

Financial Counterterror

Terror campaigns require financial support. International terrorists use over- & underground networks to move funds to operating units. U.S. counterterror agencies face difficulties in shutting them down.



On 9/24/01 Pres. Bush signed an executive order freezing the U.S. assets of 27 orgs and persons linked to terrorism:

“We will starve the terrorists of funding, turn them against each other, root them out of their safe hiding places and bring them to justice.”

How similar is terror financing to criminal organizations' money laundering?

What three financial systems does Al-Qaida use to move money around?

Have some Islamic charities been involved in funding terrorist orgs?

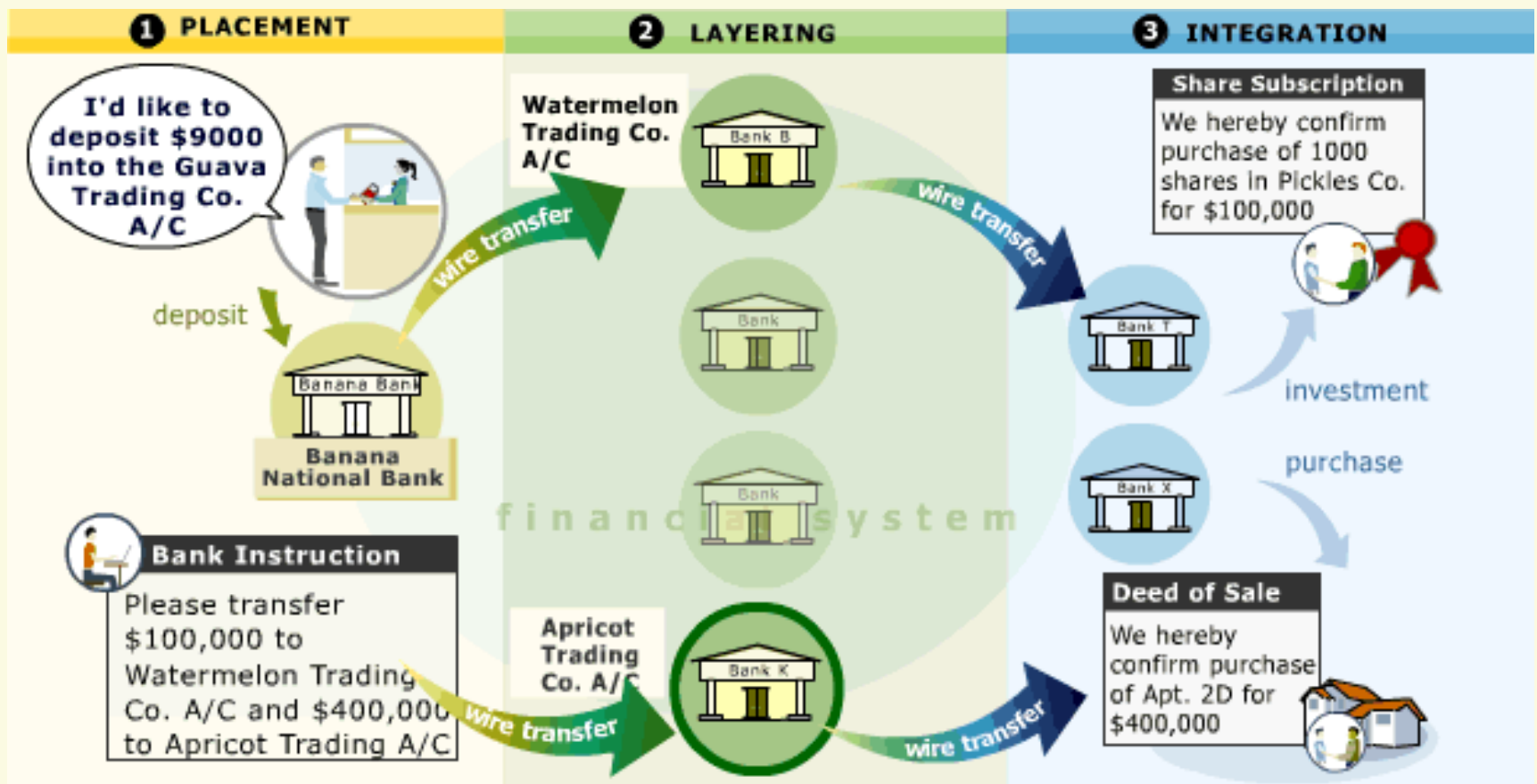
What methods do counterterror agencies use to track & try to disrupt the flow of terrorist organization finances?

