

# Countering Terrorist Financing: We Need a Long-Term Prioritizing Strategy

Sina Lehmkuhler

April 2003



*Sina Lehmkuhler began working as a research assistant at the ANSER Institute for Homeland Security in February 2003. Previously, she worked as a research assistant for the Department of the Treasury with the Office of Enforcement in the Terrorism and Violent Crimes division. She is pursuing a master of arts degree in international affairs with a concentration in international security studies at George Washington University.*

We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding.<sup>1</sup>

—President George W. Bush, 24 September 2001

Hawalas,<sup>2</sup> charities, commodities—each of these has one aspect in common: They are methods by which terrorists launder and remit their money. In the wake of 11 September, much has been discovered about the financial support structure of the terrorist cells that perpetrated the attacks on the United States. Investigation of these cells and others has revealed a wide array of methods used by international terrorists to fund their deadly activities. Among these methods are conventional money laundering, acquisition of illegal funds through drug trafficking, smuggling of bulk cash, trade-based money laundering, use of charities for fundraising, and informal money remittance systems such as hawala.

With this smorgasbord of financial means from which to choose, international terrorists have been forcing law enforcement to use a shotgun approach in hopes of successfully hitting a terrorist financial target. Though the shotgun approach was effective in the immediate aftermath of 11 September—enabling U.S. and international law enforcement to freeze and seize funds—success is now meeting with diminishing returns. This is partly because the current techniques by which terrorist financing methods are investigated internationally have proven insufficient in combating unregulated and unmonitored means of money laundering and money remittance. The techniques were created primarily to counter conventional money laundering, not the more difficult-to-trace methods of hawalas and trade-based money laundering.

## U.S. Actions

On 24 September 2001, in the aftermath of 11 September, President Bush issued Executive Order 13224, which expanded U.S. power to target the support structure of terrorist organizations.<sup>3</sup> It increased law enforcement's ability to freeze the U.S. assets and to block the U.S. transactions of terrorists and those that support them. Additionally, it heightened U.S. ability to block U.S. assets of foreign banks. It also enabled the United States to deny the foreign banks access to U.S. markets if they refuse to cooperate with American authorities by identifying and freezing terrorist resources abroad. This laid the groundwork for the international actions that followed to block and freeze terrorist assets globally.

These efforts have met with considerable success. As of November 2002, 251 individual organizations had been designated under Executive Order 13224 as financial supporters of terrorism.<sup>4</sup> Working bilaterally and multilaterally, the United States has succeeded in freezing terrorist assets in over 165 countries. Since 11 September 2001, more than \$112 million in terrorist assets has been frozen worldwide in over 500 accounts. More than \$34 million of these assets was frozen in the United States, and over \$78 million was frozen overseas.<sup>5</sup>

In addition to Executive Order 13224, President Bush signed the USA PATRIOT Act into law, granting new tools to law enforcement to aid in combating terrorism. This law imposes new responsibilities on financial institutions for opening and monitoring bank accounts and permits information sharing within the government and among financial institutions. It forbids transactions with shell banks, requires disclosure of information from foreign financial institutions, protects sensitive evidence from disclosure in the investigative process, and expands the types of industries subject to anti-money laundering programs and terrorist financing compliance programs.<sup>6</sup>

Along with legal and policy actions, the U.S. government has addressed terrorist financing concerns by creating law enforcement task forces. One of these task forces is Operation Green Quest, under the supervision of the Treasury Department. This group, led by the Customs Service, includes the Internal Revenue Service, the Secret Service, the Federal Bureau of Investigation, the Financial Crimes Enforcement Network, and the Bureau of Alcohol, Tobacco and Firearms. The efforts of this task force have led to more than 40 arrests and the seizure of over \$6.8 million domestically, more than \$16 million in outbound currency, and over \$7 million in bulk cash.<sup>7</sup>

Besides Operation Green Quest, the government established the FBI's interagency Terrorism Financial Review Group, under the supervision of the Department of Justice. This group was designed to have a capacity for prevention and prediction of terrorist financial activities. The group has since evolved from its original mission, gaining the responsibilities of identifying, investigating, prosecuting, disrupting, and dismantling all terrorist-related financial activities. It works in conjunction with the FBI counter-terrorism unit and operates from FBI headquarters. The group consists of the Central Intelligence Agency, the National Security Agency, the Defense Intelligence Agency, the Drug Enforcement Administration, and most of the agencies in Operation Green Quest. The Terrorism Financial Review Group spearheads most actions taken in the United States against terrorist financing and has made large improvements in the effectiveness with which terrorist financial crimes are investigated. Occasionally, it works in conjunction with the Joint Terrorist Task Force, which includes the National Security Council and representatives from the Departments of the Treasury, Justice, and State.<sup>8</sup>

All of these actions taken since 11 September have given the U.S. government more tools to fight terrorist financing. The United States could not have achieved the success it has thus far, however, without the assistance of other states and the international law enforcement and financial communities.

