

# Targeting Terrorist Finance

Arabinda Acharya

*“Money is the lifeblood of terrorist operations. Today, we're asking the world to stop payment.”*

(George W. Bush, President of the United States of America, 24 September 2001)

## Introduction:

The much publicized and discussed ‘War on Terror’ in a way did not begin on 7 October 2001, with the US and British forces striking at the Taliban and Osama bin Laden's Al-Qaeda terrorist network in Afghanistan. On 24 September 2001 President George W. Bush issued Executive Order 13224 that initiated an unprecedented effort to identify, confiscate and block assets of terrorist groups and their associates. Addressing the media thereafter, President Bush said, “this morning, a major thrust of our war on terrorism began with the stroke of a pen. Today, we have launched a strike on the financial foundation of the global terror network.”<sup>1</sup> Thus the first front against transnational terrorism was opened by the US Department of Treasury, even as Bush reminded that, this “war on terrorism would be fought on a variety of fronts, in different ways,” and “every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence,” would be committed to “starve the terrorists

---

<sup>1</sup> The White House, Office of the Press Secretary, *President Freezes Terrorists' Assets*, 24 September 2001, <http://www.whitehouse.gov/news/releases/2001/09/20010924-4.html>

of funding, turn them against each other, rout them out of their safe hiding places and bring them to justice.”<sup>2</sup>

Today, a variety of transnational terrorist groups threaten an unusual range of regimes and interests.<sup>3</sup> Al Qaeda additionally demonstrated how it is possible to use terrorism as a ‘global instrument’ to ‘compete with and challenge’ the traditionally organized state power and mobilize new global conflicts.<sup>4</sup> The extraordinarily coordinated and synchronized attacks on the World Trade Center and the Pentagon in the USA on 11 September 2001, demonstrated how the terrorist threats cross national borders and geographical delimitations. The attacks, conducted by 19 suicide hijackers killed more than 3000 citizens from 78 countries.<sup>5</sup> Suspects in the attack have been rounded up in about sixty nations. Most of the planning, coordination for the attacks took place in countries in Europe, South, Southeast and Central Asia.<sup>6</sup> Importantly, the attacks also delivered a very potent message. The threat of terrorism lay not only in the weapons that the terrorists can yield, but also in their ability to procure and use those weapons through innovative, discreet and complex fund raising and fund transfer techniques. As was subsequently found out, the money for the planning, preparation and execution of the attacks was procured from different sources. The money moved through diverse means cutting across national and regional boundaries and involving both regular and covert and discrete channels. Besides, the financial transactions of the terrorists involved in

---

<sup>2</sup> Ibid.

<sup>3</sup> Ian O. Lesser, “Coalition Dynamics in the War Against Terrorism,” *International Spectator*, 2, (October 2002), p.46, <http://www.pacificcouncil.org/pdfs/lesser.pdf>

<sup>4</sup> Rohan Gunaratna, *Inside Al Qaeda: Global Network of Terror* (New York: Columbia University Press, 2002), p.1

<sup>5</sup> U.S. Department of State, *Patterns of Global Terrorism 2001* (Washington, D.C., 21 May 2002), p.1 <http://www.state.gov/s/ct/rls/pgtrpt/>

<sup>6</sup> Lesser, p.44

September 11 provided the leads that helped intelligence agencies identify the perpetrators, their logistical and financial support networks, links to other terrorist groups and their accomplices.<sup>7</sup>

This underscores the critical importance of finance in the lexicon of terrorism. The international strategic environment of the post-Cold War era has transformed the nature, quality and support structure of terrorist groups. With the gradual demise of state sponsorship, the transnational terrorist groups have learned to take advantage of the prevailing political and economic conditions, especially opportunities provided by the ease in trans-border mobility, advances in communications technologies, a global financial system networked through electronic information systems etc, to raise and move funds for their activities around the globe.<sup>8</sup> This and a combination of criminality and the exploitation of the resources of both domestic and international charitable organizations and legitimate business enterprises have helped sustain global terrorism even in the absence of state sponsorship.

### **The Importance of Terror Money**

“Money in the hands of the terrorists is money that kills.”<sup>9</sup> Like in a commercial enterprise, access to finance and the means of transfer is crucial for sustenance of terrorist

---

<sup>7</sup> Matthew Levitt, “Charitable and Humanitarian Organizations in the Network of International Terrorist Financing,” *The Washington Institute for Near East Policy*, 1 August 2002, <http://www.washingtoninstitute.org/media/levitt/levitt080102.htm>

<sup>8</sup> Thomas J. Biersteker, “Targeting Terrorist Finances,” in Ken Booth and Tim Dunne, eds., *Worlds in Collision: Terror and the Future of Global Order*, (New York: Palgrave Macmillan, 2002), p.75

<sup>9</sup> James Gurule, “An Unconventional Strategy For an Unconventional War,” *Hispanic Online*, 1 December 2001,

organizations and vital in the formulation and implementation of their activities. As US Attorney General John Ashcroft put it, “Terrorists cannot terrorize without money, without resources. Training costs money, planning costs money, explosives cost money, plane tickets cost money.”<sup>10</sup> Back in the sixties, James Adams noted how “in the progression from fringe radicals to recognized terrorists, all groups, first and foremost must have to acquire some income, besides, armaments and recognition that will help sustain the support for the group.”<sup>11</sup> To grow from small cells into fully functional units terrorist groups need to have enough capital to buy and keep support, to pay for arms, recruitment, training, and travel. They need money to build a propaganda base among their supporters, and pay for safe haven.<sup>12</sup> According to an estimate, Osama bin Laden paid over US \$100 million to the Taliban during the five years he was in Afghanistan.<sup>13</sup> Al Qaeda also provided important financial support to the host state while Osama was in Sudan.<sup>14</sup>

There has also been acceleration in the speed at which terrorist organizations can act internationally, by spreading their ideologies, creating support structures and garnering financial assistance from far-flung Diasporas. Even the most anti-modernist

---

<http://static.highbeam.com/h/hispanic/december012001/anunconventionalstrategyforanunconventionalwar/index.html>

<sup>10</sup> The United States Missions to the European Union, *Ashcroft Calls for Disruption of Terrorism Financing* (Brussels: 25 October 2002),

<http://www.useu.be/Terrorism/ECONNews/Oct2502AshcroftTerroristFinancing.html>

<sup>11</sup> James Adams, *The Financing of Terror*, (London: New English Library, 1986) p.53

<sup>12</sup> James Adams, “The Financing of Terror,” in George D. Smith, Andre Ya Dean, and Thomas Schiller, eds., *Contemporary Research on Terrorism* (Aberdeen: Aberdeen University Press, 1987), p.401

<sup>13</sup> United Kingdom, Her Majesty’s Treasury, *Combating the Financing of Terrorism: A Report on UK Action* (October 2002), p.11, [http://www.hm-](http://www.hm-treasury.gov.uk/documents/international_issues/terrorist_financing/int_terrorfinance_combatfinance.cfm)

[treasury.gov.uk/documents/international\\_issues/terrorist\\_financing/int\\_terrorfinance\\_combatfinance.cfm](http://www.hm-treasury.gov.uk/documents/international_issues/terrorist_financing/int_terrorfinance_combatfinance.cfm)

<sup>14</sup> “Terrorist Financing: Report of an Independent Task Force Sponsored by the Council on Foreign Relations,” *The Council on Foreign Relations* (October 2002, p.5

[http://www.cfr.org/pdf/Terrorist\\_Financing\\_TF.pdf](http://www.cfr.org/pdf/Terrorist_Financing_TF.pdf)

puritanical movements have embraced modern technology, jet travel, and global trading, finance and instant communications networks to conduct their campaigns across the globe.<sup>15</sup> A successful terrorist group therefore, must necessarily be able to build and maintain an effective financial infrastructure to generate income, move them around, launder the proceeds and make them available for committing terrorist acts.<sup>16</sup>

### **Sources and Dynamics of Terrorist Financing:**

Terrorist groups vary in terms of structures and sources of financial support. Some groups operate as ‘quasi-states’ with some form of territorial control. Many others are decentralized, widely dispersed. Some are state-sponsored, while others are partially self-funded, or obtaining money from the drugs trade or by other forms of organized crime.<sup>17</sup>

The Provisional Irish Republican Army (PIRA) and the Palestinian Liberation Organization (PLO) pioneered transnational financial infrastructures which many other second-generation groups such as, for example, the Liberation Tigers of Tamil Elam (LTTE) and the Babbar Khalsa International (BKI) emulated.<sup>18</sup> The end of the Cold War saw a marked decline in state funding for terrorism worldwide. In consequence, the terrorist groups began to rely on a variety of alternative sources for funding and logistical

---

<sup>15</sup> “Responding to Terrorism: What Role for the United Nations?” *International Peace Academy*, (October 2002) p.19 [http://www.ipacademy.org/PDF\\_Reports/Conference\\_Report\\_Terr.pdf](http://www.ipacademy.org/PDF_Reports/Conference_Report_Terr.pdf)

<sup>16</sup> Financial Action Task Force on Money Laundering (hereafter cited as FATF), *Guidance for Financial Institutions in Detecting Terrorist Financing*, (Paris: FATF Secretariat, 24 April 2002), pp.3-4, [http://www.fatf-gafi.org/pdf/GuidFITF01\\_en.pdf](http://www.fatf-gafi.org/pdf/GuidFITF01_en.pdf)

<sup>17</sup> Biersteker, p. 7

<sup>18</sup> Rohan Gunaratna, “Bankrupting the Terror Business,” *Jane’s Intelligence Review*, 1 August 2000, p.52

support, including self-financing criminal activities such as kidnapping, narcotics, and petty crimes and using and exploiting front organizations, legitimate business and non-governmental organizations.

