrorist financing such as the abuse of charities, drawing on individual major donors, and use of organized facilitation and financial support networks remain a mainstay of al-Qaeda finance.

Charities. While the Treasury Department reports that many of the charities al-Qaeda has relied on for funds in the past have been disrupted or deterred from continuing such activity, the department has also noted that charities serving as fronts for terrorist groups often reopen under new names soon after they are shut down.¹ After making a flurry of terrorist designations in the period after the September 11 attacks, the Treasury Department has continued to designate charities tied to al-Qaeda and its affiliates on a regular basis. These include a number of NGOs based in Saudi Arabia, such as the International Islamic Relief Organization (IIRO, to be discussed shortly) and the al-Haramain Islamic Foundation, as well as the Kuwait-based Revival of Islamic Heritage Society (RIHS).

Connections between al-Haramain and terrorism were first exposed after the arrest of Omar al-Farouq in Indonesia on June 5, 2002. Al-Farouq, al-Qaeda's operational point man in Southeast Asia, told his interrogators that al-Qaeda operations in the region were funded through a Saudi-based branch of al-Haramain. According to al-Farouq, "money was laundered through the foundation by donors from the Middle East."² In January 2004, the U.S. and Saudi governments jointly designated the Indonesian, Kenyan, Tanzanian, and Pakistani branches of the charity and submitted their names to the UN 1267 sanctions committee. That action was based on information that the offices "provided financial, material and logistical support to Usama bin Laden's al-Qaida network and other terrorist organizations."³

Interestingly, the U.S. approach at the time was aimed at designating only those branches of a charity most directly involved in terrorist activity. After just six months, the U.S. and Saudi governments had issued terrorist designations for Aqeel al-Aqil, the former overall head of al-Haramain, along with five al-Haramain offices in Afghanistan, Albania, Bangladesh, Ethiopia, and the Netherlands.⁴ Despite these actions, including the addition of several al-Haramain branches to the UN designation list, the Treasury Department, in a sign of the inherent risks of a piecemeal-designation strategy, reported in June 2008 that parts of the al-Haramain organization continued to operate and that the charity's leadership had attempted to reconstitute the organization's operations. The department therefore issued a blanket designation of the al-Haramain Islamic Foundation organization, including its Saudi-based headquarters, for providing financial

1. Treasury Department, "Under Secretary for Terrorism and Financial Intelligence Stuart Levey[,] Testimony Before the Senate Committee on Finance," April 1, 2008; David R. Sands, "Iran Uses Fronts to Evade U.S. Sanctions," *Washington Times*, June 13, 2007.
2. Romesh Ratnesar, "Confessions of an al-Qaeda Terrorist," *Time.com*, September 15, 2002. Available online (www.time.com/time/magazine/printout/0,8816,351194,00.html).
3. Treasury Department, "Treasury Announces Joint Action with Saudi Arabia Against Four Branches of al-Haramain," January 22, 2004.
4. *Ibid.*, "Additional al-Haramain Branches, Former Leader Designated by Treasury as al-Qaida Supporters[;] Treasury Marks Latest Action in Joint Designation with Saudi Arabia," June 2, 2004. Available online (www.treasury.gov/press/releases/js1703.htm).

and material support to al-Qaeda and other terrorist organizations.⁵

Also in June 2008, the Treasury Department designated the entirety of another Gulf-based charity, the Kuwaiti RIHS. The U.S. government and UN had designated the Afghanistan and Pakistan offices of RIHS in 2002, but despite these and other actions—such as the closure or raid of six RIHS offices from Azerbaijan to Cambodia—the organization continued to engage in support for al-Qaeda and other terrorist groups, according to the U.S. government. Announcing the most recent designation, the Treasury Department said that RIHS leadership not only “actively managed all aspects of the organization’s day-to-day operations,” but was fully aware of its illegitimate activities. Such activities included RIHS financing for the operations of the Pakistan-based Lashkar-e-Taiba, the group responsible for the 2006 Mumbai commuter train attack and the 2001 attack on the Indian parliament. Similarly, an RIHS employee provided logistical support to then fugitive JI leader Hambali (Riduan Isamuddin), while the RIHS office in Bangladesh was accused of funding the military activities of Jamaat Mujahidin Bangladesh, the group that launched near-simultaneous bombings across Bangladesh in 2005. RIHS funded al-Qaeda and other groups in Somalia as well, according to the Treasury Department.⁶

Individual major donors. Speaking in the Persian Gulf, Treasury Department Undersecretary Stuart Levey noted that “terrorist organizations and al-Qaeda raise money in the Gulf by going to individual donors and through charities.”⁷ This was evident in 2006, when the department designated Abd al-Hamid al-Mujil, executive director of the Eastern Province office of the IIRO, described by fellow jihadists as the

“million dollar man” for his support of Islamic militant groups. According to the public statement announcing his designation, Mujil had a long history of financing al-Qaeda and its Southeast Asian affiliates, the Abu Sayyaf Group and JL.⁸ In January 2007, the Treasury Department designated Farhad Ahmed Dockrat and Junaid Ismail Dockrat, two South African al-Qaeda financiers. Farhad funded al-Qaeda and the Taliban through an al-Qaeda charity on the UN 1267 committee’s terrorism list, and Junaid raised \$120,000 for then al-Qaeda operations chief Hamza Rabia.⁹ In January, the UN listed three Kuwaitis—Hamid al-Ali, Jaber al-Jalamah, and Mubarak al-Bathali—as al-Qaeda financiers. Designated a year earlier by the Treasury Department, the three actively recruited and financed al-Qaeda activities, including those taking place in Kuwait, Iraq, Afghanistan, and Pakistan.¹⁰

Documents seized in a September 2007 raid on a suspected AQI safe house in Sinjar, in western Iraq, revealed that in the 2006–2007 timeframe the group depended heavily on donations, much of which came from AQI leaders, foreign fighters, and local Iraqis.¹¹ Among the foreign fighters who contributed to AQI, Saudis were the most prolific. They gave significantly larger amounts than the other fighters, with an average contribution of just more than \$1,000. Additionally, of the twenty-three fighters who contributed more than \$1,000, twenty-two were Saudi.¹²

Organized support networks. In the period following September 11, multiple support networks were identified, in Europe and the Middle East in particular, that supplied logistical and financial support to the September 11 plotters. Today al-Qaeda continues to position organized networks of facilitators in key locations, especially to provide support for AQI. A study by

5. Ibid., “Treasury Designates al-Haramain Islamic Foundation,” June 19, 2008.

6. Ibid., “Kuwaiti Charity Designated,” June 13, 2008; also see *ibid.*, “Fact Sheet: The Continuing War on Terrorist Assets,” press release, January 9, 2002 (available online at www.ustreas.gov/press/releases/po909.htm).

7. *Gulf Daily News*, “Millions of Dollars May Fund Terrorism,” February 27, 2008.

8. Treasury Department, “Treasury Designates Director, Branches of Charity,” August 3, 2006.

9. Ibid., “Treasury Targets al-Qaida Facilitators in South Africa,” January 26, 2007. Available online (www.treas.gov/press/releases/hp230.htm).

10. Treasury Department, “Treasury Designations Target Terrorist Facilitators,” December 7, 2006.

11. Fishman, *Bombers, Bank Accounts, and Bleedout*, p. 68.

12. Ibid., p. 70.

the West Point Combating Terrorism Center, reviewing AQI records seized in Iraq, suggested that a robust network in Syria was helping foreign fighters travel to Iraq. According to these seized documents, AQI relied on at least ninety-five different Syrian “coordinators” to play this role. Giving a sense of how well organized this system was, the coordinators appeared to specialize in working with prospective foreign fighters and suicide bombers from specific locales. For example, one Syrian coordinator worked primarily with Saudi clients.¹³

While these coordinators played an important role for AQI, the arrangement contained downsides for the latter, because many of the coordinators were motivated more by money than loyalty to the terrorist group. According to the Sinjar records, AQI experienced funding difficulties stemming from financial disputes with Syrian coordinators. One such example is of “Shahin the administrator,” who reported a shortage of funds in 2006 “[because] the money didn’t arrive with the suicide brothers, and the coordinating brothers in Syria kept the money.”¹⁴

In February 2008, the Treasury Department underscored the findings in the Sinjar documents, designating four members of a key terrorist facilitation and finance network operating out of Syria for supporting AQI. The department reported that the “Abu Ghadiyah” network, named for its leader, Badran Turki Hishan al-Mazidih (a.k.a. Abu Ghadiyah), controls the flow of much of the money, weapons, personnel, and other material through Syria into Iraq for AQI. According to the Treasury Department, the network “provided passports, weapons, guides, safe houses, and allowances to foreign terrorists in Syria and those preparing to cross the border into Iraq.” Indeed, al-Mazidih reportedly received several hundred thousand dollars from his cousin, another member of the Abu

Ghadiyah network, with which he supported insurgent activity against the U.S. military and facilitated the travel of AQI foreign fighters.¹⁵

Al-Qaeda maintains facilitation networks beyond Iraq. For example, al-Qaeda facilitation networks in Iran, to be discussed shortly, help the group’s operatives travel there to meet other operatives. Consider the case of the Libyan Islamic Fighting Group (LIFG) and al-Qaeda operative Adil Muhammad Mahmud Abd al-Khaliq. According to the Treasury Department, “[B]etween 2004 and 2007, Abd al-Khaliq traveled to Iran five times on behalf of al-Qaida and the LIFG for his facilitation duties.” These duties, the Treasury Department detailed, included providing “financial, material, and logistical support” to al-Qaeda and the LIFG.¹⁶

Criminal activity. Middle Eastern terrorist groups are involved in a broad range of criminal activities, ranging from drug trafficking to cigarette smuggling to selling counterfeit products. As a UN official noted, what type of criminal activity terrorist organizations choose to get involved in depends very much on local circumstances.¹⁷ Al-Qaeda operatives have used all types of crime to finance their operations dating back to the late 1990s. Ahmed Ressam, convicted in 1999 for his role in the millennium bombing plot aimed at the Los Angeles airport, confessed in his testimony that he “lived on welfare and theft” during the four-year period when he planned the plot while living in Canada.¹⁸ JI, a Southeast Asian al-Qaeda-affiliated organization, financed the 2002 Bali bombings through jewelry store robberies.¹⁹ In the United States, an al-Qaeda member convinced a Moroccan waiter to steal customers’ credit card information via a scanner that could be worn on a belt. Using the stolen information, the al-Qaeda cell was able to create copies of

13. Ibid.

14. Ibid., pp. 53–54.

15. Treasury Department, “Treasury Designates Members of Abu Ghadiyah’s Network[:] Facilitates Flow of Terrorists, Weapons, and Money from Syria to al-Qaida in Iraq,” press release, February 28, 2008. Available online (www.ustreas.gov/press/releases/hp845.htm).

