

# **International Narcotics Control Strategy Report**

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## **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 countries.

After the terrorist attacks of September 11, 2001, the United States and its allies launched a global war on terror focused on five fronts: diplomatic, financial, military, intelligence, and law enforcement. The United States and the global community quickly recognized the critical role that combating terrorist financing should play in the overall global effort against terrorism.

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

Most crime is committed for financial gain. The primary motivation for terrorism, however, is not financial; rather, terrorist groups usually seek 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 non-profit 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 relatively few funds into the hands of terrorist cells and their members in order to carry out their objectives. 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. 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.

Because of these larger organizational costs, terrorists often finance their terrorism efforts with a portion of the proceeds gained from traditional crimes such as kidnapping for ransom, narcotics trafficking, extortion, credit card fraud, counterfeiting, and smuggling. 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.

### **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.

In addition to the continued use of 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 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 accounts. These systems are also commonly used by large numbers of expatriates to remit funds to families abroad.

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 method 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, the Middle East, and most recently Europe, since the mid-1970s. Many of these banks are not subject to the anti-money laundering regulations and controls normally imposed on secular commercial banks. While they 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.

### **Combating Money Laundering and Terrorist Financing: An Integrated Approach**

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 are conducted, and also some counter efforts that are unique to each activity, there are no appreciable differences in terms of capacity building through training and technical assistance.

The U.S. has developed an "anti-money laundering/counterterrorist financing" (AML/CTF) strategy based on three pillars:

- Development of capacity-building programs aimed at reinforcing the institutions of our foreign allies to combat money laundering and terrorist financing. Capacity building is the linchpin of the strategy because of its forward-looking and preventative approach that focuses on enhancing countries' capabilities to safeguard their financial systems from abuse by criminals and terrorist financiers.
- The use of traditional and non-traditional law enforcement techniques and intelligence operations aimed at identifying criminals and terrorist financiers and their networks in order to disrupt and dismantle their organizations. Such efforts include investigations, diplomatic actions, criminal prosecutions, designations and other actions designed to identify, nullify, and disrupt the flow of terrorist financing and those who make such crimes possible. In order to achieve ultimate results, the intelligence community, law enforcement and the diplomatic corps must assert a concerted proactive approach that develops and exploits investigative leads, employs advanced law enforcement techniques and increases cooperation between financial investigators and prosecutors.
- Participation in global efforts to deter terrorist financing by publicly naming, shaming, and blocking the assets, financial transactions, and property of terrorist groups and their supporters. Under United Nations Security Council Resolutions (UNSCR) 1333 and 1373 all member states have an obligation to identify terrorist assets and freeze them without delay. UNSCR 1267 and related resolutions require blocking actions against the financial resources, travel, and access to arms of specific individuals and entities linked to Usama bin Ladin, Al-Qaida, or the Taliban, as well as measures to deprive terrorists and their supporters of access to the financial system.

## **Integrating Efforts**

The U.S. has found that combining these pillars into an integrated strategy is the most effective approach to tackle the challenges of money laundering and terrorist financing. Only by integrating our AML/CTF efforts in a cooperative way, both domestically and internationally, can we continue our common goal of detecting, deterring, and dismantling global terrorist networks.

While well-established mechanisms of interagency cooperation to fight money laundering have existed for a number of years, in order to more quickly effect this integration within the U.S. Government for terrorist financing, the President established a Policy Coordination Committee (PCC) under the auspices of the National Security Council to ensure the proper coordination of counterterrorist financing activities and information sharing among all agencies. The PCC coordinates and integrates the efforts of the disparate entities and focuses them on collectively pursuing terrorists and their financiers. Other countries have also taken a similar approach at integrating AML/CTF efforts either through a coordinating ministry, national anti-money laundering council, or counterterrorist center.

Many governments have used specialized task forces to integrate successfully domestic operations aimed at combating money laundering and/or terrorist financing. These task forces typically include FIU personnel, financial investigators, central bank employees, and prosecutors. Indeed, the USG, based on its experience in training its counterparts around the world, is increasingly employing cross training (e.g., select financial regulators taking part in financial investigative courses for law enforcement) as a means of encouraging practical integration of AML/CTF efforts.

Internationally, governments are recognizing the need to integrate their efforts more closely in order to implement new international standards designed to counter money laundering activity and the collection and movement of terrorists' funds. Effective integration will increase as members of the Financial Action Task Force (FATF) and FATF-style regional bodies implement the new Special Recommendation on Terrorist Financing, Special Recommendation IX (SR IX), which is intended to ensure that terrorists and other criminals can not finance their activities or launder the proceeds of their crimes through physical cross-border transportation of currency and negotiable bearer instruments. Implementing SR IX on Cash Couriers will require unprecedented cooperation among border, customs, law enforcement, and FIU authorities both domestically and internationally.

International organizations and bodies, as well, are increasing coordination of their AML/CTF efforts. For example, there is now unprecedented cooperation between the FATF and the IMF and World Bank. The FATF and these international financial institutions have adopted a joint methodology to evaluate AML/CTF regimes and are cooperating in their respective on-site assessment programs.

The FATF and the G-8 Counter-Terrorist Action Group (CTAG) are also engaging in a cooperative effort to build CTF capacity by integrating FATF training and technical assistance reports with efforts by CTAG to coordinate donor assistance. Other organizations, such as the United Nations, the Egmont Group of FIUs, the FATF style regional bodies, and regional organizations, such as the Organization of American States, are also increasing their cooperative efforts