A major source of funding in recent years has been the abuse of charitable organizations.<sup>19</sup> Terror networks not only penetrate and manipulate such organizations but also on occasions form their own charities as fronts for the collection and distribution of money across international networks. For example International Islamic Relief Organization (IIRO) funding has been linked directly to Egyptian Al-Jihad, which associated with Al Qaeda for 1998 American embassy bombings in Tanzania and Kenya.<sup>20</sup> Intelligence reports also suggest IIRO resources being used to support Al Qaeda training camps in Afghanistan and terrorist activities in the Philippines, Pakistan and India.<sup>21</sup> IIRO, which operates in the US as the Islamic Relief Organization, was linked to the Safa group of charities alleged to have funded Al Qaeda related activities.<sup>22</sup> Similarly, the Saudi charity Al-Haramain which operates in about 49 countries raising almost USD 39 million annually in donations is believed to have funded terrorist groups such as Al-Ittihad al-Islami in Somalia, Al Jemmah al- Islamiyah al-Masiriyah in Bosnia, and Jemaah Islamiyah in Southeast Asia apart from providing financial support to the Chechen militants. Charities help mask both the collection and movement of funds. For

---

<sup>19</sup> See, FATF, "Annexes 2002-2003," *Annex. B* (Paris: FATF Secretariat, 20 June 2003), pp.15-21, <http://www.oecd.org/dataoecd/12/27/2789358.pdf>

<sup>20</sup> United Nations Security Council, (UNSC) *Second Report of the Monitoring Group*, 2 December 2003, (hereafter cited as *UNSC Second Report: December 2003*), p.15 <http://ods-dds-ny.un.org/doc/UNDOC/GEN/N03/600/46/PDF/N0360046.pdf?OpenElement>

<sup>21</sup> *Ibid.*, p.16

<sup>22</sup> *Ibid.*

example, Al Haramain funneled money to Al-Ittihad al-Islami, disguising the same as contributions for an orphanage project and for the construction of a mosque.<sup>23</sup>

Similarly many terrorist groups use or manipulate shell companies and offshore trusts. In many offshore centers- Antigua, the Bahamas, Cayman Islands, Labuan (Malaysia), Malta, Mauritius, Vanuatu etc, there are minimal regulations on international business companies and trust arrangements.<sup>24</sup> This helps the promoters to mask their true identity and the value, nature and location of their assets creating opportunities for money laundering and financing of terrorist activities.<sup>25</sup> Many terrorist groups also break into high-risk, high-profit criminal ventures such as narco-trafficking, human smuggling, extortion, protection rackets, racketeering, and credit card frauds to raise funds.

Al Qaeda, however, reshuffled the entire understanding and assessment on the subject of terror-money by creating ‘a complex confederation of militant bases and aggregating financial support networks.’<sup>26</sup> As a Council of Foreign Relations Task Force report noted, building Al Qaeda’s financial support network was Osama bin Laden’s foremost accomplishment, and the primary source of his personal influence.<sup>27</sup> Based on the system designed to channel resources to augment anti-Soviet jihad in Afghanistan in the eighties, Al Qaeda could sustain its global operations through the robust fund-raising

---

<sup>23</sup> Ibid.

<sup>24</sup> “Financial Stability Forum Reviews Vulnerabilities and Efforts to Strengthen the International Financial System,” *Financial Stability Forum*, 4 September 2002, p.3  
[http://www.fsforum.org/publications/PR\\_Toronto02.pdf](http://www.fsforum.org/publications/PR_Toronto02.pdf)

<sup>25</sup> *UNSC Second Report: December 2003*, p.20

<sup>26</sup> Jean-Charles Brisard, “Terrorism Financing: Roots and Trends of Saudi Terrorism Financing,” *Report Prepared for the President of the Security Council*, (Paris: JCB Consulting, 19 December 2002), p.6.  
<http://www.nationalreview.com/document/document-un122002.pdf>

<sup>27</sup> “Terrorist Financing: Report of an Independent Task Force,” p.6

methods among multiple countries and populations. Al Qaeda financing infrastructure is marked by high degree of sophistication and professionalism. Apart from Bin Laden's investment of his own inheritance estimated to be about USD 300 million,<sup>28</sup> the group receives huge amounts given to it by its Arab supporters, mostly wealthy Gulf citizens, especially Saudi bankers and businessmen with substantial oil revenue.<sup>29</sup> The group is known to have made extensive use of Islamic charities and legitimate businesses apart from generating money through criminal activities such as smuggling, counterfeiting and narcotics-trade<sup>30</sup> as well as the illicit sale of gold, diamonds, and other precious gems.<sup>31</sup>

### **The Dynamics of Terrorist Funding:**

Transnational terrorist groups such as Al Qaeda require funding at different levels of necessity. They need 'operational funds' to invest and gain returns, to finance local cells and to carry out terrorist operations. The groups also require 'organizational funds' to maintain networks of support, communications, training propaganda etc, and most importantly to underwrite the costs of local conflicts such as what Al Qaeda did in the Middle East, the Caucuses, South and Southeast Asia, and in the Horn of Africa.<sup>32</sup>

---

<sup>28</sup> Anthony Keats, "CDI Primer: Terrorist Finances," *Centre for Defence Information*, 25 October 2002, [http://www.cdi.org/terrorism/finance\\_primer-pr.cfm](http://www.cdi.org/terrorism/finance_primer-pr.cfm)

<sup>29</sup> "Fueling Terror," *Institute for Analysis of Global Security*, <http://www.iags.org/fuelingterror.html>

<sup>30</sup> Keats, "CDI Primer: Terrorist Finances,"

<sup>31</sup> "Al Qaeda Cash Tied to Diamond Trade," *Washington Post*, 2 November 2001, p. A01, Also see, Douglas Farah, *Blood From Stones: The Secret Financial Network of Terror*, (New York: Broadway Books, 2004) and, Diamonds and Dogs Fund Terror, *Courier Mail*, 19 September 2001

<sup>32</sup> Brisard, p.7

Table-2<sup>33</sup>

<b>Al Qaeda Financial Needs</b>
<b>Infrastructure</b> Communication, Networks, Training Facilities, Protection (90%)
<b>Operational</b> Day to day money, terrorist attacks planning & attack execution (< 10%)

In recent years, the terrorist financial networks are characterized by high degree of decentralization. Within groups the terrorist cells have grown smaller and hence more amorphous and autonomous. Increasingly, the funding is being generated locally through a combination of legitimate and criminal activities. Furthermore, although the sums required and raised by terrorists may be large, amounts of money needed to finance individual terrorist attacks may be quite small.<sup>34</sup> The following table lists estimates of costs involved in some major terrorist attacks:

---

<sup>33</sup> Ibid.

<sup>34</sup> *Combating the Financing of Terrorism: A Report on UK Action*, p.11

**Table-3**

<b>Amount Involved in Terrorist Attacks</b>		
<b>Terrorist Attacks</b>	<b>Date</b>	<b>Operational Cost (est.)</b>
Bishopsgate Church bombing (UK)	April-1993	\$5500
African Embassy bombings (Tanzania and Kenya)	August- 1998	\$30,000
USS Cole bombing (Yemen)	October -2000	\$5,000 - \$10,000
World Trade Center/Pentagon (USA)	September- 2001	\$303672- \$500,000
Djerba Mosque bombings (Tunisia)	April - 2002	\$20,000
Attack on Limburg (Yemen)	October - 2002	\$127,000
Bali bombings (Indonesia)	October- 2002	\$74,000
Modified from, Jean-Charles Brisard, "Terrorism Financing: Roots and Trends of Saudi Terrorism Financing," p.6		

Besides, the size of terrorist fund transactions have shrunk and the nature of such transactions have changed. Financial transactions of the hijackers involved in September 11 operations for example, were found to be in small sums below the usual cash transaction reporting thresholds. In most cases the operations consisted of only wire transfers involving money from parents of the students pursuing their studies abroad or were in the form of study grants. This also kept the transactions outside the purview of

additional scrutiny by the financial institutions involved as per already established regulations.<sup>35</sup>

This underscores the ability of the groups to move funds globally through diverse means. As determined by FATF, the terrorist groups and their supporters use structured deposits to or withdrawals from bank accounts, various types of monetary instruments (travelers' cheques, bank cheques, money orders), credit or debit cards, and wire transfers and even indulge in cash smuggling - both by couriers or bulk cash shipments - to move and launder money across the globe.<sup>36</sup> The groups are also known to be extensively using underground banking systems particularly the *hawala*.<sup>37</sup> Al Qaeda, has also been known to be using unregulated offshore jurisdictions - places with limited bank supervision without anti-money laundering legislations, ineffective law enforcement regimes and a culture of no-questions asked bank secrecy.<sup>38</sup> The processes of globalization have especially facilitated this cross border movement of capital. With information-age technology, it has become rather easy for the money manipulators to 'find and penetrate states whose laws (or lack thereof) make them susceptible to criminal financial transactions.'<sup>39</sup>

---

<sup>35</sup> FATF, *The Forty Recommendations (2003)*, (Paris: FATF Secretariat.),p.6,  
[http://www1.oecd.org/fatf/40Reccs\\_en.htm](http://www1.oecd.org/fatf/40Reccs_en.htm)

<sup>36</sup> Ibid., p.5

<sup>37</sup> For details on *hawala* see, P.M. Jost and H.S. Sandhu, *The Hawala Alternative Remittance System and its Role in Money Laundering*, (Lyon: Interpol, January 2000),  
<http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/hawala/default.asp>. For more information on systems of alternate remittance/underground banking, see, FATF, *Money Laundering Typologies*, (Paris: FATF Secretariat, 3 February 2001), [http://www.fatf-gafi.org/pdf/TY2001\\_en.pdf](http://www.fatf-gafi.org/pdf/TY2001_en.pdf)

<sup>38</sup> "Terrorist Financing: Report of an Independent Task Force," p.9

<sup>39</sup> Kimberley L. Thachuk, "Terrorism's Financial Lifeline: Can it be Severed?" *Strategic Forum*, No.191, (May 2002), p.2

Having multiple sources of finance and diverse means to move them around the globe has been advantageous for the terrorist groups. Free from jurisdictional control, groups like Al Qaeda have been able to operate from failed or dysfunctional states and to sustain their activities despite various control regimes and increasing international vigilance. An extremely high degree of diversification and financial sophistication explains Osama's remarks to Pakistani Urdu language newspaper *Ummat*, that the US-led crackdown on Al Qaeda's assets would 'not make any difference, because "by the grace of God, Al-Qaeda has more than three different alternative financial networks."<sup>40</sup>

Terrorists are also continuously innovating on money making and moving strategies. As a German Finance Ministry report warned, "new trends have emerged in the financing of terrorism."<sup>41</sup> For example, as the monitoring of international financial transactions improved, the terrorists began using alternative methods to make, move and conceal money. "A drastic fall in the volumes of money frozen worldwide underlines this development"<sup>42</sup> The terrorists are proving more adroit than the states at adapting to the changing dynamics, especially in global financial systems.

