

Terrorist Financing:

The War Behind the War on Terror

World Affairs Councils of
America

Alaska, April 2010

Disclaimer

“I am speaking on my own behalf and any views expressed do not necessarily express the views or policies of any U.S. government agency or department.”

John A. Cassara

Money Laundering

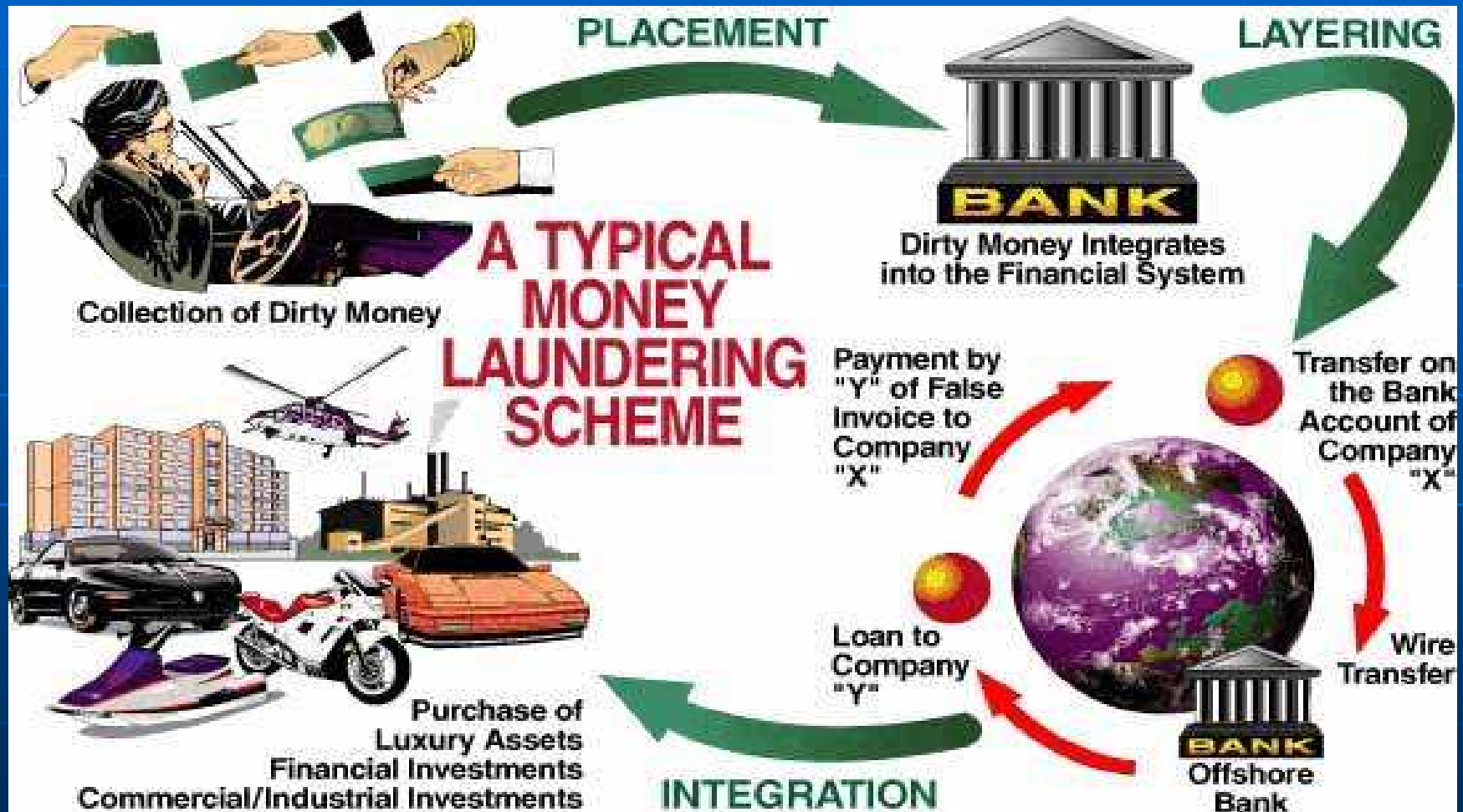
- Definition

- “Disguising the proceeds of *any* form of criminal activity”

