

PolicyWatch #1280

## Grading U.S. Performance against Terrorism Financing

By [Michael Jacobson](#)

September 5, 2007

In December 2005, the 9-11 Commission's Public Discourse Project issued its final report card on the U.S. government's progress in the war on terror. Overall, the grades were dismal except for the "A-minus" awarded to the efforts against terrorism financing. Nearly two years later, and six years after the September 11 attacks, these efforts remain one of the few areas of government success, though serious challenges have emerged.

### **An Effective Multifaceted Strategy**

Washington has used an aggressive, multifaceted strategy to tackle terrorism financing. Since September 11, the Treasury Department has frozen the assets of financiers and support networks and publicly designated approximately four hundred individuals and entities as terrorists. These designees hail from a wide range of terrorist groups, most notably Hizballah, Hamas, Palestinian Islamic Jihad, and al-Qaeda and its affiliates. Meanwhile, the Justice Department has used the "material support" statute to prosecute numerous individuals and entities for funding terrorist organizations.

As the 9-11 Commission recommended in its final report, the United States has also engaged in "vigorous efforts to track terrorism financing." Treasury undersecretary Stuart Levey noted that "counterterrorism officials place a heavy premium on financial intelligence," and that "following the money" is one of the most valuable sources of information -- in part because "money trails don't lie."

According to Treasury officials, financial intelligence played an important role in the investigation that led to the capture of Riduan Isamudin (a.k.a. Hambali), Jemaah Islamiya's operations chief and mastermind of the 2002 Bali bombings. And according to the FBI, four different terrorist attacks have been disrupted based in part on investigations into the financial activities of terrorism supporters in the United States. The focus on financing has also paid broader dividends. In a letter intercepted by the government in late 2005, al-Qaeda deputy Ayman al-Zawahiri asked Abu Musab al-Zarqawi for \$100,000, noting that "many of the lines [of support] have been cut off." Indeed, as former CIA deputy director John McLaughlin testified, the government's success in this area is attributable to the "relentless grinding away at other essential components of the terrorist networks -- the couriers, the facilitators, the fundraisers, the safe house keepers, the technicians."

### **Waning International Support**

Continued success against terrorism financing, however, is far from guaranteed. One key reason is that there are limits to what the United States can accomplish unilaterally. As a recent National Intelligence Estimate noted, international cooperation is likely to wane as September 11 grows more distant.

The UN, the organization best positioned to facilitate worldwide counterterrorism capabilities, has seen its role greatly diminished over the past several years. For the first several years after the September 11 attacks, the UN was at the center of the fight against al-Qaeda, maintaining a robust terrorist blacklist and passing resolutions requiring countries to improve their capabilities to combat terrorism financing. Since early 2004,

this effort has been seriously undermined: the independent group responsible for monitoring compliance was replaced by a team with far less autonomy; the pace of terrorist designations has slowed; and countries have tired of the UN's reporting requirements.

A recent *Wall Street Journal* article illustrated the challenges facing the UN. In November 2001, the UN designated Saudi businessman Yasin al-Qadi as a terrorist for his ties to al-Qaeda. In 2006, Turkish prime minister, Recep Tayyip Erdogan took issue with the designation and stated that al-Qadi was a "charitable person" without terrorist ties. Erdogan's spokesman went further, arguing that "being mentioned on this list does not mean that these persons are guilty." He implied that member states should not be forced to take UN-mandated action against individuals who have not been "granted any right to defend themselves" against such designations.

These statements are troubling because they ignore the established process through which individuals can be removed from the terrorist list. Delisting can occur for a variety of reasons -- in fact, even committed jihadists can be removed if they demonstrate that they no longer support that cause. For example, Shadi Abdullah, a former jihadist who testified against Mounir al-Mutassadeq and Abdulghani Mzoudi -- two associates of the "Hamburg cell" -- was removed from the blacklist in December 2004.

Although Persian Gulf countries have taken some steps, the region is still an important source of funds for terrorists. In a March 2007 report, the State Department urged the Saudi government to establish a commission to supervise its charitable sector and to subject international charities to the same oversight as domestic ones. Treasury Secretary Henry Paulson added recently that despite being "very effective at dealing with terrorists within the kingdom," the Saudis "need to do a better job holding people accountable who finance terrorism around the world."

The efforts of Kuwait and the United Arab Emirates (UAE) are also problematic. The State Department report noted that terrorism financing is still not a crime in Kuwait, despite the fact that "the misuse of charities continues to be a concern." In addition, although Kuwait has established a financial intelligence unit -- an agency responsible for receiving, analyzing, and disseminating information about suspicious activity from the private sector -- the body does not measure up to international standards. For its part, the UAE has never convicted anyone 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."

Iran, which has been described by U.S. officials as the "central banker of terrorism," remains the most serious problem. According to Treasury officials, Tehran has a "nine digit line item" in its budget to support terrorism, sending hundreds of millions of dollars to terrorist groups, including Hizballah, Hamas, and Palestinian Islamic Jihad. The regime has also used state-owned banks, including the central bank, to facilitate terrorism financing and deceptive financial practices that attempt to obscure its involvement in particular transactions.

## **Evolution in Terrorism Financing**

Terrorism financing has also evolved in ways that have hindered government efforts. As the United States and its allies have cracked down on the formal financial system, terrorists have found other, less formal ways to raise and transfer funds. For example, a 2006 National Intelligence Estimate on trends in global terrorism assessed that "groups of all stripes will increasingly use the Internet to obtain logistical and financial support." The estimate also noted that technology and globalization have enabled small groups of "alienated" individuals to connect with each other and raise resources for attacks without the aid of an established terrorist organization.

Terrorists are also increasingly using cash couriers and bulk cash smuggling to transfer funds. Although less efficient, this method is more difficult for law enforcement to track. Putting regulations in place to govern cash couriers in Gulf countries has been an uphill struggle because carrying bulk cash is a common practice

there. Even where regulations have been established, Treasury officials note that there is an "enormous distance to go in ensuring that trained and capable border agents are implementing these rules."

### **A Challenging Road Ahead**

Despite its initial success against terrorism financing, the U.S. government cannot afford to grow complacent. Terrorist groups will continue to adapt the way they raise and move funds to evade government scrutiny. Washington must closely monitor evolving trends in terrorism financing and develop effective strategies to respond quickly. If the United States is unsuccessful in this regard, the next report card on the government's progress will undoubtedly be negative.

*Michael Jacobson, a senior fellow in The Washington Institute's [Stein Program on Terrorism, Intelligence, and Policy](#), previously served as a senior advisor in the Treasury Department's Office of Terrorism and Financial Intelligence.*

Copyright 2008 The Washington Institute for Near East Policy