16. Ibid., “Treasury Designates Gulf-Based al-Qaeda Financiers,” press release, June 5, 2008. Available online (www.treas.gov/press/releases/hp1011.htm).

17. UN official, interview by author, New York City, May 22, 2008.

18. PBS *Frontline*, “A Terrorist’s Testimony,” Available online (www.pbs.org/wgbh/pages/frontline/shows/trail/inside/testimony.html).

19. David Kaplan, “Paying for Terror: How Jihadist Groups Are Using Organized-Crime Tactics—and Profits—to Finance Attacks on Targets around the Globe,” *U.S. News & World Report*, November 27, 2005. Available online (www.usnews.com/usnews/news/articles/051205/5terror_print.htm).

the credit cards.²⁰ In the Philippines, authorities suspect al-Qaeda-associated groups such as Abu Sayaf of “rampant intellectual piracy” as well as production of counterfeit currency.²¹ “Homegrown” terrorist cells—even those merely inspired by al-Qaeda—are also getting involved in criminal activity. The plotters in the 2005 London transportation-system attack financed their operation through credit card fraud, among other crimes. The cell that pulled off the 2004 Madrid train bombing paid for their plot primarily by selling hashish. David Aufhauser, the former Treasury Department general counsel, described the danger that these growing ties between drugs and terrorists presents by noting, “The lesson of Madrid confirms an unholy alliance between common pedestrian crime ... and acts of terror that can literally topple governments. This is crime that not only corrupts, but kills.”²²

In Iraq, AQI and other terrorist and insurgent groups are proactively engaged in criminal activity, which allows them to cover the vast majority of their financial needs. According to a November 2006 U.S. government assessment cited in the *New York Times*, AQI and other groups had successfully created a self-sustaining insurgency in Iraq, raising \$70–\$200 million a year from illegal activities alone. The assessment highlighted oil smuggling, kidnapping for ransom, and political corruption as the most significant and profitable enterprises. In addition, as a result of lax regulation, an estimated 10–15 percent of the approximately four thousand NGOs operating in Iraq were suspected of diverting funds to support terrorist or insurgent groups.²³

State sponsorship. While al-Qaeda has not enjoyed state sponsorship in the classical sense, it has benefited

from relationships with governments such as Iran and Syria. Indeed, while active state sponsorship of terrorism in general is increasingly rare, “At times, the greatest contribution a state can make to a terrorist’s cause is by not acting. A border not policed, a blind eye turned to fundraising, or even the toleration of recruitment all help terrorists build their organizations, conduct operations and survive.”²⁴

AQI has long benefited from a network of associates in Syria that it uses to facilitate financing, travel to Iraq, and other logistics for members of its European network. According to Italian prosecutors, “Syria has functioned as a hub for an al Qaeda network” linked to the then leader of AQI, Abu Musab al-Zarqawi.²⁵ Transcripts of operatives’ conversations “paint a detailed picture of overseers in Syria coordinating the movement of recruits and money” between cells in Europe and Ansar al-Islam training camps in northern Iraq.²⁶ The cell’s leaders in Syria facilitated the recruits’ travel and provided their funding, while the European members gave false travel documents to recruits and fugitives, and monitored their travel.

In 2005, the Treasury Department designated Sulayman Khalid Darwish, who was operating out of Syria, as a specially designated global terrorist, for fundraising and recruiting for al-Zarqawi’s organization. Described as a member of the al-Zarqawi organization’s advisory (*shura*) council and “one of the most prominent members of the Zarqawi Network in Syria,” Darwish prepared forged documents, recruited and dispatched terrorists, and raised funds for the al-Zarqawi network.²⁷

According to information provided by the Treasury Department, Fawzi Mutlaq al-Rawi—a leader of the Iraqi wing of the Syrian Baath Party—was

20. Gail Wannenburg, “Links between Organised Crime and al-Qaeda,” *South African Journal of International Affairs* 10, no. 2 (Spring 2003). Available online (www.essex.ac.uk/ecpr/standinggroups/crime/members_files/wannenburg.pdf).

21. *Agence France-Presse*, “Islamic Militants May Be Behind Film Piracy: Philippines Official,” May 21, 2008.

22. David Aufhauser, testimony before the House Financial Services Oversight Committee, May 18, 2004.

23. John F. Burns and Kurt Semple, “U.S. Finds Iraq Insurgency Has Funds to Sustain Itself,” *New York Times*, November 26, 2006. Available online (www.nytimes.com/2006/11/26/world/middleeast/26insurgency.html?_r=2&pagewanted=print&oref=slogin&oref=slogin).

24. Daniel Byman, “Passive Sponsors of Terrorism,” *Survival* 47, no. 4 (Winter 2005–2006), pp. 117–144.

25. Sebastian Rotella, “A Road to Ansar Began in Italy: Wiretaps Are Said to Show How al-Qaeda Sought to Create in Northern Iraq a Substitute for Training Camps in Afghanistan,” *Los Angeles Times*, April 28, 2003.

26. *Ibid.*

27. Treasury Department, “Treasury Designates Individual Financially Fueling Iraqi Insurgency, al-Qaeda,” press release, January 25, 2005. Available online (www.ustreas.gov/press/releases/hp759.htm).

designated for providing financial and material support to Zarqawi's AQI. The extent of the Syrian role in al-Rawi's activities is noteworthy. Al-Rawi was appointed to his position in the Syrian Baath Party by Syrian president Bashar al-Asad himself in 2003. According to the Treasury Department, the Iraqi wing of the Syrian Baath Party "has since provided significant funding to Iraqi insurgents and al-Rawi's direction." Indeed, the department noted that al-Rawi "is supported financially by the Syrian government, and has close ties to Syrian intelligence."²⁸

With the authorization of the Syrian regime, al-Rawi twice met with a former commander of Saddam Hussein's Army of Muhammad in 2004 and told the commander his group would receive material aid from Syria. According to the Treasury Department, in 2005 al-Rawi "facilitated the provision of \$300,000 to members of AQI," as well as providing AQI with vehicle-borne improvised explosive devices, rifles, and suicide bombers. In meetings with senior AQI representatives in September 2005, al-Rawi and AQI leaders discussed operational issues, including conducting attacks against the U.S. embassy and concentrating attacks in the international zone.²⁹

Iran's passive sponsorship of al-Qaeda is also significant. One area of concern has been the presence of senior al-Qaeda members in Iran. While the Iranians have maintained that these al-Qaeda leaders were under arrest, U.S. officials have taken issue with those claims. For example, following President George W. Bush's "Axis of Evil" speech in January 2002, Iran handed over sixteen Saudi Arabian al-Qaeda members to Saudi authorities in August 2002.³⁰ But even then, Defense Secretary Donald Rumsfeld insisted that the regime

continued to maintain a permissive attitude toward al-Qaeda.³¹ Commenting on the transfer, Rumsfeld accused Iran of "permitt[ing] al-Qaeda to enter their country" and "permitting al-Qaeda to be present in their country today."³² Arab intelligence sources agreed, saying the transfer of the sixteen detainees was a "pre-tense" aimed at countering American charges that al-Qaeda operatives were finding refuge in Iran.³³ Indeed, according to one Arab intelligence officer, "a number of captured al-Qaeda operatives said the Iranians told them before their departure that they may be called on at some point to assist Iran."³⁴

A Lebanese media report in early 2008 asserted that "there is wide-scale reciprocity of interests between al-Qa'idah and Iran which detains—in a friendly way—a large number of al-Qa'idah leaders under house arrest in Iran so as to benefit from them in Iraq, Afghanistan, and perhaps Lebanon."³⁵ Iran continues to hold some al-Qaeda operatives under house arrest. Meanwhile, press reports cite U.S. officials as saying that Iran has entered into secret talks with individuals in al-Qaeda leadership positions, including two of bin Laden's sons, who reportedly have been under house arrest since 2003.³⁶

Recent events continue to raise questions about the complicated relationship between al-Qaeda and the Iranian regime. In January 2008, a five-member al-Qaeda-associated cell was convicted in Bahrain for terrorist activities, including receiving explosives and weapons training, engaging in terrorism overseas, and terrorism financing targeting "friendly countries." According to Bahraini investigators, several of the cell members traveled from Bahrain to Afghanistan via Iran. They initially flew to Tehran, meeting up with several al-Qaeda-affiliated individuals at the Tehran

28. Ibid., "Treasury Designates Individuals with Ties to al-Qaida, Former Regime," press release, December 6, 2007. Available online (www.ustreas.gov/press/releases/hp720.htm).

29. Ibid.

30. BBC News, "Iran Confirms al-Qaeda Suspect Handover," August 12, 2002. Available online (http://news.bbc.co.uk/2/hi/middle_east/2189223.stm).

31. U.S. Secretary of Defense Donald Rumsfeld, speaking on ABC News's *This Week*, February 3, 2002.

32. Ibid., in a Pentagon briefing to CNN, August 13, 2002. Available online (<http://transcripts.cnn.com/transcripts/0208/13/se.03.html>).

33. Peter Finn, "Al Qaeda Deputies Harbored by Iran; Pair Are Plotting Attacks, Sources Say," *Washington Post*, August 28, 2002. Available online (www.washingtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A4231-2002Aug27¬Found=true).

34. Ibid.

35. Ahmad al Zu'bi, "Can Lebanon Become a Springboard for al-Qa'idah's Operations?" *al-Mustaqbal* (Beirut), May 5, 2008.

36. Jonathan Karl, "Exclusive: Iran in Secret Talks with al Qaeda, Officials Say," ABC News, May 29, 2008. Available online (<http://abcnews.go.com/Politics/International/Story?id=4954667&page=1>).

airport. Al-Qaeda facilitators passed the cell members along from “person to person” until they arrived in training camps in Afghanistan. One of the individuals left Afghanistan and returned to Bahrain, where he was successfully prosecuted—after acknowledging that he had traveled to Afghanistan to engage in combat against coalition forces. While the Bahraini government does not know what role, if any, the Iranian government played in facilitating these individuals’ travel to Afghanistan, this case—like others—raises questions about the Iranian government’s possible facilitation activities.

Iran’s possible involvement and knowledge regarding this terrorist cell is a subject worth exploring further, in light of historical evidence. The 9-11 Commission found that Iranian officials were often willing to help facilitate al-Qaeda members’ trips through Iran, when they were traveling to Afghanistan. Iranian border guards were instructed not to put stamps in the al-Qaeda members’ passports—presumably so that their home governments would not suspect that they had traveled to Afghanistan. According to the commission, between eight and ten of the Saudi hijackers traveled through Iran between October 2000 and February 2001. There is also “circumstantial evidence” that senior Hizballah operatives were “closely tracking” some of the hijackers’ trips into Iran in late 2000. While the commission found no evidence that Iran was “aware of the planning for what later became the 9-11 attack,” it concluded there is “strong evidence” that Iran facilitated al-Qaeda members’ travel—including some of the September 11 hijackers—through Iran to Afghanistan. In light of these findings, the recent Bahraini investigation uncovering the entry of al-Qaeda operatives into and through Iran—a country with strict border controls—raises questions, yet again, about Iran’s implicit, if not explicit, support for al-Qaeda.

