

**JOINT FORCES STAFF COLLEGE
JOINT ADVANCED WARFIGHTING SCHOOL**

**THE FINANCIAL WAR ON TERRORISM
GRADING U.S. STRATEGY FOR COMBATING THE FINANCING OF TERRORISM**

By

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A paper submitted to the Faculty of the Joint Advanced Warfighting School in partial satisfaction of the requirements of a Master of Science Degree in Joint Campaign Planning and Strategy.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Joint Forces Staff College or the Department of Defense.

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Following the September 11, 2001, attacks, President Bush quickly decided that the United States' response to that strike must entail all instruments of national power. He was focused on the financial element of fighting the terrorists, targeting their monetary means of waging their terror campaign. On September 23, 2001, he signed Executive Order 13224, *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorists*, initiating the Global War on Terrorism using financial instruments of power some three days before the first CIA operatives set foot in Afghanistan.

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Chapter 1: Introduction

The United States and its partners will defeat terrorist organizations of global reach by attacking their sanctuaries; leadership; command, control, and communications; material support; and finances.

(United States National Strategy for Combating Terrorism, February 2003)¹

When the World Trade Center's twin towers collapsed while the Pentagon burned on September 11, 2001, it was clear to the principles in the Bush administration that America's response to such an asymmetric attack must entail all instruments of national power. In his book *Bush at War*, Bob Woodward writes that within days of the attacks, "President Bush stressed the unconventional aspects of the war—the role of law enforcement, of intelligence sharing, of disrupting the terrorists' financial network, the role of the CIA and the overriding imperative that much of the war be invisible."² The president was clearly focused on the financial element of fighting back against the terrorists and starving them of the monetary means to wage their campaign. Before a joint session of Congress and the American public on September 20, 2001, he stated, "We will direct every resource at our command—every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence, and every necessary weapon of war—to the disruption and to the defeat of the global terror network."³ Three days later, he signed Executive Order 13224, *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*, blocking the assets of 27 individuals and organizations affiliated with the 9/11 attacks.⁴ The President's order highlighted the prominent role combating the financing of terrorism (CFT) would play in a post-9/11 strategy when he stated:

Because of the pervasiveness and expansiveness of the financial foundation of foreign terrorists, financial sanctions may be appropriate for those foreign

persons that support or otherwise associate with these foreign terrorists. I also find that a need exists for further consultation and cooperation with, and sharing of information by, United States and foreign financial institutions as an additional tool to enable the United States to combat the financing of terrorism.⁵

The United States had initiated the Global War on Terrorism (GWOT) using its financial instruments of power three days before the first CIA operatives set foot in Afghanistan.⁶

The National Commission on Terrorist Attacks Upon the United States (henceforth referred to as the 9/11 Commission) staff conducted a comprehensive assessment on the nature, size, and scope of al Qaeda's finances. Their *Monograph on Terrorist Financing* sought to "understand how al Qaeda raised, moved, and stored money before and after the September 11 attacks, and how the U.S. government confronted the problem of al Qaeda financing before and after 9/11."^{7,8} This thesis uses the 9/11 Commission's term of reference for 'terrorist financing' as describing two distinct activities: 1) the financing of operational terrorist cells to provide funds needed to live, plan, train for, and commit terrorist acts; or 2) fundraising; the collective processes used by an organized terrorist group to raise the money required to fund its activities.⁹ Section three of the 2002 *National Security Strategy* described the GWOT and paragraph seven therein outlined the importance of combating terrorist financing, stating:

The United States will continue to work with our allies to disrupt the financing of terrorism. We will identify and block the sources of funding for terrorism, freeze the assets of terrorists and those who support them, deny terrorists access to the international financial system, protect legitimate charities from being abused by terrorists, and prevent the movement of terrorists' assets through alternative financial networks.¹⁰

The 2003 *National Strategy for Combating Terrorism* identifies terrorist financial resources as a key target set in the 'defeat' column of the nation's four pillared 'defeat, deny, diminish, and defend' strategy. Initial actions following 9/11 focused on traditional

regulatory anti-money laundering (AML) tactics of freezing or seizing terrorist funds.

An August 2005 Congressional Research Service report described a three-tiered administration approach to combating terrorist financing based on: 1) intelligence and domestic legal and regulatory efforts; 2) technical assistance for capacity-building programs for U.S. allies; and 3) global efforts to create international norms and guidelines.¹¹ Attacking terrorist finances is not an end unto itself, but Treasury Secretary John Snow outlined some of the benefits of interdicting terrorist funds, stating:

The work to track and shut down the financial network of terror is one of the most critical efforts facing us today, and we have achieved important successes in the mission to bankrupt the financial underpinnings of terrorism. Raising and moving money is now harder, costlier, and riskier for al Qaeda.¹²

However, early successes led al Qaeda to modify its system of handling and moving funds, which forces us, in turn, to adapt our strategies against them. One difficulty with a traditional anti-money laundering response to transnational terrorism is that ambiguous data on the volume of global money laundering makes measuring effectiveness difficult. A former IMF managing director suggests that the global volume of laundered money likely falls in the \$600 billion to \$1.8 trillion per year range.¹³ With al Qaeda's pre-9/11 annual budget estimated to be in the \$30 million range, the challenge of effectively targeting such a fractionally small amount of money in a sea of laundered funds is evident.¹⁴ Al Qaeda's fragmentation after the U.S. led invasion of Afghanistan and removal of the Taliban has changed the structure of the group, and no longer having to support the Taliban government has reduced al Qaeda's financial outlays by as much as fifty percent by some accounts. The U.S. *Strategy for Combating Terrorism* states:

The terrorist threat today is mutating into something quite different from its predecessors. Terrorists can now use the advantage of technology to disperse leadership, training, and logistics not just regionally but globally...The terrorist threat is a flexible, transnational network structure, enabled by

modern technology and characterized by loose interconnectivity both within and between groups...terrorists work together in funding, sharing intelligence, training, logistics, planning, and executing attacks. Terrorist groups with objectives in one country or region can draw strength and support from groups in other countries or regions.¹⁵

In 2002, the Council on Foreign Relations established an Independent Terrorist Financing Task Force to evaluate the effectiveness of U.S. efforts to disrupt terrorist financing. The group found that, “After an initially robust attempt to curtail financing for international terrorism, the Bush administration’s current efforts are ‘strategically inadequate’ to assure the sustained results we need to protect U.S. security.”¹⁶ A key shortcoming in the overall international effort to disrupt terrorist financing stems from the lack of institutional capacity and the lack of will in many foreign countries, including many declared U.S. allies, to aggressively investigate and move against terrorist funding sources. The *National Money Laundering Strategy* states, “For too many years, nations have tolerated weaknesses in legal and regulatory systems around the world that enabled money launderers to find safe harbors to conduct their illegal activities without fear of detection or capture. We cannot tolerate similar laxity in the war against terrorists and those who fund them.”¹⁷ The challenge in this arena is further complicated by the multitude of options available to terrorist organizations to raise and move money around, using both formal and informal financial systems. These include front businesses, criminal enterprises (drug trafficking, credit card fraud, extortion, kidnapping, etc.), sympathetic wealthy donors, charities and NGOs. Funds can be moved using banks, wire remitters, currency exchanges, informal remittance systems known as hawalas, and, increasingly, cash couriers. Much of our initial success occurred in the formal, regulated banking sector, where proper record keeping makes money trails easier to establish and track. But these early efforts have driven al Qaeda and others towards more alternative,

unregulated activities; activities that are well established and readily available in the developing world where most of the group's cells are located. Secretary Snow speaks of a need to "focus the world's attention on previously unregulated, high-risk sectors such as charities and hawalas" as part of an evolving strategy.¹⁸

The 9/11 Commission estimates the cost of the September 11 attacks to al Qaeda at something between \$400,000–500,000. Of that, roughly \$300,000 is believed to have passed through the hijackers' bank accounts in the United States. The hijackers received funds from facilitators in the United Arab Emirates and Germany, and while they did not go to any great lengths to hide their financial dealings, their activities were not of the type to highlight them in a money laundering detection system aimed at interdicting drug trafficking and large-scale financial fraud.¹⁹ In its July 2004 final report, the 9/11 Commission recommended that the United States government expand the focus of its efforts to combat terrorist financing from a strategy based on seizing terrorist assets to one that includes the exploitation of intelligence gathered from financial investigations. Specifically, the commission suggested the government, "Expect less from trying to dry up terrorist money and more from following the money for intelligence, as a tool to hunt terrorists, understand their networks, and disrupt their operations."²⁰ Understanding that terrorist financial transactions range from bulk cash couriers to wireless communications, we must examine how to effectively 'map' the dirty money trail in order to hunt terrorists around the globe. This requires a high degree of interagency coordination and timely information sharing within the U.S. government and internationally. Concerned parties must develop and maintain strong working relationships, devoid of institutional barriers while they work to identify emerging trends and systemic vulnerabilities.

Initial post-9/11 interagency efforts to combat terrorist financing centered on a traditional regulatory money laundering strategy, primarily freezing or seizing terrorist funds. In July 2004, the National Commission on Terrorist Attacks Upon the United States recommended expanding counter-finance focus to include exploiting intelligence gathered in financial investigations. While pre-9/11 and initial post-9/11 interagency efforts did not include Defense agencies in a significant way, DoD's lead role in the GWOT and ongoing Iraq counter-insurgency and reconstruction missions have sharpened the military's focus on this asymmetric target set. DoD's worldwide, all-source collection capabilities are coming to be recognized as a potent weapon that can be turned against this set of targets in support of overall interagency efforts. After reviewing traditional U.S. activities to combat terrorist financing, this thesis proposes how DoD can use threat finance exploitation to meaningfully support the overall effectiveness of U.S. strategy to disrupt terror financing and combat global terrorism.

Chapter 2: Historical Perspective

Usama bin Laden, Afghanistan and the Mujahideen²¹

“Know the enemy and know yourself, in a hundred battles you will never be in peril. When you are ignorant of the enemy but know yourself, your chances of winning or losing are equal. If ignorant both of your enemy and of yourself, you are certain in every battle to be in peril”

(Sun Tzu)

Usama bin Laden’s financial network for al Qaeda evolved from his work as a fundraiser, and later fighter, with the mujahideen forces opposing the USSR’s occupation of Afghanistan in the 1980s. Before that, he worked in his family’s construction business after earning an engineering degree from King Abdul Aziz University in Jeddah, Saudi Arabia.^{22,23} By many accounts, bin Laden experienced a spiritual awakening during his Hajj pilgrimage in 1977. Soon after, he met his spiritual advisor and mentor, Palestinian professor Dr. Sheikh Abdullah Yusuf Azzam. With a Masters Degree in Sharia Islamic Law and a Ph.D. in Principles of Islamic Jurisprudence, Azzam was highly educated and fully committed to Jihad. Bin Laden responded to Azzam’s call for “jihad and the rifle alone...no negotiation...no meetings...no dialogue, Jihad and rifle alone.”²⁴ The events in Afghanistan in 1979 were destined to change his path in life irreversibly.

The Soviet Union’s December 1979 invasion of Afghanistan to support Marxist leader Babrak Karmal was condemned around the globe, with the greatest outrage in the Muslim world, especially the Middle East.²⁵ In Jeddah, bin Laden was moved to answer the call to aid his Muslim brothers and defeat the Communist invaders. With his family’s blessing, he traveled to the mountainous Pakistani city of Peshawar, 50 kilometers from the Afghan border. He reunited with his mentor Abdullah Azzam and they founded the

Mekhtab al Khidemat [Services Office] (MAK), commonly known as the Afghan Bureau international recruitment network.²⁶ MAK advertised worldwide (including in several U.S. cities), recruiting Muslims to fight the Soviets and funneling money and arms into the Afghan war. Bin Laden's management skills, wealth, and Saudi connections served him well in this task. MAK recruited an estimated 10,000 or more fighters, known amongst the mujahideen resistance movement as Afghan Arabs...the nucleus of Usama's future terrorist network.²⁷

In the U.S., President Carter quickly approved a National Security finding that the U.S. should arm mujahideen fighters in order to 'harass' Soviet occupation forces, thought at the time to be the most realistic goal for the poorly organized resistance.²⁸ Since three of Afghanistan's four neighbors were U.S. adversaries, Pakistan was selected as the most practical way to get aid to the mujahideen.²⁹ The CIA-led American support to the mujahideen raises inevitable questions about U.S. involvement in cultivating its own future enemy. The truth is hard to ascertain. CIA accounts deny providing direct support to the MAK's Afghan Arabs. Rather, U.S. aid went via Pakistan's Inter-Services Intelligence agency (ISI), which made final decisions on who to arm and train. Anthony Cordesman and Nawaf Obaid write that the ISI's role was significant:

Pakistan's leader, General Zia, used...the ISI to actively support Pashtun Islamic extremists that Pakistan felt would be loyal to Pakistan...While Saudi money was used to fund some of the religious training schools, called madrassas, and other facilities that helped indoctrinate young Saudi men in violent religious extremism and terrorism...it was Pakistan that created most of the movement.³⁰

All told, an estimated 35,000 fighters joined jihadist groups (including the MAK) and up to 65,000 more went to study at madrassas in Pakistan. In 1985, President Reagan signed National Security Decision Directive 166, stepping up covert military aid and

training to the mujahideen and changing the U.S. goal in Afghanistan from harassing the Soviets to defeating them.³¹ By 1987, the mujahideen were receiving about 65 thousand tons of U.S. purchased arms each year. Former CIA officer Marc Sageman writes that while the CIA did not come in direct contact with Usama's fighters due to the ISI middlemen, "the global Salafi³² jihad is without a doubt an *indirect* consequence of U.S. involvement in that Afghan-Soviet war."³³ Similarly, to this day, al Qaeda's global financial network is an evolved version of that same mujahideen funding apparatus.

After the Soviets—The Birth of al Qaeda

When the Soviet Union announced its withdrawal from Afghanistan in February 1988, bin Laden and Egyptian Islamic Jihad founder Ayman al-Zawahiri established al Qaeda with many of the MAK's most radical Afghan Arabs as a 'base' or foundation for continuing their jihad. George Washington University Professor of Psychiatry and author Jerrold Post writes:

Bin Laden the warrior king and his loyal Afghan Arab fighters were eager to continue to pursue the jihad. Bin Laden broadened his vision and determined to pursue the jihad on a worldwide basis, seeking to reconstruct the nation of Islam throughout the world, assisting Muslims who were in conflict: Algeria, Angola, Bosnia, Chechnya, Eritrea, Somalia, Sudan, and so forth.³⁴

The Soviet withdrawal was a strategic defeat and Usama was hailed as a hero on his 1989 return to Saudi Arabia, but events quickly soured his relationship with the House of Saud. First, the royal family rejected his offer to defend the holy mosques from a possible Iraqi attack. Even worse, Saudi Arabia allowed the country to be used as a U.S. base to expel Saddam Hussein's army from Kuwait in 1991. These acts, and the continued U.S. presence after the war, were inexcusable to bin Laden. Author Adam Robinson writes,

“In his view, armed infidels in Islam’s holy land were a desecration, and this ended the Al Saud’s Islamic legitimacy.”³⁵ After a brief arrest and detention in Jeddah, bin Laden returned to Pakistan in 1991. In late-1991, he went to Sudan at the invitation of Paris and London-educated Sudanese spiritual leader Hassan Abdallah al-Turabi. A longtime member of the Muslim Brotherhood, al-Turabi was head of Sudan’s National Islamic Front and a founder of the Popular International Organization that joined representatives of fundamentalist Islamic movements from 50 different countries. His rise to prominence followed Sudanese General Omar Hassan al-Bashir’s military coup in June 1989.