Thus a combination of decentralized cells united by religion and ideology and operating across the globe, relatively cheap cost of carrying out attacks and the ability to disguise fund transactions has made terrorist threats more pernicious today.<sup>43</sup>

---

<sup>40</sup> "Net Closes on Terror Cash," *BBC News*, 28 September 2001, <http://news.bbc.co.uk/1/low/business/1569042.stm>

<sup>41</sup> "Terrorists Forced to Get Creative to Raise Financing," *Taipei Times*, September 2003, p.9 <http://www.taipeitimes.com/News/edit/archives/2003/09/25/>

<sup>42</sup> Ibid.

<sup>43</sup> Keats, "CDI Primer: Terrorist Finances,"

### **Importance From a Counter-terrorism Perspective:**

Contrarily, from counter-terrorism perspective targeting terrorist finance underscores two important purposes. At the strategic level, a successful campaign against terror money would end up denying the terrorists the means that help them sustain their activities. There is an important tactical purpose as well. The problem of terrorism is likely to persist and will be difficult to eradicate completely. Though the use of force may be successful in the short-term as a counter-terrorism strategy, it is unlikely that a transnational conspiracy of such magnitude can be destroyed through armed combat alone.<sup>44</sup> Having financial controls in place would help security and intelligence agencies track down the perpetrators of future terrorist acts and their supporters. Post September 11 financial control initiatives have unraveled not only the useful taxonomies of the types of terrorist financing but have helped identify the key nodes of terrorist support. The so-called 'money trail' has proven to be especially useful in tracking down the many members of terrorist groups especially after September 11 attacks. This has also helped unravel the complex web of logistical and operational networks that the contemporary terrorist groups have managed to set up and maintain. For instance, with the help of the money trail revealed during the trial of four terrorists convicted for their role in the 1998 terrorist bombings of the US embassies in Tanzania and Kenya, the US Customs

---

<sup>44</sup> Martha Crenshaw, "The Global Phenomenon of Terrorism," in *Responding to Terrorism: What Role for the United Nations?* p.30

Service's Operation Green Quest could unravel the financial and support network of Al Qaeda in Dubai, Hong Kong, London, and Malaysia.<sup>45</sup>

Irrespective of the means through which terrorist groups generate money, a substantial portion goes through the normal banking systems. All banking transactions leave a trail and with proper regulatory mechanisms it would be possible to trace almost all transactions. Moreover, transnational groups such as Al Qaeda need to disaggregate and distribute significant amounts of money to sustain or expand their networks of operations. Additionally, if the money is derived from criminal activity, such as narcotics trafficking and gems smuggling, it must first be amassed, laundered, and then redistributed. 'The more transactions that occur, the more vulnerable these groups would be to detection.'<sup>46</sup> The banking system can not only help identify parties after a terrorist attack but can help prevent an attack.<sup>47</sup>

In summary, even as the terrorist groups have been manipulating the so-called 'rogue capital' using both traditional and sophisticated techniques to raise and move funds, the same global financial market and information-age technology could be terrorist groups' *Achilles heel*, a major source of vulnerability for greater counter-terrorist surveillance, tracking and detection.

---

<sup>45</sup> Thachuk, p.5

<sup>46</sup> Ibid., p.3

<sup>47</sup> "Responding to Terrorism: What Role for the United Nations?" p.24

## Chapter- 2:

### Countering the Financing of Terrorism

Terrorism, like the Clausewitzian ‘fog of war’ has presented political leaders, military strategists, law enforcement agencies and intelligence analysts with a formidable challenge. The same has been the case with the battle against terrorist finance. Terrorists networks have been exploiting an increasing number of ‘fault zones’ around the world – theaters of violent civil conflicts with ethnic, religious and ideological overtones, and failed or failing states with weak governance to build and sustain their activities. In recent years, the terrorists have evolved an international matrix of operational, logistical, financial networks.<sup>48</sup> Such networking has been quite significant among the militant Islamist groups, such as Al Qaeda, Hamas, and Jemaah Islamiah. This networking also involves terrorist financing with financial exchanges both within and among various groups. The major challenge therefore is how best to expose this ‘lifeline’ and ‘lifeblood’ of the terrorist groups, render it vulnerable and ultimately sever it. This is not an easy task by any account.

The threats posed by the contemporary terrorist groups are global in nature. Hence these threats can only be countered through a global response and strategy.

---

<sup>48</sup> Matthew Levitt, “Combating Terrorist Financing: Where the War on Terror Intersects the Roadmap,” *Jerusalem Issue Brief*, 3:4, 14 August 2003 <http://www.jcpa.org/brief/brief3-4.htm>

Controlling terrorist finance, as is the case with terrorism itself, therefore requires multilateral and multifaceted approach with careful coordination of both short-term and long-term responses.<sup>49</sup> On the tactical front, disruption of the individual nodes in the terrorist financial network is of immediate necessity. More important, however is the strategic one- to change the environment within which terrorists groups raise and move their funds.<sup>50</sup> The war against terrorist financing must necessarily encompass the terrorist groups themselves and extend to financial intermediaries and facilitators who infuse terrorist organizations with money, materiel, and support.<sup>51</sup> This involves sustained cooperation of a variety of national, regional and global agencies and arrangements, dissuasions and denials.<sup>52</sup> The responses need to be both multi-layered and coherent unfolding within a multilateral framework, yet allowing each participating organization, state and agency to contribute what it does best.<sup>53</sup>

The nature of the threats of transnational terrorism, especially its impacts on both domestic and international economy makes the need for international cooperation more salient today. For example, the total costs to the United States for cleanup and property losses etc, arising out of September 11 attacks, exceeded \$135 billion.<sup>54</sup> Similarly, the UK Bishopsgate bombing in 1993 caused over £1 billion-worth of damage to property.<sup>55</sup>

---

<sup>49</sup> "Responding to Terrorism: What Role for the United Nations?" p.31

<sup>50</sup> Ibid., p.12

<sup>51</sup> James Gurule , "International Cooperation in the War on Terrorism: The Organization for Security and Cooperation in Europe," *Statement before the Commission on Security and Cooperation in Europe*, (Washington, DC.: US Department of State, 8 May 2002), <http://www.state.gov/p/eur/rls/rm/2002/10028.htm>

<sup>52</sup> *Report of the Policy Working Group on the United Nations and Terrorism: Annex to A/57/273* (New York: United Nations), <http://www.un.org/terrorism/a57273.htm#top>

<sup>53</sup> Ibid.

<sup>54</sup> Thachuk, p. 4

<sup>55</sup> *Combating the Financing of Terrorism: A Report on UK Action*, p.11

The long-term impacts of the attacks on the economy involving disruptions in supply chain, relocation of business, erosion in investor confidence has also been quite catastrophic. This has been demonstrated repeatedly - the September 11 attacks, bombings in the popular tourists spots such as Bali in Indonesia and Mombasa in Kenya, and attacks involving high value economic targets such as French Tanker Limburg and attacks in Turkey targeting HSBC bank.

In sum, emerging patterns of the so-called ‘New Terrorism’<sup>56</sup> and terrorist financial techniques require new and non-traditional dynamics in counter-terrorism cooperation.<sup>57</sup> This involves unprecedented levels of communication, co-operation and collaboration within and among governments, and between the public and private sectors. Active participation and full support by the private sector is also essential to the success of any counter-terrorist financing strategy.<sup>58</sup> Without such universal cooperation, there would be patchworks of domestic, bilateral, and regional efforts working at best at cross-purposes.<sup>59</sup>

### **International Response against Terrorist Financing:**

---

<sup>56</sup> For an account of this phenomenon, see, Andrew Tan and Kumar Ramakrishna, eds., *The New Terrorism, Anatomy, Trends and Counter Strategies*, (Singapore: Eastern University Press, 2002)

<sup>57</sup> Lesser, p.49

<sup>58</sup> FATF, *Freezing Terrorist Assets: International Best Practices* (Paris: FATF Secretariat, 3 October 2003), p.3, [http://www1.oecd.org/fatf/pdf/SR3-BPP\\_en.pdf](http://www1.oecd.org/fatf/pdf/SR3-BPP_en.pdf)

<sup>59</sup> Matthew Levitt, “Stemming the Flow of Terrorist Financing: Practical and Conceptual Challenges,” *The Fletcher Forum of World Affairs*, 27:1, p.63

Financial manipulation and money laundering, which is inextricably linked to terrorist financing, has long been a target of many nations, including the United States. This has been stigmatized in various resolutions by the United Nations and other intergovernmental organizations. The United Nations, especially, possess a very comprehensive range of international crime initiatives and the largest network for the development of international co-operation on criminal matters that also now encompass terrorism. For example, in December 1996, the UN General Assembly adopted Resolution 51/210 calling upon the international community to take steps to prevent and counteract, the financing of terrorists and the movements of funds suspected to be intended for terrorist purposes and to provide for exchange of information concerning international movements of such funds.<sup>60</sup> Similarly since its inception in 1989, the Financial Action Task Force, (FATF) has been addressing global money laundering issues. Some of FATF's initiatives, especially the 'name and shame' technique used against countries that were considered worst offenders has seen marked improvements in the anti-money laundering regime.

Concerted efforts to interdict terror money however began after the 1998 embassy bombings in Tanzania and Kenya. Invoking the International Emergency Economic Powers Act (IEEPA), US criminalized transactions with individuals or groups suspected to be having links with terrorist elements. Businesses suspected to be supporting or being manipulated by terrorist groups such as Al Qaeda and Taliban were put under scrutiny

---

<sup>60</sup> Asian Development Bank , *Manual on Countering Money Laundering and the Financing of Terrorism*, ( January 2003), p.161-175

and sanctions.<sup>61</sup> For example the flights of Ariana Airlines, a key element in the network used to ferry terrorist money, material and personnel to and from Afghanistan were banned worldwide.<sup>62</sup> A universal sanctions regime was later imposed against such entities vide UNSC Resolution No. 1267 of 1999.

