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International Dimension of Combating the Financing of Terrorism

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Mr. Chairman and distinguished members of the Committee: Thank you for the opportunity to testify on the international dimensions of the fight against terrorist finance. The United States remains engaged in a long-term war against terrorists and terrorist organizations with global reach. I thank you for your support and for providing the necessary tools for waging this war. This fight requires actions on several fronts. A critical front is the effort to disrupt the financial networks that sustain these organizations and finance their operations.

Since our enemy has global reach and is supported by a global network, we need a global strategy. The State Department has been a close partner with the Department of the Treasury, the Departments of Justice and Homeland Security, law enforcement agencies, and intelligence agencies, as the Administration has formulated and implemented a comprehensive strategy to disrupt, dismantle and shut down the financial networks that support terrorism.

I would like to take this opportunity to highlight two major developments over the past year and a half affecting our fight against international terrorist financing. The first involves the nature of the USG's [U.S. Government's] own approach to tackling international terrorist financing and the second, on which I will elaborate, involves the nature of the international community's efforts.

USG Efforts

Regarding the USG's own efforts, I believe it is important to recognize how far we have come in terms of interagency coordination. We have made enormous strides in improving the degree to which all U.S. agencies with equities related to the pursuit of terrorist financing cooperate and coordinate their efforts. This strong interagency teamwork involves the intelligence agencies, with support from other agencies including the State Department, all leading the Administration's efforts to understand the system of financial backers, facilitators and intermediaries that play a role in this shadowy financial world. It involves the Treasury Department, working with other agencies, leading the process by which

we examine the actions by which we can disrupt these networks. The Department of Homeland Security will also be assuming an important place in this interagency process. And it involves the State Department leading the interagency process through which we develop and sustain the bilateral and multilateral relationships, strategies and activities to win international support for and cooperation with our efforts.

A Policy Coordination Committee established under the framework of the National Security Council and chaired by the Department of the Treasury ensures that these activities are well-coordinated. The Department of State, the Department of the Treasury, the Department of Justice, increasingly now the Department of Homeland Security, intelligence agencies, and law enforcement agencies have all worked very closely together. Their task has been to identify, track and pursue terrorist financing targets and to get the international community to take measures and adopt rules and regulations designed to undermine the ability of terrorists to raise and channel the funds they need to survive and carry out their heinous acts.

A key weapon in this effort has been the President's Executive Order 13224, which was signed on September 23, 2001, just 12 days after September 11. That Order initiated an unprecedented effort in history to identify and to freeze the assets of individuals and entities associated with terrorism across the board. Under that Executive Order, the Administration has frozen the assets of some 267 individuals and entities. The agencies cooperating in this effort meet constantly, looking at and evaluating new names and targets for possible asset freeze. However, our scope is not just limited to freezing assets. We consider other actions as well, including such things as developing diplomatic initiatives with other governments to conduct audits, exchange information on records, law enforcement efforts, or shaping new regulatory initiatives. We recognize, however, that designating names is the action that is most publicly visible. It is, in no way, the only action.

This leads me now to the issue of the international community's response to the need to combat terrorist financing. We have made significant progress in terms of getting countries and international bodies on board that are actively supporting the fight against terrorist financing.

The United Nations

Even before September 11, the United Nations Security Council (UNSC) had passed resolutions 1267, 1333, and 1363 collectively calling for sanctions against Afghanistan (later lifted), the Taliban, al-Qaida, Usama bin Laden and those associated with them. Following September 11, the UNSC stepped up its counter terrorism efforts by adopting resolutions 1373 and 1390. Resolution 1373 decided that member states shall prevent and suppress the financing of terrorist acts and includes, among other measures, asset freezes. Resolution 1390 (recently strengthened by Resolution 1455) continued sanctions, including asset freezes, against Usama bin Laden, the Taliban, al-Qaida and those associated with them. The UN 1267 Sanctions Committee maintains and updates a list of individuals and entities subject to the sanctions.