### **Multilateral Actions**

International organizations and multilateral governing bodies weighed in on countering terrorist financing following the 11 September attacks. United Nations Security Council Resolution 1373—adopted four days after Executive Order 13224 was issued—directed member states to criminalize terrorist financing and to adopt regulatory regimes intended to detect, deter, and freeze funds of terrorists designated by the United Nations.<sup>9</sup> The United States was particularly interested in the measure because it provided a foundation for bilateral agreements with nations to increase regulation and law enforcement cooperation. The resolution also has an accountability component to ensure that it is effective: it mandates that member nations certify what actions they are taking to implement the requirements of the measure.

The Financial Action Task Force on Money Laundering also acted to assist in the financial war on terrorism. In October 2001, this prominent international financial regulatory agency added to its existing 40 principles by issuing eight “special recommendations” of conduct directed at countering terrorist financing. All member nations of the task force have endorsed and moved to implement these recommendations. States refusing to adhere to these principles would be blacklisted by the organization. The recommendations direct each member country to

1. Take immediate steps to ratify and implement the relevant UN resolutions
2. Criminalize the financing of terrorism, terrorist acts, and terrorist organizations
3. Freeze and confiscate terrorist assets
4. Report suspicious transactions linked to terrorism
5. Provide the widest range of assistance to other countries’ law enforcement and regulatory authorities for terrorist financing investigations
6. Impose the task force’s requirements on alternative remittance systems (including informal money or value transfer systems or networks)
7. Strengthen customer identification measures in wire transfers
8. Ensure that nonprofit organizations (charities) cannot be misused to finance terrorism<sup>10</sup>

The United States government would like every nation with terrorist financing concerns to adhere to these special recommendations, but the Financial Action Task Force on Money Laundering is limited to 31 entities. However, many regional bodies with observer status that are not task force members but perform similar functions have committed to comply with the recommendations, and more than 80 entities that are not task force members have submitted reports assessing their compliance with the recommendations.<sup>11</sup>

Some members of the task force that present a real concern for terrorist financing, such as Saudi Arabia, the United Arab Emirates, and other Gulf Cooperation Council states, are now subject to these regulations.<sup>12</sup> However, some states—including Indonesia, Nigeria, and Afghanistan—on the Treasury Department’s “Tier 1” list of countries that present a high concern for terrorist financing are not members of the task force. The task force specifically lists Indonesia and Nigeria as non-compliant countries.<sup>13</sup> The limited membership of the organization indicates that, though these recommendations create a high standard to which member nations must adhere, the recommendations’ effectiveness in countering terrorist financing is limited for non-member states. This suggests that special actions should be taken to solicit the cooperation of these non-compliant governments in combating terrorist financing.

Finally, the recommendations very noticeably omit regulations against terrorist use of trade-based money laundering, which is vaguely addressed in the task force’s initial 40 principles.

### **Intelligence Actions**

In addition to the policy, legal, and law enforcement actions taken by the United States and multilateral organizations, the financial intelligence community has weighed in on terrorist financing. The Financial Crimes Enforcement Network intelligence unit is tasked with being the primary intelligence source for financial information within the United States. It is responsible for maintaining and analyzing Suspicious Action Reports and Currency Transaction Reports filed by financial institutions in accordance with the Bank Secrecy Act; it also works with law enforcement, the CIA, and regulatory agencies to assist with intelligence of financial crimes committed within the United States.<sup>14</sup> As a result of the USA PATRIOT Act, the Financial Crimes Enforcement Network has an expanded responsibility in terrorist financing and is now an independent bureau within the Treasury Department. It can share information from multiple agencies and flag separate inquiries by different agencies on a particular individual or account.<sup>15</sup> This is vital, because it opens the doors for financial information sharing between law enforcement agencies and intelligence

agencies, responding to the criticism of a lack of across-the-board intelligence sharing before 11 September 2001.