Case Study: Hizballah Finance

Most terrorist groups must devote a great deal of time and effort to raising, laundering, and transferring money in order to fund their activities. Yet Hizballah has long been able to rely on Iran’s largesse, which provides the group with a sizable, continuous flow of funding estimated to be \$200 million a year plus emergency funds such as those reportedly provided in the wake of the July 2006 war with Israel. Much of Hizballah’s own fundraising activity can be boiled down to simply taking advantage of the vast Lebanese Shiite expatriate population, largely located in Africa and South America, that is sympathetic to the group. Such activity is intended to guarantee the group’s future independence through diversified funding, particularly in the event that Iran strikes a grand bargain with the West (i.e., eschewing terrorism sponsorship and proliferation activities in exchange for full economic and diplomatic relations).

State sponsorship. The Iranian regime has been described by U.S. officials as the “central banker of terrorism” and has a nine-digit line item in its budget to support terrorism, sending hundreds of millions of dollars to terrorist groups, including Hamas, Hizballah, and PIJ.³⁷ Illustrating how the support for terrorism is part of an official government policy, Iran has used its state-owned financial institutions to dole out these funds. For example, from 2001 to 2006, Iran transferred \$50 million to Hizballah fronts in Lebanon, sending the funds from its central bank through Bank Saderat’s London subsidiary.³⁸

Foreign expatriate remittances. Hizballah receives significant financial support from the contributions of Hizballah supporters living abroad, particularly from Lebanese nationals living in Africa, South America, and other places with large Lebanese Shiite expatriate

37. Fox News, “Treasury Official Calls Iran ‘Central Banker of Terrorism,’” April 1, 2008.

38. Embassy of the United States, London, UK, “Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism,” October 25, 2007; available online (www.usembassy.org.uk/iran155.html); for more on Iranian state sponsorship, see Matthew Levitt, “Iranian State Sponsorship of Terror: Threatening U.S. Security, Global Stability, and Regional Peace,” testimony before the House Committee on International Relations, subcommittee on the Middle East and Central Asia, and the subcommittee on International Terrorism and Nonproliferation, February 16, 2005.

communities. Hizballah's main income, according to Hizballah parliamentarian Mohammad Raad, comes from the group's own investment portfolios and from wealthy Shiites.³⁹

The case of Union Transport Africaines (UTA) flight 141, bound for Beirut, which crashed on takeoff from Cotonou, Benin, on December 25, 2003, helps illustrate the situation. According to accounts in the Arab press, a "foreign relations official of the African branch of the Lebanese Hizballah party and two of his aides" were among those killed.⁴⁰ Arab press reports also claimed the Hizballah officials were carrying \$2 million in U.S. dollars in contributions, raised from wealthy Lebanese nationals living in Africa, to the organization's headquarters in Beirut and reported that "this amount represented the regular contributions the party receives from wealthy Lebanese nationals in Guinea, Sierra Leone, Liberia, Benin, and other African states."⁴¹ In 1998, Lebanese expatriates in Senegal attempted to smuggle approximately \$1.7 million in U.S. dollars to Lebanon, claiming they were merely trying to evade Senegalese law enforcement, not finance Hizballah.⁴² Israeli intelligence, however, ranks Senegal as the "secondary center for Hizballah's fundraising activity in Africa" after the Ivory Coast and estimates that the organization raises "hundreds of thousands of U.S. dollars yearly" in Africa.⁴³

Hizballah supporters living in both North and South America also send remittances back to Lebanon to fund Hizballah activities. For example, in Charlotte, North Carolina, members of Hizballah support networks organized regular meetings in their homes, where a collection basket was passed around

after watching Hizballah propaganda videos, usually produced by al-Manar.⁴⁴ In South America, authorities investigating the activities of Hizballah operative Assad Barakat noted his involvement in a financing network centered in Ciudad del Este, Paraguay, "which would be sending funds to Lebanon disguised as benefiting the families of victims of the conflict with Israel." In fact, a report by Chilean officials showed that "the remittances have as their destination relatives fallen in terrorist acts and the economic strengthening of Hizballah."⁴⁵ Mario Baizan, a former Argentine presidential advisor, described Ciudad del Este as "one of the world's biggest centers for financing of the pro-Iranian militant group Hizballah."⁴⁶

Charities and front organizations. Hizballah uses charities and front organizations to conceal its fundraising activities. For example, the "Martyrs' Organization" (Bonyad-e Shahid, also known as the Martyr's Foundation), a parastatal Iranian group headed by Mohammad Hasan Rahimiyan, acknowledges supplying charitable funds to the families of suicide bombers. In 2001, Paraguayan police searched the home of Hizballah operative Sobhi Mahmoud Fayad in Ciudad del Este, a town along the tri-border area where Brazil, Argentina, and Paraguay meet. Searching Fayad's home, police found receipts from the Martyrs' Organization for donations Fayad sent totaling more than \$3.5 million.⁴⁷ Authorities believe Fayad has sent upwards of \$50 million to Hizballah since 1995. According to press reports, Iran has traditionally funded Palestinian dissident groups in the Lebanese refugee camps, including al-Maqdah, through the Institute of the Palestinian Martyrs.⁴⁸ In

39. Scott Wilson, "Lebanese Wary of a Rising Hizballah," *Washington Post*, December 20, 2004, A17.

40. Hamid Ghiryafi, "Hizballah Officials Carrying Donations Reportedly Killed in Lebanese Plane Crash," *al-Siyasah* (Kuwait), December 29, 2003.

41. Ibid.

42. Israeli intelligence official, interview by author, Tel Aviv, July 2003; also see "Hizballah (Part I)," following citation.

43. Intelligence and Terrorism Information Center at the Center for Special Studies (CSS), "Hizballah (Part I): Profile of the Lebanese Shiite Terrorist Organization of Global Reach Sponsored by Iran and Supported by Syria," Special Information Bulletin (Israel: CSS, June 2003). Available online (www.terrorism-info.org.il/malam_multimedia/English/eng_n/pdf/hezbollah_p1.pdf)

44. *United States v. Mobamad Youssef Hammoud et al.*, 381 F.3d 316 (4th Cir. 2004).

45. Chilean Police Intelligence, Department of Foreign Affairs (presentation given at a law enforcement conference in Santiago, Chile, March 2002) (from author's personal files).

46. Sebastian Rotella, "Jungle Hub for World's Outlaws," *Los Angeles Times*, August 24, 1998, A1.

47. Mark S. Steinitz, "Middle East Terrorist Activity in Latin America," Policy Papers on the Americas XIV, study 7 (Center for Strategic and International Studies, July 2003).

48. Agence France-Presse, "PLO Bids to Win Back Refugee Support," July 5, 1994; Muntasser Abdallah, "Iran Pours Thousands of Dollars in Lebanon's

July 2007, the Treasury Department designated the Martyrs' Foundation for "provid[ing] financial support to the families of killed or imprisoned Hizballah and PIJ members, including suicide bombers in the Palestinian territories," and for being "directly involved in Hizballah operations against Israel during the July–August 2006 conflict." Two individuals intimately involved in the foundation's operations—Qasem Aliq and Ahmad al-Shami, who concurrently serves as director of another designated Hizballah entity, the group's construction arm (Jihad al-Bina)—were also designated.⁴⁹ In the United States, a Martyrs' Foundation satellite office in Dearborn, Michigan—the Goodwill Charitable Organization (GCO)—was designated for instructing "Hizballah members in the United States to send their contributions to [the] GCO and to contact the GCO for the purpose of contributing to the Martyrs Foundation."⁵⁰

On July 24, 2007, the same day the GCO was designated and raided, federal agents raided the offices of another Hizballah-linked organization in the Dearborn area, the al-Mabarrat Charity Association. Although it was not designated, the charity, headed by Sheikh Mohammed Hussein Fadlallah, has long been under a cloud of suspicion. Formerly the spiritual leader for Hizballah, Fadlallah maintains intimate ties with the organization and remains on the Treasury Department's Specially Designated Nationals list. In 2003, former Lebanese finance minister (and now prime minister) Fouad Siniora was barred from entering the United States because of a donation he made to al-Mabarrat in 2000.⁵¹

In some cases, the foreign remittances discussed in previous paragraphs are funneled to Hizballah through the group's charities. Members of the Hizballah cell in

Charlotte, North Carolina, received receipts from Hizballah for their donations, including receipts from the office of Sheikh Fadlallah, then Hizballah's spiritual leader.⁵² One receipt, signed by Ali Abu al-Shaer, financial manager of "the office of His Excellency Ayat Allah Mr. Mohammed Hussein Fadlallah," thanked "brother Mohammed Hammoud," the subsequently convicted leader of the Charlotte cell, for a \$1,300 donation.⁵³

According to a declassified research report based on Israeli intelligence, Hizballah also receives funds from charities with a radical Islamist orientation that are not directly tied to the group but that donate out of ideological affinity. The report explains: "Besides operating a worldwide network of fundraisers, funds are also raised through so-called 'charity funds.' Some of these are extremist Islamic institutions that, while not directly connected to Hizballah, support it, albeit marginally, in view of their radical Islamic orientation."⁵⁴ The report cites many such charities worldwide, including four in the Detroit area alone: the Islamic Resistance Support Association, the al-Shaid Fund, the Educational Development Association (EDA) and the GCO. Also cited are the al-Shahid Organization in Canada; the Karballah Foundation for Liberation in South Africa; the Lebanese Islamic Association and al-Shahid Social Relief Institution in Germany; and the Lebanese Welfare Committee, the Help Foundation, and the Jamiyat al-Abrar (Association of the Righteous) in Britain.

While some of these funds undoubtedly have paid for Hizballah's military and terrorist operations, other funds enable the group to provide its members with day jobs, to drape itself in a veil of legitimacy—and to build grassroots support among not only Shiite but Sunni and Christian Lebanese residents as well. For

Palestinian Camps," Agence France-Presse, June 21, 2002.

49. Treasury Department, "Twin Treasury Actions," July 24, 2007. Available online (www.ustreas.gov/press/releases/200772410294613432.htm).

50. Twin Treasury Actions Take Aim at Hizballah's Support Network, July 24, 2007. Available online (www.ustreas.gov/press/releases/200772410294613432.htm).

51. Adib F. Farha, "U.S. Ban on Siniora: How to Lose Friends and Win Enemies," *Beirut Daily Star*, July 5, 2003. Available online (www.lebanonwire.com/0307/03070515DS.asp).

52. *United States v. Mohamad Youssef Hammoud et al.*; for more information see Matthew Levitt, "Hizballah: A Case Study of Global Reach" (speech delivered to a conference sponsored by the International Policy Institute for Counter-Terrorism, Herzliya, Israel, September 8, 2003). Available online (www.washingtoninstitute.org/templateC07.php?CID=132).

