



Highlights of [GAO-04-163](#), a report to congressional requesters

TERRORIST FINANCING

U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms

Why GAO Did This Study

Cutting off terrorists' funding is essential to deterring terrorist operations. The USA PATRIOT Act expanded the ability of law enforcement and intelligence agencies to access and share financial information regarding terrorist investigations, but terrorists may have adjusted their activities by increasing use of alternative financing mechanisms. GAO was asked to assess (1) the nature of terrorists' use of key alternative financing mechanisms for earning, moving, and storing terrorists' assets; (2) what is known about the extent of terrorists' use of alternative financing mechanisms; and (3) challenges that the U.S. government faces in monitoring terrorists' use of alternative financing mechanisms.

What GAO Recommends

GAO recommends that (1) the Director of the FBI systematically collect and analyze data concerning terrorists' use of alternative financing mechanisms; (2) the Secretary of the Treasury and the Attorney General produce the planned report based on up-to-date law enforcement investigations on precious stones and commodities; and (3) the IRS Commissioner establish interim procedures for sharing information on charities with state charity officials. The DOJ did not formally respond to our recommendation. The Treasury agreed to produce the planned report and IRS committed to expedite issuance of procedures.

www.gao.gov/cgi-bin/getrpt?GAO-04-163.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4128 or yagerl@gao.gov.

What GAO Found

Terrorists use many alternative financing mechanisms to earn, move, and store assets (see table). They earn assets by selling contraband cigarettes and illicit drugs, by misusing charitable organizations that collect large donations, and by other means. They move funds by concealing their assets through nontransparent mechanisms such as charities, informal banking systems, and commodities such as precious stones and metals. To store assets, terrorists may choose similar commodities that maintain their value and liquidity.

The extent of terrorists' use of alternative financing mechanisms is unknown, owing to the criminal nature of terrorists' use of alternative financing mechanisms and the lack of systematic data collection and analysis of case information. The Federal Bureau of Investigation (FBI) does not systematically collect and analyze data on these mechanisms. Furthermore, the Departments of the Treasury and of Justice have not yet produced a report, required under the 2002 National Money Laundering Strategy, which was to form the basis of a strategy to address how money is moved or value transferred via trade in precious stones and commodities.

In monitoring terrorists' use of alternative financing mechanisms, the U.S. government faces a number of challenges, including accessing ethnically or criminally based terrorist networks, targeting high-risk financing mechanisms that the adaptable terrorists use, and sharing data on charities with state officials. The Internal Revenue Service (IRS) has committed to, but has yet to establish, procedures for such data sharing.

Examples of Alternative Financing Mechanisms That May Be Used to Earn, Move, and Store Terrorist Assets

Alternative financing mechanisms	Earning	Moving	Storing
Trade in commodities			
Illicit drugs	X		
Weapons	X		
Cigarettes	X		
Diamonds	X	X	X
Gold		X	X
Systems			
Charities	X	X	
Informal banking		X	
Currency			
Bulk cash		X	X

Sources: GAO analysis based on government, industry, and research sources.