Along with its impact domestically, the Financial Crimes Enforcement Network is a member of the Egmont Group—an international organization of 69 Financial Intelligence Units formed six years before 11 September 2001 to share intelligence of suspicious financial activities. The units in each nation receive information from financial institutions in accordance with anti-money laundering laws, analyze disclosures, and disseminate the information domestically to authorities and internationally to other units to assist law enforcement.<sup>16</sup> Since 11 September 2001, the Egmont Group has taken steps to use its financial intelligence-sharing capabilities to support the war on terrorism: working to eliminate obstacles to information exchange, making terrorist financing a required type of Suspicious Action Report from financial institutions to Financial Intelligence Units, and studying methods such as hawala for improvements that can be made in intelligence gathering to counter terrorist financing. The Egmont Group expanded by 11 members in June 2002, and 10 more Financial Intelligence Units are under consideration.<sup>17</sup>

### **Challenges to Countering Terrorist Financing**

With all these actions taken in the United States and internationally, the world has made important strides in countering terrorist financing. Not the least are the mere recognition of terrorism as something that needs to be countered aggressively and the acceptance of financial investigation as a legitimate way to accomplish this goal. There is a significant obstacle, however, in that many nations have varying definitions of terrorism and of what acts constitute a terrorist attack versus a legitimate action in fighting for freedom. In this situation, organizations and individuals that the United States would consider as having terrorist ties would be considered justified entities by other nations. An obvious example of this is Palestinian suicide bombers. Though nations like Saudi Arabia have pledged their support in fighting the financial war on terrorism with the United States, they would not consider blocking the assets of a militant Palestinian organization, such as Hamas, to be warranted. In contrast, a nation like Israel would adamantly support the blocking and seizure of assets believed to be connected to a Palestinian organization like Hamas. This problem of defining terrorism remains an obstacle for all U.S.-led efforts—financial and otherwise—against terrorism.

With this understood, the tendency has been for each state to define terrorism in its own way and to prosecute terrorist activity within its jurisdiction accordingly. The United States is satisfied that these efforts are being made and has not pushed the issue too hard when nations occasionally decide not to block an organization that the United States has included in Executive Order 13224. In essence, the United States has decided to sacrifice these smaller fish for a united front against the bigger fish of al-Qaeda. There is no question that disrupting al-Qaeda is number one on the U.S. priority list, as recent attacks linked to al-Qaeda have indicated that it should be. From this common ground, the United States has decided to move forward in its strategy to counter terrorist financing in the United States and abroad.

### **The “National Money Laundering Strategy”**

The current U.S. strategy on terrorist financing is laid out in Goal 2 of the National Money Laundering Strategy, published jointly by the Departments of Justice and the Treasury in July 2002. The second goal of this strategy is “Focus law enforcement and regulatory resources on identifying, disrupting, and dismantling terrorist financing networks.”<sup>18</sup> To accomplish this, the strategy proposes multiple objectives to identify and target systems and methods of terrorist financiers and improve international efforts to dismantle terrorist financing.<sup>19</sup>

Each objective is essential in the counter-terrorist financing effort and, if implemented properly, would likely have a significant impact on terrorist financing. Unfortunately, U.S. efforts to date have not been as effective as they should be if dismantling and disrupting terrorist organizations is to be the homeland security priority. There are many areas where improvement can be made to meet these objectives, including

legal harmonization, technical assistance, and method-based approaches. Work is being done in each area under the new strategy against money laundering, but reprioritizing these actions would assist in a counter-terrorist financing strategy that more effectively meets President Bush's goal of starving the terrorists of funding.

The "multi-pronged operational strategy to combat terrorist financing" (Goal 2, Objective 1, in the National Money Laundering Strategy) lays out the priorities of concentrating intelligence resources on gathering financial information related to terrorism, identifying and blocking assets of terrorists as well as those who support terrorist organizations, and deploying diplomatic resources to ensure international cooperation against terrorist financiers and networks abroad.<sup>20</sup> Also, Objective 3 lays out the importance of these priorities' being manifested in an international effort. These sections emphasize legal harmonization and technical assistance. Both are very important to combating terrorist financing internationally, but they should be a secondary priority to improving the methods-based approach (Objective 2), which is seriously faltering.

### *Legal Harmonization*

Legal harmonization requires the United States to lobby for the passage of anti-money laundering laws and the creation of Financial Intelligence Units in nations that do not have them. This would require that financial institutions and money remitters report suspicious financial activity. It requires amending or creating mutual legal assistance treaties by which perpetrators can be extradited and prosecuted more effectively while accommodating differences in justice systems for evidence and intelligence disclosure. It creates a legal basis to freeze assets and to prosecute terrorist financial crimes in nations that refuse to extradite their citizens. Legal harmonization attempts to enhance international cooperation and lessen bureaucracy associated with letters of rogatory—still used by some nations as an ineffective alternative to mutual legal assistance treaties. Legal harmonization is a lengthy process, requiring cooperation at all levels of government in other nations to formulate, pass, and implement the laws.