This list continues to expand as countries join us in submitting new names of individuals and entities for inclusion on the Committee list. So far, USG and coalition freezing actions have netted approximately \$125 million in assets of persons and entities tied to terrorist networks, and in many cases to al-Qaida. This UN mechanism is proving invaluable in helping to internationalize asset freezes and to underscore the global commitment against terrorism. It means that people around the world do not need to have the United States telling them and their Governments to take actions against specific targets; these names are listed in the UN; these are UN obligations. They are there for all to see. These UN Security Council resolutions have formed the legal basis for freezing terrorist assets on a global basis.

The following are examples of submissions to the UN 1267 Sanctions Committee for inclusion on its consolidated list:

U.S.-Saudi Joint Designations: In March 2002, the United States participated in its first joint request to the 1267 Committee to add names to its sanctions list. The United States and Saudi Arabia jointly asked the Committee to add the Somalia and Bosnia-Herzegovina branches of Al Haramain, a Saudi-based NGO [non-governmental organization]. These two branches are linked to al-Qaida. Later, in September 2002, the United States and Saudi Arabia jointly referred to the Committee the name of Wa'el Hamza Julaidan, an associate of Usama bin Laden and a supporter of al-Qaida. His name was added to the Committee's list as well and his assets have been frozen in Saudi Arabia.

G7 Joint Designation: In April 2002, the United States, along with the other G7 members, jointly designated nine individuals and one organization. Most of these groups were European-based al-Qaida organizers and financiers of terrorism. Because of their al-Qaida links, all ten of these names were submitted to the 1267 Committee for inclusion on its consolidated list.

U.S.-Italy Joint Designation: In August 2002, the United States and Italy jointly asked the 1267 Committee to add 11 individuals and 14 entities associated with al-Qaida to its list. All of the individuals were linked to the Salafist Group for Call and Combat. The 14 entities are part of the Nada/Nasreddin financial network, a network run by two terrorist financiers.

U.S.-Central Asia Joint Designation: In September 2002, the United States, Afghanistan, Kyrgyzstan, and China jointly asked the 1267 Committee to add the Eastern Turkistan Islamic Movement, an al-Qaida-linked organization which operates in these and other countries in Central Asia, to its list.

Jemaah Islamiya: In October 2002, 50 countries, including all the members of ASEAN [Association of Southeast Asian Nations] and the EU [European Union], joined together in submitting the name of Jemaah Islamiya, a terrorist group active in southeast Asia with ties to al-Qaida, to the 1267 Committee. Jemaah Islamiyya is suspected by many of perpetrating the deadly attacks on a nightclub in Bali on October 12th.

Three Chechen Groups: In February 2003, the Perm 5 (U.S., Russia, the U.K., France and China) – along with Spain and Germany joined in asking that three Chechen terrorist organizations linked to al-Qaida to be added to the Committee's list. These groups were responsible for the Moscow theater siege last October.

In addition, the Security Council has enacted resolutions requiring member states to report on their national regimes for combating terrorist finance. These reports provide a valuable incentive for members to improve their abilities to attack this threat, and an important means for us to assess where the strengths and weaknesses are, so we can work together more effectively. Beginning next month, nations will be required to report to the UN the amounts they freeze, improving the quality of information we have about the success of our efforts.

National Laws, Regulations and Standards

In addition to movement on the UN front, we have witnessed considerable progress on the part of countries around the world to equip themselves with the instruments they need domestically to clamp down on terrorist financing. Since September 11, over 80 countries in every region of the world have either adopted new laws and regulations to fight terrorist financing or are in the process of doing so.