Feeding the Beast—Financing the al Qaeda Network

*There are two things a brother must always have for jihad, the self and money.
(Al Qaeda operative)³⁶*

Adam Robinson writes that at a Muslim Brotherhood meeting in London in August 1989, al-Turabi “opened Sudan’s doors to any groups who wished to utilise the country as a base. In return for millions of dollars in payments to the ailing government, Sudan was ready to be an official conduit in the process of Islamic fundamentalism, a base from where groups could freely engage in terror campaigns against non-fundamentalist regimes.”³⁷ Despite the financial difficulties caused by his persona non grata status in Saudi Arabia, bin Laden made the most of his position as al-Turabi’s guest. He started as many as 35 businesses that had been thought to be a key source of al Qaeda funding, but the 9/11 Commission believes the businesses were most likely used to gain influence over Sudan’s government more than to fund al Qaeda. Commission researchers also question the widely held belief that bin Laden financed al Qaeda with his personal fortune. In 1999 and 2000, the NSC organized interagency trips to Saudi Arabia

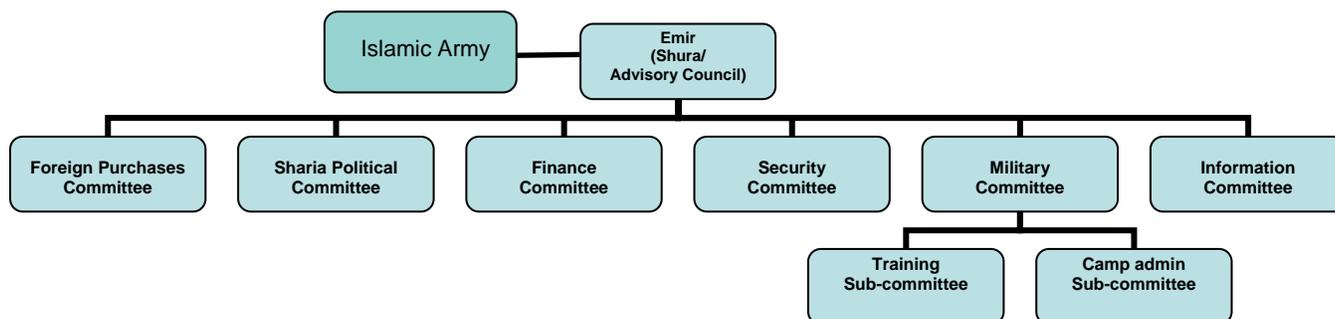
to interview bin Laden family members. Investigators determined that from about 1970 until 1994, Usama bin Laden received roughly one million dollars a year from his father's estate.³⁸ An oft mentioned \$300 million inheritance is now thought to represent what Usama's share of the bin Laden family fortune 'would have been', had the Saudi government not forced his family to find a buyer for his share of the business and place the proceeds into a frozen account in 1994.³⁹

In Sudan, bin Laden enjoyed the freedom to operate above ground. Robinson writes, "His factories and farms became places of employment for former mujahideen fighters. From all over the region, Afghan-Arab rejoined their former boss...upwards of 300 were flown from Afghanistan to Sudan during May 1993 to take up positions within the new organization."⁴⁰

It was during this time period that al Qaeda's organization was formalized into something akin to a company board of directors (figure 1). With his number two and chief executive officer Ayman al-Zawahiri, bin Laden established specific departments to conduct al Qaeda's affairs, including:

- 1) A *Majlis al-Shura* or consultation council of bin Laden's close associates who discussed and approved major operations;
- 2) A political committee or *Shari'a*;
- 3) A military committee to nominate targets and plan and execute operations;
- 4) A finance committee to direct fundraising and provision al Qaeda's training camps;
- 5) A foreign purchases committee to procure weapons and ammunition, explosives, and technical equipment;

- 6) A security committee, to oversee force protection, intelligence gathering, and counter-intelligence; and
- 7) An information committee to generate and disseminate jihadist propaganda.⁴¹



*Figure 1. Al Qaeda Organizational Structure*⁴²

Zawahiri, considered by many to be even more extreme in his views than bin Laden, chaired the political committee that produced fatwas and other writings.⁴³ The finance committee consisted of financial professionals, bankers and accountants, who developed and maintained the group's global financial network. The 9/11 commission found credible evidence that bin Laden played a significant role in planning each operation and was very involved in financial matters.⁴⁴ In Sudan's permissive climate, the finance committee worked to build an extensive fundraising network on the backbone of their earlier mujahideen apparatus. Afghan War veteran and trained accountant, Sheikh Qari Sa'id built a worldwide system through which financial facilitators raised money from both knowing and unknowing contributors.

One of the objectives of the finance committee was locating seams in the oversight of global financial sectors. These usually existed in poorly regulated countries or via established institutions willing to flout the rules. Many Popular International

Organization members suffered a significant setback in July 1991 when one such institution, the Bank of Credit and Commerce International (BCCI), collapsed. Founded in 1972, in less than twenty years BCCI became a global banking powerhouse with \$25 billion in assets and 400 branches in 79 different countries worldwide.⁴⁵ BCCI's reach was broad, including a role in the CIA's mujahideen support system. In *The Outlaw Bank*, Jonathan Beaty and S.C. Gwynne recall a 1991 *London Financial Times* account in which Pakistan's finance minister alleged the CIA used BCCI branches in Pakistan to channel money to the Afghan rebels, a fact that acting CIA Director Richard Kerr later confirmed according to the authors.⁴⁶ In 1988, a Senate Foreign Relations subcommittee chaired by John Kerry uncovered Manuel Noriega's use of BCCI to launder Medellin drug cartel money while investigating Latin American drug cartel finances. Eventually, regulators and investigators in the U.S. and the United Kingdom uncovered evidence of BCCI's "involvement in money laundering, bribery, support for terrorism, arms trafficking, and the sale of nuclear technologies, as well as income tax evasion. With misleading accounting practices, the bank had been able to hide the fact that it was essentially worthless and that \$13 billion were unaccounted for."⁴⁷ A 1991 Price-Waterhouse audit accused BCCI of "widespread fraud and manipulation" and identified various terrorist organizations, including the notorious Palestinian terror mastermind Abu Nidal, who had used the bank to hold and transfer illicit funds. As a result, the Bank of England shut BCCI down on July 5th, 1991—affecting millions of investors worldwide. Among the findings in Kerry's 800-page report in December 1992 were that:

- 1) BCCI constituted international financial crime on a massive and global scale.
- 2) BCCI systematically bribed leaders and political figures throughout the world.

3) BCCI developed a strategy to infiltrate the U.S. banking system, which it successfully implemented, despite regulatory barriers that were designed to keep it out.⁴⁸

A key recommendation stated:

What is absolutely clear is that the United States needs to exercise far more leadership in helping develop a system for monitoring and regulating the movement of funds across international borders to replace the current, inadequate, patchwork system that BCCI...so aptly took advantage of to defraud over one million depositors and thousands of creditors from countries all over the world.⁴⁹

That various terrorist groups were identified amongst BCCI's clients is no surprise given the bank's lax accounting standards. BCCI regularly created numbered accounts or 'manager's ledgers' for its most sensitive depositors, hiding account holder identities from anyone except their personal BCCI banker. Even after BCCI's demise, bin Laden and others would exploit the loosely regulated international banking system to build their terrorist financial networks.

To fill the BCCI void, al-Turabi asked bin Laden to establish a new global system for militant groups to move and store money.⁵⁰ Robinson writes that using his knowledge of wealthy people who sympathized with 'the cause', bin Laden "discreetly made contact with many of the wealthiest of these individuals, especially those with an international network of companies."⁵¹ He organized the 'Brotherhood Group'—roughly two hundred wealthy Arabs around the Persian Gulf willing to donate millions of dollars to Islamist radicals. Intelligence sources believe at least one-quarter of the group had major businesses in the U.S. and almost half owned firms in Europe.⁵² The Brotherhood Group's legitimate global business empire regularly moved billions of dollars in bona fide transactions, allowing them to secretly move funds for their Popular International Organization beneficiaries with relative ease.

In 1994, bin Laden suffered another setback as a result of his continued attacks on the Saudi monarchy. Post writes, “The vigor of his criticism led Saudi Arabia to revoke his citizenship in 1994, and his family, which depended upon the Saudi leadership for their wealth, turned against him.”⁵³ This finally and officially cut bin Laden off from his family’s wealth. His fundraising network survived, but easy access to the rich benefactors he relied on to fund al Qaeda was complicated by his banishment from the Kingdom. Nevertheless, his facilitators worked on. Working throughout the Muslim world, but especially in the Persian Gulf, al Qaeda’s financial facilitators raised money from wealthy donors, charities, and through imams at mosques who were willing to divert some of the traditional Muslim religious tax, or zakat, towards bin Laden’s radical cause. Much of this money funded the camps where hardened Afghan War veterans trained militant Islamist recruits. Intelligence sources believe al Qaeda was operating at least three training camps in northern Sudan and three in northern Yemen by 1995.⁵⁴ The 9/11 Commission staff was able to confirm that al Qaeda was more reliant on fundraising than previously thought, and the CIA believes al Qaeda’s \$30 million a year pre-9/11 budget came almost entirely from donations.⁵⁵

Extending the Reach—Al Qaeda’s Global Operations Expand

The ruling to kill the Americans and their allies – civilians and military – is an individual duty for every Muslim who can do it in any country in which it is possible to do it, in order to liberate the al-Aqsa Mosque and the holy mosque [Mecca] from their grip, and in order for their armies to move out of all the lands of Islam, defeated and unable to threaten any Muslim.

(Al Qaeda: Declaration of the World Islamic Front for Jihad Against Jews and Crusaders, 1998)⁵⁶

From Sudan, al Qaeda’s worldwide operations tempo accelerated. In 1992, men, money, and arms were sent to support Bosnian Muslims in the series of bloody Balkan

wars. Some analysts believe that up to 5,000 Afghan-Arabs fought in the conflicts.⁵⁷ The 1990s also saw U.S. and western interests become prominent on al Qaeda's target list, while their boldness and deadliness steadily grew. Attacks linked to bin Laden include the December 1992 bombings of the Aden and Golden Moor Hotels in Aden, Yemen, where 100 U.S. servicemen had stayed two weeks earlier enroute to Operation RESTORE HOPE in Mogadishu, Somalia.⁵⁸ Even before that bombing, al Qaeda was supporting Somali warlord General Mohammed Farah Aideed with weapons and training from veteran fighters. Then, on 26 February 1993, master bomb-maker Ramzi Yousef and a group of U.S. based Islamic Jihad operatives attacked the World Trade Center with a 1,500-pound truck bomb. The attack killed six people, injured hundreds, and caused \$500 million in property damage. The subsequent arrest of some of the plotters disrupted other attacks planned on the Lincoln and Holland tunnels, but Yousef managed to flee the country. Six month later, in October 1993, a clash between U.S. Rangers and Somali gunmen in Mogadishu left 18 U.S. servicemen dead. A subsequent Justice Department investigation would uncover al Qaeda's involvement in training many of the Somali fighters who violently opposed the U.N. and U.S. presence.⁵⁹

After a brief stay in Pakistan, Yousef went to Manila with his uncle, Khalid Shaikh Mohammed. In the Philippines, they planned Project Bojinka, a multi-phased plan to blow up eleven U.S. passenger jets in-flight, assassinate President Clinton and Pope John Paul II, and ram hijacked passenger planes into U.S. landmarks, including the White House, the Twin Towers, the Pentagon, CIA Headquarters, and the Sears Tower. Filipino police uncovered the plan in 1995 after they responded to a fire in Yousef's apartment and arrested one of the plotters who had been sent back to retrieve Yousef's

laptop computer. Subsequent interrogations gave U.S. and Philippine authorities significant information on the scope of the operations al Qaeda operatives has already started to dream up.⁶⁰

Finally, after the November 1995 bombing of the U.S. program manager's office at the Saudi National Guard headquarters building in Riyadh, the Sudanese government bowed to U.S. and Saudi pressure and expelled bin Laden and al Qaeda in May 1996. Initially, the Sudanese offered to extradite bin Laden to Saudi Arabia. However, the Saudi royal family, ever mindful of the danger posed by extremist elements within the kingdom, rejected the offer. Bin Laden returned to Afghanistan where the fundamentalist Taliban regime had prevailed after years of civil war following the Soviet withdrawal. He settled in Khost, Afghanistan, as a guest of Taliban leader Mullah Mohammed Omar. In August 1996, bin Laden issued his 'Declaration of Jihad' outlining al Qaeda's goals to "drive U.S. forces from the Arabian Peninsula, overthrow the government of Saudi Arabia, liberate Muslim holy sites, and support Islamic revolutionary groups worldwide," and declaring that Saudis had the right to strike at U.S. troops in the Persian Gulf.⁶¹ 9/11 Commission researchers learned that while the U.S. intelligence community was aware of bin Laden earlier, until 1997 he was viewed as a terrorist financier, not an operational leader. In February 1998, his ominous fatwa that declared, "Every Muslim should try his utmost to kill any American, military or civilian, anywhere in the world," and al Qaeda's subsequent actions permanently changed that viewpoint.⁶²

In Afghanistan, bin Laden continued to raise money for his jihad. The 9/11 Commission investigated allegations of al Qaeda involvement in the Afghan drug trade, but they found no substantial evidence supporting that scenario.⁶³ Trafficking drugs

increased the risk of arrest or capture for al Qaeda operatives. Likewise, for established drug traffickers to associate with a group being pursued by the most powerful nation on earth would make little sense. Returning to Afghanistan did lead to an increase in al Qaeda's use of the hawala alternative remittance system. 9/11 Commission researchers wrote, "In some ways, al Qaeda had no choice after its move to Afghanistan in 1996; the banking system there was antiquated and undependable."⁶⁴

Hawala—The Alternative Remittance System

Settled back in Afghanistan, bin Laden relied on an established hawala network that operated in Pakistan, Dubai, and throughout the Middle East to efficiently transfer funds.⁶⁵ Despite its century's old presence around the world, hawala's alleged role in facilitating terrorist financial transactions has put it in the international spotlight since 9/11. Hawala is just one of many 'alternative remittance' or 'informal funds transfer' systems around the world. Originally, these systems were developed to finance regional trade and to avoid the dangers of traveling trade routes with gold and other forms of payment.⁶⁶ They developed in areas where formal banking systems didn't exist or were not readily accessible to large segments of society. Today, they exist across Southeast and Southwest Asia under names like Fei-Ch'ien (China), Padala (The Philippines), Hundi (India), Hui Kuan (Hong Kong), and Phei Kwan (Thailand).⁶⁷ The hundi or hawala systems today are primarily used by Southwest Asian emigrants to North American or Europe or guest workers in the Middle East to send money to relatives at home. Hawala works by transferring money without actually moving it, primarily based on trust and connections between hawala dealers, called hawaladars.⁶⁸ Mohammed El-Qorchi, a deputy area chief in the International Monetary Fund's Monetary and Financial

Systems Department writes:

Economic and cultural factors explain the attractiveness of the hawala system. It is less expensive, swifter, more reliable, more convenient, and less bureaucratic than the formal financial sector...In addition to economic factors, kinship, ethnic ties, and personal relations between hawaladars and expatriate workers make this system convenient and easy to use.⁶⁹

Hawaladars execute their transactions quickly, using fax, phone, or email to relay details to a counterpart in the receiver country. In many cases, recipients have funds within 24 hours of a transaction's initiation. Many Hawaladars charge clients a fee for the transaction or take advantage of varying exchange rates to generate a profit.