However results of these measures were limited and incremental. To some extent the prevailing moral ambivalence among the international community about the general issue of terrorism explains this lack of success in the campaign against tainted money. This ambivalence- translated into euphemisms such as, *one man's terrorist is another's freedom fighter*, has been at the root of the duality that response to terrorism suffers from. Until terrorism affected the US in the most brutal way the attitude of the governments, especially in the West was one of indifference to the conflicts in Asia, the Middle East, Africa, and Latin America, which had been the primary generators of terrorism.<sup>63</sup> As terrorists groups targeted public places, killing civilians including children, the West looked the other way, granted asylum to many terrorists and refused to interdict their financial infrastructure and support base abroad citing human rights concerns, lack of evidence and incompatibility of criminal justice and prison systems.<sup>64</sup> In a way, September 11 marked a threshold between 'good' and 'bad' terrorists. As subsequent investigations revealed, among the perpetrators involved in the entire planning and execution of the attacks were a disturbing number of individuals who were not monitored

---

<sup>61</sup> William F. Wechsler. "Strangling the Hydra: Targeting Al Qaeda's Finances," in James F. Hoge, Jr. and Giden Rose, eds., *How did This Happen?* (New York: Public Affairs, 2001), p.136

<sup>62</sup> "Terrorist Financing: Report of an Independent Task Force," p.11

<sup>63</sup> *Ibid.*, p.32

<sup>64</sup> Rohan Gunaratna, "Terrorism in Asia Before and After 9/11," in *Responding to Terrorism: What Role for the United Nations?* p.32-33

by their respective countries because they were treated as merely ‘terrorist supporters,’ not actual ‘terrorist operatives.’ This sort of ambivalence entailed a permissive operating environment that enabled the terrorists to maintain elaborate support structures, especially funding capabilities. As September 11 decisively demonstrated, the international neglects of conflicts returned to haunt the West with a vengeance.<sup>65</sup>

### **Post September 11 Initiatives:**

September 11 incidents however brought about a convergence of interest against terrorism worldwide. States, including those that did not see themselves as targets of terrorism, became more willing to give terrorism the priority it deserved as a global threat. New coalitions and alignments emerged against terrorism based not only on American power but also on the perceived self-interest of other states. This was made easier with the understanding that terrorism affects all and none can achieve its own anti-terrorist objectives without supporting a global effort against it.<sup>66</sup> Much of the rest of the world united to work more closely with the US against terrorism and terrorist finance.<sup>67</sup> Increased coordination in surveillance and intelligence operations and attempts to break terrorist webs and their financial networks along with solicitation of active military help (the Philippines, for instance), thus were the results of shifts in perceptions of interest arising from what Robert Keohane termed public delegitimation of terrorism.<sup>68</sup>

---

<sup>65</sup> Ibid., p.32

<sup>66</sup> Robert Keohane, “The Public Delegitimation of Terrorism and Coalition Politics,” in Ken Booth and Tim Dunne, eds., *Worlds in Collision: Terror and the Future of Global Order* (New York: Palgrave Macmillan, 2002) p.141-142

<sup>67</sup> Fred Halliday, “A New Global Configuration,” in Booth and Dunne, eds., *Worlds in Collision*, p.236

<sup>68</sup> Robert Keohane, “The Public Delegitimation of Terrorism and Coalition Politics,” p.144

There was also an increase in support for international institutions and regimes, especially for the United Nations. There was at least an expectation that UN support can elevate the actions from the policy of one country or limited set of countries to a policy endorsed on a global basis. This shift was more pronounced in the case of the US, as it was both important and necessary for the UN to be the source of collective legitimization for Washington's global campaign against terrorism.<sup>69</sup>

In what follows hereafter, I examine how much of this collective wish against terrorism have been translated into practice especially with regard to international cooperation targeting terrorist finance.

Within the span of a few weeks after September 11 attacks, the Security Council unanimously passed resolutions 1368 (2001) and 1373 (2001), and the General Assembly adopted resolution 56/1 by consensus, underlining the depth of shared international commitment to an effective, sustained and multilateral response to the problem of terrorism.<sup>70</sup> Resolution 1373 is a comprehensive statement of the international community's desire to deny terrorists the tools of their trade - finance, secrecy, arms and shelter. The resolution requires member states to, prevent and suppress the financing of terrorist acts by criminalizing collection and provision of funds likely to be used for terrorist acts, freeze financial assets and economic resources of terrorists and their supporters and deny them safe haven, and assist each other in criminal investigations and

---

<sup>69</sup> Koehane, "The Public Delegitimation of Terrorism," p.143

<sup>70</sup> *Report of the Policy Working Group on the United Nations and Terrorism*

proceedings. The resolution also established the Counter-Terrorism Committee (CTC) to monitor the progress in implementation of measures suggested in the resolution. Resolution 1390 (2002), strengthened by Resolution 1455, (2003) authorized the continuation of the sanctions regimes, against Bin Laden, the Taliban and associated entities.<sup>71</sup>

On 31 October 2001, FATF, issued its 'Eight Special Recommendations on Terrorist Financing,'<sup>72</sup> setting up financial and regulatory standards and best practices for countries to create effective counter-terrorist financing regimes. In a statement then FATF President Clarie Lo expressed the hope that the "implementation of these Special Recommendations will deny terrorists and their supporters access to the international financial system."<sup>73</sup> The IMF and the World Bank recognize the FATF measures as international standards for combating the financing of terrorism. The recommendations include measures to be taken by states, to criminalize the financing of terrorism and to freeze and confiscate terrorist assets. The states are to impose anti-money laundering measures on alternative remittance systems, and to ensure that entities, in particular non-profit organizations, are not misused to finance terrorism.<sup>74</sup> Importantly, the states are urged to ensure that "claims of political motivation are not recognized as a ground for refusing requests to extradite persons alleged to be involved in terrorist financing."<sup>75</sup>

---

<sup>71</sup> See Appendix III on important Security Council Resolutions related to terrorism.

<sup>72</sup> See Appendix IV on the FATF Recommendations.

<sup>73</sup> "FATF Cracks Down on Terrorist Financing," *FATF*, 1 November 2001, [http://www1.oecd.org/fatf/pdf/PR-20011031\\_en.pdf](http://www1.oecd.org/fatf/pdf/PR-20011031_en.pdf)

<sup>74</sup> *Ibid.*

<sup>75</sup> FATF, *Guidance Notes for the Special Recommendations on Terrorist Financing and the Self-Assessment Questionnaire* (Paris: FATF Secretariat, 27 March 2002), p.4, [http://www1.oecd.org/fatf/pdf/TF-SAGUIDE20020327\\_en.pdf](http://www1.oecd.org/fatf/pdf/TF-SAGUIDE20020327_en.pdf)

The measures were both preventive and punitive in nature.<sup>76</sup> The punitive measures such as the criminalization of acts of financing of terrorism are based on the International Convention for Suppression of the Financing of Terrorism,<sup>77</sup> and the Convention against Transnational Crime, (known as the Palermo Convention).<sup>78</sup> The preventive measures involve the establishment of regulatory regimes to prevent the misuse of financial institutions including charities and business enterprises as per FATF guidelines. Of critical importance has been the establishment of effective terrorist assets freezing regimes. As put by FATF, much more than freezing the terrorist-related funds or other assets, effective freezing regimes would combat terrorism 'by a non-designated, but willing financier, exposing terrorist financing money-trails leading to hitherto unknown terrorist cells and financiers, terminate terrorist cash-flow, dismantle terrorist finance networks thus forcing them to use costlier and high-risk means that would thereby make them susceptible to detection and disruption.'<sup>79</sup>

In a broader sense, these initiatives emphasized efficient and rapid dissemination of terrorist finance information through legal mechanisms and mutual assistance programmes in order to help concerned agencies identify, disrupt and dismantle terrorist financing networks. As the IMF noted, the collection, analysis, and dissemination of financial information is very crucial to 'disrupt, delay, interrupt, and defeat both terrorism and terrorist finance.'<sup>80</sup>

---

<sup>76</sup> FATF, *Interpretative Note to Special Recommendation III: Freezing and Confiscating Terrorist Assets* (Paris: FATF Secretariat, 3 October 2003), p.1 [http://www1.oecd.org/fatf/pdf/INSR3\\_en.pdf](http://www1.oecd.org/fatf/pdf/INSR3_en.pdf)

<sup>77</sup> Adopted by the UN General Assembly on 9 December 1999, (Resolution 54/109)

<sup>78</sup> Adopted by the UN General Assembly on 15 November 2000, (Resolution 55/25)

<sup>79</sup> FATF, *Freezing Terrorist Assets: International Best Practices*, p.2

<sup>80</sup> International Monetary Fund, *Intensified Fund Involvement in Anti-Money Laundering Work and Combating the Financing of Terrorism* 5 November 2001, p.5  
<http://www.imf.org/External/np/mae/aml/2001/eng/110501.pdf>

Importantly, it was recognized that different nations would adopt different terrorist financing freezing regimes in accordance with their differing legal traditions, constitutional requirements, systems of government and technological capabilities.<sup>81</sup> This was to ensure, among others that, the nations would not have to employ, any unilateral, 'US-only' model of counter-terrorist finance.<sup>82</sup>

The UN mechanism, together with other regional initiatives<sup>83</sup> and the engagement of specialist institutions and agencies,<sup>84</sup> proved invaluable to effectively internationalize terrorist finance concerns, especially from the US perspective. It spared Washington prodding its counterparts across the globe to take actions against specific terrorist finance targets as long as their names appear on the UN list.

