



**Center on Global Counterterrorism Cooperation
Project on U.S. Global Engagement**

**International Efforts against Terrorist Financing:
Lessons for the Next U.S. President**

Thursday 2 October 2008

SUMMARY

The Center on Global Counterterrorism Cooperation hosted a discussion on international efforts to combat terrorist financing with Michael Jacobson from the Washington Institute for Near East Policy, Elizabeth Joyce from the United Nations Security Council's Counter-Terrorism Committee Executive Directorate (CTED), and Richard Lalonde from the International Monetary Fund (IMF). Center Senior Fellow, Eric Rosand, moderated the event.

The discussants identified some of the successes and challenges in international efforts to combat terrorist financing post-9/11. They also addressed efforts to monitor and develop international standards aimed at addressing the evolving threat. Taking into account the lessons that have been learned since 2001, the panelists concluded by offering suggestions on how to strengthen international efforts in this field.

Although it was noted that one of the central difficulties in combating the financing of terrorism surrounds how to measure 'success,' several areas were pointed out where actions taken by the United States have strengthened efforts to stop illegal money flows, including successful efforts to use financial data as an effective intelligence tool, increasing transparency in its financial investigations, and broad engagement with a wide range of bilateral and multilateral partners in addressing the threat. Nevertheless, inter-agency turf battles and duplicative efforts, especially between the Departments of State and Treasury, were seen as impediments to continued progress in this area, particularly with respect to capacity-building.

In the international arena, the efforts of the United Nations, the IMF, and Financial Action Task Force (FATF) and its regional-style bodies (FSRBs) in setting standards, conducting needs assessments, and helping build the capacity of countries through technical assistance and training programs were praised. The important work of FATF in the development and propagation of international anti-money laundering and counter-terrorism financing (AML/CTF) standards and best practices and its

cooperative efforts with the IMF and FSRBs in conducting mutual evaluations of member countries were given particular emphasis.

There was also discussion of FATF's now furloughed list of Non-Cooperative Countries and Territories (NCCT) which was judged as a largely successful, if flawed, effort to improve compliance with AML/CTF standards. While acknowledging that the NCCT process was perhaps unfair, it was argued that the somewhat arbitrary nature of the designations and the potentially damaging economic consequences of being listed were what had made the NCCT process so effective. The fact that no country felt safe from being added to the list created an added incentive for countries to take action to implement their FATF obligations. It was pointed out that although the NCCT list has quietly been retired by FATF (there are no longer any jurisdictions currently on the list), it has now been replaced by the "International Cooperation Review Group" which can and has taken decisions to single out jurisdictions with deficient AML/CTF systems in statements issued during FATF's plenary sessions.

Some lamented FATF's move away from the NCCT process arguing that it had been a very effective tool for encouraging compliance and added legitimacy to U.S. and other efforts to single out countries for non-compliance with their AML/CTF obligations. It was nevertheless recognized that few countries are in full compliance with the FATF standards, with particular attention being paid to those countries that lack the necessary financial and technical means to do so. An example was given of a sub-Saharan African country which cited limited printer toner as a reason why it was unable to print out and distribute copies of the UN Security Council's Al-Qaida/Taliban's Sanctions Committee's Consolidated List to border crossings (implementation of the Council's asset freeze against those on the list is one of the FATF special recommendations on terrorist financing).

Attention was also given to FATF's expanding mandate starting with the addition of CTF after 9/11 and more recently the added focus on countering the financing of the proliferation of weapons of mass destruction. It was argued that FATF, which has a limited secretariat, may not be able to sustain this increased activity over the long-term. In addition, the point was made that some FATF members lack the resources to participate in the increasing number of FATF working group meetings.

In general, however, the discussants spoke highly of the level of informal cooperation that has developed among the different international AML/CTF-related bodies such as FATF, the IMF, the World Bank, and the UN since 2001, but they expressed a need to better coordinate capacity-building programs to fill gaps and avoid duplication. The point was made, for example, that bilateral donors are often reluctant to share information with these multilateral bodies on their AML/CTF technical assistance

programs. Thus, although the IMF has created a database on AML/CTF capacity building programs worldwide, it is sparsely populated.

Among the other challenges to international CTF efforts, panelists cited the continuing evolution of terrorist financing methods and the inability of governments and international institutions to adequately respond in a timely manner. Mechanisms for freezing terrorist assets were deemed inadequate 'across the board.' Further, it was noted that the international community has been slow to adapt to informal modes of terrorist financing, such as cash couriers, trade-based money laundering, and alternative remittance systems. With even the most tightly regulated financial jurisdictions only succeeding in registering some 20 percent of informal money brokers, more creative regulatory efforts were called for. In addition, panelists voiced concern over the potential misuse and abuse of charities and nonprofit organizations (NPOs), but also warned against the at times clumsy and heavy handed response by governments and international bodies to that threat. It was suggested that a more agile 'risk-based' approach to regulating NPOs was therefore needed.

Acknowledging the deficiencies in the current system, a number of concrete recommendations were made for strengthening the international community's response to the terrorist financing threat.

First and foremost, there was a call to remove barriers to and increase the exchange of information between and among regulators, intelligence and finance officials, relevant international bodies, and the private sector and to ensure that financial intelligence units have the legal, budgetary and human resources to facilitate that exchange.

Second, more attention should be given to assessing the effectiveness of global AML/CTF efforts, something that has proven difficult so far given the challenges when success is measured against something not taking place.

Third, each country should conduct a NPO risk assessment, something which should continue to be encouraged by CTED.

Fourth, more attention should be devoted to developing and implementing standards related to trade-based money laundering, cash couriers, and alternative remittance systems.

Fifth, in the face of rising skepticism as to the necessity of many AML/CTF efforts, improved public diplomacy efforts are needed to defend and explain their importance and to ensure their long term sustainability. This might require countries declassifying more relevant information that highlights the public successes on the

ground. In addition, with 'terrorism lists,' including the Security Council's Al-Qaeda/Taliban Consolidated List, under fire, the United States needs to be prepared to accept real compromises to avoid the collapse of a useful regime.

Finally, more needs to be done to engage the help of the private sector in addressing the evolving challenge of combating terrorist financing. Full cooperation from the banks and other private sector entities is crucial. However, in many countries although they are aware of the FATF requirements and are seeking to comply with them, insufficient attention is being paid to ensure they understand why they are being asked to take such action.