How Does The System Work?

A person in country A wants to send funds to a person in country B. He initiates the transaction by giving money to a hawaladar in country A, who provides him with a hawala authentication code. The hawaladar in country A then instructs a hawaladar in country B to deliver an equivalent amount of funds in the local currency to the intended recipient. To receive the funds, the recipient must provide the same authentication code provided to the customer in country A.

The hawaladar in country A can be compensated by charging a fee or through an exchange rate spread (the difference between the selling and buying price of a currency). After the remittance, the hawaladar in country A has a liability to his country B counterpart, which is satisfied with a payment of money or with goods and services. The settlement can also be done through a 'reverse hawala' or through imports of goods. A reverse hawala transaction is often used for investment purposes or to cover travel, medical, or education expenses from a developing country. For example, in a country subject to foreign exchange and capital controls, a customer in country B interested in paying his son's tuition fees provides local currency to a hawaladar and requests the equivalent amount be made available to his son in country A. The hawaladar in country B may transfer funds to his counterpart in country A or use this transaction to settle his previous claims on the hawaladar in country A.

He can also instruct an indebted hawaladar in country A to transfer funds to a third hawaladar to settle one of his outstanding debts. The settlement can also occur through import transactions; the hawaladar in country A would settle his debt by financing exports to country B where the hawaladar there would be the importer or an intermediary. If a hawaladar in country A owes \$5,000 to the hawaladar in country B, hawaladar A can settle the debt by exporting \$10,000 worth of goods from country A to the country B, but only invoicing hawaladar B for \$5,000 to be paid for the goods. The extra value of non-invoiced goods shipped to country B settles the hawala transaction debt.⁷⁰

According to Patrick Jost of the Treasury Department's Financial Crimes Enforcement Network (FinCEN) and Harjit Singh Sandhu of Interpol's FOPAC (*Fonds provenant des activités criminelles* –funds derived from criminal activities) group, many hawala transactions (both legitimate and illegitimate) are executed through the conduct of import/export businesses, and manipulating invoices is a common means of settling hawala accounts.⁷¹

Several factors make hawala attractive to Southwest Asian émigrés. Compared to traditional banking systems, hawala is a more cost effective, consistently offering more favorable exchange rates than established banks. Also, compared to the several days that international wire transfers typically require, a hawala transaction is usually complete within a day or two. Another significant factor for many émigrés is hawala's reliability and lack of bureaucracy. Many transfers send funds to towns or villages in remote parts of the developing world where traditional banks are not well established. Also, if the sender is living or working in a country illegally or with improper documentation, a paperless hawala transfer can be very attractive. Unfortunately, this feature makes hawala very useful for terrorists or anyone else involved in the illicit transfer of funds. A final attractive feature for criminals, terrorists, and many common citizens alike is tax evasion. Jost and Sandhu estimate that in South Asia the 'black' or parallel economy is 30%-50% of the 'white' or documented economy.⁷² Since money that is transferred through established channels is subject to review and scrutiny by government tax authorities that hawala's paperless remittances are not, avoiding taxes can be another draw to use hawala.

Bigger and Better—Al Qaeda Escalates

Al Qaeda has been at war with us for the better part of a decade. What's new is that we finally noticed.

(Former CIA Director James Woolsey)⁷³

Six months after the 1998 fatwa, bin Laden executed his most deadly attack yet, the twin bombings of the U.S. embassies in Dar es Salaam, Tanzania, and Nairobi, Kenya. The deaths of 225 people and injury to 4,000 more erased any lingering doubts in the minds of U.S. counter-terrorism specialists that bin Laden was public enemy number one in the global terrorist arena. While U.S. actions after the East Africa bombings still treated the attacks as criminal acts, they did merit a military response of sorts when President Clinton ordered Tomahawk cruise missile attacks on suspected al Qaeda targets in Afghanistan and Sudan. However, bin Laden and other key targets managed to vacate the camps before the missiles hit. Typical of that era, the 1998 *International Crime Control Strategy* classified terrorists as international criminals even while it regarded terrorism as “a potential threat to national security as well as a criminal act.”⁷⁴ The growing scale of al Qaeda’s attacks also led Secretary of State Madeleine Albright to declare a ‘war against terrorism’, in 1998, though little notice was taken in the public or the press until after 9/11.⁷⁵ An important development with regards to combating terrorist financing was NSC Senior Director Richard Clarke’s establishment of an interagency group on terrorist financing. With representatives from the NSC, Treasury Department, the CIA, the FBI, and the State Department, the group’s primary focus was on tracking down bin Ladin’s purported wealth. Unfortunately, as in several other areas they assessed, the 9/11 Commission researchers found that the group’s efforts lacked meaningful participation on the part of the FBI before 9/11.⁷⁶ At the close of a decade

marked by al Qaeda attacks, concern over terrorist attacks during the January 2000 Millennium celebrations proved well founded as law enforcement officials around the globe managed to detect and disrupt several terrorist plots. In Jordan, police interrupted a plot to bomb hotels used by westerners, and U.S. customs officers arrested Ahmed Ressaym trying to smuggle bomb-making materials into the U.S. from Canada to attack Los Angeles International Airport. Still, al Qaeda forged on and in October 2000 struck again when an attack on the USS *Cole* by an explosive-laden motorboat in Aden, Yemen, killed 17 sailors.⁷⁷

In the aftermath of September 11, 2001, the 9/11 Commission learned more about the evolution of the deadly attacks of that day. They estimate that by late 1998 or early 1999, bin Laden had blessed the 'planes operation' envisioned by Khalid Sheikh Mohammed. Building on Operation Bojinka, Mohammed initially envisioned attacks by ten aircraft on East and West coast targets. After bin Laden reduced the scale of the plan to simplify its planning and execution, recruitment and training began in the fall of 1999 for the attack that would be successfully executed two years later.⁷⁸

Chapter 3: The World Wakes Up

The Response to the Menace

Money laundering is the process that enables drug and gun traffickers and terrorist groups to convert illegal and unusable proceeds into usable funds. It is the "life blood" of organized crime. But it is also the "Achilles heel," as it gives us a way to attack the leaders of criminal organizations. While the drug kingpins and other bosses of organized crime may be able to separate themselves from street-level criminal activity, they cannot separate themselves from the profits of that activity.

(Robert E. Rubin, Secretary of the Treasury, May 19, 1997)⁷⁹

In many ways, the world's response to al Qaeda's steady escalation of its jihad against the west was the typical process of deliberation and declaration through established international bodies, particularly the United Nations. In December 1994, the UN General Assembly adopted a *Declaration on Measures to Eliminate International Terrorism*, predictably expressing "unequivocal condemnation of all acts, methods, and practices of terrorism, as criminal and unjustifiable, wherever and by whomever committed."⁸⁰ Amongst its twenty-two primary and secondary declarations, it called on member states:

- 1) To refrain from organizing, instigating, assisting, participating in, facilitating, financing, encouraging or tolerating terrorist acts;
- 2) To combat international terrorism and take effective measures to eliminate international terrorism;
- 3) To ensure that their respective territories are not used for terrorist installations or training camps, or for the preparation or organization of terrorist acts intended to be committed against other States or their citizens; and
- 4) To ensure the apprehension and prosecution or extradition of perpetrators of terrorist acts, in accordance with the relevant provisions of their national law.⁸¹

In January 1995, President Clinton signed Executive Order 12947 to block assets in the United States of persons or groups engaged in terrorism or otherwise threatening to use force to disrupt the Israeli-Palestinian peace process.⁸² The order prohibited U.S.

persons from doing business with persons or groups designated under the authority granted by the International Emergency Economic Powers Act (IEEPA). Passed in October 1977, IEEPA gives the President authority to regulate many financial and commercial transactions with other countries or entities if deemed necessary to mitigate a threat to U.S. national security, foreign policy, or the economy. The threat's source must be entirely or substantially external and the President must declare a national emergency. Enforcing sanctions or designations under the IEEPA falls to the Treasury Department's Office of Foreign Assets Control (OFAC). Along with initial Presidential designations, the Secretary of the Treasury or the Secretary of State typically receive authority to make additional designations and the Director of OFAC can normally make secondary designations of persons or groups supporting or associating with those named as primary designees in the order.

In the spring of 1996, while the U.S. pressed Sudan to expel bin Laden, President Clinton signed a top secret order authorizing the CIA's use of any and all means to destroy the al Qaeda network. After the deadly Africa bombings in August 1988, the start of a clear counter-finance element specifically targeting al Qaeda began to appear in America's overall strategy to combat terrorist financing. The first step involved E.O. 13099, which amended the earlier E.O. 12947 by adding Usama bin Laden and his key lieutenants to the list of designated persons.⁸³ However, such IEEPA orders could only be enforced on U.S. persons or against property and funds present inside the U.S., substantially limiting what OFAC could realistically accomplish under this authority. 9/11 Commission researchers wrote, "In retrospect, one OFAC official thought that the reason it was unable to freeze Bin Ladin assets is because none existed within OFAC's

jurisdiction.”⁸⁴ Congress acted to make the executive orders permanent with the *Anti-Terrorism and Effective Death Penalty Act of 1996*, authorizing the Secretary of State to designate ‘Foreign Terrorist Organizations,’ making it a crime for U.S. persons to provide material support or resources to said organizations, and requiring financial institutions to block all funds in which such organizations or their agents had interests.⁸⁵ Along with efforts to freeze bin Laden’s assets, the U.S. offered a \$25 million reward for information leading to his capture or conviction. And although the order authorizing the CIA to arrest or kill bin Laden remained in effect, that agency’s limited capabilities inside Afghanistan forced covert operations to rely almost solely on paid foreign agents inside the country.⁸⁶ When diplomatic efforts to have the Taliban expel bin Laden and al Qaeda proved fruitless, the U.S. initiated covert efforts to engage elements of the Northern Alliance, the Taliban’s main opponent in the Afghan civil war, to collect information on bin Laden’s location to enable a direct attack.

A Global Anti-Money Laundering Architecture Evolves

Initial efforts to combat terrorist financing in the 1990s grew from existing international mechanisms adopted to combat criminal money laundering. The International Monetary Fund’s (IMF) *Money Laundering Fact Sheet* defines money laundering as “a process in which assets obtained or generated by criminal activity are moved or concealed to obscure their link with the crime. Terrorist activities are sometimes funded from the proceeds of illegal activities, and perpetrators must find ways to launder the funds in order to use them without drawing the attention of authorities.”⁸⁷ A regulatory approach to countering money laundering has strategic and tactical elements. Lee Wolosky, former NSC Director for Transnational Threats, describes the

tactical efforts as activities to target individual nodes in the terrorist financial network. These actions are pursued by intelligence agencies, who look for sources of terror funds and attempt to track their movement and storage, law enforcement agencies, who identify, arrest, and prosecute individuals or organizations identified as members of the financial network, and regulators, who designate individuals and organizations and take actions to block or freeze assets in accounts belonging to or supporting them. At the strategic level, the U.S. and other countries work to reform the nature of the financial environment in which terrorists must work to raise, move, and store of funds.⁸⁸

Establishing a robust regulatory architecture to eliminate, or at least complicate, the terrorist's, drug trafficker's, or criminal's ability to transact with illicit funds is the main focus of changing the financial environment. The success of these efforts depends on building a robust regulatory architecture through the developed and developing world financial sectors, and on the commitment of individual nations to pursue the wrongdoers. A critical piece of the U.S. strategic anti-money laundering effort is bulding capacity in other countries, especially countries in areas prone to Islamist terrorist activity that are also indentified as having poorly regulated financial systems.

The key piece of anti-money laundering legislation in the U.S. is the 1970 *Bank Secrecy Act*. Its main anti-money laundering provisions, placed critical anti-money laundering responsibilities on financial institutions themselves. It required financial institutions to establish record keeping on transactions and to report activities deemed to have a "high degree of usefulness in criminal, tax and regulatory investigations and proceedings" to the Treasury Department.⁸⁹ All transactions over \$10,000 require currency transaction reports, and institutions must file suspicious activity reports on

"suspicious transaction relevant to a possible violation of law or regulation."⁹⁰ In 1986, the *Money Laundering Control Act* enhanced the government's ability to fight money laundering by criminalizing the actions of persons or institutions that structure transactions or otherwise assist in endeavors to avoid *Bank Secrecy Act* requirements.⁹¹

By the mid-1980s, the need for an international anti-money laundering strategy was widely accepted in response to the explosion of cocaine use and the rise of Columbian drug cartels as massive criminal enterprises. In 1989, the Group of Seven major industrial democracies (G-7) formed the Financial Action Task Force on Money Laundering (FATF) in response to concerns about the impact of money laundering on the global financial system. Money laundering can produce major economic impacts like fluctuating demand for currency or unpredictability of capital transfers and exchange rates that create instability in financial markets and harm foreign investment over fears of organized criminal influence.⁹² Since countries with modern financial and banking systems typically have money laundering protections in place (granted with varying degrees of effectiveness), money launderers tend to favor less developed or developing countries, where fewer controls are typically in place. Or, as in BCCI's case, they look for institutions in developed sectors that are corrupt and willing to facilitate moving or hiding the illicit cash.

The Financial Action Task Force was established to develop a global anti-money laundering (AML) framework by "examining money laundering techniques and trends, reviewing the action which had already been taken, and setting out the measures that still needed to be taken to combat money laundering."⁹³ In 1990, their efforts produced a list known as the FATF Forty Recommendations.⁹⁴ Not surprisingly, the primary focus at

the time was on laundered drug money. As with all criminal enterprises, money laundering techniques evolved in response to AML activities, so in 1996 the Forty Recommendations were updated to address changing money laundering typologies. Since 1989, the Financial Action Task Force has grown to 33 members (31 countries and governments and two international organizations), over 20 observers, five FATF-style regional organizations, and 15 other international groups.⁹⁵ In addition, the Forty Recommendations are now the IMF and World Bank anti-money laundering standard, endorsed by more than 130 countries.⁹⁶ Along with developing anti-money laundering standards, teams of Financial Action Task Force experts assess and report on compliance with the group's guidelines. However, because the FATF lacks enforcement authority, its main recourse is blacklisting non-compliant members.