---

<sup>81</sup> FATF, *Freezing Terrorist Assets: International Best Practices*, p.3

<sup>82</sup> E. Anthony Wayne, "International Dimension of Combating the Financing of Terrorism," *Testimony to House Committee on International Relations, Subcommittee on International Terrorism, Nonproliferation and Human Rights*, ( Washington, D.C.: US Department of State, 26 March 2003), <http://www.state.gov/e/eb/rls/rm/2003/19113.htm>

<sup>83</sup> See Appendix II on various conventions on terrorism

<sup>84</sup> See Appendix I for information on other Institutions

## Tracking Progress on War Against Terrorist Finance

The international coalition participating in the 'War on Terror' recorded many early and quick successes especially on the critical front against terrorist finance. As indicated by various US Treasury press releases and statements, there was unprecedented cooperation from around the world. Washington claimed that the 'Action Plan to Combat the Financing of Terrorism' formulated in October 2001 has been immensely successful with more than 200 countries and jurisdictions having taken steps to enforce the international sanctions and international standards and freeze terrorist assets. There has been increasing information sharing among countries with enhanced efforts by financial supervisors to guard against the abuse of the financial sector by terrorists. According to US officials, by September 2003, 1439 accounts, containing more than \$136.7 million in assets were frozen worldwide (see Table-1) and more than \$60 million in additional terrorist related assets seized by authorities globally, 'a larger sum by (our) allies abroad.'<sup>85</sup> Terrorist financing channels that once funneled millions of dollars to terrorists have been dismantled. Several key fundraisers and facilitators have been identified and arrested including Khalid Sheikh Mohammad and Mustafa Ahmed al-Hawasawi, 'further limiting sources of money for terrorists.'<sup>86</sup>

---

<sup>85</sup> James Gurule , "Update on Tracking the Financial Assets of Terrorists: One Year Later," *Foreign Press Center Briefing* (Washington, D.C.: US Department of State, 9 September 2002), <http://fpc.state.gov/13337pf.htm>

<sup>86</sup> US Department of Treasury, "Progress in the War on Terrorist Financing," *Press Release* (Washington, D.C., 11 September 2003), p.2

**Table-4**

Since September 11, 2001:

- 209 jurisdictions have offered their support in the financial war on terror
- 173 countries have issued blocking orders freezing terrorist assets
- 100 countries have passed new laws, strengthening their safeguards against terrorist financing.
- 80 countries have established Financial Intelligence Units to share information on terrorist financing.
- 1439 accounts containing more than \$136.7 million in assets frozen worldwide- including \$36.6 million in the US.
- More than \$ 60 million in additional terrorist related assets seized by authorities globally.
- 315 individuals and organizations listed as Specially Designated Global Terrorists (SDGTs).
- Countless millions in additional funds prevented from flowing to terrorists by disruption of terrorist financing networks, deterrence of donors and international efforts to secure the world financial system from the financing of terror.
- Several major sources of terrorist financing dismantled.

(Source: US Department of Treasury)<sup>87</sup>

---

<http://www.ustreas.gov/press/releases/reports/js721.pdf>. Also see, "Progress Report on Combating Terrorist Financing," *The Office of Public Affairs* 11October 2001, <http://www.ustreas.gov/press/releases/po684.htm>, and "Action Plan: Progress Report on Combating the Financing of Terrorism" (Washington, D.C., 9 February 2002), <http://www.ustreas.gov/press/releases/po2012.htm>

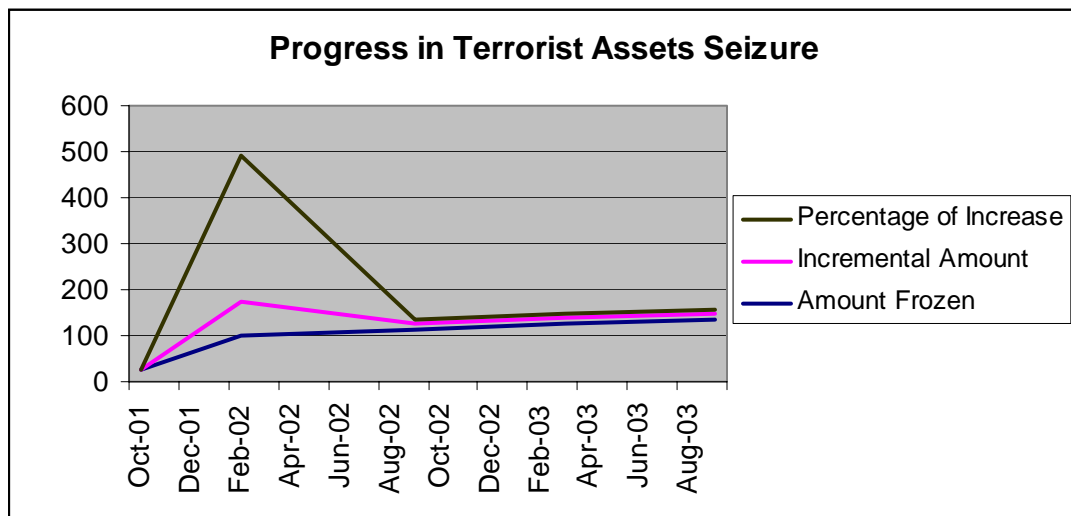
<sup>87</sup> US Department of Treasury, "Progress in the War on Terrorist Financing," p.3

As put by the US Treasury, such level of international support is perhaps one of the most significant success stories in the battle against terrorist financing. The US officials believe that, terrorist operatives are finding it increasingly difficult to gain access to funds needed to escape the international dragnet targeting them. This is preventing them to communicate effectively between cells in different parts of the world, and conduct further operations.

However a more detailed analysis would demonstrate that the progress in the war against terrorist finance, after an initial spectacular success, has now begun to be slow and almost faltered. A test case is the progress on seizure of terrorist assets as per Table 1.

**Chart-1**

*Progress in Terrorist Assets Seizure*



(Based on data in Table-1)

Even the amounts as claimed by the US Treasury, to have been frozen, are significantly lower than the known resources of many terrorist groups or even Bin Laden alone.

Though there is general willingness on the part of most foreign governments to cooperate with US-led efforts to block terrorist assets and establish a universal regime against terrorist finance, progresses in these areas have simply not been given enough priority. “In this area obstacles have emerged and the coalition may be fraying.”<sup>88</sup> In addition there has been considerable skepticism about the US estimates of the amount frozen, some describing them as ‘delusional’ or ‘a guesstimate.’<sup>89</sup> In many cases too, a lot of money has been released on judicial orders. On the extremes, some analysts like Xavier Raufer, a French university professor specializing in criminology contend, “It has been a complete failure”.<sup>90</sup>

In this context, it would be instructive to examine the reports of the Monitoring Group of the UNSC. The Group was tasked to monitor the implementation of measures imposed under resolutions 1267 (1999), 1333 (2000), 1390 (2002) against Osama bin Laden, Al Qaeda, the Taliban and their associates, including measures to freeze their financial and economic assets on the basis of the ‘Consolidated List.’ It was also asked to review the actions of member states on other key aspects of terrorist finance such as abuse of charities and legitimate businesses, alternative remittance systems as well as on

---

<sup>88</sup> “Terrorist Financing: Report of an Independent Task Force”, p.15

<sup>89</sup> “Only £300,000 of Al Qaeda Funds Frozen,” *Daily Telegraph*, 3 March 2003.

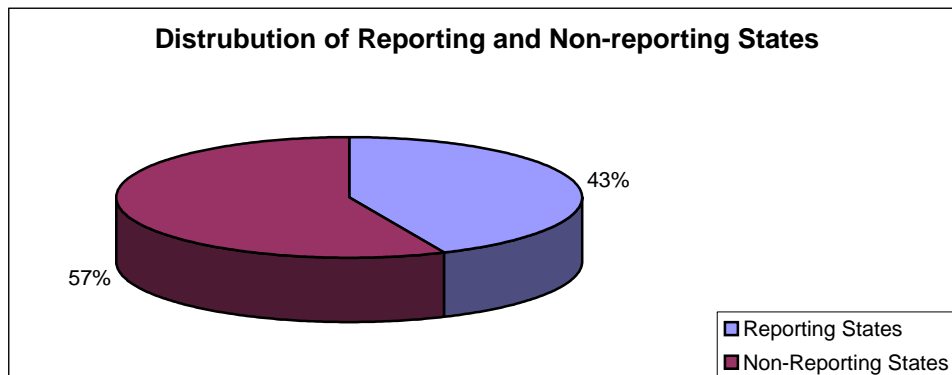
<sup>90</sup> “Terrorists Forced to Get Creative to Raise Financing.” *Taipei Times*, 25 September 2003

limiting the mobility of terrorists and arms embargo, based on the assessment of reports submitted by the member states.

Some of the major findings of the Monitoring Group based on its reports of May, September, and December 2002 and July and December 2003 are important for this analysis.<sup>91</sup>

In general there were indifference and inaction by the states in many routine areas of compliance. For example, by November 2003, only 83 states, corresponding to 43% of all, submitted the mandated report to the Security Council.<sup>92</sup>

Chart-2<sup>93</sup>



Even though a majority of the reports have addressed most of the issues requested (see Chart 3), none of the reports indicated complete implementation of every aspect of

---

<sup>91</sup> See Appendix V

<sup>92</sup> *UNSC Second Report: December 2003*, p.62

<sup>93</sup> *Ibid.*

all three-sanction measures, i.e. freezing of financial and economic assets, travel ban and arms embargo (see Chart 4)<sup>94</sup>

Chart-3

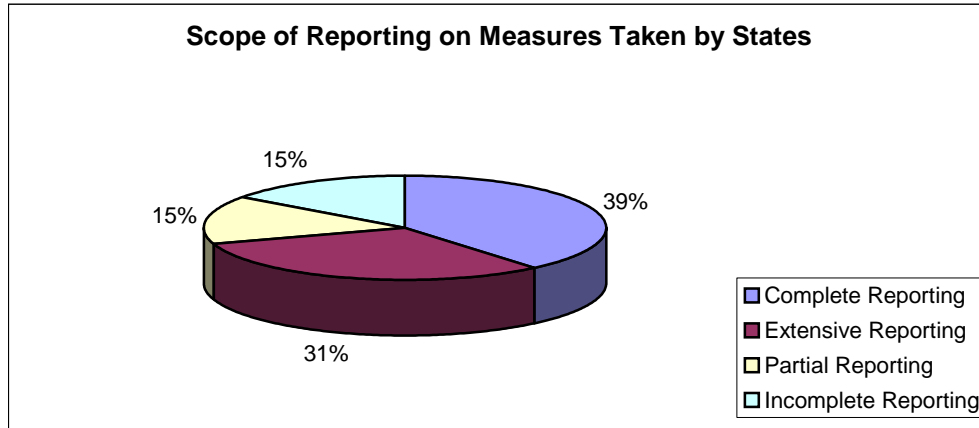
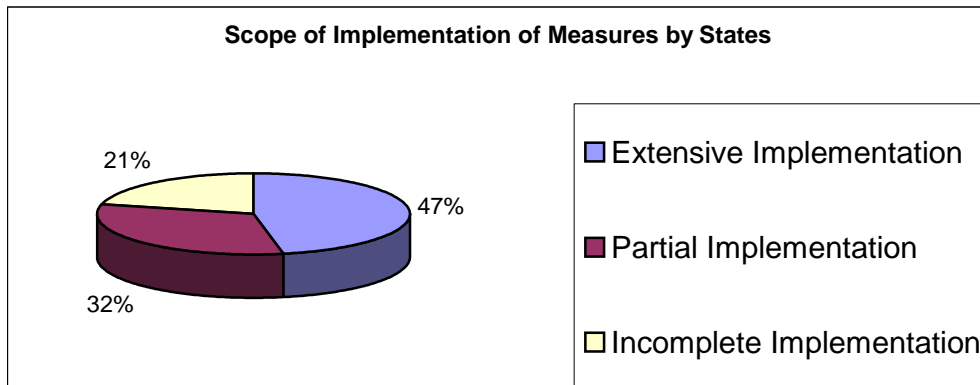


Chart-4



---

<sup>94</sup> Ibid., p.63

There was also discouraging progress in other major areas of actions against terrorist financing.