International organizations and the United States are working to achieve this end. The lead U.S. organization in these legal and diplomatic efforts is the Department of State, assisted by the Department of Justice. Though this endeavor is an important and necessary one, it does not make sense to make it a first priority in countering terrorist financing, because it deals with law enforcement while placing a lesser emphasis on effective prevention, which has to be the priority for homeland security. Additionally, U.S. laws and procedures are inadequate for preventing terrorist financing using hawala and trade-based money laundering, so the United States cannot export its own assistance to this end until it has a workable system in place on the home front. While this endeavor is an essential one for America to continue, other efforts should be made a priority to increase the effectiveness of legal harmonization when it is pursued.

### *Technical Assistance*

The second aspect of the multi-pronged approach deals with technical assistance: helping less-developed nations implement the infrastructure and technology to counter terrorist financing. Technical assistance includes training on how to collect and store the Suspicious Action Reports submitted by financial institutions, preferably in electronic format. It requires training sessions on how to acquire intelligence from banking sources and how to properly use the technology to analyze the data and detect terrorist funding. It provides assistance in a train-the-trainer format so that instruction can continue by the host country. It streamlines information processing and allows better international coordination in freezing assets to follow the terrorist money trail.

Technical assistance is getting a lot of attention by the U.S. and international organizations as well. The Departments of Justice and State have many law enforcement training programs, and the Treasury Department has an Office of Technical Assistance, an Office of International Enforcement Affairs, and

technical assistance and training components of the Financial Crimes Enforcement Network.<sup>21</sup> Internationally, there is much being done multilaterally. Though the Financial Action Task Force on Money Laundering does not have any technical assistance programs, other multilateral groups, such as the World Bank and the International Monetary Fund, have stepped in, offering training and technical assistance to get the eight special recommendations implemented.<sup>22</sup> The good news here is that many interested parties are working hard to assist in training for countering terrorist financing.

With so many nations and organizations interested in assisting, however, coordination is often a problem. Some nations may be getting an abundance of training while others are not. Indonesia, for instance, in the wake of the attack at the Bali nightclub, has been flooded with offers of financial training and assistance. Costa Rica and the border of Brazil, Argentina, and Paraguay—less prominent in the news but with serious concerns about terrorist activity—have received far less attention. Another complication with technical assistance is that depends on the amount of money other nations are willing to spend on improving technology, especially in impoverished nations, which can be a hotbed for terrorist activity. Most of the training being provided is designed to improve abilities to detect and counter terrorist financing accomplished by conventional money laundering. This technique is important for nations with few regulations in their formal financial structure, but it is not very effective in nations that do not have formal financial institutions and rely on methods such as hawala. Training and technical assistance are the right idea but, like legal harmonization, are limited in their success so long as significant methods of terrorist financing are left without the attention they should be getting.

#### *A Methods-Based Approach*

The methods-based approach in the National Money Laundering Strategy (Goal 2, Objective 2) lays out priorities of identifying and targeting the methods used by terrorists through formal financial systems, concentrating on informal value transfer systems such as hawala, focusing enforcement and regulatory efforts on alternative means of moving and hiding money (such as bulk-cash smuggling and trade in precious stones or commodities), and investigating the use of nongovernmental organizations to raise, collect, and distribute funds to terrorist organizations.<sup>23</sup> This section of the strategy is to be commended for recognizing the varying methods of terrorist financing, but its handling of some of the methods is not adequate for the magnitude of the concern. First, almost the entire strategy focuses on the issue of conventional money laundering through formal financial systems. This commendable vigilance, apparent in the strategy and on the part of mainstream financial institutions and law enforcement, has forced terrorist organizations such as al-Qaeda to look for alternatives.