Why are asking “who” and “how” the wrong questions? What are the right questions to ask about terrorist financing & why?

How to Launder Money

Money laundering – financial transactions across multiple banking institutions & accounts to conceal identity, source, destination of funds

Laundering networks transfer, sell, purchase and invest in a variety of assets, ultimately converting criminal money into seemingly legitimate funds and assets



Financing Al-Qaida

By 2002, Al-Qaida was spending \$30-40 million annually. To move that much requires using three distinct financial systems:



“Al Qaeda is notable for primarily using fraud and legitimate businesses to support a network, rather than engaging in the full spectrum of ‘revenue-generating’ activities” (Basile 2004:170).

A-Q front businesses include: diamonds, honey, import-export, transport, financial services, ...

U.S. banking laws & regulations enable terror funds to be tracked and frozen.

International banking is more loosely regulated, not designed to identify terror finances. As central banks of developing nations reduce their control, terrorists & criminals can more easily infiltrate funds into the global financial system.

Islamic banking network operates under *Sharia* (e.g., no interest rate charged). Al-Qaida front companies (e.g., honey firms) deposit & move funds globally.

Hawala network is an informal value-transfer system for moving money over long distances, used mainly by migrant workers to remit wages to countries of origin. Hawala is an honor system for balancing debts between pairs of dealers (see next slide). **Hawala is Al-Qaida’s most effective way to smuggle cash.**

A Hawala Primer

The informal structure of hawala makes it an effective way to transfer money quickly—and, on occasion, illegally. The key to hawala is that money is transferred but not moved. Here's how it works:

The backbone of the system is the hawala dealer, and the key ingredient of any hawala deal is trust.



A Pakistani working in New York as a taxi driver wants to send \$5,000 to his brother in Karachi. He can go to a bank, but the bank is likely to want him to open an account. It also will charge him to change and send the money.

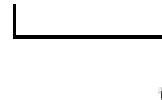
- 1** Instead, the taxi driver chooses a hawala dealer. They negotiate a fee and exchange rate. And he gives her the \$5,000 and her fee.



\$5,000

- 2** The dealer then calls, faxes or sends an e-mail to another dealer in Karachi.

Dealer 1



Dealer 2

- 3** The Karachi dealer arranges to have the equivalent of \$5,000 delivered in rupees to the brother. The transaction takes one or two days.



239,500 rupees

- 4** The Karachi dealer will carry the debt until he needs to send money to New York. Eventually, the books of the two dealers should balance.

The taxi driver has sent the money more quickly and cheaply than possible through a bank and avoided the complications inherent in an overseas bank transaction. He also has avoided the bureaucracy—no papers are necessary to send money through hawala, and no paper trail is generated. If the New York dealer has any record of the transaction at all, it probably will focus on her financial relationship with the Karachi dealer.

SOURCE: "The Hawala Alternative Remittance System and its Role in Money Laundering," by Patrick M. Jost and Harjit Singh Sandhu, Treasury Dept. Financial Crimes Enforcement Network/Interpol

FBI Raids Minneapolis Money Transfer Shops

April 8, 2009: FBI agents raided three Minneapolis and two Chicago money transfer businesses that mainly serve the Somali community, seeking records “relating to the transfer of money, currency or funds” to Somalia, Eritrea, Kenya, Sudan, Ethiopia, Djibouti and the United Arab Emirates since 2007.



Abdirahman Omar managed counter at Mustaqbal Express in Minneapolis with his daughter, Sumay; behind them, business continued Wednesday at the shop's money-transfer service.

Agents carried away boxes of documents and copied computer hard drives at Mustaqbal Express, a.k.a. North American Money Transfer Inc.; Quran Express; and Aaran Financial. Mustaqbal manager Omar: “We’re not doing anything wrong. We cooperated. We are 100% confident there’s nothing wrong.”

Star Tribune 4/8/09

“Eighteen months after local FBI agents raided three local money transfer shops, a federal grand jury in St. Louis has indicted a Richfield man of Somali descent and two other men for allegedly funneling cash to a terror group. FBI agents arrested Abdi Mahdi Hussein, 35, at his Richfield home on Tuesday morning.”

“Hussein is charged with one count of conspiracy to structure monetary transactions. The others, Mohamud Abdi Yusuf and Duwayne Mohamed Diriye, have been indicted for conspiracy to provide material support to a foreign terrorist organization and multiple counts of providing material support to a foreign terrorist organization -- Al-Shabaab.”