### **Consolidated List:**

One such issue involves the Consolidated List containing the details about designated persons and entities for assets seizure. The Consolidated List is considered one of the key instruments supporting international cooperation and foundation for the effective implementation of the counter-terrorist financing regime. It is very important therefore that this list is maintained up-to-date, accurate and complete. However, the List continues to have insufficient information making it difficult to identify the designated persons in the list. States continue with differing interpretations regarding the character of the 'Consolidated List' and uneven application with regard to blocking of assets.<sup>95</sup> In many cases, the 'cultural construction' of the names in the list, and questions about the availability of 'humanitarian exceptions,'<sup>96</sup> has left rooms for non-compliance of the resolution.<sup>97</sup> Actions on the list are not being taken by some states citing confidentiality, privacy and legislative requirements.<sup>98</sup> Many countries remain reluctant to submit additional names to the Security Council for designation especially about those who returned from Afghanistan training camps and were known to the authorities. As a result, the List grew very marginally.<sup>99</sup> This according to the Group has seriously degraded the

---

<sup>95</sup> UNSC, *Second Report of the Monitoring Group*, 20 September 2002, p.7  
<http://www.un.org/Docs/sc/committees/1267/1050E02.pdf>

<sup>96</sup> *Ibid.*, p.10

<sup>97</sup> UNSC, *Report of the Monitoring Group*, 15 May 2002, p.5  
<http://www.un.org/Docs/sc/committees/1267/541e.pdf>

<sup>98</sup> UNSC, *Second Report of the Monitoring Group*, p.8-9

<sup>99</sup> *UNSC Second Report: December 2003*, p.8

value of the List,<sup>100</sup> and has made this important instrument against terrorism finance ‘as strong as its weakest link.’<sup>101</sup>

### **Freezing of Financial and Economic Assets:**

Despite many states adopting various measures mandated by the UN such as introducing domestic legal instruments to deal with terrorist financing, there has been significant mismatch in the implementation of the same. 21 of the 83 reporting states indicated assets seizures, which totaled up to only about USD 75 million as against US Treasury report of USD 136.7 million. Five countries- Pakistan, Saudi Arabia, Switzerland, Turkey and the US, accounted for about \$70 million of that amount.<sup>102</sup> ‘No state gave any indication of having frozen any tangible asset including business or property.’<sup>103</sup> Eleven states- Algeria, Australia, Kuwait, Lebanon, India, Iran, Israel, Jordan, Russia, Singapore and Syria- with acknowledged presence of Al Qaeda related cells, provided no information on assets being frozen.<sup>104</sup> Some countries like the Philippines provided no indication about any assets being frozen claiming confidentiality on such matters. Significantly, more than 80% of the amounts were seized in Europe, Eurasia and North America with South Asia accounting for about 13%. Other regions accounted for less than 1%. This was a significant setback especially as intelligence analysts believe that Al Qaeda might have moved some of its financial assets to areas in Africa, the Middle East and Southeast Asia, where the resources to regulate such

---

<sup>100</sup> UNSC, *Third Report of the Monitoring Group*, 17 December 2002, p.7 <http://ods-dds-ny.un.org/doc/UNDOC/GEN/N02/725/72/PDF/N0272572.pdf?OpenElement>

<sup>101</sup> *UNSC Second Report: December 2003*, p.66

<sup>102</sup> *Ibid.*, p.12

<sup>103</sup> *Ibid.*, p.13

<sup>104</sup> *Ibid.*,

activities are lacking. More so when the value of Al Qaeda portfolio outside of European and American banks was estimated to be between \$30 and \$300 million and the group is believed to have been receiving estimated \$16 million in donations annually.<sup>105</sup>

### **Charities:**

The funds collected and distributed by a number of Islamic charities, are proving to be particularly problematic to controls because of associated educational, religious and humanitarian aspects. Some states, particularly many Southeast Asian and Middle-Eastern countries, continue with the tradition that supports the independent operations of charities and the anonymity of their donors. Even when charities have been designated, many of them, such as Al-Haramain, the Global Relief Foundation, the Rabita Trust, Al-Rashid Trust continue their operations due to inaction by many countries. Al-Haramain's Somalia branch for instance, has not been shut down even though it reportedly provided funds to Al-Ittihad al-Islami, a designated terrorist group. Many such charities keep on with their activities using third-party accounts, aliases and partnerships and getting into legal businesses with full knowledge of the authorities in the host countries. Many trading and travel companies established in Southeast Asia by Mohammed Jamal Khalifa (brother-in-law of Osama bin Laden) continue to serve as front companies for Al Qaeda and Jemaah Islamiyah.<sup>106</sup>

### **Shell Companies and Offshore Trusts:**

---

<sup>105</sup>UNSC, *Report of the Monitoring Group*, 8 July 2003, p.14 <http://ods-dds-ny.un.org/doc/UNDOC/GEN/N03/398/55/PDF/N0339855.pdf?OpenElement>

<sup>106</sup> *UNSC Second Report: December 2003*, p.13-20

Similar reluctance and inaction has made it difficult to control and monitor shell companies and offshore trusts that terrorists have been using to mask the identity of individuals (Youssef Nada and Idris Nasreddin, for example)<sup>107</sup> and entities engaged in financing of terrorism. Failure to control the international movement of such persons has helped them to continue with their activities. Many countries have not moved beyond controlling the bank accounts of such companies and trusts, citing administrative and judicial impediments.

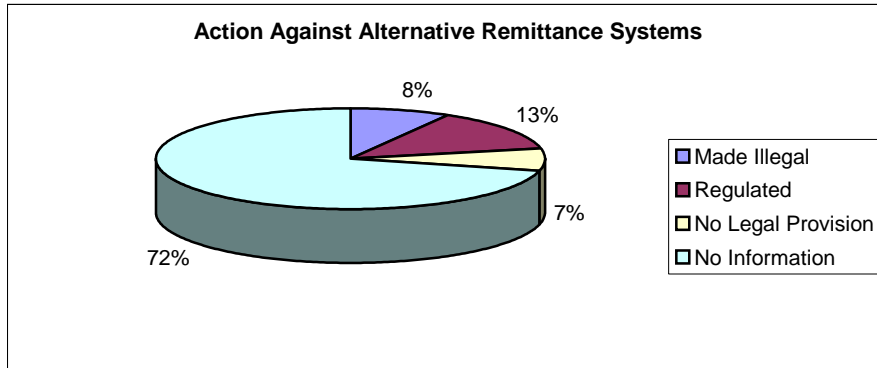
#### **Alternative Remittance Systems:**

There has been very uneven application of regulatory and control measures in respect of alternative remittance systems including the *hawala*. The following chart shows inaction and the lack of uniformity in this regard.

Chart-5

---

<sup>107</sup> Ibid., see, pp.20-23



Overall while some states have been extremely cooperative, the reluctance and reticence of others were found by the Group to be ‘almost obstructive.’<sup>108</sup>

FATF similarly introduced a self-assessment exercise for its members to determine what steps have been taken to implement its Special Recommendations to combat terrorist financing. On the basis of the information provided, FATF was able to determine that only France and Italy, complied with seven of the eight recommendations.

Charts 6 and 7 map the current compliance status for other FATF members:<sup>109</sup>