Al-Qaeda has found these alternatives in three methods that the National Money Laundering Strategy identifies but addresses in a fairly cursory fashion. Combating these methods is where the money and focus should be now so that combating terrorist financing will rise from the plateau it has reached. Even the United Nations has expressed concern that some efforts to counter terrorist financing were faltering.<sup>24</sup>

There is a fundamental difference between terrorist financing and conventional money laundering: Though terrorists may engage in illegal activity to obtain funds and then launder the currency as conventional money launderers do, terrorist organizations—particularly those in the Middle East—are much more likely to raise their funds legitimately and then use those funds to kill and attack. In testimony before the House Financial Services Committee, Subcommittee on Oversight and Investigations, on 12 February 2002, Juan Zarate, the Treasury Department's Deputy Assistant Secretary for Terrorism and Violent Crime Enforcement, clarified the sources of terrorist funding:

Some terrorist groups, such as those in Europe, East Asia, and Latin America, rely on common criminal activities including extortion, kidnapping, narcotics trafficking, counterfeiting, and fraud to support their heinous acts. Other groups, such as those in the Middle East, rely on commercial enterprises, donations,

and funds skimmed from charitable organizations to not only fund their activities but also to move materiel and personnel. Still other groups rely on state sponsors for funding.<sup>25</sup>

Terrorist groups such as al-Qaeda have found ways around the regulations that are in place, so the United States must now focus even more attention on al-Qaeda's alternative methods. If alternative remittance systems and trade-based money laundering receive the same diligence that conventional money laundering and, more recently, charities are receiving, the financial war on terrorism will meet with greater success.

### *Charities*

Of the alternative terrorist financing methods, the one that has received greatest governmental and media attention is the use of charities. Charitable organizations and nongovernmental organizations are popular ways for terrorists to raise and transmit funds. Terrorists have abused some legitimate charities with schemes to siphon money from humanitarian purposes and funnel it to terrorism. For example, the Palestinian militant organization Hamas used a U.S. charity, the Holy Land Foundation for Relief and Development, as a fundraising source for its activities. The U.S. assets of this group were frozen in December 2001 as a result.<sup>26</sup> The United States has made pursuing terrorist connections to charities a high priority in efforts to counter terrorist financing and has done so somewhat effectively. Between U.S. and international regulations, steps are being made in the right direction to continue to regulate and monitor the charities. This requires more invasive questions by the IRS Criminal Investigative Unit and its international counterparts, but the logic is that if a charity has nothing to hide, it should be forthcoming with information. This endeavor is meeting with increasing cooperation and progress, particularly by the Saudis after the negative press the royal family received.

### *Alternative Remittance Systems*

Alternative remittance systems are more problematic. Hawala and hundi are trust-based systems of informal money transfers outside the formal financial sector. They provide a cost-effective method for those who may not have access to the formal financial system or who may distrust it. Due to the lack of transparency and lack of a paper trail in hawala, hundi, and other informal value transfer systems, there is high potential for abuse.

There are many indications that al-Qaeda and other terrorist organizations are exploiting this otherwise legitimate system. Al-Barakaat was a Somali-based hawala with connections in over 40 countries. It was a money-remitting company used by Usama bin Laden to finance and support terrorists around the world.<sup>27</sup> Its operations in the United States relied on traditional banking, but internationally it operated as a hawala network. The Treasury Department, the FBI, the Treasury Department's Office of Foreign Asset Control, and Operation Green Quest worked jointly to assist in dismantling the organization in the United States in November 2001. Additionally, as a result of U.S. government and multilateral efforts in October 2001, after a G-7 meeting the United Arab Emirates criminalized hawalas. Under the new law, the United Arab Emirates worked with the Department of the Treasury to block al-Barakaat's hawala assets at its financial operations center in Dubai.<sup>28</sup>

Certainly this was an extraordinary hawala case in terms of law enforcement's success, given its size and scope. But the success of this endeavor shows that focusing on hawala as a remittance system can be an effective means to disrupt terrorist financing. The key to accomplishing this is to regulate the informal system internationally. One important provision of the USA PATRIOT Act is the requirement for alternative money remittance systems to register with the government as money service businesses and to file Suspicious Action Reports. This obligation subjects them to federal regulation. Though there are some hawaladars in the United States, hawala exists internationally on a much greater scale. The United States wants to use the al-Barakaat case as a model of how to work bilaterally and multilaterally to regulate hawalas, but this effort can be engaged in more effectively internationally. Although there has been

international engagement to regulate hawala, such as in the United Arab Emirates, it has not taken on the priority it should in order to be effective.

Regulation will meet with varying degrees of cooperation and enforcement—it is not a cure-all for informal value transfer systems. Still, it could prove very effective. If a hawala network fails to register with the government as required, law enforcement will have a basis for prosecution. This follows the same logic, essentially, as Al Capone’s conviction on tax evasion. If the government cannot pin a criminal organization down for the more serious crime it is committing, the government can prosecute it for another, lesser offense to get to the same ends of disrupting the organization and putting the criminals away. Additionally, if hawala were regulated in the same manner as the formal financial structure, it would require originator information on transfers that now tend to be anonymous. The goal is to have a hawala financial system reasonably transparent to the government so that enforcement of money-laundering statutes through all forms of informal value transfer systems would take on much the same format as anti-money laundering measures.