- Magnitude of money laundering

- According to International Monetary Fund, between 3% and 5% of the world Gross Domestic Product, or approximately \$2 to \$3 trillion a year
- Divided between criminal/tax components

A Typical ML Scheme



Source: UNODC

Largest Cash Seizure in History

- March 16, 2007
- Mexican police operation
- \$207 million
- Mostly \$100 bills
- 4,500 pounds of currency



Financial Response to “War on Narcotics”

- Creation of Bank Secrecy Act (BSA), or “Financial Intelligence”
 - 18 million forms filed every year
- Creation of Treasury’s FinCEN
- International – FATF Recommendations
- Countermeasures – “Western-centric”

Usama bin Laden

"Attempts to find and freeze assets will not make any difference to al Qaeda or other jihad groups. Al Qaeda is comprised of modern, educated young people who are as aware of the cracks in the Western financial system as they are of the lines in their own hands. These are the very flaws in Western financial system which is becoming a noose for it"



Failure of the BSA

- Terrorism finance—
“inverse partner” of
money laundering
- BSA designed to
combat war against
narcotics, not war
against terrorism
- 9/11 hijackers evaded
BSA reporting
requirements

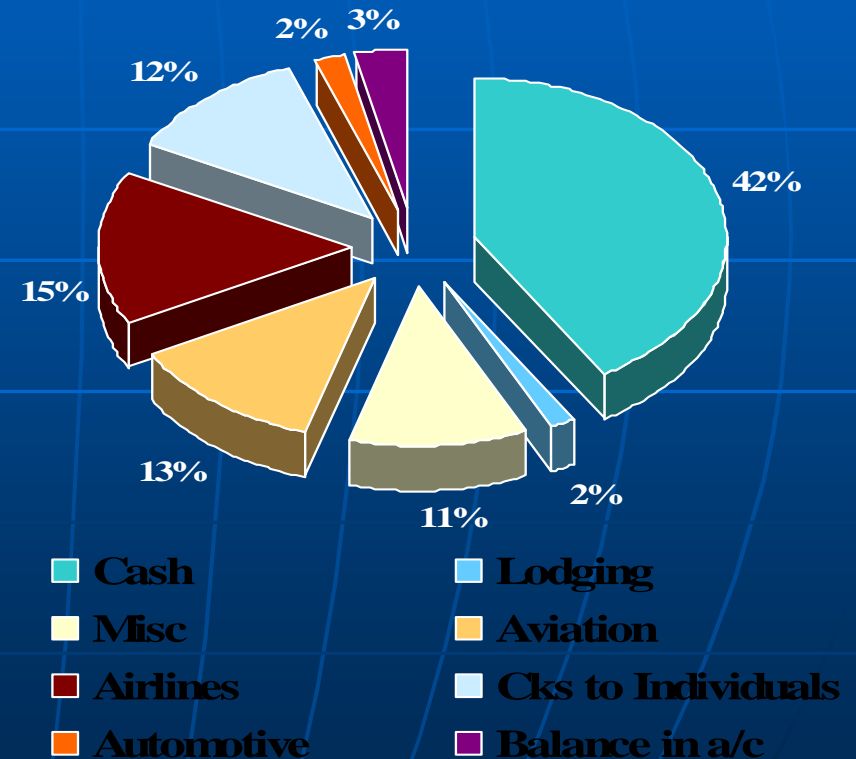
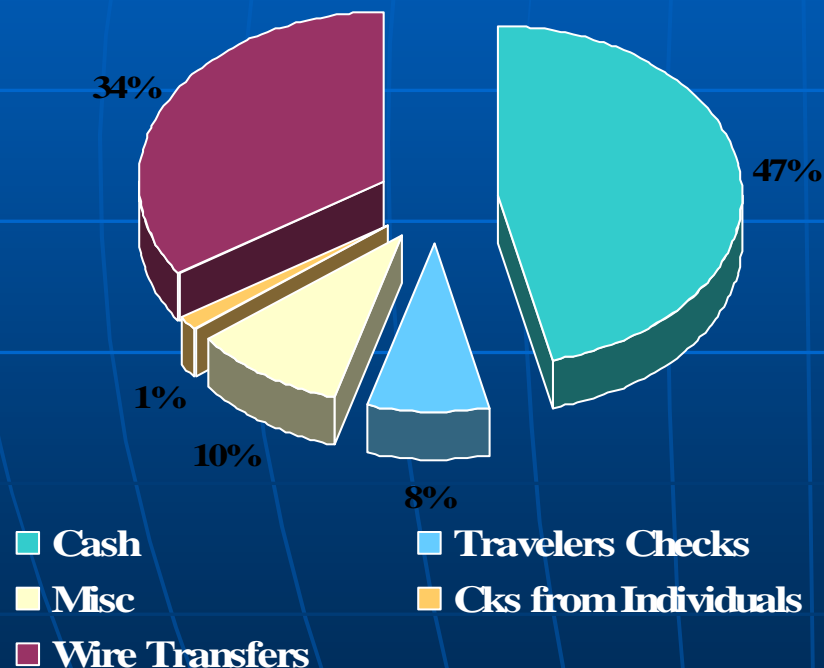