In order to ensure that the standards of these new laws and regulations are high enough to have an impact and be effective, the U.S. has worked very closely with the Financial Action Task Force on Money Laundering (FATF), which has served since 1989 as the world's preeminent setter of regulatory standards and best practices on anti-money laundering and

counter-terrorist finance. The United States' efforts within FATF on counter-terrorist finance have enjoyed a remarkable and consistently high level of success. FATF, since its founding, had been a very successful global campaigner against money laundering. After 9/11, it showed itself equally effective and aggressive with regard to terrorist finance. In October 2001 FATF convened an extraordinary plenary in Washington, DC and issued its Eight Special Recommendations on Terrorist Financing.

FATF's "Special 8" represent a set of financial and regulatory standards and best practices. These standards have been widely adopted as a rigorous benchmark against which all partners in the war on terrorism have been able to measure their success in creating effective counter-terrorist financing regimes, as all UN members are legally required to do under UN Security Council Resolution 1373. FATF's standard-setting and advocacy achievements have directly complemented counter-terrorism rules and work by the United Nations. The FATF "Special 8" have served as a blueprint for a number of countries' modifying and passing new laws to protect their financial systems from penetration and manipulation by terrorists. The FATF "Special 8" have also enabled us, in urging vulnerable partners to adopt rigorous and effective laws and practices, to point to international, multilateral standards and models, rather than having to insist that they employ a unilateral, U.S.-only model of counter-terrorist finance.

We have seen substantial progress recently in getting countries to strengthen their relevant laws and regulations in the area of anti-money laundering, which is inextricably linked to counter-terrorist finance. In addition to providing countries with the guidance they need to develop effective regimes, FATF also carries a stick (via its Non-Cooperating Countries and Territories or NCCT program), in the form of its ability to blacklist countries that are non-compliant with respect to anti-money laundering practices. FATF's NCCT program creates an incentive for states to vigorously address their regulatory environment when it comes to being able to take appropriate actions against terrorist financing. Nigeria and the Philippines, for instance, in December 2002 and February 2003, took meaningful legislative steps to strengthen their respective anti-money laundering laws to avoid imposition of FATF countermeasures. Ukraine likewise passed legislation in January 2003 that removed the threat of immediate FATF sanctions.

As we, together with others in the international community, began to look into how terrorist groups raised and moved their funds, the fact that much of this took place outside regular banking systems became quickly apparent. As a result, international efforts to set standards and regulations for tackling terrorist financing have also had to address the issue of ensuring that charities are not abused by those with evil intentions and that alternative remittance systems, known in the Middle East as "hawala" and in the United States as money service businesses, are not similarly misused. FATF has had a hand here as well, through further elaboration by FATF of several of its "Special 8" Recommendations.

Hawala is a system used extensively throughout the world to transfer value outside banking channel and, until September 11, this system was in many jurisdictions completely unregulated, and only minimally so in others. The quantity of funds which flow annually through hawala-like channels internationally, though very hard to measure, is very large. Most such funds are believed to be related to the legitimate remittance to families at home of earnings by expatriate workers, many from South Asia, Latin America, and the Philippines, or to the conduct of legitimate trade. As with charities, however, this sector, since it is less transparent than the formal banking sector, has frequently been abused by terrorist financiers and other criminals to move funds in every corner of the world. Along with our Departments of Treasury and Justice partners in the USG, as well as our partners in the anti-terrorist coalition, we have worked to broaden foreign regulatory standards on alternative remittance systems such as hawala.

In May of 2002, the United Arab Emirates hosted the first international conference on hawala. As a result of this conference, nearly forty participating countries from every region for the first time recognized, in the so-called "Abu Dhabi Declaration" the need to regulate this sector through registration or licensing. Countries like the UAE, Pakistan, and

others have responded by taking steps to regulate this sector for the first time. Simply banning “hawala” is not a realistic or desirable option, since so many expatriate workers, who by their labor and earnings are mainstays of economies in both the Gulf and South Asia, depend on informal remitters (“hawaladars”) to send their wages back to relatives who frequently have little effective access to formal banks, and who could not afford to pay banks’ traditionally high fees in any case.