53. Copy of receipt, presented as evidence in *United States v. Mohamad Hammoud*, from author's personal files.

54. Intelligence and Terrorism Information Center at the Center for Special Studies (CSS), "Hizballah (Part I)," June 2003.

example, Hizballah runs the al-Janoub hospital in the southern Lebanese city of Nabatiyah—one of some fifty hospitals the group runs throughout the country. The hospital receives \$100,000 a month from Hizballah, and its director, Ahmad Saad, is a member of Hizballah’s “national health committee.”⁵⁵

According to U.S. intelligence officials, “Hizballah maintains several front companies in sub-Saharan Africa.”⁵⁶ Little information is available on these purported fronts, though they are widely assumed to include import-export companies (an established terrorist modus operandi). These officials say that many Hizballah activists in the tri-border region of South America have relocated to Africa and other locations as a result of the increased attention drawn to Hizballah activity after the group’s role in the 1992 and 1994 truck bombings in Argentina. In an effort “not to have all their eggs in one basket,” one analyst added, some Hizballah operatives have “moved on” from their former locations in South America and Europe and set up shop in Africa, Asia, and less conspicuous parts of South America.⁵⁷

Criminal enterprises. In the United States, law enforcement investigations focus on a variety of Hizballah criminal enterprises suspected of funding Middle Eastern terrorist groups, including the theft and resale of baby formula, food stamp fraud, and scams involving grocery coupons, welfare claims, credit cards, and even unlicensed T-shirt sales. U.S. officials believe “a substantial portion” of the estimated millions of dollars raised by Middle Eastern terrorist groups comes from the \$20–\$30 million annually netted by the illicit scam industry in America.⁵⁸

The most notorious case in North America involves the Charlotte, North Carolina, cell run by

two brothers, Mohammed and Chawki Hamoud. In June 2002, the Hamoud brothers were convicted on a variety of charges including funding the activities of Hizballah from the proceeds of an interstate cigarette smuggling ring. Seven other defendants pleaded guilty to a variety of charges unearthed by this case, including conspiracy to provide material support to terrorists, money laundering, and immigration violations, as well as cigarette smuggling.⁵⁹

Mohammed Hassan Dbouk and his brother-in-law, Ali Adham Amhaz, ran the Canadian portion of this network under the direction of Haj Hasan Hilu Laqis (Hizballah’s chief military procurement officer). Their activities were funded in part with money that Laqis sent from Lebanon, in addition to revenue from their own criminal activities in Canada (e.g., credit card and banking scams).⁶⁰

Among the items these two men purchased in Canada and the United States and smuggled into Lebanon were night-vision goggles, global positioning systems, stun guns, naval equipment, and laser range finders. Canadian Hizballah network members also sought to purchase life insurance policies for Hizballah operatives committing acts of terrorism in the Middle East.⁶¹ According to a wiretapped conversation that Dbouk conducted with another member of his cell, and that was summarized by Canadian intelligence, “Dbouk referred to a person down there [in Southern Lebanon] ... who might in a short period of time go for a ‘walk’ ... and never come back, and [wondered] if Said [the other cell member] could fix some papers and details...for him (person) and put himself (Said) as the reference.”⁶²

Members of the Charlotte cell entered the United States from South America using false documents, entered into sham marriages in Cyprus, and conducted

55. Wilson, “Lebanese Wary of a Rising Hizballah,” December 20, 2004.

56. U.S. intelligence official, interview by author, Washington, D.C., July 2003.

57. *Ibid.*

58. John Mintz and Douglas Farah, “Small Scams Probed for Terror Ties: Muslim-Arab Stores Monitored as Part of post-Sept. 11 Inquiry,” *Washington Post*, August 12, 2002 (accessed at www.washingtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A6565-2002Aug11¬Found=true).

59. *United States v. Mobamad Youssef Hammoud et al.*

60. *Ibid.*; see also Jeffrey Goldberg, “In the Party of God: Hizballah Sets Up Operations in South America and the United States,” *The New Yorker*, October 28, 2002.

61. *United States v. Mobamad Youssef Hammoud et al.*

62. Canadian Secret Intelligence Service (CSIS) transcript, May 26, 1999, from author’s personal files.

their activities under multiple identities. Cell members paid indigent Americans to travel to Cyprus at Hizballah's expense and engage in sham marriages with cell members' real spouses; other prospective cell members were then able to get visas to come to America by virtue of being "married" to an American.⁶³

In South America, Hizballah operatives engage in a wide range of criminal enterprises to raise, transfer, and launder funds in support of their terrorist activities. These enterprises include, among others, mafia-style shakedowns of local Arab communities, sophisticated import-export scams involving traders from India and Hong Kong, and the start-up of small-scale businesses that engage in a few thousand dollars' worth of actual business but transfer tens of thousands of dollars around the globe.⁶⁴ In one case, Paraguayan officials arrested Ali Khalil Mehri for selling millions of dollars in pirated software and funding Hizballah with some of the profits.⁶⁵ The tri-border area in South America is especially important to Hizballah, where the group raises close to \$10 million a year, according to a study produced by the U.S. Naval War College.⁶⁶

According to the Treasury Department, Assad Barakat "threatened TBA [tri-border area] shopkeepers who are sympathetic to Hizballah's cause with having family members in Lebanon placed on a 'Hizballah blacklist' if the shopkeepers did not pay their quota to Hizballah via Barakat."⁶⁷ The Treasury Department notes further that Barakat is reported to be "the deputy to a Hizballah financial director, Ali Kazan, and the primary liaison in the TBA for Hizballah's Spiritual Leader Hussein Fadlallah."⁶⁸ Barakat not only served as a treasurer for Hizballah, he was also "involved in a counterfeiting ring that distributes fake U.S. dollars

and generates cash to fund Hizballah operations" and personally acted as a courier for contributions to Lebanon for Hizballah.⁶⁹ Barakat's personal secretary, Sobhi Mahmoud Fayad, who served as Hizballah's military leader in the tri-border region, has been arrested at least three times since 1999, including once for conducting surveillance activities at the U.S. embassy in Asuncion, Paraguay.⁷⁰

Hizballah's criminal activities in Latin America are not limited to the tri-border area. Chilean officials have identified several import-export companies, located primarily in free-trade zones such as the Iquique zone in northern Chile, that are suspected to be serving as either front organizations or shell companies for Hizballah. These include Kalmiar Ltd., Bahamas Ltd., Las Vegas Nevada Ltd., San Francisco Ltd., Saleh Trading Ltd., Frankfour Ltd., Guarany Ltd., Teen Chile Ltd., and Lucky Crown Ltd.⁷¹

According to Chilean law enforcement officials, "Starting in 1980 Lebanese members of Hizballah have been expanding [the group's] presence in South America and continue developing its network of contacts in the Triple Border area."⁷² In 1994 and 1995, these officials note, Hizballah operatives began visiting Chile "to establish a new operational center for the development of their activities since the authorities of the Triple Border countries initiated greater and more rigorous control with respect to the activities of these foreigners, especially the Lebanese, who according to information provided by international security services are associated with terrorist members of Hizballah."⁷³ According to the U.S. Naval War College report referenced earlier, "U.S. Southern Command estimates that Islamist terrorist groups raise between three hundred

63. *United States v. Mobamad Youssef Hammoud et al.*

64. Goldberg, "In the Party of God," October 28, 2002.

65. Steinitz, "Middle East Terrorist Activity in Latin America," July 2003.

66. Paul D. Taylor (ed.), "Latin American Security Challenges: A Collaborative Inquiry from North and South," Newport Paper 21, Newport Papers (Newport: Naval War College, 2004).

67. Treasury Department, "Treasury Designates Islamic Extremist, Two Companies Supporting Hizballah in Tri-Border Area," press release, June 10, 2004. Available online (www.treas.gov/press/releases/js1720.htm).

68. *Ibid.*

69. *Ibid.*

70. *Ibid.*

71. Chilean Police Intelligence presentation, March 2002 (author's personal files).

72. *Ibid.*

73. *Ibid.*

million and five hundred million dollars per year in the Triple Frontier and the duty-free zones of Iquique, Colon, Maicao, and Margarita Island.”⁷⁴ In the free trade area of Maicao, Colombia, Hizballah is believed to participate in cigarette smuggling and may have operated a clandestine radio station broadcasting the group’s propaganda.⁷⁵

Hizballah members in Venezuela—centered within the large Lebanese expatriate community on Margarita Island—helped several members of the group’s cell in Charlotte, North Carolina, enter the United States through Venezuela in 1992.⁷⁶ In June 2008, the Treasury Department designated two Hizballah operatives in Venezuela, and two travel agencies owned by one of them, for funding and supporting Hizballah. While Hizballah networks in Latin America have been exposed in the past, the first to target a Latin American official involved Ghazi Nasr al-Din, a Venezuelan diplomat who has been posted to Venezuela’s embassies in both Damascus and Lebanon.

According to the Treasury Department, Nasr al-Din “counseled Hizballah donors on fundraising efforts and has provided donors with specific information on bank accounts where the donors’ deposits would go directly to Hizballah.” Undermining the notion that Hizballah has distinct wings, he also met with senior Hizballah officials in Lebanon “to discuss operational issues” and “arranged the travel of Hizballah members to attend a training course in Iran.” Fawzi Kanan, the second Hizballah operative designated by the Treasury Department, is described as “a significant provider of financial support to Hizballah” who “facilitated travel for Hizballah members” and himself traveled to Iran with other Hizballah members for training. This individual too crosses the lines between support, military, and terrorist activity,

having “met with senior Hizballah officials in Lebanon to discuss operational issues, including possible kidnappings and terrorist attacks.”⁷⁷

In raising money, Hizballah also turns to the drug and diamond trades to support its operations. Hizballah benefits both financially and operationally from the Bekaa Valley’s poppy crop, which the group trades to Israeli Arabs for intelligence on Israeli infrastructure issues and placement of Israeli soldiers. 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 one operating out of the Galilee village of Abu Snan, were planning to kidnap Israeli soldiers. In September 2002, an Israeli military court indicted an Israeli lieutenant colonel in the Israeli army, part of a ten-member group, for spying for Hizballah.⁷⁸

Other fundraising tools employed by Hizballah and other terrorist groups include trafficking in narcotics in North America to fund their activities back in the Middle East. A DEA probe into a pseudoephedrine-smuggling scam in the American Midwest led investigators as far afield as Jordan, Yemen, Lebanon, and other Middle Eastern countries, including bank accounts tied to Hizballah and Hamas. DEA chief Asa Hutchinson confirmed that “a significant portion of some of the sales are sent to the Middle East to benefit terrorist organizations.”⁷⁹

Hizballah has reportedly raised significant funds by dealing in so-called “conflict diamonds” in Sierra Leone, Liberia, and Congo.⁸⁰ In his U.S. Senate testimony on the links between conflict diamonds and terrorism, the former U.S. ambassador to Sierra Leone, Joseph Melrose Jr., and the former Sierra Leonean ambassador to the United States, John Leigh, confirmed that diamonds mined in Sierra Leone finance

74. Taylor, “Latin American Security Challenges,” 2004.

75. Steinitz, “Middle East Terrorist Activity in Latin America,” July 2003.

76. *Ibid.*; see also *United States v. Mohamad Youssef Hammoud et al.*

77. Treasury Department, “Treasury Targets Hizballah in Venezuela,” press release, June 18, 2008. Available online (www.treas.gov/press/releases/hp1036.htm).