Financing for September 11

Totals for 19 Hijackers

Deposits \$303,481.63

Disbursements \$303,671.62



Costs of Other Terrorist Attacks

- 1998 U.S. Embassy bombings in Kenya and Tanzania - \$50,000
- 2000 attack on *USS Cole* in Aden - \$10,000
- 2002 bombings in Bali about \$50,000
- 2003 attacks in Istanbul - \$40,000
- 2004 attacks in Madrid - about \$10,000
- 2005 attacks in London - about \$35,000

Source: United Nations

What Is Terrorist Financing?

- “Terrorist Financing is the **act** of providing **financial support** to **terrorists** or **terrorist organizations** to enable them to carry out terrorist acts”
—UN International Convention for the Suppression of Financing of Terrorism
- **Primary objective is non-financial**
- Source of funds—can be **legal** or **illegal**
- Terrorist acts do not necessitate large amounts of money
- **Without money, there is no terrorism**

Three Most Common Ways to Launder Money/Finance Terror

- Through international financial networks
- Bulk cash smuggling
- *Trade*

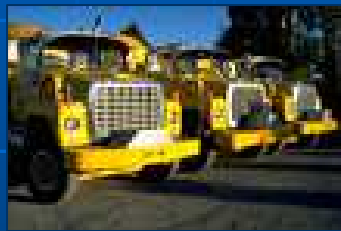
(underground finance is a subset of trade)

Value transfer via trade is very common around the world but little understood

Overvaluation to Facilitate Money Laundering



Export cargo with a value of \$100,000



Invoices, bills of lading, export documents, etc.



Falsify the invoices and other documents to show a value of \$200,000



\$200,000 is sent in payment, which includes laundered \$100,000

Example of Under Invoicing

- Bruno owes Yehuda \$200,000 as part of a previous business transaction
- Decides to pay debt by “under invoicing” shipment of goods
- Bruno sends \$500,000 worth of goods but invoices Yehuda for only \$300,000
- The extra value of goods (\$200,000) covers the original debt

Case Study - Terrorist Finance

According to Pakistani Intelligence Service:

- *Madrassa* identified as being involved with terrorist finance
- To justify large funds transfers from overseas, *madrassa* claims to sell large amount of hides of sacrificial animals at grossly inflated prices
- Payment made
- *Madrassa* passes profits to jihadists