### *Trade-Based Money Laundering*

The third terrorist alternative financing method is the one that is getting the least money and attention. Commodities- or trade-based money laundering includes the smuggling of bulk cash and the evasion of federal reporting requirements used to track money laundering with commodities such as diamonds, precious metals, gold, and tobacco. The USA PATRIOT Act has enhanced the Customs Service’s ability to investigate terrorist-related financial crimes by making inbound and outbound smuggling of bulk cash a criminal offense.<sup>29</sup> Though the Treasury Department has been more successful in countering bulk cash smuggling—as Green Quest’s Operation Oasis displayed—it has been less so with commodity concerns. Most especially, international trade can be used by terrorist organizations to disguise funding sources being imported and exported. Front companies might overvalue or undervalue merchandise or might fabricate shipments altogether. Such fraud was uncovered in October 2001 when the Treasury Department named two honey companies that exported their products to Middle Eastern countries as fronts for terrorist funding to al-Qaeda.<sup>30</sup> Customs was able to identify anomalies in the packing weight, shipping weight, and reported value of the shipped honey, leading to identification of the criminal commodity activity. Still, this honey case and the success in pursuing conflict diamond connections to al-Qaeda are instances of very limited success in identifying trade-based activity.

A Customs supercomputer database called the Numerically Integrated Profiling System (NIPS) could improve the Treasury Department’s efforts against trade-based money laundering. This intelligence software was modified to track terrorist financing activities. It can help agents to access import and export data as well as trade data provided by foreign governments. The system allows investigators to search for discrepancies in export and import reports, to track goods being shipped in unusual quantities, or to detect goods that are overvalued or undervalued. NIPS enables the manipulation and analysis of trade data, Bank Secrecy Act data, commerce data, and passenger data to identify inconsistencies and possible areas of concern in terrorist financing.

There are challenges to using this database to track trade-based money laundering, but the challenges are surmountable. Customs agents in the field using NIPS cannot access data in real time; they depend on Customs headquarters to mail it to them. Data may be five or six days old once the agent actually receives it. All agents are trained to use NIPS, but not all of them actually do.<sup>31</sup> In addition to the domestic obstacles, there are challenges in expanding NIPS’ capability internationally because of the varying sophistication of other nations’ customs officers and the lack of reliable data tracking commodities entering and leaving some countries. Also, some nations are hesitant to share trade information with other nations.

A logical solution to some of these challenges would be to renovate the way Customs uses NIPS in tracking commodities by assigning a core group of agents with the sole responsibility of continually analyzing data. Training nations to track commodities coming across their borders would have to be a priority. The ideal

would be actions to encourage other nations to share information with the United States so that it can be evaluated using NIPS, with the eventual goal of trade transparency. This is an efficient means of expediting a counter-terrorist action to understand the scope of the problem faced by the United States and the world. It uses existing software, pouring more manpower into the efficient processing of information. There would be an international benefit here in curtailing trade-based money laundering through the sharing of information by other nations.

This solution is not without its obstacles. It relies heavily on information provided by other nations, assuming their willingness to share customs data with the United States, which is not at all a given. It would require extensive training efforts in reporting on the part of customs officials from other nations. But it does not require every nation to get the technology. The United States can provide technology and training to nations that can afford to own and operate the NIPS database if they have a concern over sharing trade information with the United States. For those that cannot afford the technology, U.S. law enforcement can work with them using joint inquiries to the central database to identify instances of price overvaluing, undervaluing, and other possible terrorist financing methods. This seems to be the most expedient and effective means to comprehend the extent to which trade-based money laundering is occurring while countering illicit trade in commodities by terrorists.

