



The Global Effort to Regulate the Financing of Terrorism

Topics

- The priority given to curtailing access to finance for groups utilizing terrorism after 911
- What we know about the financing of global terrorism
- How the world has responded to the challenges of terrorist financing
- How effective the effort has been to date
- Costs, benefits, and policy recommendations

**The priority given to curtailing
access to finance for groups
utilizing terrorism after 911**

Targeting Terrorist Finances

“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, turn them against each other, rout them out of their safe hiding places, and bring them to justice.”

George W. Bush, September 2001

Why try to suppress terrorist financing?

- May prevent some attacks, or at least can reduce the impact of attacks that cannot be prevented
- Positive deterrent effect
- Intelligence value
- Useful politically

What do we know about the financing of Global Terrorism?

1. It doesn't take a large amount of funds to commit an act of terrorism.

- September 11: \$400-000 - 500,000
- Bali: \$50,000 - 74,000
- Istanbul: \$40,000

1. It doesn't take a large amount of funds to commit an act of terrorism.

- Africa Embassy Bombings: \$30,000 - \$50,000
- First WTC Bombing: \$18,000
- Madrid: around \$10,000

Actual terrorist operations consume only about 10% of the funds that terrorist organizations require for their support infrastructure.

2. There are a variety of different methods for raising, moving, and storing funds.

What do we know about al-Qaeda and its financial network?

- Decentralized, compartmentalized, flexible and diverse
- Financial network is characterized by layers and redundancies
- Raises funds from a variety of sources and moves it in a variety of different ways
- Changed its structure, recruitment, and operating modalities, including its financing, over time

Raising funds

- Legitimate businesses
- Criminal enterprises
- Charities, NGOs, mosques, web sites, special fundraisers, intermediaries, facilitators, and direct solicitations

Moving funds

- Formal banking system
- Islamic banking and financial system
- *Hawala* system
- Transfer pricing and trade diversion schemes
- Smuggling

Storing funds

- Cash
- Family members, friends and close allies
- Gemstones (1998-99)
- Ad hoc arrangements with other terrorist organizations and possibly with criminal organizations

3. The social organization of different groups using terrorism has important consequences for how they raise and move funds.

Social Organization

- Hierarchical organizations
- Virtual, decentralized networks
- Organizational forms associated with national self-determination movements

4. Groups have changed their methods of raising and moving funds over time, possibly in response to regulatory efforts.

Raising and Moving Funds Today

- Petty crime
- Credit card fraud
- Small-scale drug trafficking
- IVTS (*hawalas*)
- Cash smuggling
- Linkages to organized crime

How has the world responded to the challenges of terrorist financing?

UNSC Resolution 1373

- Deny support for terrorists
- Prevent the financing of terrorism prior to the commitment of an act of terrorism
- Legal ability to freeze funds expeditiously

UNSC Resolution 1373

- Innovative and novel procedures:
- Mandatory reporting requirements
- Consultative process
- Convention on Terrorist Financing

UNSC Resolution 1373

- CTC focused on building:
- Legal basis for freezing assets
- Administrative mechanisms to suppress financing
- Address charities, IVTS, *hawalas*
- Technical assistance program

UN Al-Qaida Sanctions Committee (1267 Committee)

- Maintains the list of designated individuals and entities
- Improved quality of information
- Developed procedures for de-listing

UNSCR 1566 (October 2004)

- Contains elements of a definition of terrorism
- Expanded list of individuals and groups using terrorism
- Establishes a continuing committee to monitor both efforts

Other international efforts

- Financial Action Task Force (FATF)
 - Eight Special Recommendations Against Terrorist Financing
- International Monetary Fund and World Bank
 - Financial Sector Assessment Program (FSAP)

Regional efforts

- Cooperation on terrorist financing:
 - EU, APEC, ASEAN, GCC, OAS, OSCE and the African Union
- APEC Counter-Terrorism Action Plan
- G8 Counter Terrorism Action Group (CTAG)
- EU Terrorism Action Plan after Madrid

An international regime in formation

“In ten year’s time, we may look back on this period as the beginning of a major change in the institutions, operations, and procedures of the entire global financial system.”

Regime in formation

- Horizontal intergovernmental network
- Vertical intergovernmental network

**How effective has the effort been
to date?**

Effectiveness at the Global Level

- **Reporting**
- **International Conventions**
- **Requests for Technical Assistance**

Effectiveness at the National Level

- **Legal Framework**
- **Administrative Infrastructure**
- **Regulatory Measures**
- **Enforcement**

Costs, benefits, and policy recommendations

Costs

- Human rights concerns about the listing process
- Private sector concerns about costs
- Decline in charitable giving to (and within) the Islamic world

Benefits

- \$147m has been denied to groups and individuals intent on committing acts of terrorism.
- Intelligence value

Benefits (continued)

- Other externalities:
- Implementation of UN Security Council Resolutions targeting sanctions
- Tax Evasion
- Anti-Money Laundering efforts
- Pursuing funds of corrupt political leaders
- State institutional capacity

Current Policy Debates

- An IAEA for terrorist financing? (or embed in existing institutional structures)
- “Reporting fatigue” after UNSCR 1540
- Analysis of implementation and enforcement
- Limitation of the “one size fits all” model
- Global terrorism list

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