True Examples of Abnormal U.S. Trade Prices

■ High U.S. Import Prices

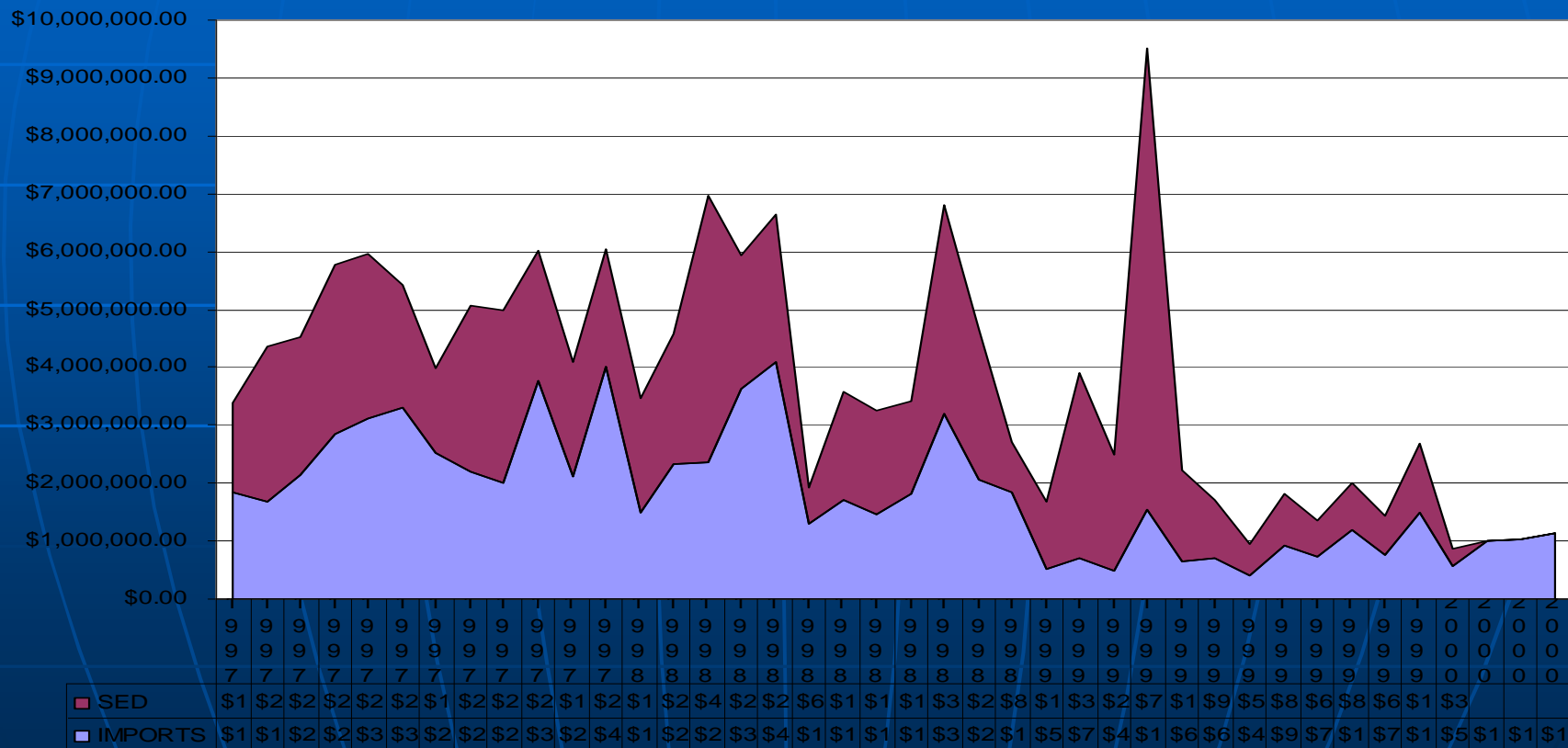
- Plastic buckets from Czech, \$972/unit
- Briefs and panties from Hungary, \$739/doz
- Cotton dishtowels from Pakistan, \$153/unit
- Ceramic tiles from Italy, \$4,480/sq meter
- Razors from the U.K., \$113/unit
- Camshafts from Saudi Arabia, \$15,200/unit
- Iron bolts from France, \$3,067/kg
- Toilet tissue from China, \$4,121/kg

■ Low U.S. Export Prices

- Live cattle to Mexico, \$20.65/unit
- Radial truck tires to U.K., \$11.74/unit
- Toilet bowls to Hong Kong, \$1.75/unit
- Bulldozers to Colombia, \$1,741/unit
- Color video monitors to Pakistan, \$21.90/unit
- Missile launchers to Israel, \$52.03/unit
- Prefabricated buildings to Trinidad, \$1.20/unit

Compare Imports and Exports: Price Manipulation = Value Transfer

8,418 REFRIGERATORS



Invoice Fraud

- Under invoicing – settle debts between traders
- Over invoicing – allows money to be sent abroad
- “Deceptive trade pricing” doesn’t trigger currency exchange controls or financial transparency reporting requirements
- “Mr. John, money laundering? That’s what we do.”