78. Dina Kraft, “Seven Israeli Arabs Charged with Spying for Lebanese Guerillas,” Associated Press Worldstream, November 29, 2000; James Bennet, “Israeli Bedouin Colonel Is Formally Charged with Spying,” *New York Times*, October 25, 2002.

79. “U.S. Drug Ring Tied to Aid for Hizballah,” *New York Times*, September 3, 2002.

80. Global Witness, “For a Few Dollars More: How al Qaeda Moved into the Diamond Trade,” April 2003. Available online (www.globalwitness.org/media_library_detail.php/109/en/for_a_few_dollars_more).

the activities of terrorist groups such as Hizballah and al-Qaeda.⁸¹ Moreover, a July 2000 Belgian intelligence report stated that “there are indications that certain persons, the ‘Lebanese connection’ mentioned in the diamond smuggling file, also put in an appearance in files on money laundering, the drugs trade and the financing of Lebanese terrorist organisations such as Amal and Hizballah.”⁸² Belgian intelligence reports also tie the Congolese diamond trade to the financing of various terrorist groups including Hizballah.⁸³

Hizballah operatives have been known to run otherwise legitimate business enterprises that function as shell companies or fronts for raising, laundering, and transferring large sums of money. The most egregious such example appears to be the use of Western Union offices by Hizballah operatives. Although Western Union officials have not been complicit in this activity, the company failed to make any real efforts to vet local operators even as its international operations grew exponentially over a few short years, especially in areas of conflict.⁸⁴ According to Israeli officials, Hizballah operatives run several Western Union offices in Lebanon and use the co-opted services of others worldwide, especially in Southeast Asia. In some cases, where the local Western Union agent is a Hizballah member or supporter, experts believe Hizballah gets a cut of the 7 percent service fee to wire money. In other cases, Hizballah simply uses the company to launder and transfer funds. For example, Hizballah funding to Palestinian terrorist groups in the West Bank is almost entirely transferred via Western Union—including some \$3 million in 2003–2004 alone.⁸⁵

Case Study: Hamas Finance

Traditionally, the vast majority of Hamas funds have come from international charities and foundations as well as state sponsorship, primarily from Iran. Hamas

supporters also have been known to engage in small-scale criminal activity. Once Hamas became the governing entity in the Gaza Strip, it gained access to several additional sources of funding, although it appears that this income went to fund the Hamas-led government as opposed to the movement’s own activities. The reliance of the Hamas movement on its traditional sources of funding throughout this period suggests these new sources of funding benefited the movement only peripherally.

Hamas in government. Hamas’s electoral victory in January 2006 altered the group’s status in the West Bank and Gaza Strip, where it initially formed a government without the rival Fatah Party and later headed a national unity government that included Fatah and some independents. Hamas, through this process, was able to begin converting its militia into a government-funded “Executive Force” under the command of the Hamas-led ministry of interior. Then, in June 2007, Hamas seized control of the Gaza Strip in a violent confrontation with Fatah forces.

While Hamas structures such as the Executive Force were banned in the West Bank, they supplanted existing Fatah organizations in the Gaza Strip under Hamas’s de facto leadership. As the governing party in Gaza, Hamas gained access to new sources of funding, including through taxation and customs. These sources, however, provided limited revenue because financially the Hamas regime was quickly isolated from the global financial system owing to its refusal to adhere to principles of nonviolence and to recognize past agreements with Israel as demanded by the Quartet (comprising the UN, EU, Russia, and the United States). Moreover, the revenue that was collected appears primarily to have funded the cost of running the government bureaucracy and the everyday public services for which

81. U.S. Sen. Dick Durbin, “Durbin Hearing Confirms Conflict Diamond-Terrorist Link,” press release, February 13, 2002, see (durbin.senate.gov). The 9-11 Commission examined al-Qaeda’s involvement in diamonds, however, and did not agree with this assessment.

82. Service General du Renseignement et de la Security (Sgr), “Angolan Diamond Smuggling: The Part Played by Belgium” [“Algemene Dienst Inlichting En Veiligheid (Adiv)”], July 2000; also included in Global Witness, “For a Few Dollars More,” April 2003.

83. Douglas Farah, “Digging Up Congo’s Dirty Gems: Officials Say Diamond Trade Funds Radical Islamic Groups,” *Washington Post*, December 30, 2001.

84. Glenn R. Simpson, “Expanding in an Age of Terror, Western Union Faces Scrutiny as Fund-Transfer System Grows in Risky Parts of the World,” *Wall Street Journal*, October 20, 2004.

85. Israeli officials, interview by author, Tel Aviv, May 2004.

Hamas was now responsible, as opposed to the group's own political, charitable, and terrorist activities. That said, money is fungible and Hamas did gain control of several new streams of income, the proceeds of which it was able to dispense at its discretion.

In serving as the ruling government entity, Hamas enjoyed certain clear-cut financial advantages, such as public financing for its Executive Force and salaries for Hamas-affiliated government workers. But there is no evidence that Hamas in government (and under economic siege) was able to accumulate any significant sums of money for itself through new financial streams tied to its status as the governing entity. To the contrary, even as Hamas the government tapped new streams of funding (that still fell short of its needs), Hamas the organization continued to raise funds through traditional methods, including smuggling, state sponsorship, and charitable fronts.

As the governing party, Hamas has been able to enact taxes and customs upon the residents of Gaza and continues to receive funding from Palestinian expatriate supporters.⁸⁶ Perhaps the most publicized taxation by Hamas has been on fuel. The EU halted fuel shipments to Gaza in August 2007 over concern that Hamas was seeking to tax Gazans to fund its government and military arms.⁸⁷ Similarly, the West Bank-based Palestinian Authority repeatedly disrupted the distribution of fuel subsidies following Hamas's attempts to collect value-added tax on the sale of fuel.⁸⁸ Hamas has also begun to impose large taxes on companies operating in the Gaza Strip, in addition to taxing specific commodities, many of which have been smuggled into the area.⁸⁹

Following its election, Hamas began to charge fees

for the registration of vehicles, licenses, and birth certificates.⁹⁰ Hamas also imposed heavy fines for residents' failure to license or register cars in Gaza, a key source of financing for the Hamas government, according to the International Crisis Group.⁹¹ In order to collect customs duties on incoming goods, Hamas created customs offices near several border crossings.⁹² These duties have also been applied to smuggled goods, as Hamas reportedly patrols the network of underground tunnels in Gaza. Failure of smugglers to pay these charges has resulted in the indefinite closure of their respective tunnels.⁹³

Due to Hamas's position in power, the group also gained full control over Gaza's *zakat* (an obligatory 2.5 percent charitable tithe of a Muslim's earning) committees. While some *zakat* committees have long been associated with Hamas (like the al-Salah Society, to be described in detail), they all required government registration and some operated independently of the group. Under the Hamas government, *zakat* funds were channeled into the government budget—technically for funding whatever Hamas deemed necessary.⁹⁴

As the Gaza Strip has been blockaded by Israel since 2007, Hamas has continued to engage in smuggling of goods and weapons to sustain itself financially. This has involved the extensive network of tunnels located underneath Gaza that lead to both Israel and Egypt. According to the International Crisis Group, the number of tunnels rose from fifteen in 2007 to nearly one hundred and twenty in March 2008.⁹⁵ Hamas has controlled these tunnels since shortly after their election in January 2006 and utilizes the network to smuggle militants in and out of Gaza,⁹⁶ as well as smuggling cash,

86. State Department, "Background Information on Foreign Terrorist Organizations." Available online (www.state.gov/s/ct/rls/rpt/fto/2801.htm).

87. *Haaretz* (Tel Aviv), "EU: Fuel Aid for Gaza Hinges on Hamas Vow Not to Tax Electricity," August 20, 2007. Available online (www.haaretz.com/hasen/spages/895426.html).

88. International Crisis Group, "Ruling Palestine I: Gaza Under Hamas," *Middle East Report* 73 (March 19, 2008), p. 3. Available online (www.crisisgroup.org/home/index.cfm?id=5525&l=1).

89. International Crisis Group, "Ruling Palestine I: Gaza Under Hamas," p. 19.

90. Steven Gurkin and Diaa Hadid, "From Cigarette Sales to Smuggled Cash, Hamas Cuts Every Corner to Beat Boycott," *Associated Press Worldstream*, September 30, 2007.

91. International Crisis Group, "Ruling Palestine I: Gaza Under Hamas," p. 17.

92. *Ibid.*

93. *Ibid.*, p. 19.

94. *Ibid.*, p. 18.

95. *Ibid.*, p. 19.

96. Gurkin and Hadid, "From Cigarette Sales to Smuggled Cash," September 30, 2007.

weapons, and commercial goods.⁹⁷ The most “lucrative” item smuggled in has been cigarettes, which has helped Hamas raise revenue for both its organizational activities and for the Gaza government.⁹⁸ In July 2008, Egyptian authorities discovered some twenty underground tunnels, arrested several smugglers, and seized thousands of gallons of fuel being smuggled through tunnels into Gaza. The smugglers were reportedly in the process of laying an eight-hundred-meter underground pipeline to facilitate further illegal fuel shipments into Gaza.⁹⁹

Strapped for money, Hamas leaders have resorted to smuggling cash into Gaza across the Egyptian border on several occasions in an attempt to circumvent the existing sanctions that bar financial transactions with Hamas or the Hamas-led Palestinian government. For example, in May 2006, senior Hamas official Sami Abu Zuhri was caught trying to smuggle \$817,000 into the Gaza Strip.¹⁰⁰ The following month, Hamas’s Mahmoud al-Zahar, then Palestinian foreign minister, brought \$20 million across the border stuffed into twelve suitcases.¹⁰¹ In November 2006 two senior Hamas officials, Mushir al-Masri and Ahmad Bahar, reportedly carried suitcases containing more than \$4 million into Gaza,¹⁰² and a month later the then Palestinian prime minister and senior Hamas official Ismail Haniyeh tried—unsuccessfully—to carry approximately \$35 million acquired from Iran across the border.¹⁰³

Throughout the period that it has controlled the Gaza Strip, Hamas has continued to raise funds for its West Bank and Gaza activities through its network of social welfare and charitable organizations. In July 2008, Israel outlawed thirty-six NGOs in the West Bank, charging them with raising funds for Hamas.