We are encouraged by the UAE’s new law on hawala, which takes a very practical, registration and enforcement-oriented approach. By stressing simple registration for as many remittance operators (“hawaladars”) as possible, and avoiding burdensome regulatory or paperwork requirements, UAE authorities seek to bring as many small-scale operators as possible under some degree of official scrutiny, and thereby remove the anonymity so attractive to individuals wishing to move funds for illicit purposes. Pakistan has also legislated in this area, though the long-term effect on informal remittances of their more centralized approach is still uncertain. National authorities in the region are also making formal banking channels, which are inherently more transparent and accountable, more accessible to the expatriate workers who otherwise are forced to rely on the alternative remittance sector. It is difficult to prove cause and effect conclusively, but since 2001, we have witnessed a significant and sustained increase in the use of banking channels to convey workers’ remittances from the Gulf and elsewhere to South Asia. The UAE government has sought a regional dialogue on hawala and, when conditions permit, is likely to follow up last May’s ground-breaking conference with an event that examines implementation and national regulation. The FATF and other international bodies, also, continue to develop and promote standards specific to the alternative remittances sector. We will work bilaterally and multilaterally with countries to establish greater levels of transparency and accountability for the informal sector.

Countries around the world have also taken steps to tackle the ways in which terrorists have disguised their efforts to raise and move large amounts of funds by masquerading their activities as charitable causes and diverting funds from the needy. Kuwait, Qatar, Bahrain and Saudi Arabia have on the multilateral front, via the membership (through the GCC [Gulf Cooperation Council]) in FATF, strongly supported establishment, for the first time, of international standards and guidelines on the oversight and regulation of international charitable giving. Domestically all four have worked on legislative and regulatory measures to prevent the misuse and abuse of charities for terrorist purposes. The Saudis, for example, have given orders, and seem to be implementing the orders, for all Saudi charitable organizations to report to the central government all overseas projects or donations with which they are associated, to ensure that Saudi-origin money does not go to terrorist networks. Still, much work remains to be done.

Capacity Building

In many cases, countries simply do not have the technical ability and skills to take the actions required of them. Here again, the U.S. has worked with the international community to address this issue and to provide our international partners with the legal, regulatory, and enforcement capabilities to combat and prevent terrorist financing. Together with the Department of the Treasury and the Department of Justice, we have engaged in capacity-building initiatives with other governments to clamp down on terrorist financing activity. For example, we have provided several countries in the Gulf and South Asia with different types of training related to sound counter-terrorist finance practices, including the detection of trade-based money laundering (moving money for criminal purposes by manipulation of trade documents), customs training, anti-terrorist finance techniques and case studies for bank reviewers, and general financial investigative skills for law enforcement/counterterrorist officials. Our international partners have welcomed this type of training, and we plan to provide it to other vulnerable jurisdictions in other regions.

In order to approach the very large international need for such training and assistance in the most effective and efficient way, the USG has prioritized, on an inter-agency level, countries needing assistance and shaped its programs based on

this prioritization. We have worked actively and directly with foreign governments to increase their capabilities to freeze terrorist-related assets and to process and analyze financial information. We have also encouraged other countries to provide assistance worldwide and have seen an increase in such activity. Burden-sharing by our key coalition partners is an emerging success story, as for instance, the governments of Australia, New Zealand and the U.K. as well as the EU, FATF-like regional organizations and the Asian Development Bank have significant technical assistance initiatives in jurisdictions such as the Philippines, Indonesia, Pakistan, Malaysia and Egypt.

The FATF and the G8 are also committed to supporting the work of the United Nations Committee on Counter-Terrorism (CTC), where UN members' reports of their efforts to strengthen their national CT [counter-terrorism] regimes are analyzed and where technical assistance needs and donor capabilities are coordinated with similar efforts at the International Monetary Fund and the World Bank. The CTC and FATF are together analyzing UN members' reports of their efforts to strengthen their national CT regimes, to identify systemic vulnerabilities to terrorist financing.