Growing Threat of Alternative Remittance Systems

- “Systems” bypass, in whole or part, financial institutions/financial transparency network
- Little or no financial intelligence/paper trail generated
- Indigenous/ethnic-based systems
- Difficult for law enforcement to penetrate
- *Trade* is common denominator

Elements and definition of hawala

Elements: trust, transfer, exchange, transform, quick, safe, secure, anonymous, often based on family and tribal ties, no paper trail, avoids taxation, government scrutiny, and currency exchange controls, culturally acceptable, historically based on gold trade

Definition: *money transfer without money movement*

Hawala is an alternative remittance system commonly found in the Middle East and South Asia

Misused by criminals and terrorists

How does hawala work?

Ali - Afghan immigrant laborer.
Lives and works
in Dubai.



remits wages to helps support

Jafar - Father of Ali.
Lives near Kandahar.
Poor security in area.



Use of hawaladar

- Ali knows local hawaladar – member of same extended family - remember hawala means *trust*
- Comfort factor
- Hawaladar charges 1% commission
- Hawala gives better exchange rate than banks (more dollars or afghanis per dirham)
- Secure, fast, reliable
- Anonymous
- Transfer complete with 24 hours
- Delivers funds directly to Jafar's home
- Avoids government scrutiny

Mechanics of Transaction

- Ali gives Dubai hawaladar 700 UAE dirhams (about \$200) he wants transferred to Jafar
- Hawaladar gives Ali code #. Ali sends # to Jafar
- No identification and no paperwork
- Dubai hawaladar contacts Kandahar hawaladar via email, fax, phone
- Dirham equivalent in dollars or afghanis (less small commissions at both ends) delivered directly to Jafar. Jafar presents code # to courier

How do hawaladars balance the books?