According to Israeli government data, nearly \$120 million was transferred to the West Bank and Gaza in 2007 “to finance the activities of terrorist organizations in these areas.”¹⁰⁴ It is estimated that foreign donations—by individuals and governments—account for most of Hamas’s revenue, funding not just the Gazan government, but also the military and organizational aspects of the movement.¹⁰⁵

A large portion of Hamas’s funding from foreign governments has historically come from Iran; this has continued as Hamas governs the Gaza Strip. In March 2007, Khaled Mashal, a Hamas political leader, visited Iran and stated that Iran had been providing financial support for Hamas since it took office in 2006. Mashal indicated that funding from Iran would continue, although he did not provide any specific amount.¹⁰⁶ Iran’s financial support of Hamas is illustrative of the movement’s continued reliance on tried and true methods.

Local charities. Hamas conceals many of its activities behind charitable, social, and political organizations. Hamas’s infrastructure of social-welfare institutions, the backbone of its proselytizing efforts (*dawa*), generates both popular support for the organization and logistical support for its terrorist attacks.

Consider the case of the al-Salah Society, one of the largest Hamas charities in the Gaza Strip, designated by the Treasury Department as a terrorist entity in August 2007, along with its director, the well-known Hamas activist Ahmed al-Kurd. Outlawed by Israel since 2002 and temporarily shut down by Palestinian security services in 2003, the society was hindered by the U.S. designation, which criminalized American donations to

97. Lawahez Jabari, “As Hamas’ Power Grows, Life for Gazans Worsens,” *Around the World*, NBC, June 13, 2008. Available online (<http://worldblog.msnbc.msn.com/archive/2008/06/13/1138804.aspx>).

98. Gutkin and Hadid, “From Cigarette Sales to Smuggled Cash,” September 30, 2007.

99. *Haaretz*, “Egypt Seizes Huge Amount of Fuel from 20 Gaza Tunnels,” August 7, 2008.

100. Steven Erlanger, “Hamas Spokesman Is Caught Smuggling Cash into Gaza,” *New York Times*, May 19, 2006. Available online (www.nytimes.com/2006/05/20/world/middleeast/20mideast.html).

101. Herb Keinon, “Analysis: Stopping the Hamas Money Flow,” *Jerusalem Post*, December 15, 2006.

102. Reuters, “Hamas MPs Cross Egypt to Gaza with More than \$4 M[illion],” November 15, 2006.

103. Keinon, “Analysis: Stopping the Hamas Money Flow,” December 15, 2006.

104. Amos Harel, “Barak Outlaws 36 NGOs for Hamas Fundraising,” *Haaretz*, June 7, 2008.

105. International Crisis Group, “Ruling Palestine I,” p. 18.

106. al-Jazeera (Qatar), “Hamas Secures More Iranian Funding,” March 8, 2007. Available online (<http://english.aljazeera.net/news/middleeast/2007/03/2008525122240439340.html>).

the organization. In addition, the United States notified foreign banks and donors of the organization's ties to, and activities on behalf of, Hamas.

Founded in the late 1970s, the al-Salah Society was a key pillar of the Palestinian wing of the Muslim Brotherhood under Hamas founders such as Sheikh Ahmed Yassin and Ismail Abu Shanab. In December 1987, when Hamas was officially founded in response to the onset of the first intifada, al-Salah and other Muslim Brotherhood institutions served as the foundations upon which Brotherhood leaders built Hamas. Indeed, Shanab identified the al-Salah Society as "one of the three Islamic charities that form Hamas's welfare arm."¹⁰⁷

But al-Salah also played a role in Hamas's efforts to militarize the Palestinian uprising. According to the Treasury Department, "The al-Salah Society supported Hamas-affiliated combatants during the first intifada and recruited and indoctrinated youth to support Hamas's activities. It also financed commercial stores, kindergartens, and the purchase of land for Hamas." Al-Salah director Ahmed al-Kurd, a longtime Hamas activist, served as a Hamas Shura Council member in Gaza during the first intifada.¹⁰⁸

Al-Salah's recruitment and indoctrination of Palestinian youth is typical of Hamas, which uses its charity committees, mosque classes, student unions, sports clubs, and other organizations as places for Hamas recruiters to spot susceptible youth. According to an example cited by the FBI, Ahmed Saltana, a Hamas bomb maker affiliated with the Jenin Charity Committee, recruited young men working for the charity committee into Hamas.¹⁰⁹ Recognizing this phenomenon,

a senior U.S. official noted that, at a minimum, funding any part of Hamas enhances the group's credibility and provides it with "the opportunity to recruit people through its charitable activities."¹¹⁰ An example of one such breeding ground is the soccer team of the Jihad Mosque in Hebron. This single team produced several Hamas terrorists responsible for a string of attacks conducted over the first six months of 2003, five of which were suicide bombings executed by team members. The team's shirt bore a picture of a hand holding an axe with the inscription "Prepare for the enemy and to fight the occupation."¹¹¹

Organizations affiliated with Hamas's overt political and social activities frequently provide the group with a veneer of legitimacy and its operatives with day jobs, salaries, and meeting places. For example, documents seized from the offices of the Islamic Relief Agency (IRA) revealed the charity had been paying the salaries of ten West Bank Hamas activists.¹¹² The FBI has cited several other examples, including that of Fadel Muhammad Salah Hamdan of the Ramallah Charity Committee, who was "directly connected with the planning of suicide attacks and the spiritual preparation of those about to commit suicide attacks, including the Mahane Yehuda attack in July 1997."¹¹³

Several branch offices of the al-Salah Society also employed Hamas operatives, including members of the Izz al-Din al-Qassam Brigades, the group's military wing. According to press reports, the al-Salah office in el-Bireh was run by a "senior Hamas militant who recruited a suicide bomber who killed 11 people in Jerusalem."¹¹⁴ According to the Palestine Center

107. Treasury Department, "Treasury Designates al-Salah Society Key Support Node for Hamas," press release, August 7, 2007. Available online (www.treas.gov/press/releases/hp531.htm).

108. Ibid.

109. Dale L. Watson, assistant director for counterterrorism, FBI, "Holy Land Foundation for Relief and Development, International Emergency Economic Powers Act, Action Memorandum," transmitted to R. Richard Newcomb, director of the Office of Foreign Assets Control, Treasury Department, November 5, 2001.

110. U.S. House of Representatives, subcommittee on Oversight and Investigation (Financial Services Committee), "The Hamas Asset Freeze and Other Government Efforts to Stop Terrorist Funding," September 24, 2003. Available online (http://commdocs.house.gov/committees/bank/hba92334.000/hba92334_0.htm).

111. Inigo Gilmore, "Mosque Football Team Was Paleo Terrorists' Cover," *National Review*, August 6, 2003. Available online (<http://rantburg.com:8080/poparticle.php?ID=15319&D=2003-06-10&SO=&HC=1>).

112. Watson, "Holy Land Foundation for Relief and Development," November 5, 2001.

113. Ibid.

114. "Operation for the confiscation of terror funds-Background", Israel Ministry of Foreign Affairs, February 26, 2004. Available online (www.mfa.gov.il/MFA/Terrorism+Obstacle+to+Peace/Terrorism+and+Islamic+Fundamentalism-/Security+forces+seize+terrorist+funds+-+Background.htm).

for Human Rights, Israeli forces demolished al-Kurd's house in 2004 after finding it was linked to a smuggling tunnel.¹¹⁵ The Treasury Department provided more examples:

- In late 2002, an official of the al-Salah Society in Gaza also served as the principal leader of a Hamas military wing structure in the al-Maghazi refugee camp in Gaza.
- The founder and former director of the al-Salah Society's al-Maghazi branch reportedly also operated as a member of the Hamas military wing in al-Maghazi, participated in weapons deals, and served as a liaison to the rest of the Hamas structure in al-Maghazi.
- At least four other Hamas military wing members in the al-Maghazi refugee camp in Gaza have been tied to the al-Salah Society.

While the al-Salah Society once launched a local fund-raising campaign in Gaza (in response to its closure by the PA), the majority of its funds are raised abroad. According to the Treasury Department, "The al-Salah Society has received substantial funding from Persian Gulf countries, including at least hundreds of thousands of dollars from Kuwaiti donors." Al-Salah also received funding from the Holy Land Foundation in Texas.

To be sure, charity committees are Hamas's most effective tool for building grassroots support, radicalizing and recruiting future activists, providing logistical support for terrorist operations and day jobs for operatives, and funding the group's various activities. Ismail Abu Shanab, who once said that "of course Salah and other Islamic foundations are identified with us

[Hamas]," has also noted that Hamas-associated charities are not intended to produce immediate benefits but rather to perpetuate a culture of militancy and violence against Israel.¹¹⁶ In 2001, Shanab explained, "If nobody supports these needy families [of Palestinian 'martyrs' and prisoners], maybe nobody would think of martyrdom and the resistance of occupation."¹¹⁷ In 2002, he explained, "We see [humanitarian work] as a means of extending the life span of the intifada."¹¹⁸

Hamas aid buys the support of those who benefit from the group's largesse. Sheikh Ahmed Yassin himself proudly noted, "We don't go looking for people, they come to us." Citing one of the many instances of people won over by Hamas's financial support, Yassin talked of a family of ten living in one room: "We gave them 1,200 shekels (\$300). Sometimes it's a sack of flour, or at the very least the taxi fare home" from visiting Yassin.¹¹⁹ As this mother of ten children and a recipient of Hamas aid told a reporter, "All we know is they [Hamas] are the ones who bring us food."¹²⁰

Hamas-associated charity organizations function as ideal money-laundering mechanisms as well. Jamal Tawil, a Hamas military commander in Ramallah, readily acknowledged founding the al-Islah charity as a purportedly legitimate front through whose accounts he could launder the monthly fund transfers he received from Hamas. A report produced by the PA general intelligence service in Gaza in late 2000 notes that several Hamas leaders—not just Tawil—made a strategic decision to transfer to the Qassam Brigades charitable funds originally earmarked for social services. Another Palestinian intelligence report dated December 10, 2000, notes that Hamas officials decided that charitable donations "will not be sent to the PA, but deposited in the accounts of Usama Hamdan [the Hamas representative in Lebanon] and Khaled Mishal

115. "Israeli Troops Continue their Attacks in the OPTs", Weekly Report: On Israeli Human Rights Violations in the Occupied Palestinian Territories, No. 35/2004, Palestinian Centre for Human Rights, September 2-8, 2004. Available online (www.pchrgaza.org/files/W_report/English/2004/09-09-2004.htm).

116. Ferry Biedermann, "In Gaza, Blame Turns toward Arafat," Salon Media Group, July 19, 2002. Available online (<http://archive.salon.com/news/feature/2002/07/19/gaza/print.html>).