<sup>108</sup> UNSC, *Report of the Monitoring Group*, 15 May 2002, p.11

<sup>109</sup> FATF, *Annexes 2002-2003* (Annex C), pp.1-2

Chart-6

Compliance status for other FATF members

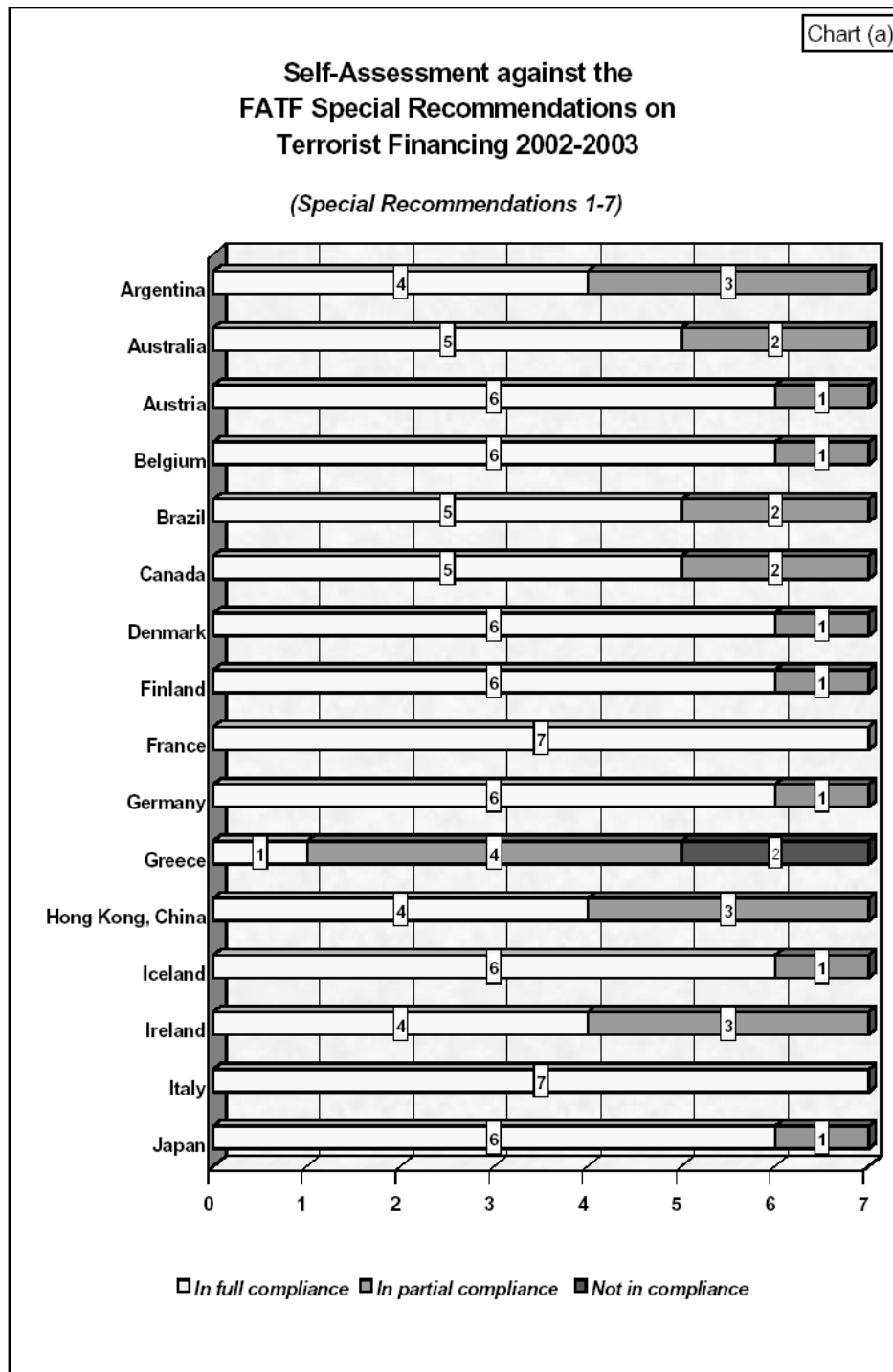
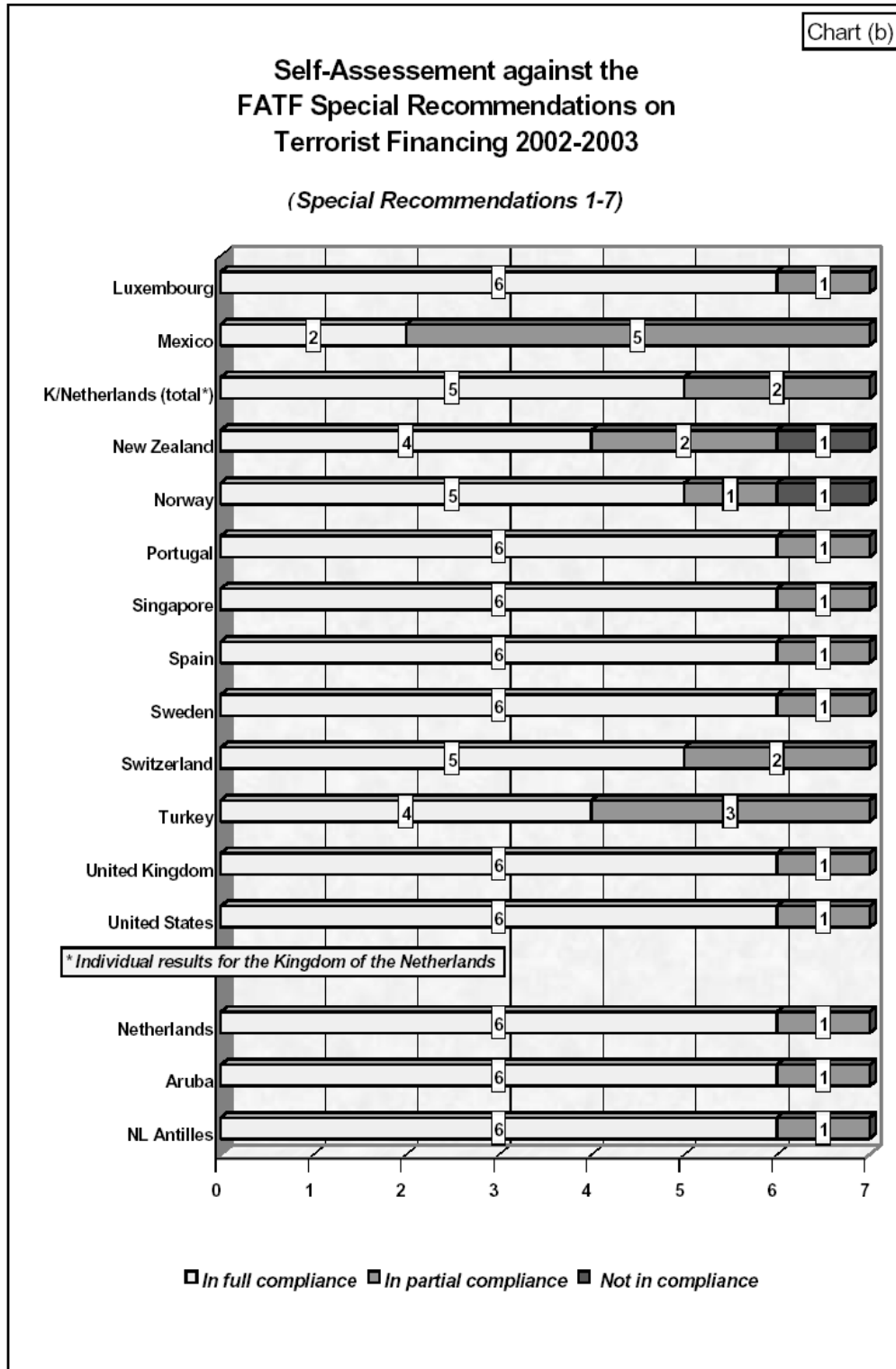


Chart-7

Compliance status for other FATF members



The FAFT analysis determined that in many cases most of the UN resolutions are yet to be implemented. Even where necessary national legislations are enacted, they have not been implemented fully. Some states do not yet have provisions to permit the freezing, seizing and confiscation of all types of terrorist property and many are yet to criminalize terrorist financing especially if the terrorist act is committed in another State. Some states do not yet have a reporting obligation where funds are suspected of being linked to terrorism. Many states do not yet have any designated authority to enforce and monitor the implementations of various measures.<sup>110</sup>

In many cases there have been instances of cheating in seizure of terrorist assets. For example, Pakistan, one of the strongest allies of the United States in the “war on terror,” dragged its feet in both banning the terrorist groups operating from its territory with pronounced links with Al Qaeda and blocking their assets. There were even allegations that the groups were allowed to withdraw their money from the banks before orders to seize the funds were put in place.<sup>111</sup>

In sum, international coalition against terrorist financing is beset with serious problems and systemic weaknesses. There are inconsistencies in the definition and interpretation of different conventions, statutes and guidelines and vagueness about the assets tracking systems put in place by various jurisdictions. Countries are not untied in their actions resulting in many loopholes in the establishment of a viable anti-terrorist financing regime.

---

<sup>110</sup> Ibid., *Explanatory Notes*, pp.3-6

<sup>111</sup> B. Raman, “Banning the Banned: Counter-Terrorism A La Musharraf,” *South Asia Analysis Group*, 842, 20 November 2003, <http://www.saag.org/papers9/paper842.html>

## **Explaining Non-cooperation**

Despite an array of measures against terrorism and the terrorists, a fully articulated and sustained response against the operational, logistical and financial side of terrorist network still eludes the international community. “The environment in which terrorists raise, launder, and transfer funds to further their activities remains all too permissive, while the international effort to constrict this environment remains insufficiently coordinated.”<sup>112</sup> Many factors would explain this apparent ineffectiveness and emerging setbacks.

### **Structural Factors:**

At a broader level, the financial market liberalization in the 1980s and 1990s dismantled the elaborate system of licencing and controls to smoothen the flow of capital across national borders. This also reduced the monitoring and regulatory capacity of many states. Once the controls have been dismantled, it would be difficult, though not impossible, to put in place a new ‘robust’ regulatory regime at a ‘relatively short notice.’

