

# **Money Laundering and Terrorist Financing**

## **A Global Threat**

International recognition of, and action against, the threat posed by money laundering continue to increase. Money laundering poses international and national security threats through corruption of officials and legal systems, undermines free enterprise by crowding out the private sector, and threatens the financial stability of countries and the international free flow of capital. Undeniably, the revenue produced by some narcotics-trafficking organizations can far exceed the funding available to the law enforcement and security services of some emerging market countries.

Since September 11, 2001, the threat posed by money laundering's closely related corollary, terrorist financing, has also been more widely recognized. The amount of damage through loss of life and economic after-effects from a relatively small amount of operational funding can be devastating. While terrorist financing shares most of the fundamental attributes of money laundering, and while the legal and regulatory regimes needed to control both are essentially the same, terrorist financing does exhibit some significant differences.

### **Money Laundering and Terrorist Financing: Differences and Similarities**

Most crime is committed for financial gain. The primary motivation for terrorism, however, is not financial. While traditional narcotics-traffickers and criminal groups primarily seek monetary gain, terrorist groups usually seek nonfinancial goals, such as publicity for their cause and political influence. Ordinarily, criminal activity produces funds and other proceeds that traditional money launderers must disguise by taking large cash deposits and entering them into the financial system without detection. Funds that support terrorist activity may come from illicit activity but are also generated through means such as fundraising through legal nonprofit entities. In fact, a significant portion of terrorists' funding comes from contributors, some who know the intended purpose of their contributions and some who do not. Because terrorist operations require relatively little money (for example, the attacks on the World Trade Center and the Pentagon are estimated to have cost approximately \$500,000), terrorist financiers need to place substantially fewer funds into the hands of terrorist cells and their members. This is a significantly easier task than seeking to disguise the large amounts of proceeds generated by criminal and drug kingpins.

### **Funding Sources**

Transnational organized crime groups have long relied on criminal proceeds to fund and expand their operations, and were pioneers in using corporate structures to commingle funds to disguise their origin. In particular, it is the terrorists' use of social and religious organizations, and to a lesser extent,

state sponsorship, that differentiates their funding sources from those of traditional transnational organized criminal groups.

While actual terrorist operations require only comparatively modest funding, international terrorist groups need significant amounts of money to organize, recruit, train and equip new adherents; and otherwise support their activities. In addition to direct costs, some terrorist organizations also fund media campaigns, buy political influence, and undertake social projects that help maintain membership and attract sympathetic supporters.

Because of these larger organizational costs, terrorists often rely in part on funds gained from traditional crimes such as kidnapping for ransom, narcotics trafficking, extortion, credit card fraud, currency and merchandise counterfeiting, and smuggling. In this respect al-Qaida is an anomaly as, at least initially, it was largely self-financed by Usama Bin Ladin. In most cases, terrorists engage in some criminal activity and then use a portion of the proceeds to finance their terrorism efforts. Indeed, some Foreign Terrorist Organizations (FTOs), such as the Revolutionary Armed Forces of Colombia, (FARC), the United Self Defense Forces of Colombia (AUC) and *Sendero Luminoso* (Shining Path) in Peru, are so closely linked to the narcotics trade that they are often referred to as “narcoterrorists.”

Like narcotics-related money launderers, terrorist groups also utilize front companies; that is, commercial enterprises that engage in legitimate enterprise, but which are also used to commingle illicit revenues with legitimate profits. Front companies are frequently established in offshore financial centers that provide anonymity, thereby insulating the beneficial owners from law enforcement. In addition to commingling the proceeds of crime, terrorist front companies also commingle donations from witting and unwitting sympathizers.

## Money Movements of Criminal and Terrorist Funds

The methods used to move money to support terrorist activities are nearly identical to those used for moving and laundering money for general criminal purposes. In many cases, criminal organizations and terrorists employ the services of the same money professionals (including accountants and lawyers) to help move their funds.

Both terrorists and criminal groups have used and continue to use established mechanisms in the formal financial sector, such as banks, primarily because of their international linkages. Both terrorist organizations and narcotics-trafficking groups have exploited poorly regulated banking systems, and their built-in impediments to international regulatory and law enforcement cooperation, and have made use of their financial services to originate wire transfers and establish accounts that require minimal or no identification or disclosure of ownership.

In addition to the formal financial sector, terrorists and traffickers alike employ informal methods to move their funds. One common method is smuggling cash, gems or precious metals across borders either in bulk or through the use of couriers. Likewise, both traffickers and terrorists rely on currency or moneychangers. Moneychangers play a major role in transferring funds, especially in countries where currency or exchange rate controls exist and where cash is the traditionally accepted means of settling commercial accounts. These systems are also commonly used by large numbers of expatriates to remit funds to families abroad. Traffickers and terrorists have become adept at exploiting the weaknesses and lack of supervision of these systems to move their funds.

Both terrorists and traffickers have used alternative remittance systems, such as “hawala” or “hundi”, and underground banking; these systems use trusted networks that move funds and settle accounts with little or no paper records. Such systems are prevalent throughout Asia and the Middle East as well as within expatriate communities in other regions

Trade-based money laundering is used by organized crime groups and, increasingly, by terrorist financiers as well. This method involves the use of commodities, false invoicing, and other trade manipulation to move funds. Examples of this include the Black Market Peso Exchange in the Western Hemisphere, the use of gold in the Middle East and the use of precious gems in Africa.

Some terrorist groups may also use Islamic banks to move funds. Islamic banks operate within Islamic law, which prohibits the payment of interest and certain other activities. They have proliferated throughout Africa, Asia and the Middle East since the mid-1970s. Some of the largest Islamic financial institutions now operate investment houses in Europe and elsewhere. Many of these banks are not subject to a wide range of anti-money laundering regulations and controls normally imposed on secular commercial banks nor do they undergo the regulatory or supervisory scrutiny by bank regulators via periodic bank examinations or inspections. While these banks may voluntarily comply with banking regulations, and in particular, anti-money laundering guidelines, there is often no control mechanism to assure such compliance or the implementation of updated anti-money laundering policies.

Like money laundering, terrorist financing represents a potential exploitable vulnerability. In money laundering, transnational organized crime groups deliberately distance themselves from the actual crime and the jurisdiction in which it occurs; but they are never far from the eventual revenue stream. By contrast, funds used to finance terrorist operations are very difficult to track. Despite this obscurity, by adapting methods used to combat money laundering, such as financial analysis and investigations, use of task forces, and administrative blocking procedures, authorities can significantly disrupt the financial networks of terrorists, interdict the potential movement of terrorists' funds and build a paper trail and base of evidence that helps to identify and locate the leaders of the terrorist organizations and cells.

Building the capacity of our coalition partners to combat money laundering and terrorist financing through cooperative efforts, and through training and technical assistance programs, is critical to our national security. While there are some important differences between how money laundering and terrorist financing is conducted, in terms of capacity building through training and technical assistance, there is no appreciable difference. The same measures that are required to establish a comprehensive anti-money laundering regime—sound legislation and regulations; suspicious transaction reporting mechanisms; financial intelligence units; on-site supervision of the financial sector; internal controls; trained financial investigators; legal authorization to utilize special investigative techniques; modern asset forfeiture and administrative blocking capability; and the ability to cooperate and share information internationally—are precisely the tools required to identify, interdict and disrupt terrorist financing.