117. Joe Stork, *Erased in a Moment: Suicide Bombing Attacks against Israeli Civilians* (New York: Human Rights Watch, 2002), p. 103.

118. Biedermann, "In Gaza," July 19, 2002.

119. Levitt quoting Agence France-Presse, Aug. 15, 2001, in "Hamas: From Cradle to Grave," *Middle East Quarterly* (Winter 2004).

120. Jamie Tarabay, "Islamic Militants Gain Influence," Associated Press, March 2, 2001.

[secretary general of Hamas].” Part of these funds, the report made clear, “will be allocated to support the Hamas military arm ‘inside’ [the West Bank and Gaza Strip].”¹²¹

Foreign NGOs. Most often, the funds laundered through local Hamas institutions are raised through foreign charities and foundations, as in the case of the Holy Land Foundation funding for the al-Salah Society. An Israeli analysis breaks down into categories the foreign charitable funds and foundations that finance Hamas. The first category includes those fronts directly tied to Hamas. These typically employ Hamas activists, are established with the assistance of the Hamas political leadership, and see the vast majority of their funds dispensed to Hamas charities in the West Bank and Gaza. Such charities bring in an estimated \$15–\$20 million a year and include the Palestinian Relief and Development Fund (Interpal) and the al-Aqsa International Foundation, among others. The second category includes fronts that support radical Islamist elements generally but are not Hamas specific. A majority of these fronts are based in Persian Gulf states and most of the funds they send to the West Bank and Gaza are also channeled through Hamas organizations there.¹²²

Of the various means terrorist groups use to raise funds, holding fundraisers and soliciting charitable donations are among the most successful. Some donors know they are funding terrorism, while others believe they are supporting legitimate organizations that merely tend to the humanitarian needs of the poor. Whatever donors’ motivations, abuse of the collection of *zakat* is an effective way to raise and launder money

for use by Islamist militant organizations. According to a report authored by a research associate at an Islamist think tank in Virginia identified by the U.S. government as tied to Hamas, “[P]ro-Hamas Islamists, in coordination with the [Muslim] Brethren, collect *zakat* via local committees.” Charity work, according to the report, “is conducted in cooperation with other Islamic centers sympathetic to Hamas.” As a U.S. government analysis of Hamas concluded, “[C]haritable donations to nongovernmental organizations are commingled, moved between charities in ways that hide the money trail, and then often diverted or siphoned to support terrorism.”¹²³

Consider the case of Interpal, based in London. On August 22, 2003, the Treasury Department added the group and several other Hamas charities in Austria, France, Switzerland, and Lebanon to its terrorism list.¹²⁴ The others were the Comité de Bienfaisance et de Secours aux Palestiniens in France, the Association de Secours Palestinien in Switzerland, the Palestinian Association in Austria, and the now-defunct Sanabil Association for Relief and Development in Lebanon. The ties between Interpal and Hamas front organizations in the West Bank, Gaza, and Israel have been established not only through receipts found in Hamas charities, but also via telephone intercepts introduced in the case of Sheikh Raed Salah, an Israeli Arab leader charged with funneling money to Hamas. Transcripts reveal that Salah communicated extensively with Interpal officials while laundering and funneling money received from Interpal through charities to Hamas institutions in the West Bank and Gaza.¹²⁵ Further evidence was culled in January 2003, when the head of

121. Information on the first report comes from an Israeli PowerPoint presentation based on the interrogation of Jamal Tawil and, in particular, the slide “Financing the Terror Cells from ‘Daawa’ Funds” (author’s personal files). The second report comes from Israel Defense Forces (military intelligence), “Iran and Syria as Strategic Support for Palestinian Terrorism” (available online at www.mfa.gov.il/MFA/MFAArchive/2000_2009/2002/9/Iran%20and%20Syria%20as%20Strategic%20Support%20for%20Palestina).

122. Intelligence and Terrorism Information Center at the Center for Special Studies (CSS), *Interpal—Part I Synopsis*, Special Information Bulletin, December 2004. Available online (www.terrorism-info.org.il/malam_multimedia/english/marketing%20terrorism/pdf/dec12a_04.pdf)

123. Ahmad Rashad, “The Truth about Hamas,” Middle East Information Center, June 7, 2003; available online (www.middleeastinfo.net/article2822.html). Rashad is a research associate with the United Association for Studies and Research and is also affiliated with the Islamic Association for Palestine, both of which U.S. authorities have tied to Hamas; U.S. government analysis was culled from the Treasury Department, “U.S. Designates Five Charities Funding Hamas and Six Senior Hamas Leaders as Terrorist Entities,” press release, August 22, 2003; available online (www.ustreas.gov/press/releases/js672.htm).

124. Treasury Department, “U.S. Designates Five Charities Funding Hamas” August 22, 2003.

125. For Treasury Department designations, see *ibid.*; for telephone intercepts, see Gideon Maron and Yuval Karni, “The Secret Intercepts of Sheikh Salah” (in Hebrew), *Yediot Aharonot* (Tel Aviv), August 29, 2003.

the Yemeni office of the al-Aqsa International Foundation, Sheikh Mohammad Ali Hassan al-Moayad, was arrested in Germany. The al-Aqsa International Foundation is another Hamas-associated foreign charity that has been the target of government action in the United States, Israel, and several European countries and that works closely with Interpol. According to court documents filed in support of al-Moayad's arrest warrant, he offered an FBI informant a receipt showing that he had transferred \$70,000 to Interpol as proof of his ability "to get money to the jihad." Al-Moayad also told FBI informants he had provided \$3.5 million to Hamas and \$20 million to al-Qaeda.¹²⁶

State sponsorship. As early as 1994, Palestinian scholar Ziad Abu Amr noted, "The widespread belief is that Hamas has received money [from] the governments of Saudi Arabia and some Gulf states," adding that such support is believed to have continued after the 1991 Gulf War to punish the Palestine Liberation Organization (PLO) for supporting Iraq after its invasion of Kuwait.¹²⁷ Indeed, as of 2005 the Hamas financial committee overseeing the group's overall financial flows was reportedly operating out of Jeddah, Saudi Arabia.¹²⁸ More recently, in the wake of crackdowns on charitable financial flows exiting the kingdom, Qatar has cited the humanitarian crisis caused by the international financial isolation of Hamas in Gaza to justify its support for the group. Qatar pledged to donate \$50 million to the PA after the United States and EU discontinued their support following Hamas's victory in the January 2006 legislative elections. The official Qatar News Agency claimed that this sum would be

provided in fulfillment of an agreement reached at the Arab summit in Khartoum in March 2006, and was meant to help "bolster the budget of the PA."¹²⁹ In early 2008, however, a senior aide to Palestinian president Mahmoud Abbas stated that Qatar gives Hamas "millions of dollars a month," some of which may be used to purchase weapons.¹³⁰

While Syria provides Palestinian groups with safe haven, including headquarters offices and training camps, the majority of these groups' financial and other logistical support comes from Iran.¹³¹ This connection is exemplified in the case of Hassan Salamah, the Hamas commander who masterminded the string of suicide bus bombings carried out in February and March 1996. Both in his statements to the Israeli police and an interview on CBS's *60 Minutes*, Salamah noted that after undergoing ideological indoctrination training in Sudan he was sent to Syria and from there transported on an Iranian aircraft to a base near Tehran. Osama Hamdan, Hamas's representative to Iran at the time, met Salamah in Tehran, after which Salamah underwent three months of military training under the guidance of Iranian trainers. With the help of a translator (Salamah did not speak Farsi and his trainers did not speak Arabic well), Salamah was trained to use explosives, automatic weapons, hand grenades, and shoulder-fired missiles, as well as learning ambush techniques, how to deactivate land mines and extract their explosive material, and how to build trigger mechanisms for bombs.¹³²

Iran has provided substantial aid to Hamas in the form of both weaponry and money. Fragments of missiles fired by Hamas have been traced back to Iran.¹³³

126. For more on Moayad and the FBI informant, see *United States v. Mohammed Ali Hasan al-Moayad*, M-03-0016 Affidavit in Support of Arrest Warrant, U.S. District Court, Eastern District of New York, January 5, 2003;

127. Ziad Abu-Amr, *Islamic Fundamentalism in the West Bank and Gaza* (Bloomington: Indiana University Press, 1994), p. 88.

128. Matthew Levitt, "A Hamas Headquarters in Saudi Arabia?" *PeaceWatch* no. 521 (Washington Institute for Near East Policy, September 28, 2005). Available online (www.washingtoninstitute.org/templateC05.php?CID=2378).

129. "Qatar Pledges \$50 Million to Palestinians," Associated Press Online, April 17, 2006.

130. Nicholas Kravet, "Qatar Seen as Bankrolling Hamas; Charges Fly as Rice Visit for Peace Stalls," *Washington Times*, March 5, 2008. See also "Iran and Qatar Promise \$50 Million Apiece in Aid for Palestinian Government," *New York Times*, April 17, 2006; available online (www.nytimes.com/2006/04/17/world/17cnd-iran.html).

131. Hamas has also received financial support from Sudan, Yemen, Qatar, Saudi Arabia, and Lebanon. See Matthew Levitt, *Hamas: Politics, Charity and Terrorism in the Service of Jihad* (New Haven: Yale University Press, 2006).

132. *60 Minutes*, "Suicide Bomber: The Planning of the Bloodiest Suicide Bombing Campaign in Israel's History," CBS News, transcript, October 5, 1997.

133. Amy Teibel, "Iranian Aid Seen Growing among Militants on Israel's Flanks," *USA Today*, May 27, 2008. Available online (www.usatoday.com/news/world/2008-05-27-3117826281_x.htm).

According to public accounts, “Tehran is thought to have pledged at least \$300 million to Hamas, but it is not clear how much money has been delivered. Israeli security officials cite different numbers, ranging to tens of millions of dollars.”¹³⁴ The aid seems to have increased markedly since the fall of Saddam Hussein’s government in Iraq and still more with the rise of Hamas as the governing entity in the Gaza Strip.¹³⁵ In addition to providing financial support, Iran has been training members of the Hamas military wing in sniping and other technical capabilities. Iranian trainers reportedly have taught Hamas bomb makers how to use household items and everyday materials to fashion explosives for its homemade mortars and Qassam rockets.¹³⁶ Additionally, Grad-type Katushya rockets bearing Iranian serial numbers, Farsi lettering, and Iranian paint have been spotted in the Gaza Strip.¹³⁷ Iranian engineers reportedly have designed and manufactured a version of the Grad rocket that disassembles into several pieces so that it is easier to transport through the underground system of smuggling tunnels between Egypt and Gaza.¹³⁸

According to Ziad Abu Amr, the Palestinian scholar, Iran “provides logistical support to Hamas and military training to its members.”¹³⁹ And according to Canadian intelligence, “Hamas has training camps in Iran, Lebanon, and Sudan” and the camps in Lebanon “are said to be under Iranian supervision.”¹⁴⁰ The Canadians further have revealed that “in February 1999, it was reported that Palestinian police had discovered documents that attest to the transfer of \$35 million to Hamas from the Iranian intelligence service, money reportedly meant to finance terrorist activities against Israeli targets.”¹⁴¹ Iranian financing

is largely operational in nature, not part of the group’s *dawa* infrastructure. According to a December 2000 Palestinian intelligence report confiscated by Israeli authorities, Iran had transferred \$400,000 directly to Hamas’s Qassam Brigades specifically to support “the Hamas military arm in Israel and [encourage] suicide operations,” and another \$700,000 to Islamic organizations opposed to the PA.¹⁴² A confiscated Palestinian document describes a May 19, 2000, meeting between the Iranian ambassador and Hamas, PIJ, and Hizballah at the Iranian embassy in Damascus. According to the report, “During the meeting the Iranian ambassador demanded that the abovementioned persons carry out military operations in Palestine without taking responsibility for these operations.”¹⁴³

Criminal activity. According to the FBI,

[I]nvestigations have uncovered a myriad of criminal activities used to generate funds, a portion of which is then forwarded to NGOs associated with Hamas. Some examples include, but are not limited to, drug trafficking, credit card fraud, counterfeit products, fraudulent documents, cigarette tax fraud and stolen infant formula.”