United Nations Actions

As al Qaeda's jihad continued unabated throughout the 1990s, the various bodies of the UN passed resolutions calling on member states to act to counter international terrorism, to include its requisite financing. In December 1996, General Assembly Resolution 51/210 addressed the terrorist financing matter, calling on member states to:

Take steps to prevent and counteract, through appropriate domestic measures, the financing of terrorists and terrorist organizations, whether such financing is direct or indirect through organizations which also have or claim to have charitable, social or cultural goals or which are also engaged in unlawful activities such as illicit arms trafficking, drug dealing and racketeering, including the exploitation of persons for purposes of funding terrorist activities, and in particular to consider, where appropriate, adopting regulatory measures to prevent and counteract movements of funds suspected to be intended for terrorist purposes without impeding in any way the freedom of legitimate capital movements and to intensify the exchange of information concerning international movements of such funds.⁹⁷

Despite its comprehensive objectives, the resolution's very language framed the complex problem nations faced in rooting out terrorist financing monies without impeding the 1990's burgeoning globalization capital flows. 51/210 also created an ad hoc committee to draft a UN convention on suppressing terrorist financing; a process that took some three years. On 9 December 1999, General Assembly Resolution 54/109 accepted the *International Convention for the Suppression of the Financing of Terrorism* and opened it for signature from January 2000 thru 31 December 2001.^{98,99} The convention included specific language that required signatories to criminalize terrorist funding and fundraising activities within their domestic laws and to take action to identify, detect, impede, seize or freeze such funds. States were required to prosecute or extradite persons found to be involved in terrorist financing or fundraising and to cooperate with other states in their investigations.¹⁰⁰

Unfortunately, the convention did not foreshadow the start of a unified global effort. Before and since 9/11, an ever present issue affecting international declarations or resolutions on combating terrorism or terrorist financing is the difficulty of defining the very words 'terrorism' or 'terrorist' or still murkier terms like 'associated persons'. Dr. Jeffrey Record of the Army War College has written, "Sound strategy requires a clear definition of the enemy. The GWOT, however, is a war on something whose definition is mired in a semantic swamp...in large measure from differing perspectives on the moral relationship between objectives sought and means employed."¹⁰¹ How do we wage war on a tactic? And should we resolve that ambiguity, Record notes that respected terrorism expert Walter Laqueur has counted over 100 definitions of the word 'terrorism'.¹⁰² While groups like al Qaeda may be universally recognized as terrorists (at least by state actors),

there are hundreds of other organizations whose goals and methods position them squarely into the middle of the age-old argument that ‘one man’s terrorist is another man’s freedom fighter.’ In her book *Terror Incorporated*, Loretta Napoleoni writes, “Academics agree that any definition of terrorism must include its three main characteristics: its political nature, the targeting of civilians, and the creation of a climate of extreme fear.”¹⁰³ What is clear is that governments’ and politicians’ use of the words ‘terrorism’ or ‘terrorist’ are indelibly shaded with foreign policy as well as domestic political considerations, so hopes of broad international consensus regarding the designation of certain acts as ‘terrorism’ or certain individuals or groups as ‘terrorists’ will always be difficult to realize. This will be so, despite the international community’s demonstrated willingness to sign on to declarations condemning terrorism in general. In the *Convention for the Suppression of the Financing of Terrorism*, the UN tried for a broad definition that possessed the requisite characteristics. Consolidating the language of nine existing international treaties, it defined terrorism as:

Any...act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or international organization to do or to abstain from doing any act.¹⁰⁴

With terrorist financing, like any issue in world affairs, different national viewpoints on who are ‘terrorists’ or ‘associated persons’ have tremendous impact on the success or failure of international efforts. Despite the fact that many countries will not even begin to act until the UN makes a definitive statement on a particular issue, even when that takes place it is far from being a guarantee of unified effort.

The UN Security Council was also engaged in the 1990s, passing UNSCR 1269 in October 1999 as a general condemnation of international terrorism in all its forms. Recognizing funds as a critical requirement of terrorist networks, two of the five areas in which it called on member states to act related to financing; those being that member states would: 1) prevent and suppress in their territories through all lawful means the preparation and financing of any acts of terrorism; and 2) deny those who plan, finance or commit terrorist acts safe havens by ensuring their apprehension and prosecution or extradition.¹⁰⁵ Responding to strong pressure from the Clinton administration, in December 2000, UNSCR 1333 enacted far-reaching sanctions against the Taliban regime. It also called on member states to freeze assets belonging to Usama bin Laden or al Qaeda as well as funds or assets found to be benefitting them directly or indirectly.¹⁰⁶

In many countries, efforts to enact the FATF Forty Recommendations revealed shortcomings in the ability of existing law-enforcement and regulatory systems to access and track required financial information. In response, some countries established financial intelligence units to function as a central agency to receive (and as permitted request), analyze and disseminate to the competent authorities financial information found to be:

- 1) Concerning suspected proceeds of crime or potential financing of terrorism; or
- 2) Required by legislation or regulation, to combat money laundering or terrorism financing.¹⁰⁷

In 1995, the Egmont Group was established as an informal association of select financial intelligence units. A decade of steadily rising emphasis on combating money laundering saw the group grow to 102 financial intelligence units in its first ten years of existence.¹⁰⁸ That rapid growth is good news. Establishing a financial intelligence unit, especially one that meets Egmont standards, is a clear indication of national intent to take

serious steps to fight money laundering. While a given financial intelligence unit's form and function depend on a country's existing governmental structures and specific needs, the core functions for all units remain receiving, analyzing, and disseminating information on suspicious or unusual transactions.¹⁰⁹ The Egmont Group's goal of increasing the overall effectiveness of individual financial intelligence units by fostering cooperation between agencies across national borders is a good example of the type of partnerships that have been declared essential to conduct the GWOT with all elements of the U.S. DIME instruments of national power.

The Financial Crimes Enforcement Network (FinCEN) was established in 1990 as the U.S. financial intelligence unit to be a "government-wide, multi-source intelligence and analytical network to support the detection of money laundering and other financial crimes."¹¹⁰ In 1994, it merged with the Treasury Department's Office of Financial Enforcement, which had been responsible for *Bank Secrecy Act* administration. After 9/11, FinCEN was elevated from a Treasury Department agency to bureau status (still within Treasury), giving it broader authorities and greater autonomy to perform its duties. This change was timely as the volume of reports being filed after 9/11 rose sharply (largely due to PATRIOT act provisions addressed later). In 2004, the IRS reports 14,112,646 currency transaction reports were filed. Additionally, banks, financial institutions, casinos, and money services businesses (money transmitters, currency exchangers, check cashers, issuers, sellers, or redeemers of traveler's checks/money orders/stored value, and the U.S. Postal Service) filed an additional 695,881 suspicious activity reports requiring FinCEN review.¹¹¹

Despite the creation of the Financial Action Task Force, the Egmont Group and

over one hundred national financial intelligence units, and a long string of resolutions and declarations against terrorism or terrorist financing, the 9/11 Commission still concluded that, “Before the September 11 attacks...terrorist financing was not a priority for either domestic or foreign intelligence collection.”¹¹² The commission blamed poor interagency coordination and lack of overall focus on the target set. They wrote that even when FBI field agents were able to collect significant information on individuals suspected of terrorist fundraising, the bureau did not systematically gather or analyze terrorist finance information and rarely brought criminal prosecutors into the investigations. Also, the Justice Department’s Criminal Division did not have a national program to prosecute terrorist financing cases before 9/11.¹¹³ Similarly, the 9/11 Commission wrote of the CIA that, “The U.S. intelligence community largely failed to comprehend al Qaeda’s methods of raising, moving, and storing money, because it devoted relatively few resources to collecting the strategic financial intelligence that policymakers were requesting or that would have informed the larger counterterrorism strategy.”¹¹⁴

Post-9/11 U.S. Government Combating Terrorist Financing Response

It is common to say the world has changed since September 11, 2001, and this conclusion is particularly apt in describing U.S. counterterrorist efforts regarding financing. The U.S. government focused, for the first time, on terrorist financing and devoted considerable energy and resources to the problem. As a result, the United States now has a far better understanding of the methods by which terrorists raise, move, and use money and has employed this knowledge to our advantage.

*(National Commission on Terrorist Attacks Upon the United States
Monograph on Terrorist Financing)¹¹⁵*

The 9/11 Commission’s final report and the *Staff Monograph on Terrorist Financing* describe a pre-9/11 lack of a well coordinated or sustained U.S. government strategy to counter terrorist financing. Disparate efforts combined with inadequate

information sharing prevented the U.S. from building a clear understanding of al Qaeda's financial network. That changed after 9/11 when the U.S. began to construct a comprehensive picture of bin Laden's financial network. Lee Wolosky writes that this effort revealed a network "...characterized by layers and redundancies. Like al Qaeda itself, al Qaeda's financial network is notably and deliberately decentralized, compartmentalized, flexible, and diverse in its methods and targets."¹¹⁶

A Treasury Department fact sheet in September 2002 titled "Contributions by the Department of the Treasury to the Financial War on Terrorism" outlined key steps undertaken to combat terrorist financing during the first year after 9/11:

- 1) President Bush signed Executive Order 13224 freezing terrorist-related assets;
- 2) The U.S. sponsored UN Security Council Resolutions 1373 and 1390;
- 3) The USA PATRIOT Act increased info sharing and financial regulation;
- 4) Multilateral institutions such as the FATF focused on terrorist financing;
- 5) Operation Green Quest stood up as an interagency task force to augment existing counter-terrorist efforts. It brought broad expertise to bear against terrorist funding;
- 6) Information was shared across the federal government, with the private sector, and with allies to crack down on terrorist financiers.¹¹⁷

Executive Order 13224, *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*, mentioned earlier, targeted terrorist financing by authorizing the blocking of assets of terrorists and those who "assist in, sponsor, or provide financial, material, or technological support for, or financial or other services to or in support of, such acts of terrorism or those persons."¹¹⁸

The new order expanded on previous executive orders by broadening coverage from Middle Eastern based terrorist organizations to groups around the globe. It applied to 'supporters' of terrorist organizations and included provisions to deny foreign banks access to U.S. markets for non-cooperation in freezing terrorist assets. The list of E.O.

13224 designees grew steadily, from 27 initially to 164 individuals or organizations within six months. As of December 2005, the Office of Financial Asset Control listed 424 individuals or organizations who have been designated under E.O. 13224.¹¹⁹

Shortly after 9/11, the U.S. championed two UN Security Council Resolutions that served to reinforce E.O. 13224 internationally. On 28 September 2001, UNSCR 1373 again called on member states to suppress terrorism. UNSCR 1373, sub-paragraph 1(c) calls on members to:

Freeze without delay funds and other financial assets or economic resources of persons who commit, or attempt to commit, terrorist acts or participate in or facilitate the commission of terrorist acts; of entities owned or controlled directly or indirectly by such persons; and of persons and entities acting on behalf of, or at the direction of such persons and entities, including funds derived or generated from property owned or controlled directly or indirectly by such persons and associated persons and entities.¹²⁰

It also required states to outlaw the provision of assets, economic resources or financial services to terrorists or their supporters, and to share intelligence and provide evidentiary support to criminal terrorist financing investigations.¹²¹ A UN Counter-Terrorism Committee was established to monitor member compliance with the provisions and a post-9/11 surge of emphasis saw all 191 member states submit first-round reports to the committee as required. Then, on 16 January 2002, the Security Council adopted UNSCR 1390 which declared a total international embargo (financial, military, travel, etc.) against Usama bin Laden, al Qaeda, the Taliban, or their supporters or associates.¹²²

With the understanding that most terrorist money is raised, moved, and stored overseas, without ever entering the U.S., international cooperation becomes ‘the’ critical element to overall success in combating terrorist financing. However, for a variety of political concerns, many countries are unwilling to accept unilateral U.S. terrorist

designations. Even some close European allies have refused to freeze the accounts of some individuals or organizations for which the U.S. has been unwilling to share intelligence justifying the designation.¹²³ In much of the Middle East and elsewhere, it is politically safer for governments to act on a UN resolution than to support a direct U.S. request. Still other countries, despite a willingness to support U.S. designations, lack the regulatory and law enforcement means to effectively block terrorist assets. Over time, strategic actions to build capacity in foreign regulatory systems will have the most sustained impact on diminishing terrorist's freedom of action. Treasury's fact sheet illustrates this point, showing that in the twelve months after 9/11, \$78 million of the \$112 million in terrorist assets frozen in more than 500 accounts worldwide was blocked by countries other than the U.S. Just as importantly, over 165 countries and jurisdictions enacted some form of blocking order against terrorist assets.¹²⁴ Despite this progress and the accelerated pace of countries ratifying the *International Convention for the Suppression of the Financing of Terrorism* and establishing Egmont-standard financial intelligence units, seams exist in the international effort. As stated earlier, terrorist designations are unavoidably political. We must realize that other countries' decisions or actions, even our partners or allies, will often fall short of our expectations. Saudi Arabia is a good case study.

Saudi Arabia is critical to international efforts to combat terrorist financing. The 9/11 Commission researchers wrote, "The intelligence community identified it [Saudi Arabia] as the primary source of money for al Qaeda both before and after the September 11 attacks," even so, the staff uncovered "no evidence that the Saudi government as an institution or as individual senior officials knowingly support or supported al Qaeda."¹²⁵

Saudi Arabia's central role in fundraising for Islamist terrorists is hardly surprising given its concentration of wealth and historical ties to bin Laden and other jihadist fundraising efforts. Another factor is the Saudi government's decade's long policy of financing the export of Wahhabism.¹²⁶ The Department of State's 2005 *International Narcotics Control Strategy Report* says Saudi donors and unregulated charities have been a major source of financing to extremist and terrorist groups over the past 25 years.¹²⁷ In April 2005, former CIA Director James Woolsey testified to Congress that:

Some \$85 - 90 billion has been spent by the Saudis in the last 30 years spreading Wahhabi beliefs throughout the world. Some oil-rich families of the Greater Middle East, further, fund terrorist groups directly. The Wahhabi doctrine—fanatically hostile to Shi'ite and Sufi and many other Muslims, Jews, Christians, women, modernity, and much else—plays a role with respect to Islamist terrorist groups...not all those educated in the Wahhabi tradition become terrorists. But in each case the broader movement has provided the soil in which the fully totalitarian movement has grown.¹²⁸

Generally, Saudi cooperation in finding and eliminating sources of terrorist financing was considered inadequate by most of the U.S. government; notwithstanding their freezing bin Laden's assets and revoking his citizenship in 1994. In October 2002, a Council on Foreign Relations Independent Task Force on Terrorist Financing stated:

U.S. efforts to curtail the financing of terrorism are impeded not only by a lack of institutional capacity abroad, but by a lack of political will among U.S. allies...it is worth stating clearly and unambiguously what official U.S. government spokespersons have not: For years, individuals and charities based in Saudi Arabia have been the most important source of funds for al Qaeda; and for years, Saudi officials have turned a blind eye to this problem.¹²⁹

Encouragingly, the group's second report in June 2004 cited some improvement in Saudi Arabia's efforts due to sustained engagement between U.S. officials and their Saudi counterparts. However, the real impetus behind the Saudi change of heart was a string of al Qaeda attacks that began in 2003. On 12 May 2003, al Qaeda bombed a Riyadh

housing compound for foreign workers (including many Americans) killing 35 Saudis and foreign Arabs and wounding over 200 people. In November 2003, at least 17 more people died in a second housing compound attack, followed by suicide bombings in Riyadh in April 2004 that killed five people.¹³⁰ Weeks later, attacks on oil complexes in Yanbu and Khobar killed 22 people.¹³¹ The terror campaign also targeted Westerners, including a December 2004 attack on the U.S. consulate in Jeddah that killed five consular employees. In response, the Saudi government finally appeared to display real resolve in moving against al Qaeda and other Islamic militants around the country. The Saudis announced new anti-money laundering laws and increased oversight of charities and the financial-services sector. They also agreed to establish a U.S.-Saudi Arabian Joint Terrorist Financing Task Force in Riyadh. Since August 2004, the joint effort has given FBI agents and IRS criminal investigators access to substantially more evidence and witnesses inside of Saudi Arabia than was previously possible.