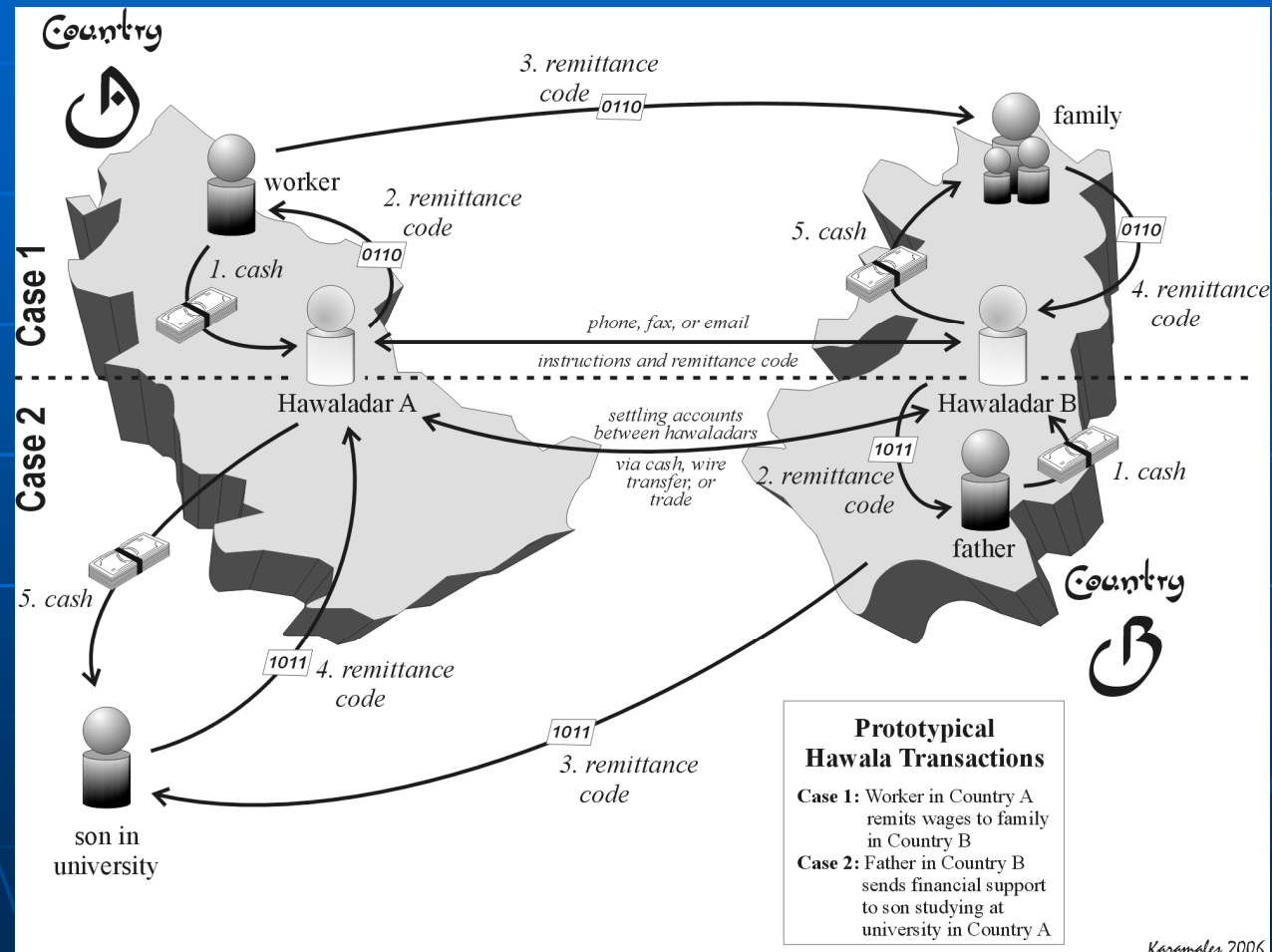
- Money transfers bundled
- Accounts between hawaladars settled periodically
- Use of hawala “hubs” such as Dubai, Mumbai, Karachi
- Use cash
- Bank-to-bank wire transfers
- Historically and culturally, trade used to provide counter-valuation

How do hawaladars profit?

- Low overhead
- Commissions and fees
- Currency speculation
- Currency exchange
- Black market dealings
- Side businesses
- Trading