Parallel and coordinated efforts between FATF are also going forward at the International Monetary Fund and the World Bank, where an ambitious pilot project involves the application by the Fund and the Bank of FATF principles on anti-terrorist finance to the Bank/Fund regular Financial Sector Assessment Programs. The Fund and Bank apply a formal joint FATF-IFIs [international financial institutions] methodology developed in conjunction with FATF, and are thus able to evaluate the quality of countries' efforts to implement FATF anti-money laundering and counter-terrorist finance principles.

This year in the G8, the United States and Japan have proposed a major counter-terrorism capacity building initiative, the primary purpose of which is to strengthen and support the efforts of the UN Committee on Counter-Terrorism. We expect this initiative to be adopted by Leaders at the Evian Summit in June.

Our posts around the world have been essential elements in implementing this global strategy. They have each designated a senior official, generally the Ambassador or Deputy Chief of Mission as the post Terrorism Finance Coordination Officer (TFCO). These officers chair interagency meetings at posts on a regular basis not only to evaluate the steps of individual countries to combat terrorist finance, but to develop and propose individual strategies on most effectively getting at specific targets in certain regions. They are instructed to include all relevant agencies at post in these deliberations. The new level of interagency cooperation we are seeing on this front in Washington is spilling over nicely into new post initiatives focused sharply on terrorist finance. The ability of posts to develop high-level and immediate contacts with host officials in these efforts has ensured broad responsiveness around the world to various targeting actions.

Results and Next Steps

Working with countries around the world, we have made it more difficult for terrorists to collect and move funds. In Europe, the EU has designated for asset-freezing almost all the names designated by the U.S. under E.O. 13224 because of their links to terrorism, in addition, of course, to all the al-Qaida-related names listed on the UN's consolidated list. In the Middle East, Gulf states are working to deprive terrorists of their ability to raise funds in the region. In addition to new regulations, Saudi Crown Prince Abdullah has publicly encouraged his countrymen to redirect their giving to needy causes within the Kingdom, instead of sending large amounts of money overseas where these funds are more susceptible to being misused. Saudi Arabia also, for the first time, announced publicly last December that it would take steps to combat terrorist financing. The U.S. and Saudi Arabia have also moved in recent months to step up bilateral cooperation on a range of terrorism finance issues. In Asia, we are focusing our efforts on targeting Jemaah Islamiyah and its network of operatives. We are working successfully with multilateral entities such as the Asia Pacific Economic Cooperation (APEC) group, ASEAN, the ASEAN Regional Forum and the Asia Pacific Group on Money Laundering to establish regulatory regimes consistent with

its member countries' UN obligations regarding terrorist financing.

However, we still have our work cut out for us. As we have successfully clamped down on abuses of the formal banking sector internationally, terrorists have gravitated increasingly towards charities and alternative remittance systems. In the area of training and technical assistance, international needs remain great and addressing these needs is of crucial importance to our success in fighting terrorist financing. In Europe, while the EU has designated for asset-freeze the military wing of Hamas and three leading Hizballah related charities, it has refused to designate either group in its entirety. The U.S. does not agree with the EU view that there is a difference between the political/humanitarian wings and terrorist wings of these organizations. We will continue to press this viewpoint with the EU collectively and member states bilaterally, and believe that there is a growing body of evidence that makes less and less credible the assertion of a functional separation among the activities of these centrally controlled organizations.

Given that the money making its way into the hands of terrorists flows around the world, the only way we will be successful in drying up their financial resources is through continued, active U.S. engagement with countries around the globe. We *must* continue to broaden and deepen our efforts worldwide. These efforts have paid off, and they will continue to do so.

Mr. Chairman, thank you for the opportunity to address this important issue. We look forward to working with Congress as we confront these challenges.



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