Potentially, the most significant Saudi government action so far was King Fahd's February 2004 decree to form a Non-Governmental Commission for Relief and Charity Work Abroad. As envisioned, this commission will coordinate the delivery of private Saudi charity outside the Kingdom. In late 2004, the giant Al Haramain Islamic Foundation¹³² and several other charities with questionable accounting of their donations were dissolved. The Saudis have promised that the new organization will operate with complete accounting transparency, but according to the GAO, as of July 2005, the commission was still not fully operational.¹³³ Despite slow progress in standing up the commission, the Council on Foreign Relations task force writes:

As a result of the foregoing activities, al Qaeda's current and prospective ability to raise and move funds with impunity have been significantly

diminished. These efforts have likely made a real impact on al-Qaeda's financial picture, and it is undoubtedly a weaker organization as a result. Much of the impact has been through deterrence—i.e., past or prospective donors are now less willing to support organizations that might be complicit in terrorism.¹³⁴

This type of international cooperation, especially with a key Middle Eastern nation, represents progress that can produce real results in combating terrorist financing.

In the United States, Congress included new anti-money laundering and combating terrorist financing tools in the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act* of 2001 (henceforth referred to as the Patriot Act). A key provision was the *International Money Laundering Abatement and Financial Anti-Terrorism Act*, which included 'special measures' to increase Presidential and Treasury Department counter-finance authorities to restrict access to the U.S. financial system of any foreign jurisdiction, institution, or individual linked to terrorism or money laundering. Such punitive measures were intended to give the U.S. leverage over countries who fail to implement effective anti-money laundering and combating terrorist financing regulatory measures in a timely manner, but Lee Wolosky asserts they have not been used effectively against countries identified as a source or transit point for terrorist funds.¹³⁵

The reality is that any harder line has been preempted by the need to gain support for combat operations in Afghanistan and Iraq and for security cooperation activities in the Horn of Africa. Since many countries with suspect regulatory systems are also on the front line of GWOT combat operations, securing their cooperation in those efforts often trumps any inclination to bring more financial pressure to bear. The Patriot Act also mandated greater information sharing amongst financial institutions and the government, it subjects money services businesses (including hawalas) to *Bank Secrecy Act* oversight,

and it established stricter ‘due diligence’ requirements in the financial sector.¹³⁶ This includes new ‘know-your-customer’ and suspicious activity report rules that Federal Reserve Board of Governors member Herbert Biern called “the most significant updates to the *Bank Secrecy Act* since it was passed in 1970.”¹³⁷

In October 2001, the Financial Action Task Force (FATF) expanded its focus beyond anti-money laundering by issuing eight Special Recommendations on Terrorist Financing. These recommendations set out a basic framework to detect, prevent, and suppress the financing of terrorism and terrorist acts. An additional recommendation was added in October 2004. The nine Special Recommendations call on states to:

- 1) Take immediate steps to ratify and implement the *International Convention for the Suppression of the Financing of Terrorism* and UNSCR 1373;
- 2) Criminalize the financing of terrorism, terrorist acts and terrorist organizations;
- 3) Freeze and confiscate funds or other assets of terrorists and adopt measures which allow authorities to seize and confiscate property;
- 4) Report funds that are believed to be linked or related to, or are to be used for terrorism, terrorist acts, or by terrorist organizations;
- 5) Provide assistance to other countries’ law enforcement and regulatory authorities in connection with criminal, civil enforcement, and administrative investigations;
- 6) Impose anti-money laundering requirements on alternative remittance systems;
- 7) Strengthen customer identification requirements on financial institutions for domestic and international wire transfers of funds;
- 8) Ensure entities like non-profit organizations cannot be misused to finance terrorism;¹³⁸
- 9) Adopt measures to detect cross-border transfers of currency/bearer negotiable instruments and restrain those suspected of terrorist financing or money laundering.¹³⁹

An ongoing FATF function is assessing states’ anti-money laundering and combating terrorist financing programs. Compliance with the task force’s Forty + Nine Special Recommendations (jointly called the FATF Recommendations) within the group is evaluated by regular self-assessment and mutual evaluations.¹⁴⁰ Since 2000, the FATF has also pursued a ‘naming and shaming’ approach, publishing a ‘Review to Identify

Non-Cooperative Countries or Territories (NCCT): Increasing the Worldwide Effectiveness of Anti-Money Laundering Measures.’ In developing this list, the FATF targets larger financial sectors as well as countries where group members identify specific problems with anti-money laundering cooperation. The task force conducts in-depth reviews of country or territory financial systems to determine the adequacy of anti-money laundering and combating terrorist financing efforts.¹⁴¹ The NCCT list outlines specific shortfalls and steps required to resolve identified deficiencies and it produces results. Less than a year after the first list was published in 2000, eight of fifteen countries named took positive steps towards compliance.¹⁴²

Another important international effort to monitor financial sectors occurs at the IMF and World Bank. In 1999, the IMF and World Bank established a joint Financial Sector Assessment Program, a voluntary program where teams of experts conduct comprehensive reviews of national financial systems to assess strengths, vulnerabilities, and areas for improvement.¹⁴³ Using the FATF Recommendations as a global standard, a Financial Sector Assessment Program test in 2003-2004 evaluated 41 countries or jurisdictions. The assessment program became permanent in March 2004 after the test evaluations identified varying levels of compliance amongst countries—with compliance generally greater in high/middle-income nations than in low-income ones, and with Forty Recommendations compliance higher than for newer Special Nine Recommendations.¹⁴⁴ In many cases, problems with the Nine Recommendations stemmed from the absence of national legislation to facilitate their adoption. Common problems included:

- 1) Poor coordination among government agencies (especially between financial supervisors/investigators and police/prosecutors);
- 2) Ineffective law enforcement due to poor skills, training, or resources and insufficient adjudication authorities;

- 3) Ineffective monitoring and enforcement of anti-money laundering and combating terrorist financing provisions due to weak supervision stemming from inadequate training or staffing levels;
- 4) Inadequate systems of financial record-keeping and reporting requirements;
- 5) Shortfalls in international cooperation due to secrecy/privacy provisions and information sharing restrictions without an active criminal investigation in progress.¹⁴⁵

One area of particular concern that should be addressed in future evaluations is the need for increased emphasis on targeting 'high risk' countries. Of 41 countries assessed in the test program, only three were in the Middle Eastern or North Africa, despite general acceptance that significant terrorist funds are raised, moved, or stored in those regions.

Government efforts to reorganize after 9/11 were clearly dominated by the massive Department of Homeland Security stand-up. On the terrorist financing front, the NSC set up an ad hoc structure in September 2001 that was eventually replaced by an interagency Policy Coordinating Committee (PCC) on Terrorist Financing in March 2002. Along with the PCC, the Foreign Terrorist Asset Tracking Center was hastily stood up after 9/11 to serve as an interagency clearinghouse for the federal government's information related to identifying terrorist financial infrastructure and preventing terrorists from moving funds in the international financial system. Proposed by the NSC's Richard Clarke in early 2000, President Clinton announced the Foreign Terrorist Asset Tracking Center as a centerpiece of his May 2000 counterterrorism initiative. Although Congress authorized the funds that same October, the center languished until after 9/11, when it quickly stood up in the Office of Financial Asset Control at the Treasury Department.¹⁴⁶ It included officials from Treasury, the FBI, and the CIA in order to join financial investigation (in particular Financial Crimes Enforcement Network's Bank Secrecy Act database), law enforcement, and intelligence resources to

make determinations related to blocking terrorist assets. In the 2003 *Intelligence Authorization Act*, Congress directed the Director of Central Intelligence to, “Establish in the Central Intelligence Agency an element responsible for conducting all-source intelligence analysis of information relating to the financial capabilities, practices, and activities of individuals, groups, and nations associated with international terrorism,” effectively moving the Foreign Terrorist Asset Tracking Center from Treasury to the CIA.¹⁴⁷ In 2004, the *Intelligence Reform and Terrorism Prevention Act* created the Director of National Intelligence position and established the National Counterterrorism Center to house various counterterrorism organizations and functions under the Director’s control, including the Foreign Terrorist Asset Targeting Group. As the successor to the Foreign Terrorist Asset Tracking Center, it serves as the principal interagency analytic group for assessing intelligence on terrorist financing and providing assessments to the NSC’s Terrorist Finance PCC.¹⁴⁸ Although the name change is slight, the shift from ‘tracking’ to ‘targeting’ parallels the shift in U.S. strategy as recommended by the 9/11 Commission.

Another September 2001 initiative was Customs’ “Operation Green Quest,” an interagency enforcement effort to deny terrorists access to the international financial system. Headed by a senior Customs official and an IRS deputy, Green Quest included agents, analysts, and investigators from Customs, IRS, the Financial Crimes Enforcement Network, the Secret Service, and the FBI, collectively acting as the investigative arm of the Foreign Terrorist Asset Tracking Center.¹⁴⁹ At the same time, the FBI worked to improve its activities focused on combating terrorist financing (the Bureau’s pre-9/11 performance would later be widely criticized, particularly by the 9/11 Commission).

Within days of 9/11, the Department of Justice and the FBI established an interagency Financial Review Group operating out of FBI headquarters. It consolidated experts from FBI, CIA, National Security Agency, Defense Intelligence Agency, Drug Enforcement Agency, Customs, IRS, Bureau of Alcohol, Tobacco, and Firearms, the Office of Foreign Asset Control, the Secret Service, the Financial Crimes Enforcement Network, U.S. Postal Inspectors, the National Drug Intelligence Center, the Federal Reserve, and the Inspector General. According to Dennis Lormel, Chief of the FBI Financial Crimes section in February 2002, the Financial Review Group's mission evolved from tracking the money used to support the nineteen 9/11 attackers "into a broader strategy to investigate, prosecute, disrupt, and dismantle all terrorist-related financial and fund-raising activities...the development of a template for pro-active, preventive, and predictive terrorist financial investigations."¹⁵⁰ One of the group's tasks was developing a centralized terrorist financial database. In February 2002, Lormel testified that the Financial Review Group had cataloged and reviewed over 321,000 financial documents related to over 10,500 individuals and accounts. Of that number, over 104,000 of the documents were judged to be of investigatory interest and entered into the terrorist financial database for linkage analysis.¹⁵¹ The Financial Review Group evolved into the Terrorist Financing Operations Section (TFOS) in the FBI Counterterrorism Division. Today, TFOS maintains a network with over 400 financial institutions, who can provide near real time information on suspected terrorist finances to investigators 24/7.

Chapter 4: Threat Finance Exploitation

A Post-9/11 Assessment

The U.S. has won the support of key countries in tackling terrorism finance—though there is still much to do in the Gulf States and in South Asia. The government has made significant strides in using terrorism finance as an intelligence tool. However, the State Department and Treasury Department are engaged in unhelpful turf battles, and the overall effort lacks leadership.

(National Commission on Terrorist Attacks Upon the United States, Final Report on 9/11 Commission Recommendations)¹⁵²

The 9/11 Commission called the Policy Coordinating Committee on Terrorist Financing ‘generally successful’ at marshalling a variety of government resources to combat terrorist financing, declaring that the NSC interagency process is better suited to produce good strategic and operational policy formulation than a single agency or ‘czar’ would be.¹⁵³ In December 2005, the 9/11 Commission released a final report card on U.S. government actions responding to the Commission’s July 2004 final report. Out of 41 subject areas on the report card (graded A thru F), the only ‘A’ grade to be awarded was the A- assigned to the ‘Vigorous effort against terrorist financing.’ The ‘turf battles’ the Commission referenced above are typical of the disjointed overall effort that ensues if interagency actions are not properly coordinated, or when nobody in the interagency process either has, or exercises, authoritative direction regarding execution decisions. A cross-functional issue like combating the financing of terrorism requires information sharing and cooperation between regulatory, law enforcement and intelligence agencies as well as coordinated diplomatic efforts to garner international support.

In the January 2005 edition of *Strategic Insights*, Dr. Anne Clunan presented a comprehensive review of the U.S. and international response to terrorist financing. Among the issues she identified are: 1) U.S. efforts to counter terrorist financing are

largely funded by reallocations from other budget lines, versus dedicated budget authorizations; 2) banks are said to be experiencing ‘blocking fatigue’ due to the skyrocketing number of designations under E.O. 13224; 3) the international community, for the most part, will only act on UN designations; and 4) U.S. actions in Iraq have made some states reluctant to follow the U.S. lead in implementing and enforcing legislative changes.¹⁵⁴ She identifies some of the ‘turf battles’ referenced by the Commission as fights between the Treasury Department and the CIA over the home of the Foreign Terrorist Asset Tracking Center, a bureaucratic battle between Customs and the FBI regarding overlapping “Green Quest” and Terrorist Financing Operations Section investigative responsibilities (which was resolved in 2003 when an FBI-led Joint Terrorism Task Force was formed with assurances of Immigration and Customs Enforcement participation), and, finally, an ongoing battle between the State Department and the Treasury Department over lead agency responsibilities for the Terrorist Finance Working Group’s efforts to oversee U.S. capacity building by providing technical assistance and training to countries implementing UNSCR 1373 provisions.¹⁵⁵ A November 2005 Government Accountability Office (GAO) report on Terrorist Financing stated very clearly that, “The U.S. government lacks an integrated strategy to coordinate the delivery of counter-terrorism financing training and technical assistance to countries vulnerable to terrorist financing. Specifically, the effort does not have key stakeholder acceptance of roles and procedures...the Department of Treasury does not accept the Department of State leadership or the State-led Terrorist Finance Working Group procedures for the delivery of training and technical assistance abroad.”¹⁵⁶ Treasury has lobbied for and won Congressional funding for its Office of Technical Assistance and has

strongly resisted putting those funds or that office under State Department control. Clunan adds that U.S. funding for technical assistance efforts to build foreign capacity for anti-money laundering and combating terrorist financing has been fairly meager, amounting to only about \$20 million since 2001.¹⁵⁷ Interagency fighting is closely tied to varying views on roles and missions and the desire to play a lead role in the GWOT and obtain a share of the post-9/11 counter-terrorism funding boost. GAO reports that funding for non-DoD activities to combat terrorism overseas increased by about 133 percent, from \$4.9 billion to \$11.4 billion, between FY 2001 and FY 2004.¹⁵⁸ FY 2004's \$11.4 billion budget was part of an overall combating terrorism budget of \$52.74 billion, most of which was spent on domestic activities and homeland security.

Despite the progress noted in the 9/11 Commission's report card, U.S. efforts thus far still focus overwhelmingly on strategic actions to improve the effectiveness of the international financial system to detect and intercept storage and movement of illicit funding, and on regulatory (vice direct action) tactical efforts to interdict (block or freeze) the assets of terrorists or their supporters. Ambassador Henry Crumpton, former Deputy Chief of Operations at the CIA Counterterrorism Center and current Coordinator of the State Department's Office of Counterterrorism, outlined the nature of the shift to an operational/tactical strategy focused on financial intelligence in a recent speech to the Organization for Security Cooperation in Europe:

Monitoring and/or breaking financial transactions provides intelligence. The trail of money can lead to operatives and support networks, and can point the way to deeper intelligence collection, as a means to determine plans and intentions, motives, and perhaps ways to undercut the enemy's base. In other words money flows not only explain the who, how, when, and where – but perhaps also the why. We can use our knowledge of the financial flow dynamic and the broader support network to help map the terrain of the battlefield, to chart the best course to follow.¹⁵⁹

Crumpton outlines positive steps towards implementing the 9/11 Commission's recommended policy shift. But more can and should be done to engage global partners to support these efforts. Professor Clunan notes that the shift towards international intelligence sharing with other nations to track and capture or kill terrorist finance facilitators also serves to highlight the reality that U.S. efforts are not really global, but focused on 20 states where al Qaeda and other Islamic terrorists operate.¹⁶⁰ To track and attack the roots of terrorist financing everywhere they spring up, a truly coordinated international effort will be required.