113

In many regions such as Africa, Central Asia, and the Caucasus, there are also problems of lack of administrative capacity- financial oversight procedures, laws and

---

<sup>112</sup> Levitt, “Stemming the Flow of Terrorist Financing,” p.61

<sup>113</sup> Biersteker, p.77

institutions, compounded by informal banking practices and lack of skilled personnel and resources - to track money laundering or other suspicious transactions.<sup>114</sup> The arrangements for capacity building in such areas have been largely bi-lateral and limited to specific areas. Among smaller countries, administrative capacity to implement sanctions is directly correlated with the level of development – the more developed a country, the more capable is it likely to be with regard to the implementation of the measures.<sup>115</sup> The assistance programmes by the IMF and the World Bank in this respect have not been made use of extensively.<sup>116</sup> At the regional level, such as the European Union, efforts are hampered by lax border controls and ‘stringent evidentiary standards’ required by certain European legal systems to block assets.<sup>117</sup>

Though the institutional arrangements for targeting terrorist money have been quite impressive there have been a number of setbacks there as well. For one thing, many of the institutions including the United Nations, lack substantive enforcement capability. The United Nations’ Counter-terrorism Committee is not empowered to sanction noncompliant countries. It plays a purely advisory role.<sup>118</sup> The FATF does carry a stick; it can blacklist countries that are non-compliant [Non-Cooperating Countries and Territories (NCCT) Programme]. However it is limited only with respect to anti-money laundering practices. Lack of resources and technical expertise has failed the Financial Intelligence Units (FIUs) initiative at the behest of the Egmont Group to develop and

---

<sup>114</sup> Keats, “CDI Primer: Terrorist Finances”

<sup>115</sup> Biersteker, p.82

<sup>116</sup> International Monetary Fund, *Status Report*, 5 September 2003, <http://www.imf.org/external/np/aml/eng/2003/090503.htm>

<sup>117</sup> “Terrorist Financing: Report of an Independent Task Force,” pp.16-17

<sup>118</sup> Levitt, “Stemming the Flow of Terrorist Financing,” p.62

analyze and share financial intelligence to prevent financial crime.<sup>119</sup> Besides, the manner in which the Monitoring Group was allowed to lapse with a US backed resolution reflects growing divide among nations working to interrupt the flow of terror money.<sup>120</sup>

### **Common Versus Conflicting Interests:**

Importantly, many countries are simply unwilling to confront domestic funding of terrorism, their reluctance stemming from political resistance beside dearth of resources. In particular many Gulf States have often failed to track funds linked to Al Qaeda and have resisted working with foreign enforcement agencies.<sup>121</sup> In other regions, especially in South and Southeast Asia, international law enforcement cooperation has been slow, given with difficulty or simply refused.<sup>122</sup>

In many countries, the political will has become a factor of political survival and constituency pressure,<sup>123</sup> as for example the case with Indonesia. Many small countries, lacking resources, have found opportunities for healthy profits in the offshore banking practices and business markets, therefore dragging their feet for cooperation with

---

<sup>119</sup> "Terrorist Financing: Report of an Independent Task Force," p.19-20

<sup>120</sup> "UN Dissolves Panel Monitoring Al Qaeda," *Global Policy Forum*, 2 February 2004, <http://www.globalpolicy.org/security/sanction/afgnstan/2004/0202panel.htm>

<sup>121</sup> Keats, "CDI Primer: Terrorist Finances,"

<sup>122</sup> "Terrorist Financing: Report of an Independent Task Force," p.18

<sup>123</sup> Rohan Gunaratana, "The Lifeblood of Terrorist Organizations: Evolving Terrorist Financing Strategies," in Alex P. Schmid, ed., *Countering Terrorism through International Co-operation* (Milano: ISPAC, 2001), p.181

international law enforcement.<sup>124</sup> There have also been instances of bureaucratic inertia and pressures of diplomacy hampering cooperation.<sup>125</sup>

#### **Unilateralist Policies:**

It is important however to note that these structural challenges to multilateral coordination may be daunting but not impossible to manage. What has been missing more and more now is the political will on the part of the international community. Besides, it appears that the basic ambivalence to the general issue of terrorism is now beginning to resurface.<sup>126</sup> This has been largely on account of what some analysts believe US's "proclivities toward unilateral multilateralism."<sup>127</sup> According to some commentators, Washington, has been demonstrating a very "aggressive go-it alone" attitude in the global 'war on terror.'<sup>128</sup> This was evident when President Bush said, "you are either with us or with the terrorists," and if you are with the terrorists, you will face the consequences."<sup>129</sup> Similarly, on the eve of Afghanistan attacks, Condoleeza Rice, the US National Security Advisor commented that the US did not need a mandate from the UN Security Council to launch reprisals in response to the September 11 attacks. "We will see what further we need to do with the UN. But I do not believe the President..needs

---

<sup>124</sup> "Terrorist Financing: Report of an Independent Task Force," p.2-3

<sup>125</sup> Zachary Abuza, "Funding Terrorism in Southeast Asia: The Financial Network of Al Qaeda and Jemaah Islamiyah," *NBR Analysis*, 14:5 (December 2003), p.9  
<http://www.nbr.org/publications/analysis/vol14no5/145.pdf>

<sup>126</sup> Ray Takeyh, "Quandries and Coalitions: The U.S. Response to September 11," *Policy Watch*, 556, 17 September 2001, [http://www.ciaonet.org/pbei/winep/policy\\_2001/tar04.html](http://www.ciaonet.org/pbei/winep/policy_2001/tar04.html)

<sup>127</sup> Biersteker, p.84

<sup>128</sup> Mwesiga Baregu, "Beyond September 11: Structural Causes of Behavioral Consequences of International Terrorism," in *Responding to Terrorism: What Role for the United Nations?* p.42

<sup>129</sup> "Fact Sheet: White House on Halting Financial Flows to Terrorists," *Washington File* (Washington D.C.: US Department of State, 07 November 2001), <http://usinfo.state.gov/topical/pol/terror/01110711.htm>

further authority to act in self-defence.”<sup>130</sup> On the terrorist financial front similarly, Bush administration’s attitude has been quite insensitive and single-minded. Bush asked the banking and financial institutions around the world to cooperate or get punished. “You will not do business with the United States if you fail to help us.”<sup>131</sup> The logical implications of this tendency could be that Washington is seeking its own security at any cost, even at the risk of making the rest of the world more insecure.<sup>132</sup> As dusts settled down on the ruins of the World Trade Centre and the Pentagon, this attitude is proving to be counterproductive for the United States. The February 2003 U.S. *National Strategy for Combating Terrorism* explicitly recognizes the need for international cooperation, but says little about how to bring about such cooperation and next to nothing about the role of the UN. And this is not discounting Washington’s intransigence and persistent refusal to listen to the collective wisdom in respect of Iraq. Its Iraq engagement has seriously jeopardized the global terrorism campaign, creating a major diversion from and a major division among its allies fighting, the ‘war on terror.’<sup>133</sup>

This division has been more pronounced in certain key sectors in US-Europe relations. To the Europeans, Americans appear to be besotted with power, and becoming increasingly ‘overbearing, jingoistic and rash.’<sup>134</sup> According to a survey by the Pew Research Centre, skepticism about US’s motive in the global anti-terror campaign has led to a growing popular support for disengagement with Washington in foreign and security

---

<sup>130</sup> “US Sees No Need for Mandate from UN,” *Dispatch Online*, 24 September 2001

<http://www.dispatch.co.za/2001/09/24/foreign/AABINLAD.HTM>

<sup>131</sup> The White House, *President Freezes Terrorists’ Assets*

<sup>132</sup> Mwesiga Baregu, p.42

<sup>133</sup> “Fighting a New Cold War,” *Business Week*, 29 March 2004,

[http://www.businessweek.com/magazine/content/04\\_13/b3876020.htm](http://www.businessweek.com/magazine/content/04_13/b3876020.htm).

<sup>134</sup> Madeleine Albright, “Farce to Tragedy in One Act of US Folly,” *In Review*, 19 January 2004,

<http://www.inreview.com/showthread.php?s=&threadid=15250>

policy including on terrorism.<sup>135</sup> The ease with which, a terrorist attack unseated the pro-US government in Spain demonstrates how Bush administration has damaged American credibility and weakened the international alliance against terrorism.<sup>136</sup>

The widening divide between the United States and much of the rest of the world, on the basic issue of global terrorism is having its obvious repercussions on the campaign on the financial front.<sup>137</sup> For example, even though the EU designated for asset freeze the military wing of Hamas and three charities linked to Hizballah, it refused to designate either groups in its entirety citing the difference between the political/humanitarian and terrorist activities of these organizations.<sup>138</sup> Even in describing the internal presence of Al Qaeda, some states distinguish between the ‘core organization/network/structure’ and the ‘peripheral sympathizers/messengers/associates,’ mainly involved in financing.<sup>139</sup> Debates are emerging about how much of the Islamist terrorism is anti-American and how much is against the West as a whole. The growing evidence of disagreement at the political level is likely to make global counter-terrorism strategy including measures to target terrorist financing less and less effective.<sup>140</sup>

---

<sup>135</sup> “A Year After Iraq War: Summary of Findings,” *Pew Research Centre for the People and the Press*, 16 March 2004, <http://people-press.org/reports/display.php3?ReportID=206>

<sup>136</sup> “Alienated Spain Rejects Bush’s War,” *The New York Observer*, 14 April 2004, <http://www.nyobserver.com/pages/story.asp?ID=8771>

<sup>137</sup> “Terrorist Financing: Report of an Independent Task Force,” p.15

<sup>138</sup> Wayne, “International Dimension”

<sup>139</sup> *UNSC Second Report: December 2003*

<sup>140</sup> Lesser, p.46-49

## **Conclusion:**

In 'Art of War,' Sun Tzu, the celebrated Chinese military philosopher advocated destruction of an enemy's stores with fire.<sup>141</sup> His tactics in essence were to sever the enemy's supplies and thus cause his downfall even without direct military engagement. The counter-terrorism tactics similarly, must involve the measures to squeeze the environment in which terrorist operate, including 'their logistical and financial support networks,' which would deny them the means to travel, to communicate, to procure equipment and to conduct attacks.<sup>142</sup>

Given the nature of the threat, there is probably no alternative to institutionalized international cooperation to combat both the terrorism and the terrorist finance. After September 11 attacks, an overwhelming majority of states favored crackdowns on terrorist finance and supported the measures undertaken for that purpose. But the international community has failed to achieve any meaningful enforcement of the measures. Terrorists continue to have access to funds and are able to move them around to finance their activities in many parts of the world.

---

<sup>141</sup> Lionel Giles, "Sun Tzu on the Art of War," (Chapter 12), *Korea Web Weekly*, 22 February 2003  
<http://www.kimsoft.com/polwar.htm>

<sup>142</sup> Levitt, "Stemming the Flow of Terrorist Financing," pp.59-60

As the analysis above demonstrated, it is not the institutions that failed the war on terrorist finance, rather the states that have failed the institutions. Within and among the states, the failure has been a factor of domestic, structural and political constraints. Importantly, some of the policies of few major players have completely overwhelmed the spirit of cooperation with the result that many states have grown insensitive to and ambivalent or simply indifferent about the necessity to target the financial infrastructure of the terrorist groups. The fault-lines in the global financial system, therefore continues to be exploited by the terrorists, validating Osama bin Laden's comment that the very flaws of the 'Western financial system' would 'become a noose for it.'<sup>143</sup>

---

<sup>143</sup> "Net Closes on Terror Cash," *BBC News*, 28 September 2001