Hawala Transfer

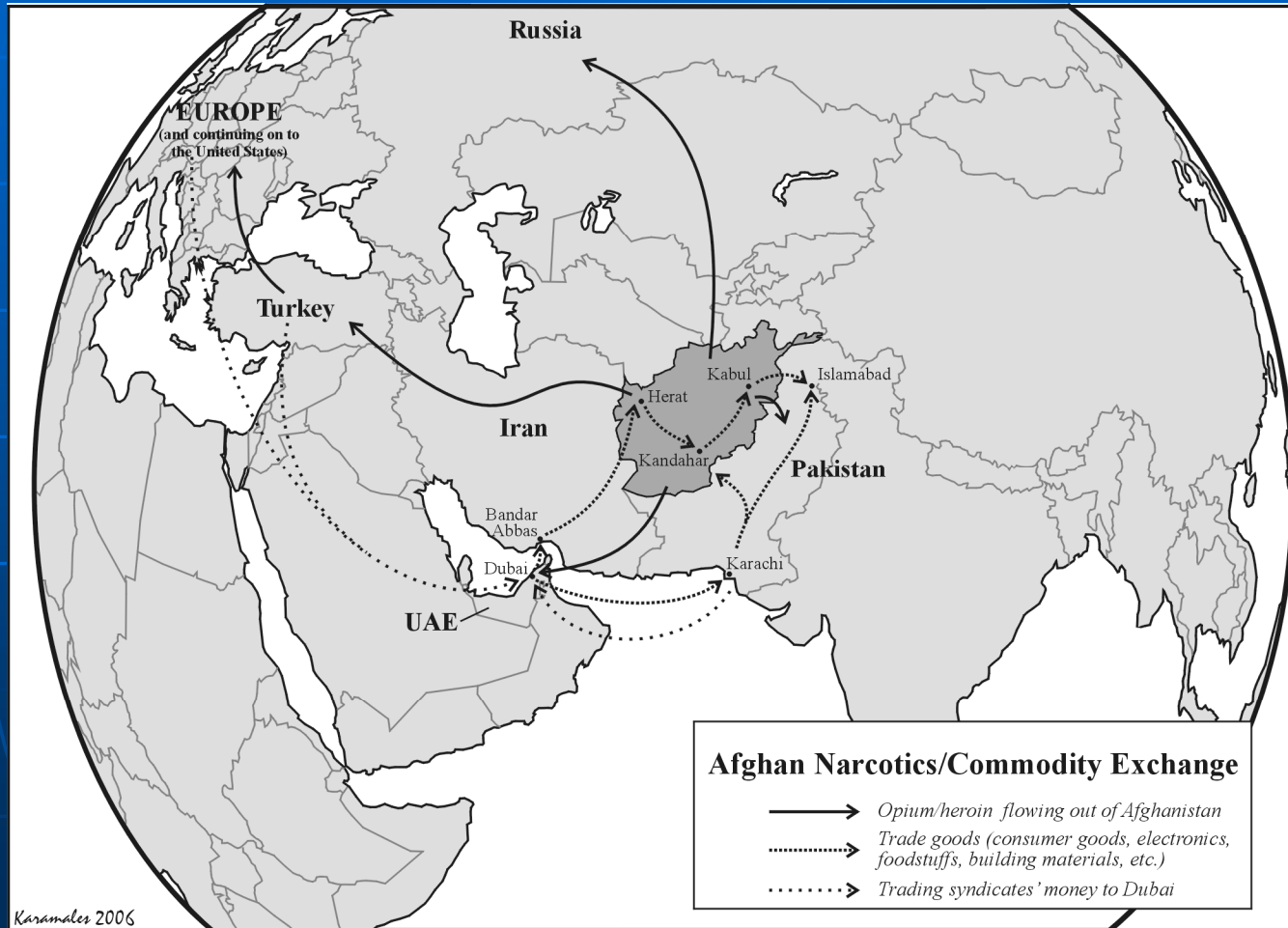




Quote from Pakistani with underworld ties:

“Don’t you know that the terrorists are moving money and value right under your noses? But the West doesn’t see it. Your enemies are laughing at you.”