DoD Threat Finance Exploitation and the Interagency

Adversaries fund operations by using unofficial banking systems, legitimate businesses, front companies, wealthy backers, state and non-state sponsors, non-governmental organizations, and criminal activities, including drug trafficking. Although other governmental agencies (OGA) lead interagency efforts to address such funding operations, Department of Defense has a growing role...DoD's unique capabilities will be increasingly called upon to enhance the efforts of OGAs.

(DoD Directive: Threat Finance Exploitation, Initial Draft)¹⁶¹

A post-9/11 evaluation of the U.S. government's interagency process reveals some basic steps for increased effectiveness, regardless of the activity or area being addressed. Whatever the issue, interagency success requires that participants develop and maintain strong working relationships, free of institutional barriers or stovepipes that prevent information sharing. The focus must be on trust building and partnerships based on performance and actions. In the intelligence and law enforcement realms in particular, participants must overcome their culture of secrecy and show a willingness to share timely, actionable intelligence with each other and, when appropriate, with foreign partners. U.S. intelligence capabilities (with the possible exception of human

intelligence) are unmatched, but the truth is that we will never have enough agents or officers, much less the requisite permissions, to conduct every raid and make every arrest ourselves. Global interdependence in successfully executing the GWOT must be a key assumption.

Despite substantial interagency efforts to combat terrorist financing since 9/11, the Department of Defense, with its vast resources, was conspicuously absent until quite recently. A November 2003 GAO report titled “Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Financing Mechanisms,” provided a detailed look at U.S. government efforts to monitor and disrupt terrorist financing efforts. Its review of key players in deterring terrorist financing has no mention of direct DoD participation. Almost two years later, an August 2005 Congressional Research Service report titled “Terrorist Financing: U.S. Agency Efforts and Interagency Coordination” lists DoD’s only support as National Security Agency and Defense Intelligence Agency participation in the Foreign Terrorist Asset Targeting Group.

While DoD’s historical role has been minor, the extract shown earlier from the draft DoD directive on Threat Finance Exploitation outlines a change in Defense Department views on the utility of financial intelligence in support of military missions. In large part, DoD’s newfound interest results from its lead role in the GWOT and, especially, ongoing counter-insurgency operations in Iraq. In July 2005, Acting Deputy Assistant Secretary of Defense for Special Operations and Combating Terrorism, James Roberts, told Congress that DoD is convinced that, “following the money (in all forms) is a key element to mapping the network and understanding relationships between nodes and a key enabler for achieving DoD objectives.”¹⁶² The elevation of terrorist financing

within DoD mirrors the overall shift in government focus that the 9/11 Commission recommended. Martin Weiss, a Congressional Research Service International Trade and Finance analyst writes:

While the goals of freezing terrorist funds and tracking them for intelligence are not mutually exclusive, they tend to emphasize different strategies and approaches. The FBI and other intelligence agencies have a history of gathering intelligence by monitoring financial transactions and relationships over extended periods of time, for example in its Mafia investigations, and then using laws against financial crimes to eventually arrest the perpetrators. The Department of the Treasury, by contrast, has traditionally favored freezing terrorist assets as soon as possible.¹⁶³

DoD is in the process of expanding its activities in two overlapping areas— ‘terrorist financing,’ which has previously been defined, and ‘threat financing,’ a broader term that includes terrorist financing as well as “WMD funding, narco-trafficking, organized crime, and human trafficking.”¹⁶⁴ In establishing Threat Finance Exploitation (TFE) as a recognized activity, DoD intends to use financial intelligence to produce actionable targets in the GWOT. With the Assistant Secretary of Defense for Special Operations and Low Intensity Conflict (ASD SOLIC) taking the lead role as principal staff assistant and civilian advisor to the Secretary of Defense (SECDEF), the first-ever draft directive to formally establish TFE as a recognized DoD activity is in coordination within the Office of the Secretary of Defense, the Joint Staff, the Combatant Commands, and the services.¹⁶⁵ The directive defines threat finance exploitation as:

Activities, including those undertaken with other USG agencies or departments and/or partner nations, to detect, collect, and process information on, target, disrupt or destroy financial systems and networks, which support activities that threaten U.S. interest.¹⁶⁶

The decision to focus on the financing of a wide variety of threats, beyond solely terrorist organizations and their supporters, is rooted in the ongoing counter-insurgency in Iraq. In addition to the largely external funding that supports Jordanian Abu Mus'ab al-

Zarqawi and his Salafist foreign terrorist element, U.S. and Coalition forces in Iraq are clearly concerned with funds, from any source, that might find their way to homegrown Iraqi insurgent elements. Many senior Iraqi Baath party leaders, including former high-ranking military and intelligence officers, along with billions of illicit former regime dollars, are unaccounted for since the regime fell in 2003. Some are thought to be financing the insurgency from Syria, Jordan, Saudi Arabia, and the U.A.E., amongst other locations.¹⁶⁷ The current state of Iraq's overwhelmingly cash economy works in the insurgents' and terrorists' favor, making it easier to hide illicit funding inside the mass of hawala or cash transactions taking place. The insurgency needs to raise, move, store and spend money in order to conduct their attacks. Interdicting the money flow means interrupting the insurgency, hence DoD's heightened focus on threat finances, especially in the CENTCOM AOR. Even before the TFE Directive was drafted, DoD had explicitly recognized threat finance as a target of significance. The *2005 National Defense Strategy* identifies 'funds' as one of eight major terrorist vulnerabilities.¹⁶⁸ It highlights the Defense Department's belief that in today's security environment of unconventional challenges and strategic uncertainty, "Financing permeates every aspect of the threat posed by an adversary against U.S. interests and as such is a critical priority for DoD."¹⁶⁹ Just as importantly, DoD's interest in threat finance does not represent a view that it (DoD), and not traditional regulatory, law enforcement, and intelligence agencies should play the lead role in the overall U.S. effort to combat the financing of terrorism. The draft directive clearly states that normally, interagency efforts to combat terrorist financing are led by other government agencies. Still, given the broad nature of the GWOT and DoD's presence in so many areas of the global effort, the directive does

envision cases where DoD ‘might’ have a lead role. It also stresses that in many cases, DoD will have unique capabilities that can enhance the overall interagency effort. DoD’s new threat finance offices of primary responsibility will provide the tie in to interagency activities to combat terrorist financing and ensure that useful financial intelligence from DoD is shared with other agencies on a timely, consistent basis. ASD SOLIC’s Senior Advisor for Threat Finance Exploitation is Dr. Jeffrey Starr. He stresses that the new TFE directive does not seek to create new authorities within or for DoD. Its primary aim is to apply a more structured approach to an activity that has evolved as something of a grass roots effort on various regional combatant commander staffs. A key objective is to create task legitimacy to ensure appropriate consideration of threat finance requirements during programming decisions and ensure that enemy threat financial networks are viewed as a critical vulnerability to assess.¹⁷⁰

In the 2003 Unified Command Plan, the SECDEF directed USSOCOM to lead, plan, and synchronize DoD activities in support of the GWOT and, as directed, to execute global operations against terrorist networks. Given their central role in the GWOT, it is not surprising that the draft TFE directive designates USSOCOM as DoD’s Executive Agent for executing TFE policy.¹⁷¹ This designation will require SOCOM to plan and synchronize TFE execution and to develop TFE capabilities. Concurrently, geographic combatant commanders (GCCs) will establish offices of primary responsibility for threat finance exploitation and, just as importantly, establish threat finance as a critical intelligence focus within their regional commands.¹⁷² This holds the true potential for DoD TFE activities to significantly improve the overall government effort to exploit terrorist financing. Until now, a key shortcoming has been the absence of a real focus

within DoD on producing financial intelligence from the massive volume of all-source collections generated within the DoD elements of the National Intelligence Community (by most estimates, DoD receives roughly 80% of the overall national intelligence budget).¹⁷³ For its part, SOCOM has already identified the ‘find’ element of their ‘find, fix, and finish’ strategy against GWOT targets as one of their highest priorities. Actionable intelligence to find targets can lead to the pre-emptive capture or killing of terrorists and generate information for further operations.¹⁷⁴ Across DoD, the intelligence generated through TFE has the potential to be of value to members of the interagency team and/or coalition partners, enabling them to act in a variety of ways in blocking and freezing, and other direct action methods.

When it comes to focusing intelligence efforts to uncover terrorist networks, finance and communications are two major terrorist vulnerabilities and weaknesses. The just released 2005 Quadrennial Defense Review (QDR) gets to heart of the matter by dictating the “need for considerably better fusion of intelligence and operations to produce action plans that can be executed in real time,” as well as a shift “from an emphasis on ships, guns, tanks and planes – to a focus on information, knowledge and timely, actionable intelligence,” and “from Department of Defense solutions – to interagency approaches.”¹⁷⁵ The collection and assimilation of multi-source information and subsequent production of useful intelligence on trends, nodes, points of origin or destination, and relationships are critical requirements in the GWOT. The *National Strategy for Combating Terrorism* seeks to ‘attain domain awareness,’ which requires:

Effective knowledge of all activities, events, and trends within any specified domain (air, land, sea, cyber) that could threaten the safety, security, or environment of the United States...“domain awareness” enables identification of threats as early and as distant from our borders...dependent upon having

access to detailed knowledge of our adversaries distilled through the fusion of intelligence, information, and data across all agencies...Domain awareness supports coordinated, integrated, and sustained engagement of the enemy across the full spectrum of U.S. instruments of power.¹⁷⁶

The collection and analysis capabilities of the National Intelligence Community are the keys to achieving this objective.

The shift of U.S. strategy to focus terrorist financing intelligence towards a tactical approach to find, fix, and then capture or kill key financial facilitators, is a positive development that parallels traditional DoD activities. The 9/11 Commission found that following the money back to a relatively small number of financial facilitators has already led to the capture or killing of several, hurting al Qaeda and garnering additional useful intelligence.¹⁷⁷ In four and a half years of the GWOT, the Defense Department has learned that success on almost any front requires a high degree of interagency coordination. Combating the financing of terrorism is no different. It requires timely, ongoing information sharing within the U.S. government, civilian institutions, and international partners. Despite the apparent top-down direction in the draft directive, threat finance exploitation efforts began at the grass roots level in 2004.¹⁷⁸

Not surprisingly, with ongoing combat operations in two separate areas of operations, CENTCOM has established the most in-depth approach to the conduct of TFE operations. In 2004, CENTCOM intelligence analysts at MacDill AFB and the Multi-National Force-Iraq (MNF-I) in Baghdad began looking for additional logical lines of operation to combat the Iraqi insurgency.¹⁷⁹ Working with interagency representatives in CENTCOM's joint interagency coordination group (JIACG), a group of officers led by Air Force Lieutenant Colonel Scott Allen spearheaded the stand-up of the CENTCOM Threat Finance Exploitation Unit (TFEU) in August 2004. This action had a clear

operational focus, the first of eight pillars in the *National Strategy for Victory in Iraq* mandates we ‘Defeat the Terrorists and Neutralize the Insurgency.’ The fourth line of operation towards that objective involves “working with the Iraqi government to disrupt enemy financial networks.”¹⁸⁰ CENTCOM’s TFEU effort represents the military’s most significant activity along this line of operation. The TFEU resides in the CENTCOM Directorate of Intelligence (J-2), and works daily with interagency intelligence, law enforcement, and regulatory agencies. Together, those groups work to map the multi-dimensional system of funding and revenue generation for various insurgent and terrorist elements inside Iraq. Heavy emphasis is placed on timely sharing and deconflicting information about people or groups within the threat finance network.¹⁸¹ Toward that end, regular video teleconferences connect U.S. government counter finance personnel in Washington, Tampa, and Baghdad to share information and the TFEU participates in weekly video teleconferences with the NSC’s Policy Coordinating Committee on Terrorist Financing. Just as importantly, the TFEU plays a role in educating military interrogators and debriefers on the importance of collecting insurgency financial information and provides those individuals with targeted debriefing requirements and interview techniques. When needed, they can assist in debriefings and ensure that the exploitation of seized documents or other media includes a proper review for pertinent financial information. This ensures that useful financial intelligence is not overlooked and is passed to appropriate agencies both inside and outside of DoD. At MNF-I’s Combined Intelligence Operations Center, an interagency Crime and Economic Terrorism Team also works to ensure that financial information collected in Iraq is provided to the interagency members with primary counter-finance expertise to support

decision makers and develop actionable targets whenever possible.¹⁸² The efforts of the TFEU and the Crime and Economic Terrorism Team have made a difference, and intelligence gained on terrorist or insurgency financiers has been passed to the NSC for those persons or organizations to be designated under E.O.s 13224, 13315, and 13338.¹⁸³

Mapping and Tracking Threat Financial Systems

As the U.S. strategy for combating the financing of terrorism and threat finance exploitation moves increasingly toward tactical efforts to follow money trails and uncover terrorist operatives and support networks, we have to determine which elements of financial intelligence will best help us to compile ‘maps’ of those networks. The ability to map systems of funding and revenue generation for various threat elements is an essential part of following financial threads to produce actionable intelligence. The *2006 National Military Strategic Plan for the War on Terrorism* (NMSP-WOT) contains six strategic military objectives, the first of which is to ‘deny terrorists the resources they need to operate and survive.’ It explains that the:

Key to this is understanding the critical nodes and linkages of the terrorists’ networks. At the national military level, efforts are focused to identify global linkages among terrorist networks, and then to arrange regional actions that will achieve network-wide effects. Because the enemies are located in countries around the world with whom the United States is not at war, much of the effort against the terrorists will have to be made by those countries with the encouragement and assistance as necessary of the United States.¹⁸⁴

Dr. Jeffrey Starr has said that “following the money” is a means to find the things we can interdict, such as command and control networks or logistics networks. The money establishes nodes in multiple networks that support adversary operations and is therefore a promising target.¹⁸⁵ Social network researcher Valdis Krebs describes social network analysis as, “a mathematical methodology for *connecting the dots* -- using science to fight

terrorism”¹⁸⁶ by mapping the visual links between nodes and mathematically analyzing nodal relationships to evaluate each node’s *centrality*. The centrality relationships reveal a lot about a network’s structure, with highly centralized networks dominated by one, or few, very central node(s). Damaging or eliminating the nodes/hubs reduces the network into unconnected clusters. It is believed that Operation ENDURING FREEDOM had this effect on al Qaeda’s structure of command and control and fundraising. Over the course of a month, using only open source materials from major newspapers, Krebs was able to map the network of all nineteen 9/11 hijackers and 44 of their supporters. In the process he learned that in secret networks, low frequency of interaction does not necessarily indicate weak ties between nodes, as it usually would in a more open social network. Infrequent contacts are also harder to discover, increasing the security of the network. Regardless, since a covert network has a mission to accomplish, it must be active at certain times, balancing risk of discovery against mission-essential communications or financial transactions. To maximize operational security, contacts between the 9/11 hijackers’ network and outsiders were virtually non-existent, keeping contacts between various parts of the network to an absolute minimum. Such insular behavior amongst a group of immigrant men might raise flags today, but in a pre-9/11 world it only served to strengthen their network. Peter Klerks, Principal Lecturer at the Netherlands Police Academy, highlights the potential vulnerability of nodes that combine unique skills (such as the 9/11 pilots or a group’s financial facilitator) with high degrees of connectivity. If those unique nodes are removed, the network’s ability to accomplish its ultimate objective can be seriously damaged, if not destroyed.¹⁸⁷ Krebs and Klerks both address the important issue of timing with regard to acting on intelligence revealing an emerging

network map. In weighing ‘Prevention or Prosecution’ Krebs writes, “Currently, social network analysis is applied more successfully to the prosecution, not the prevention, of criminal activities. Social network analysis has a long history of application to evidence mapping in both fraud and criminal conspiracy cases.”¹⁸⁸ Klerks also discusses moving beyond the traditional law enforcement approach of waiting to build the complete map of a criminal network in hopes of getting to the ‘big fish’ whose arrest and prosecution it is hoped will bring the entire organization crashing down. A covert social network analysis view lends itself more towards ‘short strike’ tactics—removing targets as soon as they emerge—in considerable measure due to an understanding that the links between network nodes or clusters are not static, but constantly changing over time. This is becoming more and more the approach of the U.S. strategy to combat terrorist financing and certainly of DoD’s TFE strategy. Where terrorists are involved, whose networks are most likely planning to conduct future attack, taking down targets without delay assumes even greater urgency.