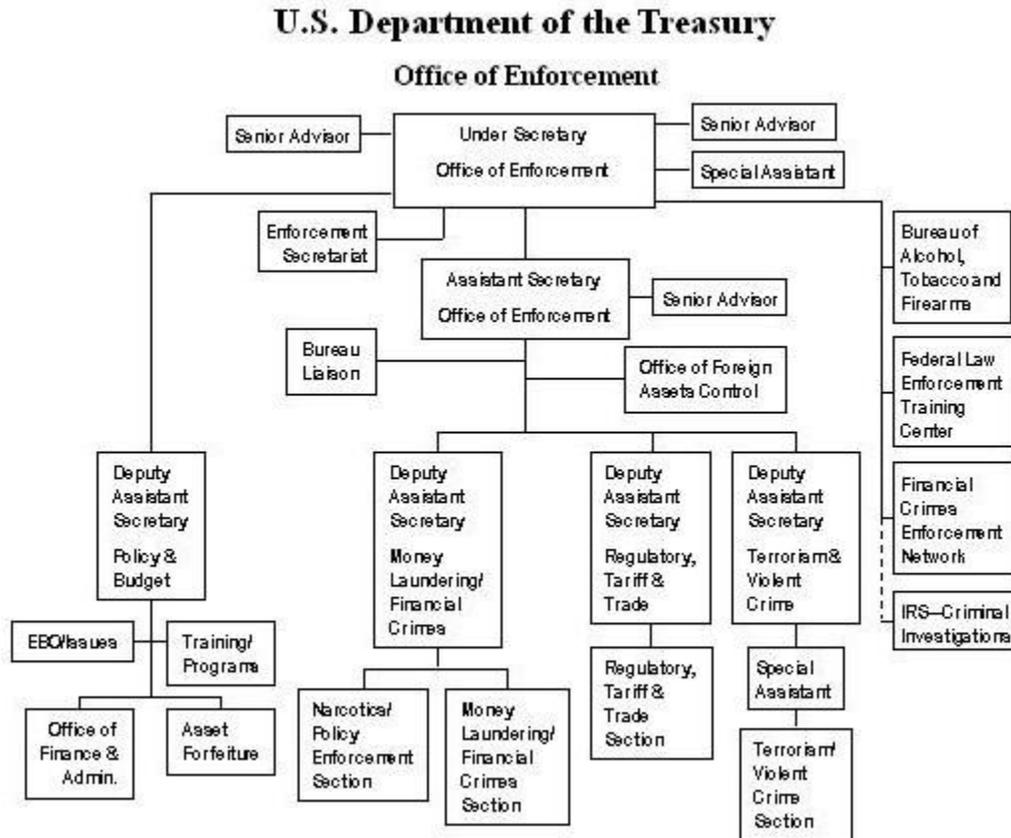
By improving endeavors to counter this and the other methods of terrorist financing, the United States would be investing more intelligently in the security of its homeland. Most important, it is essential that the United States have a focused and prioritized strategy for combating terrorist financing. The National Money Laundering Strategy is a good springboard for addressing terrorist financing issues, but it does not go into sufficient detail with regard to the challenges of countering international terrorist financing or offer substantial solutions to the alternative methods of terrorist financing.

## **Conclusion and Recommendations**

An international focus has to remain the priority in any action taken, since the majority of terrorist assets, cash flows, and evidence lie outside U.S. borders. Some nations' laws have not been harmonized with those of the United States, creating barriers to cooperation. Some nations also do not have the technical ability and training to maximize their efforts to counter terrorist financing. Consequently, legal harmonization endeavors should continue to maximize preventive efforts against terrorist financing. Also, technical assistance should continue to be provided bilaterally and multilaterally to key nations that do not have their intelligence or customs records available electronically.

Finally, the greatest weakness in the efforts to counter terrorist financing lies in the inability to develop effective tracking measures for trade-based money laundering and hawalas. Technical assistance and legal harmonization are necessary, but without an effective means of tracking all the money, they will be limited in their effectiveness in the financial war on terrorism. As a result, focusing on the methods of terrorist financing should be the new priority. This can and should be done without sacrificing the important progress made in the other areas of combating terrorist financing. By maximizing international cooperation, continuing technical and legal harmonization efforts, and increasing national and international regulation, the United States can implement a long-term strategy to combat terrorist financing. Such a strategy will aid the larger war on terrorism by starving the terrorists of their funding to commit deadly, heinous acts against the United States and the international community.

**The Treasury Department’s New Office for Combating Terrorist Financing**



Within three weeks of his swearing-in as the second Secretary of the Treasury under the current administration, John Snow oversaw the formation of a new Executive Office of Terrorist Financing and Financial Crimes. It will be led by Juan Zarate, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, who will report to the Deputy Secretary of the Treasury. The new office has been charged with both coordinating and leading the Department’s multifaceted efforts to combat terrorist financing and other major financial crimes, both within the United States and overseas.