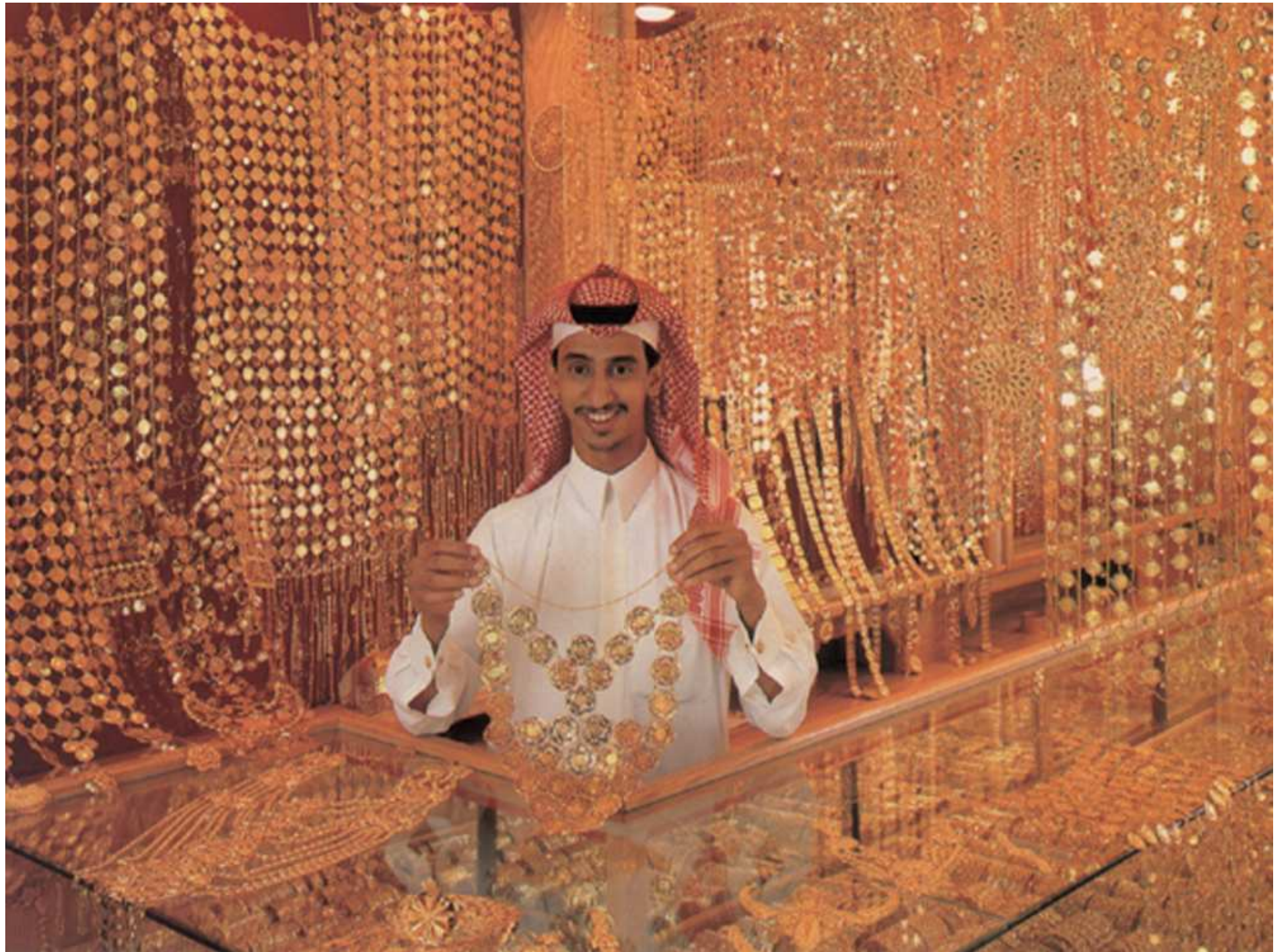
Narcotics out – Trade goods in



Other Finance Methods of Concern

(lessons not learned)

- Misuse of charities and fund-raisers
- Money Service Businesses
- Bulk currency smuggling
- Wealthy donors
- Local crime
- Barter trade
- Internet – 21st century hawala
- Growing threat of M-payments
- Pre-paid cards
- Shariah Compliant Finance
- Gold, diamonds, and precious gems
- Bottom line: “They diversify”



Gold and bin Laden

- May, 2004, in one of few public statements on finance, Osama bin Laden offers reward for killing coalition forces' commanders
- The reward is 10,000 grams of *gold*



Gold and the Taliban

- February, 2006 the Taliban offers a reward for killing those responsible for the “blasphemous” cartoons of the prophet Muhammad
- The reward was 100 kg of gold



Have our Efforts been Effective?

- One metric: asset seizure and forfeiture
- End of 2001, \$112 million in terrorist assets blocked worldwide = “fruit of the low hanging tree”
- By 2006, only \$160 million “frozen”
- Only \$64 million “seized/forfeited”; no change since 2002
- Yet in 2008, officially \$22 million seized in the U.S. (1/10th of the largest cash seizure in history)
- “No data” worldwide
- “Important” and accurate metrics?

Has the War on Terrorist Finance been Successful?

- We are looking in many of the wrong places
- Paucity of successful investigations and convictions . . . here and abroad
- Mis-placed emphasis on rules, regulations, “brick and mortar” measureables and meaningless metrics
- Get back to the basics of enforcement

Our efforts are “stalled”

www.JohnCassara.com

Thank You!