Within DoD, scalable social network analysis was one component of the Defense Advanced Research Projects Agency’s (DARPA) Terrorism Information Awareness program, which sought to develop and integrate advanced collaborative information awareness and decision support tools to produce information and knowledge of terrorist planning and preparation activities.¹⁸⁹ Recognizing the utility of social network analysis’ ability to analyze small numbers of people with unspecified relationships, scalable social network analysis seeks to “extend these techniques to allow for the analysis of much larger numbers of people who have multiple interaction types (e.g., communication and financial).”¹⁹⁰ While civil liberties and privacy concerns led

Congress to cut Terrorism Information Awareness funding in fall 2003, many of DARPA's original partners, including the Army Intelligence and Security Command, National Security Agency, Defense Intelligence Agency, CIA, the Defense Counterintelligence Field Activity, STRATCOM, SOCOM, and JFCOM's Joint Warfare Analysis Center, continue work to develop various elements of the program for more limited applications.¹⁹¹ According to the Director of SOCOM's Center for Intelligence and Information Operations, their Special Operations Joint Interagency Collaboration Center combines nodal analysis with "information technology...data mining, data retrieval, data warehousing, knowledge management, pattern recognition, speech recognition, machine learning/neural networking, audio and video capture, parallel/distributive computing, visualization and search optimization" to build and populate a terrorist database that provides combatant commanders with a common picture for tracking terrorists and events worldwide.¹⁹² Given the terrorists' requirement to raise and spend money, it is clear that using financial information to feed a scalable social network analysis program will be a foundation of successful TFE.

The 9/11 Commission researchers also constructed a financial map of the 9/11 hijackers. They reaffirmed the idea that once investigators can determine where a suspected terrorist is banking, they can quickly uncover a wealth of other information on the person's activities. The Commission posits that had U.S. government investigators uncovered the New Jersey bank accounts of hijackers Nawaf al Hazmi and Khalid al Mihdhar, they could have tracked a host of transactions including ATM withdrawals, debit card, and cash transactions, right up until September 10, 2001.¹⁹³ However, because pre-9/11 financial investigations typically moved rather slowly, they were not a

avored method to track down at-large suspects. Since 9/11, financial information is viewed as an effective, and timely, way to track down suspects. This has primarily come about through the FBI's outreach to the financial sector and their Terrorist Financing Operations Section's aggressive use of PATRIOT act authorities to build a systematic approach to gain expedited access to financial data in emergencies.¹⁹⁴ Using their network of contacts throughout the financial sector, the Terrorist Financing Operations Section has rapid access to financial information around-the-clock, every day of the year. The group has also established data mining projects that use predictive pattern recognition algorithms to fully exploit this financial database and pro-actively identify and target potential terrorists and terrorist activity.¹⁹⁵

Combatant Commander TFE Actions

The United States will conduct operations in widely diverse locations... This battlespace places unique demands on military organizations and interagency partners, requiring more detailed coordination and synchronization of activities both overseas and at home..The United States must adopt an "active defense-in-depth" that merges joint force, interagency, international non-governmental organizations, and multinational capabilities in a synergistic manner.

(2004 National Military Strategy)¹⁹⁶

One of the principal authors of DoD's draft TFE Directive, Dr. Jeffrey Starr, points out that creating task legitimacy for the TFE mission was a key objective in the effort to establish threat finance as a COCOM critical intelligence focus.¹⁹⁷ As the TFE executive agent, SOCOM hosted a Terrorism Finance Joint Planning Group in December 2004 to develop a combatant commanders' way ahead for threat finance disruption. This was followed by a TFE conference in February 2005 that brought combatant command representatives together with personnel from the Department of Treasury, Department of

State, FBI, IRS, DIA and various other intelligence community representatives. Between April and July 2005, a team of personnel from SOCOM, ASD/SOLIC, and the DIA visited the COCOMs to assess various grass roots TFE initiatives. At the commands, the team found varying degrees of TFE maturity, but all the commands endorsed the significance of threat finance exploitation in the GWOT and the high potential of financial intelligence to produce targets. Specific areas of concern that were raised by the commands included the internal and external funding for the Iraqi insurgency and foreign terrorist fighters at CENTCOM, terrorist fundraising in the Brazil, Argentina, and Paraguay tri-border area at SOUTHCOM, and the high potential for terrorist fundraising in PACOM's cash-rich Asian societies.

The National Military Strategic Plan for the War on Terrorism (NMSP-WOT) explains, "Success in this war relies heavily on the close cooperation among U.S. Government agencies and partner nations to integrate all instruments of U.S. and partner national power -- diplomatic, information, military, economic, financial, intelligence, and law enforcement."¹⁹⁸ The SOCOM team discovered that the combatant commands understand the interagency aspects of threat finance exploitation and view their Joint Interagency Coordination Groups (JIACG) as key to their TFE strategy. Although no two JIACGs are exactly the same, they share the broad function of coordinating COCOM activities across the interagency community to ensure proper coordination between the military and non-military elements of national power. A 2005 paper by Ambassador Robert Oakley, among others, explained:

The current "limited JIACG's" focus on counterterrorism and counter narcotics issues has proven valuable and all of the COCOMs have expressed interest in going "full-spectrum"...a "full-spectrum" JIACG would be a full-

time permanent planning and advisory body...the COCOM “country team,” but at the regional level.¹⁹⁹

PACOM runs its TFE activities out of its JIACG for Counterterrorism

(JIACG/CT), which is designated as the command’s office of primary responsibility for the Global War on Terrorism. The JIACG/CT includes representatives from the CIA, FBI, NSA, DIA, the Treasury Department (to include Financial Crimes Enforcement Network and Office of Foreign Asset Control representatives), and the Defense Threat Reduction Agency, amongst others. Admiral Thomas Fargo, then-Commander PACOM, called JIACG/CT an “offense-oriented, C2 element that serves to synchronize and operationalize our Theater CT Campaign Plan, shortening our intelligence-to-action response time...fusing the mosaic of information relevant to an emerging threat and then rapidly coordinating either a military or civilian agency response.”²⁰⁰ In accordance with PACOM’s Interagency Regional Action Plan, JIACG/CT actively targets various terror financing methods (bulk cash smuggling, alternative remittance systems, cash couriers, suspect charities, trade-based terrorist financing, and kidnapping for ransom) for intelligence exploitation. James Roberts highlighted the Financial Crimes Enforcement Network’s support of PACOM’s regional financial intelligence operations as an example of coordinated interagency action to:

- 1) Identify terrorist and insurgent financial support networks;
- 2) Help partners develop money laundering and terrorist financing prosecutorial expertise;
- 3) Encourage nations with strong subject matter expertise to provide technical or administrative assistance to less capable nations.²⁰¹

Robert’s believes the PACOM model is a template for a theater security cooperation capacity-building approach that supports the need to work with our partners “across all elements of their national power (diplomatic, informational, military, economic,

financial, intelligence, and law enforcement) to improve their ability to detect and disrupt these often interlinked, illegal, clandestine, non-state actor networks.”²⁰²

Operationalizing Threat Finance Exploitation

To allow the operationalization of DoD’s newly established TFE mission, the forthcoming TFE Directive assigns a variety of responsibilities to meet TFE doctrine, organization, training, material, leadership, personnel and facilities (DOTMLPF) requirements. These seven areas will facilitate turning TFE from a concept into a fully supported, operational activity across the Combatant Commands and Services. Integrating these requirements with TFE policy will be the responsibility of ASD SOLIC, who will be tasked with developing a plan of action and milestones to guide and monitor progress toward the standup of a fully integrated TFE architecture.²⁰³ As the TFE executive agency, SOCOM has broad responsibilities to oversee threat finance doctrine, organization, training, and equipment. Additionally, ASD SOLIC will chair a TFE coordination group to develop and oversee threat finance exploitation policy.

No current joint intelligence doctrine addresses threat finance or adversary financial information as an intelligence focus or target. Similarly, neither JP 1-02, *Department of Defense Dictionary of Military and Associated Terms*, nor the *Universal Joint Task List* contain any mention of threat or terrorist finance. With no existing joint doctrine, many of the specific policy items in the TFE directive will form the starting point from which the Joint Staff and Joint Forces Command (JFCOM) will develop joint TFE doctrine and, where applicable, integrate TFE into existing joint doctrine and tactics, techniques, and procedures (TTP). Amongst these are policy statements that:

- 1) Financing permeates every aspect of the threat posed by an adversary against U.S. interests and as such is a critical priority for DoD;
- 2) DoD will develop and include in force planning constructs integrated capabilities to exploit financial networks that support adversarial actions against U.S. interests;
- 3) DoD supports TFE capability interoperability with OGAs to achieve National Security objectives; and
- 4) DoD supports early integration of TFE interagency representatives into the DoD planning process.²⁰⁴

While OSD policy will help shape doctrine, the assignment of responsibilities to various organizations within DoD will shape the organizational construct that will support TFE activities. The Undersecretary of Defense for Intelligence will be responsible for providing guidance to ensure that the collection and analysis required to support TFE are conducted within the Defense Intelligence Community. Also, combatant commands will be required to designate a TFE office of primary responsibility. A seemingly ready-made organization to conduct these activities within the combatant commands are the newly established Joint Intelligence Operations Centers (JIOC). Recently, SECDEF directed via execute order that JIOCs be established at the regional combatant commands, along with a Defense JIOC at DIA. Retired DIA Director, Vice Admiral Lowell Jacoby told a Joint Warfare conference in October 2005 that:

The combatant commander JIOCs will be the focal point for the flow of intelligence requirements into and out of each regional theater...and the Defense JIOC will aggregate and distill those war-fighter requirements...will ensure that national-level intelligence capabilities are applied to them in addition to theater assets. The aim of the JIOC construct...to enable the simultaneous sharing and collaboration of intelligence at all levels and to achieve an unprecedented synergy among intelligence analysts, collectors and users so they work as an integrated team.²⁰⁵

The JIOC will be established to provide management of all combatant command intelligence operations. According to Lieutenant Colonel Scott Allen, the Undersecretary

of Defense for Intelligence is expected to direct that TFE activities reside in the JIOC.²⁰⁶

TFE training is one of several responsibilities assigned to JFCOM as the DoD's lead for joint training. While the Under Secretary of Defense for Personnel and Readiness must insure TFE's integration into military training programs, JFCOM will develop TFE training, train designated COCOM forces, develop standards to identify personnel needing training, assist the Joint Staff in developing joint TTP, and ensure interoperability of various component TFE activities. JFCOM will also monitor joint and combined exercises and planning processes for adequate TFE integration, aiding in scenario development as required.

At this early stage in operationalizing Defense TFE, specific material requirements that may be needed beyond existing intelligence infrastructure have not determined. As requirements are identified by the TFE Coordination Group, the Under Secretary of Defense for Acquisitions, Technology, and Logistics will oversee acquisitions and ensure interoperability and standardization of equipment within DoD, and with other government agencies when necessary. Similarly, facilities will most likely be existing intelligence facilities, as well additional facilities that may be established as part of the standup of theater JIOCs.

Leadership and personnel for executing TFE activities will be drawn from the existing intelligence community. This is not to imply that TFE can or should be conducting without additional resources, as that is not OSD's expectation, according to Dr. Starr. By legitimizing TFE as an established Defense activity, the combatant commanders will be required to identify and budget for the requirements associated with conducting TFE. This includes personnel and materials or equipment.²⁰⁷

Chapter 5: Conclusion and Recommendations

Combating Terrorist Financing Way Ahead

Combating the financing of terrorism is firmly established as a line of operation in the Global War on Terrorism, a decision made by the President himself within days of 9/11. Recognizing the GWOT as a conflict that would be fought across the globe on many different fronts led the administration toward a strategy utilizing all instruments of our national power. Initial actions involved a redoubling of our efforts along existing U.S. government lines of strategic and regulatory tactical operations associated with anti-money laundering activities. E.O. 13224 and its numerous revisions have formed the basis of the regulatory tactical action, but the issue of understanding al Qaeda's broad, overlapping financial support system is a complex one. The 2002 *National Security Strategy* laid the foundation for the executors of our levers of national power to establish terrorist financing as a viable, even preferred, target set in the GWOT. Virtually all subordinate strategy documents, including the *National Defense Strategy*, *National Military Strategy*, and the *National Military Strategic Plan for the War on Terrorism*, contain the same or similar descriptions of terrorist funds or finances as a critical target or terrorist vulnerability.

Understanding Osama bin Laden and the history of the al Qaeda organization, particularly as it relates to the group's financial network, is important. Developing a coherent, effective strategy to combat al Qaeda and other terrorist financial networks requires an understanding of how the network has evolved over more than 25 years through multiple conflicts into a system of overlapping and redundant components. The system, by design, has multiple networks with low degrees of connectivity. Independent

facilitators in various branches can work to raise funds for regional operating cells or pass money on to al Qaeda's main finance committee. The dynamic nature of the relationships in the network favors taking decisive action as soon as actionable intelligence emerges. Waiting to develop a picture of the entire network will invariably see temporary nodal ties disappear and potential targets lost. There are times that this could be appropriate based on the priority of the desired target, but a well coordinated interagency effort will be essential to weighing such timing decisions from a holistic U.S. government perspective.

Along with regulatory blocking and freezing actions, the U.S. has worked on strategic level capacity-building programs to strengthen partner nations' regulatory structures and strengthen global standards and oversight efforts. Initial success, however, served to drive al Qaeda towards being a more loosely networked collection of semi-autonomous groups and drove their financial network further towards alternative remittance and transfer systems. Trying to block or freeze the relatively small sums of money required to finance terrorist or insurgent acts has proven to be extremely demanding. This led the 9/11 Commission, amongst others, to suggest a broader strategy that includes the exploitation of intelligence gathered from financial investigations as a tool to understand their terrorist networks and disrupt their operations.