This new office faces the major task of working closely with various Treasury Department offices in addition to coordination and cooperation across many levels of the entire U.S. government. The broad aim is one of identifying, countering, and then, if required, dismantling those sources of financial support for terrorist operations and other criminal activities. This campaign will focus especially on the international aspect of the whole problem, with the clear goal of reducing the overall risk of abuse that domestic and international financial systems face from criminals or terrorists.

The new office is charged with the following duties, among others:

1. Developing and implementing U.S. government strategies to combat terrorist financing domestically and internationally
2. Developing and implementing the National Money Laundering Strategy
3. Participating in the department’s development and implementation of U.S. government policies and regulations in support of the USA PATRIOT Act

4. Joining in representation of the United States at focused international bodies dedicated to fighting terrorist financing and financial crimes



Treasury Dept. photo

“President Bush has reaffirmed that stopping the flow of money to terrorist groups is a top Treasury Department priority, and towards that end I am announcing today the formation of a new office dedicated to that charge.”

—*Treasury Secretary John Snow, 3 March 2003*<sup>32</sup>

---

## References

*Click on an end note number to return to the article.*

1. President George W. Bush, [presidential announcement, 24 September 2001.2.](#) “Hawala (also known as hundi) is an informal money transfer system used primarily in the Middle East, Africa and Asia. Its origins are in South Asia. In the hawala system, money is transferred via a network of hawala brokers, or hawaladars”—[Wikipedia](#).
3. President George W. Bush, “[Executive Order on Terrorist Financing: Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism](#),” 24 September 2001.
4. “Update on Terrorist Blocking and Freezes,” internal Treasury Department document, November 2002.
5. Treasury Department, “[Contributions by the Department of the Treasury to the Financial War on Terrorism—Fact Sheet](#),” September 2002.
6. [USA PATRIOT Act 2001](#), Title III, signed into law 26 October 2001.
7. “Contributions by the Department of the Treasury to the Financial War on Terrorism—Fact Sheet,” p. 23.
8. Robert Mueller, Director of the FBI, “The Work of the Terrorism Financial Review Group,” [statement](#) before the House Committee on Financial Services, 19 September 2002.
9. [UN Security Council Resolution 1373 28 September 2001.](#)
10. Financial Action Task Force on Money Laundering, [Special Recommendations](#), 26 October 2001.
11. “Contributions by the Department of the Treasury to the Financial War on Terrorism—Fact Sheet,” p. 17.

12. Financial Action Task Force on Money Laundering, "[Members & Observers](#)."
13. "List of Priority Nations in Terrorist Financing," Treasury Department internal document, November 2002, p. 1.
14. Financial Crimes Enforcement Network Brief, pp. 1–2.
15. Financial Crimes Enforcement Network, presentation by Connie Fenchel, Deputy Director of Operations, 22 October 2002.
16. Financial Crimes Enforcement Network Brief, p. 3.
17. "Contributions by the Department of the Treasury to the Financial War on Terrorism—Fact Sheet," p. 19.
18. Departments of the Treasury and Justice, [National Money Laundering Strategy](#), July 2002, p. 14.
19. *Ibid.*, pp. 14–24.
20. *Ibid.*, pp. 17–18.
21. "Contributions by the Department of the Treasury to the Financial War on Terrorism—Fact Sheet," p. 19.
22. *Ibid.*, p. 17.
23. [National Money Laundering Strategy](#), pp. 20–22.
24. "Still Flush—Terrorist Finance: Islamic Charities, Commodities and Hawala Are the Key to al-Qaeda's Money," *The Economist*, 7 September 2002.
25. Juan Zarate, Treasury Department, Deputy Assistant Secretary for Terrorism and Violent Crime Enforcement, [testimony](#) before the House Committee on Financial Services, Subcommittee on Oversight and Investigations, 12 February 2002.
26. *Ibid.*
27. *Ibid.*
28. Barry Shlachter, "Emirates Ban 'Hawala' Deals: Terrorists Suspected of Using Old Money-Transfer Network," *Knights Ridder Newspapers*, 11 October 2001.
29. Juan Zarate, testimony before the House Committee on Financial Services, Subcommittee on Oversight and Investigations, 12 February 2002.
30. *Ibid.*
31. Preeti Vasishtha, "[Customs' Profiling Software Nips at Terrorists' Finances](#)," *Government Computer News*, 7 January 2002; Vol. 21, No. 1.
32. "[U.S. Treasury Department Announces New Executive Office for Terrorist Financing and Financial Crimes](#)," U.S. Treasury Press Release, 3 March 2003.

