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An Iranian Financial Intelligence Unit: Less than Meets the Eye

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The State Department's International Narcotics Control Strategy Report, released on March 1, offers a little-noted reference to a dubious claim: an Iranian government statement (made to the UN) that Tehran has established a Financial Intelligence Unit (FIU). The report notes that Iran has provided no further details. Even if the Iranian claim were true, the creation of an FIU would do little to combat terrorism financing in the nation, given Tehran's official support for terrorist groups. In other countries, FIUs are an important element of effective counterterrorism policy -- though the record of key Middle Eastern nations is somewhat mixed in this regard.

Background

FIUs are centralized, national agencies responsible for detecting and fighting terrorism financing and money laundering. Most national units operate under the umbrella of the global FIU network, the Egmont Group (named after the Palais d'Egmont in Brussels, where the group's first meeting took place). Established in 1995, Egmont has grown rapidly, from fourteen participating countries to more than 100; the number of FIUs worldwide is even larger when one considers units that do not, 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.

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. FIUs are supposed to share this information not only with law enforcement in their own countries, but also with other units throughout the world.

The role of such units has evolved over time. It was not until 2004 that Egmont revised its definition to require that FIUs specifically focus on terrorism financing. Previously, their primary focus had been criminal activity in the financial arena, particularly money laundering.

An Iranian FIU?

Iran's claim to have established an FIU may indicate that it recognizes the growing importance of FIUs in the international arena. In fact, the State Department has outlined other related areas where Iran has demonstrated an "awareness of international standards" on these kinds of issues. According to the narcotics control report, Iran's central bank has issued anti-laundering directives that cover suspicious financial activity, while the Iranian parliament passed similar legislation in 2003. Neither initiative, however, has been implemented in any significant fashion.

Of course, whether or not Iran has actually created an FIU is an irrelevant question for several reasons. First, according to the State Department report, there are no meaningful anti-laundering controls actually operating within Iran's banking system. An FIU cannot exercise serious oversight in such an environment. Second, it is not clear how an FIU would combat terrorism financing in a country that U.S. government officials have described as the "central banker of terror," where support for terrorist groups is official government policy.

This is particularly true when the financial institutions themselves are owned or controlled by the government and are thus playing a role in furthering the government's illicit activity. For example, the U.S. government has found evidence that Bank Saderat -- one of Iran's largest state-owned banks -- has been involved in transferring funds to terrorist groups, including Hizballah and Palestinian Islamic Jihad. Bank Sepah, another large state-owned bank, has engaged in deceptive financial practices and facilitated Iran's efforts to acquire weapons of mass destruction. In response, the U.S. Treasury Department has taken enforcement action against both institutions.

FIUs in Other Middle Eastern Countries

The FIU question is far more relevant when it comes to other key players in the region. One of the core recommendations of the Financial Action Task Force -- the intergovernmental body tasked with setting international standards for combating money laundering and terrorism financing -- is that every country should have an FIU. A review of the status of FIUs in the Middle East indicates some progress, along with a need for much improvement.

The limited number of Egmont members in the region includes Egypt, Qatar, the United Arab Emirates (UAE), Lebanon, Bahrain, and Israel. Several key countries -- such as Saudi Arabia, Jordan, and Kuwait -- are notably absent from the list. According to the State Department report, Jordan is in the process of creating an FIU, but legislation is still pending. More broadly, Amman recently passed a law prohibiting certain terrorism financing activities, but it still lacks anti-laundering legislation. It also has yet to establish a statutory basis for freezing the assets of UN-designated terrorist entities.

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.

U.S. Congresswoman Sue Kelly, former chair of a House Financial Services subcommittee, described what she discovered about the Saudi FIU during a 2005 trip to the country. Despite being reassured by the Saudis that the unit was operational, she found that it consisted of "an empty floor in a building under construction." The kingdom has apparently made some progress since then. FinCEN, a cosponsor of the Saudis' Egmont application, performed its final onsite review in 2006, and the kingdom is being considered for possible membership in 2007. Meanwhile, the aforementioned State Department report noted a number of areas in which Saudi efforts against terrorism financing remain deficient. In particular, it cited the need for Riyadh to impose the same oversight on Saudi charities operating abroad as it has on domestic ones, and to increase its scrutiny of non-cash charitable gifts.

Kuwait, like Saudi Arabia, has an FIU, but it is not an Egmont member. Its unit is not an independent agency as required by Egmont, in that it has limited power to share the information it collects. The State Department reports that terrorism financing is still not a crime in Kuwait, assessing that such potential financing "through the misuse of charities continues to be a concern."

Although having an Egmont-certified FIU is an important element of effective financial counterterrorism strategy, this alone does not guarantee a sufficiently robust system. For example, the UAE is a member of Egmont but has still never convicted anyone for either terrorism financing or money laundering. This is problematic in a country where, as the State Department notes, "the threats of money laundering and terrorism financing are particularly acute."

Conclusion

Ensuring that key Middle Eastern countries are developing adequate measures to prevent terrorism financing should remain a top priority for U.S. policymakers. One key factor in making this determination is whether a country is an Egmont Group member (or is taking serious steps to become one). Beyond FIUs, policymakers

should also closely monitor countries' success in criminalizing terrorism financing, prosecuting and convicting terrorism financiers, and overseeing the activities of charities and nongovernmental organizations. The United States can use a variety of multilateral forums to push this agenda, ranging from Egmont to the Financial Action Task Force to the UN. 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.

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