A DEA investigation into a pseudoephedrine-smuggling scam in the American Midwest led investigators across the Middle East and to bank accounts tied to Hizballah and Hamas. In November 2003, a U.S. General Accounting Office report indicated that the Bureau of Alcohol, Tobacco, Firearms, and Explosives had found that “Hizballah, Hamas, and al-Qaeda have earned assets through trafficking in contraband cigarettes or counterfeit tax stamps.”¹⁴⁴

134. Ibid.

135. Ibid.; Israeli security officials, interview by author, March 2008.

136. Marie Colvin, “Iran Arming and Training Hamas Force,” *Sunday Times* (London), March 9, 2008.

137. Teibel, “Iranian Aid Seen Growing,” May 27, 2008.

138. Israeli security officials, interview by author, March 2008.

139. Abu-Amr, *Islamic Fundamentalism in the West Bank and Gaza*, p. 88.

140. Canadian Secret Intelligence Service (CSIS), “Terrorist Group Profiler,” June 2002 (author’s personal files); see also Stewart Bell, “Hamas May Have Chemical Weapons: CSIS Report Says Terror Group May Be Experimenting,” *National Post* (Canada), December 10, 2003.

141. CSIS, “Terrorist Group Profiler,” June 2002; see also Bell, “Hamas May Have Chemical Weapons,” December 10, 2003.

142. Intelligence and Terrorism Information Center at the Center for Special Studies (CSS), “Iran as a State Sponsoring and Operating Terror,” *Special Information Bulletin* (Israel: CSIS, April 2003). Available online (www.terrorism-info.org.il/malam_multimedia/english/iran/pdf/apr_03.pdf).

143. Intelligence and Terrorism Information Center at the Center for Special Studies, “Iran as a State Sponsoring and Operating Terror,” April 2003.

144. John Pistole, testimony regarding “The Terrorist Financing Operations Section,” is available online (www.corprisk.com/publications/press-releases/).

Another funding source for Hamas and other groups is the proceeds from pirated multimedia. Copying intellectual property brings in millions of dollars a year from “royalties” collected from criminals engaged in the counterfeit multimedia business. Hamas, Fatah, and even senior members of the PA are suspected of participating in such activities in the West Bank and Gaza. In the United States, law enforcement officials are currently investigating a variety of criminal enterprises suspected of funding Middle East terrorist groups, including through the theft and resale of baby formula, food stamp fraud, and scams involving grocery coupons, welfare claims, credit cards, and even unlicensed T-shirts. Hamas activists are also suspected of engaging in credit card fraud to fund their activities. In October 2005, a man described as “a suspected Palestinian supporter of Middle Eastern terrorist groups” posted credit card numbers online with instructions on how to steal active credit card numbers from American businesses’ databases.¹⁴⁵

In January 2004, agents from the Bureau of Immigration and Customs Enforcement and the Los Angeles Joint Terrorism Task Force arrested a group of Jordanians involved in a scheme to sell adulterated cooking oil. According to the Department of Homeland Security, Hussam Ahmad Khalil “gained substantial profit from this venture and has sent \$30,000–\$40,000 per month to the Middle East. Khalil, who is believed to be a member of Hamas (a designated foreign terrorist organization), is also suspected of involvement in wire fraud, trademark violations, alien smuggling, harboring of illegal aliens, narcotics smuggling, and visa fraud.”¹⁴⁶

Funding under economic siege. Charitable funding streams and local criminal activity related to smuggling tunnels explain how Hamas was able to take over the Gaza Strip by force, pay workers’ salaries, procure weapons, manufacture rockets, rent cross-border smuggling tunnels from local crime families, bribe opponents, print leaflets and banners, and produce mass media propaganda—all while under a severe international sanctions regime.

The secret to Hamas’s ability to fund itself even under “economic siege” lies in—or rather under—Rafah. Operated primarily by Gaza clans more interested in profit than ideology, the smuggling tunnels under the Rafah border with Egypt run between houses on either side of the border to conceal their points of entry and can be dug as deep as thirty meters below the ground to avoid sonar detection.¹⁴⁷ The tunnels include air ducts, electricity, and lighting, and in some cases accommodate rails and wagons to facilitate smuggling of large and heavy objects. Even when the tunnels’ mouths are found and cemented shut, their middle stretches remain intact and new openings are dug to connect with these existing corridors.¹⁴⁸ For a few thousand dollars, groups like Hamas rent tunnels for a night or more and smuggle in light arms, ammunition, rocket-propelled grenades, personnel, cash, and more. According to Yazeed Khader, a Hamas newspaper editor, Hamas learned techniques from Hizballah—which smuggled weapons into Lebanon through a network of tunnels before its war with Israel in July 2006—and did the same leading up to the fight with Fatah that “we always knew was coming.”¹⁴⁹

testimony/9-24-03%20The%20Terrorist%20Financing%20Operations%20Seciton%20-%20Given%20by%20John%20S.%20Pistole.pdf); for Hutchinson, see “U.S. Drug Ring Tied to Aid for Hizballah,” *New York Times*, September 3, 2002; for the U.S. General Accounting Office (GAO) Report to Congressional Requesters, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Financing Mechanisms* (Washington, D.C.: GAO, November 2003), see www.gao.gov/new.items/d04163.pdf.

145. Amir Buchbot, “Forgeries in the Service of Terror” (in Hebrew), *Maariv* (Tel Aviv), August 14, 2002; Mintz and Farah, “Small Scams Probed for Terror Ties,” August 12, 2002; Jon Swartz, “Terrorists’ Use of Internet Spreads,” *USA Today*, February 21, 2005 (available online at www.usatoday.com/money/industries/technology/2005-02-20-cyber-terror-usat_x.htm).

146. Homeland Security Department, “Homeland Security Operations Morning Brief,” January 11, 2005. Available online (<http://cryptome.org/hsomb/hsomb.htm>).

147. Uri Halperin, interview by author, November 16, 2004.

148. Jonathan Schanzer, “Tunnel Vision: Bad Things Are Happening Underground in the Gaza Strip,” *Weekly Standard Online*, August 14, 2003. Available online (www.weeklystandard.com/Content/Public/Articles/000/000/002/994qvpoj.asp).

149. Mark Mackinnon, “Siege Was Months in the Making,” *Globe and Mail* (Toronto), June 15, 2007. Available online (www.theglobeandmail.com/servlet/Page/document/v5/content/subscribe?user_URL=http://www.theglobeandmail.com%2Fstory%2Fstory%2F20070615.GAZATICKTOCK15%2Fstory%2FInternational&ord=7777379&brand=theglobeandmail&force_login=true).

The tunnels explain how Hamas covertly procured weapons and other materials, but the more disturbing reality is that the movement was able to pay for these and other activities despite the sanctions regime against it. Hamas's success was achieved through a variety of means, including by leveraging its overt political and charitable wings in a textbook example of the seamless cooperation between the movement's military, political, and charitable functions.

The Hamas Political Bureau, headquartered in Damascus under the leadership of Khaled Mashal and Mousa Abu Marzook, has long played a hands-on role in raising funds for operations and equipping militants on the ground in the West Bank and Gaza Strip. This is thanks largely in recent months to Iranian largesse. Hamas leaders in Damascus have run operations smuggling weapons overland into the West Bank from Jordan, by sea in waterproof barrels dropped off the Gaza coast by ships launched from Syria and Lebanon, and underground through the Rafah tunnels. According to Israeli authorities, Izzadin Sheikh Khalil, a senior Hamas operative who worked out of Damascus until he was killed in an explosion there in September 2004, was responsible for weapons smuggling operations via the Rafah tunnels.¹⁵⁰

Perhaps most disturbing of all, because of its overt nature, is the funding Hamas continues to receive through its charitable and social welfare wing despite being designated a terrorist group by the United States and the EU and in the face of the international sanctions regime targeting the movement. Long known

for muddying the waters between its political, charitable, and militant activities, Hamas has successfully transferred funds into the West Bank and Gaza Strip through its charity committees and social service organizations despite being up against the international sanctions. Mixing its funds across its various subgroups and then applying those fungible monies to the political, charitable, or military needs of the moment, Hamas funds its Executive Force militia and Qassam Brigades terror cells under a veil of political and humanitarian legitimacy.

Indeed, while Hamas leaders periodically have smuggled in suitcases of cash to pay the salaries of its non-Hamas government employees, its internal mechanisms for funding the activities of Hamas the movement (versus Hamas the government) have continued at full pace. For example, in June 2007 Israeli authorities indicted four members of the A-Ram Charity Committee north of Jerusalem on charges of funding Hamas. The funds were received from the Charity Coalition (a.k.a. Union of Good), described as a Saudi-based umbrella organization for groups funding Hamas. According to the indictment, 1 million Israeli shekels (around \$237,000) were transferred over a period of a year.¹⁵¹ The previous month, Israeli forces raided a series of charities across the West Bank on the suspicion that they were funding Hamas and Islamic Jihad.¹⁵² Yazeed Khader, the Hamas newspaper editor, credited Hamas's International Muslim Brotherhood supporters for "never being stingy" in their support for Hamas, the Palestinian wing of the Brotherhood.¹⁵³

150. Treasury Department, "U.S. Designates Five Charities Funding Hamas," August 22, 2003.

151. Aviram Zino, "Millions of Shekels Transferred from Saudi to Hamas," *Ynet*, June 18, 2007. Available online (www.ynetnews.com/articles/0,7340,L-3414614,00.html).

152. "IDF Raids W[est] B[ank] Charities," Maan News Agency, May 23, 2007 (database).

153. Mackinnon, "Siege Was Months in the Making," June 15, 2007.

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