As with other aspects of prosecuting the GWOT, combating terrorist financing requires a very high degree of interagency coordination and information sharing within the U.S. government and with partner nations. The 9/11 Commission called the Policy Coordinating Committee on Terrorist Financing "generally successful" at marshalling a variety of government resources for combating terrorist financing activities, asserting the

NSC interagency process is better suited to good strategic and operational policy formulation than a single agency or ‘czar’ would be. In the Commission’s December 2005 report card on government actions in response to the 9/11 final report, the government’s ‘Vigorous effort against terrorist financing’ received the only ‘A’ grade awarded. The ongoing shift towards a counter-finance strategy that favors using financial intelligence to find and capture or kill key financial facilitators is a positive move that aligns more closely with traditional military mission sets. The 9/11 Commission final report highlighted the fact that following the money back to fairly small number of financial facilitators had already led to the capture or killing of several of them, hurting al Qaeda and garnering useful intelligence. As DoD’s activities become more focused and more coordinated with the interagency, the desired outcome is that the application of the military’s significant resources will produce similar results, both inside and outside of DoD.

Recommendations

Given the challenges associated with mapping dynamic terrorist networks, the current trend towards tactical action that targets network nodes identified through the exploitation of financial intelligence is both appropriate and desirable. Once analysis provides actionable intelligence, either military or non-military action should be taken against potentially fleeting targets to destroy that node and, ideally, disrupt adjacent nodes or the entire network.

The current draft DoD Directive on Threat Finance Exploitation is a huge step in the right direction in terms of bringing DoD intelligence resources to bear along this key line of operation. To the maximum extent practical, DoD should accelerate the

coordination and approval of the TFE Directive and expedite development of plan of action and milestones to track progress toward establishing a fully integrated TFE architecture. This requires continued emphasis from OSD and support at the combatant commands. SOCOM, as the TFE executive agent, JFCOM, as the DoD joint trainer, and CENTCOM, as the combatant command with the most mature TFE program, must play key roles in developing the plan of action and milestones. The combatant commands and the services should expeditiously establish TFE offices of primary responsibility and task those offices with developing organizational-level plans of action and milestones, to include identifying personnel, training, and resource requirements. OSD, in turn, must ensure TFE funding requirements are captured, defended, and ultimately resourced in the Planning, Programming, Budgeting, and Execution process.

To maximize effectiveness and speed establishment of the new activity, combatant command TFE offices should be embedded within the newly directed Joint Intelligence Operations Centers to best integrate threat finance exploitation into everyday, all-source collection, analysis, and intelligence production processes. When the COCOM JIOCs are established as focal points for all regional theater intelligence requirements and products, they will be well suited to ensure that threat finance is established as a critical intelligence focus. Ideally, a Threat Finance Exploitation Unit, modeled after CENTCOM's successful effort, will operate inside the JIOC as the COCOM office of primary responsibility. The best case scenario would be that as the combatant commands determine manpower, funding, equipment, and facility requirements for the JIOC, TFE can be consolidated as a baseline activity. This will speed the standup of functioning TFE activities in those theaters currently lacking one.

Finally, as clearly specified in the draft TFE directive, DoD must embrace the idea that Threat Finance Exploitation is a U.S. government-wide interagency effort. The combatant commands and other involved parties should make full use of their assigned interagency personnel to ensure TFE is conducted in cooperation with other USG agencies with primacy in the overall U.S. CFT mission.

Conclusion

The emergence of threat finance exploitation as a recognized DoD activity is significant, especially since it comes at the same time that overall U.S. strategy to combat terrorist financing is shifting towards a more tactical, direct action approach to disrupt or destroy terror network nodes. Despite the importance of tracking and interdicting terrorist financing and terrorist support network nodes, all parties in the U.S. interagency effort must understand that combating the financing of terrorism, including DoD threat finance exploitation actions, are only one part of a multi-pronged GWOT strategy that employs all instruments of national power. Threat finance exploitation is not a silver bullet, but it can be an effective tool that must be fully integrated in DoD's overall all-source intelligence collection and production activity. That activity itself has to be part of an interagency approach that emphasizes timely, ongoing information sharing within the U.S. government, civilian institutions, and international partners. DoD's work to operationalize TFE will ensure that pertinent threat finance information, collected by DoD worldwide, is fed into the interagency process to maximize America's ability to locate and destroy all aspects of the global terrorist menace.

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- ³ George W. Bush, “Address to a Joint Session of Congress and the American People” (United States Capitol, Washington, September 20, 2001).
- ⁴ A current listing of E.O. 13224 designations is available from <http://www.ustreas.gov/offices/enforcement/ofac/sdn/>.
- ⁵ President, Executive Order, “Executive Order 13224-Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism,” 66 Federal Register 49079 (25 September, 2001), n.p.
- ⁶ Bob Woodward writes that the first CIA paramilitary team, a 10-man unit codenamed Jawbreaker, landed in northern Afghanistan at about 3 PM local time on September 26, 2001. In Woodward, 10.
- ⁷ John Roth, Douglas Greenburg, and Serena Wille, *National Commission on Terrorist Attacks Upon the United States, Monograph on Terrorist Financing: Staff Report to the Commission*, by John Roth (Washington: The Commission, July 2004), 2.
- ⁸ Many different forms are used by various authors when referring to Usama bin Laden and to al Qaeda. In this thesis, the author will use the forms selected by the 9/11 Commission as shown above unless a different form is used within a direct quote by another author.
- ⁹ *Ibid.*, 52.
- ¹⁰ National Security Strategy of The United States of America (2002), 6.
- ¹¹ Martin A. Weiss, *Terrorist Financing: The 9/11 Commission Recommendation* (Washington: Congressional Research Service, February 25, 2005), summary.
- ¹² John Snow, “About This Issue,” *eJournal USA: Economic Perspectives*, Vol. 9, No. 3 (Sep 04), 1.
- ¹³ *National Money Laundering Strategy of The United States of America* (2002), 3.
- ¹⁴ Roth, Greenburg, and Wille, 27.
- ¹⁵ National Strategy of The United States of America for Combating Terrorism (2003), 8.
- ¹⁶ Maurice R. Greenberg, William F. Wechsler, and Lee S. Wolosky, *Terrorist Financing: Report of an Independent Task Force Sponsored by the Council on Foreign Relations* (New York: Council on Foreign Relations, 2002), v.
- ¹⁷ *National Money Laundering Strategy of The United States of America* (2002), 3-4.
- ¹⁸ Snow, 1.
- ¹⁹ Roth, Greenburg, and Wille, 3.
- ²⁰ *National Commission on Terrorist Attacks Upon the United States, Executive Summary, Final Report of the National Commission on Terrorist Attacks Upon the United States* (Washington: The Commission, July 2004), 18-19.

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- ²¹ English form of the Arabic word mujahidun (“those engaged in jihad”). From *Britannica Concise Encyclopedia*, 2005 ed., s.v. “mujahideen.”
- ²² Adam Robinson, *Bin Laden, Behind the Mask of the Terrorist* (NY: Arcade Publishing, 2002), 81.
- ²³ There is some question over whether or not Usama bin Laden actually received a civil engineering from King Abdul Aziz University. Adam Robinson and several other sources assert that he did. However, Rohan Gunaratna writes that bin Laden did not study engineering. From Rohan Gunaratna, *Inside al Qaeda: Global Network of Terror* (New York: Columbia University Press, May 15, 2002).
- ²⁴ Robinson, 91.
- ²⁵ The initial invasion involved 5,000 troops crossing the Oxus river and Spetsnaz commandos conducting an airborne assault to seize the presidential palace in Kabul. The force quickly grew to roughly 30,000 troops and eventually soared to 100,000. From *Columbia Encyclopedia*, 6th ed., s.v. “Afghanistan War” (n.d.), n.p.

²⁶ Anthony H. Cordesman and Nawaf Obaid, *Al Qaeda in Saudi Arabia: Asymmetric Threats and Islamist Extremists* (Working draft: revised 26 Jan 05), (Washington: Center for Strategic and International Studies), 2.

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²⁸ Alan J. Kuperman, "The Stinger Missile and U.S. Intervention in Afghanistan," *The New American Interventionism, Essays from Political Science Quarterly* (Columbia University Press, 1999), n.p.

²⁹ Jonathan Boggs, "Blowback: A Study of U.S Foreign Policy in Afghanistan from 1979-2004," *Harvard Graduate School of Education Inquiry: Peace, War, and Human Nature* (May 2004), n.p.

³⁰ Cordesman and Obaid, 2.

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³² Salafi is a term often used to describe fundamentalist Islamic thought. The teachings of the reformer Abd Al-Wahhab are more often referred to by adherents as Salafi, that is, "following the forefathers of Islam." This branch of Islam is often referred to as "Wahhabi," a term that many adherents to this tradition do not use. Most puritanical groups in the Muslim world are Salafi in orientation, but not necessarily Wahhabi. From Global Security.org, "Salafi Islam" (n.d.), n.p.

³³ Marc Sageman, *Understanding Terror Networks* (Philadelphia: Univ. of Pennsylvania Press, 2004), 5.

³⁴ Post, 21.

³⁵ Robinson, 132.

³⁶ Derived from intelligence reporting, April 13, 2004. In Roth, Greenburg, and Wille, 17.

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³⁸ Roth, Greenburg, and Wille, 20.

³⁹ Ibid.

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⁴⁵ *Britannica Concise Encyclopedia*, 2005 ed., s.v. "Bank of Credit and Commerce International" (n.d.), n.p.

⁴⁶ Jonathan Beaty and S.C. Gwynne, *The Outlaw Bank: A Wild Ride Into the Secret Heart of BCCI* (New York: Random House, 1993), 118.

⁴⁷ James Bates, "Briefing Paper BCCI: Behind the Bank Scandal," *Los Angeles Times [Home Edition]*, 20 July, 1991, p. 3.

⁴⁸ U.S. Congress. Senate. Committee on Foreign Relations, Subcommittee on Terrorism, Narcotics, and International Operations, *The BCCI Affair: A Report to the Committee on Foreign Relations*, by John F. Kerry, chairman, and George H. Brown, ranking minority member (Washington, December 1992), n.p.

⁴⁹ U.S. Congress. Senate, *The BCCI Affair: A Report to the Committee on Foreign Relations*, n.p.

⁵⁰ Jamie Dettmer, "U.S. attacks terror inc." *Insight on the News*, vol. 17, issue 38 (15 Oct, 2001), 20.

⁵¹ Robinson, 139.

⁵² Dettmer, 20.

⁵³ Post, 23.

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⁵⁵ Roth, Greenburg, and Wille, 19.

⁵⁶ Post, 24.

⁵⁷ Robinson, 147.

⁵⁸ Ibid., 151.

⁵⁹ U.S. Department of Justice, "Indictment S(10) 98 Cr. 1023 (LBS), United States of America –v- Usama Bin Laden, et al" (United States District Court, Southern District of New York, 1998), 19.

⁶⁰ Robinson, 164-165.

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- ⁶³ Roth, Greenburg, and Wille, 22.
- ⁶⁴ *Ibid.*, 25.
- ⁶⁵ *Ibid.*
- ⁶⁶ Mohammad El-Qorchi, "Hawala: Based on Trust, Subject to Abuse," *The Global War on Terrorist Finance, eJournal USA: Economic Perspectives*, vol. 9, no. 3 (Sep 04), 22.
- ⁶⁷ *Ibid.*, 23.
- ⁶⁸ Patrick M. Jost and Harjit Singh Sandhu, "The hawala alternative remittance system and its role in money laundering," Interpol General Secretariat (Lyon, Jan 2000), n.p.
- ⁶⁹ El-Qorchi, 23.
- ⁷⁰ El-Qorchi, 23.
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- ⁷⁴ International Crime Control Strategy of the United States of America (1998), n.p.
- ⁷⁵ Parag Khanna, n.p.
- ⁷⁶ Roth, Greenburg, and Wille, 40-41.
- ⁷⁷ National Commission on Terrorist Attacks Upon the United States. *Executive Summary, Final Report of the National Commission on Terrorist Attacks Upon the United States* (July 2004), 3.
- ⁷⁸ *Executive Summary, Final Report of the National Commission on Terrorist Attacks Upon the United States*, 4-5.

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- ⁸⁰ UN General Assembly Resolution 49/60 (1994).
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- ⁸² Usama Bin Ladin was not named in the 1995 Executive Order. From 1995 until the East Africa embassy bombings in August 1998, OFAC tried unsuccessfully to find a link between bin Ladin and those named on the list. From Roth, Greenburg, and Wille, 77.
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- ⁹⁴ The full list of FATF Forty Recommendations is at <http://www.fatf-gafi.org/dataoecd/7/40/34849567.PDF>
- ⁹⁵ The FATF members are: Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States; the two international organizations are: the European Commission, and the Gulf Cooperation Council. The following organizations have observer status: Asia/Pacific Group on Money Laundering; Caribbean Financial Action Task Force; Council of Europe

Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures; Eastern and Southern Africa Anti-Money Laundering Group; Financial Action Task Force on Money Laundering in South America; other international organizations including the African Development Bank; Asia Development Bank; European Central Bank; International Monetary Fund; Organization of American States, Organization for Economic Cooperation and Development; United Nations Office on Drugs and Crime; and the World Bank. From Jackson, CRS-1-2.

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⁹⁹ Although the US signed the Convention on Jan 10, 2000, it was not ratified by the US Senate until Jun 25, 2002, and subsequently signed into law by President Bush. The Convention entered into force on April 10, 2002, 30-days after the 22nd ratification was received at the UNSC. Following the 9/11 attacks, many more countries moved to ratify the Convention. In Mar 04, the Convention had been signed by 132 countries and ratified by 112 of those. Of those 112 states parties, 108 ratified it after 9/11. From the United Nations Association of the United States of America, "International Convention for the Suppression of the Financing of Terrorism," (March 2004).

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¹¹⁸ President, Executive Order, "Executive Order 13224-Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism," n.p.

¹¹⁹ A current listing of E.O. 13224 designations is at <http://www.ustreas.gov/offices/enforcement/ofac/sanctions/t11ter.pdf>

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¹²² UN Security Council Resolution 1390 (2002), n.p.

¹²³ Wolosky, 148.

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¹²⁵ Roth, Greenburg, and Wille, 8.

¹²⁶ Wahhabism is a reform movement that began 200 years ago to rid Islamic societies of cultural practices and interpretation that had been acquired over the centuries. Muhammad ibn Abd al Wahhab focused on the Muslim principle that there is only one God, and that God does not share his power with anyone. From this unitarian principle, his students began to refer to themselves as muwahhidun (unitarians). The idea of a unitary god was not new. Muhammad ibn Abd al Wahhab, however, attached

political importance to it. He directed his attack against the Shia, who Wahhabis do not consider to be true Muslims. The Wahhabis also believe in the literal sense of the Koran and the necessity of deducing one's duty from it. The House of Saud is linked with Wahhabism through the marriage of the son of Muhammad ibn Saud with the daughter of Muhammad ibn Abd al Wahhab in 1744. From GlobalSecurity.Org, "Wahabbi" (n.d.), n.p.

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¹³⁰ Cordesman and Obaid, 7-8.

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¹³² Al Haramain has been described by several former U.S. government officials as the "United Way" of Saudi Arabia. At its height, Saudi officials estimate that Al Haramain had a budget of between \$30M and \$80M per year and had a presence in at least 50 countries. It exists to promote Wahhabi Islam by funding religious education, mosques, and humanitarian projects around the world. In Roth, Greenburg, and Wille, 114.

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