Star Tribune 11/3/10

Islamic Charities

On 8/1/02, Treasury Deputy Secretary Kenneth Dam said, “Our fight against the financing of terror has expanded to the abuse of charities.”



The U.S. froze the assets of the Holy Land Foundation, Islamic African Relief Agency, Benevolent International Foundation, Global Relief, other charities.

The Holy Land Foundation for Relief and Development, established as a tax-exempt charity in California in 1989, was charged with transferring \$12.4 million indirectly to its West Bank and Gaza offices affiliated with Hamas and with funding Islamic charity (*zakat*) committees controlled by Hamas members.

Based on FBI warrantless wiretaps, five HLF officers were tried in 2007 for conspiracy, tax evasion, money laundering & aiding terrorist orgs. The judge declared a mistrial when the jury deadlocked after 19 days' deliberation. ►

HLF was convicted in retrial November 2008.



Asking the Right Questions

Timothy Wittig: Asking who finances terrorism & how are wrong questions. Trying to answer them leads CT orgs to focus too narrowly on tracking terrorists & supporters. Instead CT should examine “centrally important role of normative, political and social contexts” in which finance is embedded.



The right questions to ask:

1. How do financial activities influence the behavior of terrorists?
2. What do financial activities tell us about how terrorists relate to wider societies?

Does Wittig really ask the “right questions”? Isn’t he demanding too much from CT orgs urgently trying to block terrorist funding to prevent new attacks?

Why is understanding the terrorists’ place within their wider communities more important than identifying who provides the money and how is it moved?

What important political-economic relationships in the global societies shape terrorist finances? Why is knowing them crucial to understanding financing?

Can CT orgs with differing norms and goals – banks, academic researchers, intelligence agencies – change their focus “to analyze the issue on the same plane, without requiring them to adopt the same perspective or purpose”?

Tools Against Terrorist Finances

Since 9/11, U.S. Government froze U.S. assets of more than 300 individuals and entities linked to terrorism & more than \$135M in almost 50 countries.



FBI is lead agency investigating terrorist financing through multi-agency **Terrorist Financing Operations Section (TFOS)** and **Joint Terrorism Task Forces (JTTF)**.

Immigration Control and Enforcement (ICE) concentrates on criminal threats to financial system. If a **“nexus to terrorism”** occurs, cases are sent to TFOS & JTTF.

Treasury Department’s **Financial Crimes Enforcement Network (FinCEN)** intelligence mission:

“To safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity.”

FinCEN belongs to 15-nation **Egmont Group** internat’l info-sharing network.

FinCEN administers the 1970 Bank Secrecy Act (BSA), which requires banks to file **Suspicious Activity Reports (SAR)** on transactions they “know, suspect, or have reason to believe may be related to illicit activity.”

Bank Secrecy Act Filings by Type, Fiscal Years 2007 - 2009⁴

Type of Form	FY 2007	FY 2008	FY 2009
Currency Transaction Report (all types)	16,219,434	16,082,776	14,909,716
Suspicious Activity Report (for all covered industries)	1,157,468	1,318,984	1,321,848
Report of Foreign Bank and Financial Accounts	320,937	344,967	276,386
Registration of Money Services Business	18,380	21,102	19,234
Designation of Exempt Person ⁵	63,632	53,675	32,117
Report of Cash Payments Over \$10,000 Received in a Trade or Business (Form 8300)	173,027	184,305	180,801
Total⁶	17,952,878	18,005,809	16,740,102

SOURCE: Financial Crimes Enforcement Network. 2010. *Annual Report Fiscal Year 2009*.
http://www.fincen.gov/news_room/rp/files/annual_report_fy2009.pdf

FinCEN assists federal law enforcement agencies to contact 27,000 U.S. financial institutions to find persons, accounts, and transactions.

**314(a) Program Data
November 1, 2002 – October 9, 2007**

Total requests for information: 710

Number of federal law enforcement agencies submitting requests: 20

Types of requests:

- Terrorism/terrorist financing – 250
- Money laundering – 460

Number of subjects of interest identified in requests – 6,180

Results:

Total subject matches received from financial institutions – 41,485 (40,447 positive and 1,038 inconclusive)

Outcomes described in feedback received for approximately 37 percent of requests:

- New accounts identified – 2,502
- Transactions identified – 3,543
- Grand Jury subpoenas – 1,717
- Search warrants – 41
- Administrative subpoenas/summons/other – 479
- Arrests – 129
- Indictments – 146
- Convictions – 16
- Total dollars located – \$46,982,753.64