

# Update on the Global Campaign Against Terrorist Financing

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*Second Report of an Independent Task Force on Terrorist Financing  
Sponsored by the  
Council on Foreign Relations*

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June 15, 2004

## *Independent Task Force on Terrorist Financing*

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## FOREWORD

Few aspects of the global war on terror are as inscrutable as the battle being waged on the financial front. Money for al-Qaeda and other terrorist groups is raised and moved worldwide and channeled through a web of institutions and individuals. The United States, other governments, the UN, and a range of international organizations have grappled with how best to address this daunting challenge.

My predecessor, Leslie H. Gelb, established the Independent Task Force on Terrorist Financing in 2002 to evaluate U.S. efforts to disrupt the financing of terrorist activities. The first report, chaired by Maurice R. Greenberg, concluded that although al-Qaeda's finances had been disrupted, they had not been destroyed—and that as long as al-Qaeda retained access to a viable financial network, it would remain a threat to the United States. The initial report recommended a series of steps to ensure a more effective U.S. and international response to al-Qaeda's global financial network.

Subsequent world events—including the May 2003 Riyadh bombings and the war in Iraq—made it clear that a further review of efforts of the U.S. and Saudi governments to curtail terrorist financing was warranted. In this update, the Task Force reports both on important achievements and on the work that remains to be done. The Task Force, composed of a bipartisan group of experts from the foreign policy, business, law enforcement, and intelligence communities, makes a series of recommendations to redouble efforts to frustrate al-Qaeda's financial network.

This Task Force would not have been possible without the leadership of Maurice R. Greenberg. I am grateful to Hank for continuing to spearhead this effort. I am also pleased that Mallory Factor has teamed up with Hank to serve as his vice chair. Thanks, also, to William F. Wechsler and Lee S. Wolosky, who continued to serve as co-directors of this update, which makes another important contribution to an issue of vital national and international importance.

*Richard N. Haass*

President

Council on Foreign Relations

June 2004

## ACKNOWLEDGMENTS

This report is the result of the hard work and support of a number of dedicated individuals of both political parties who seek to further critical national interests. We are, once again, grateful for the hard work and dedication put forth by all Task Force members. Our members brought unique backgrounds and areas of expertise to this complicated issue, and all worked hard to reach consensus under a tight schedule.

Much of the information concerning the subject of terrorist financing is highly classified. The report of this Task Force, comprised entirely of former governmental officials and private citizens, is necessarily limited to the realm of the unclassified. Moreover, the response of foreign nations to the financing of terrorism is frequently exceptionally nuanced. Conclusions regarding the nature and adequacy of that response are necessarily shaped by the social and professional backgrounds of those drawing the conclusions. Not unrelatedly, while sometimes public pressure is indispensable in diplomacy, it can also be the case that pushing too hard and publicly on sensitive matters can risk entrenchment and less progress on important issues than can more cautious and discrete approaches. Nevertheless, with those caveats in mind, we hope that this report will help promote an informed debate and discussion in our open society on the public record concerning a subject that remains largely opaque.

We are particularly grateful to our chair, Maurice R. Greenberg, for his stewardship of this project and his broader leadership in assuring continued attention to, and scholarship on, issues at the intersection of global finance and national security. Sustained attention to these issues will be critical to the success of the U.S.-led war on terrorism. With the limited exception of work now being performed by the Watson Institute for International Studies at Brown University, they are, to the best of our knowledge, the subject of no other sustained, appropriately funded scholarship at U.S. universities, think tanks, or nongovernmental organizations.

We also wish to thank Mallory Factor, the Task Force's vice chair, for his dedication to these issues and his extraordinary efforts to advance the mission of the Task Force.

The Task Force's deliberations benefited considerably from input from senior members of the U.S. Treasury Department and the National Security Council, and from discussions with officials of the Central Intelligence Agency. We are extraordinarily grateful to the U.S. officials

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who have assisted our work. We are also grateful to Adel al-Jubeir, foreign policy adviser to Saudi Crown Prince Abdullah, for his interest in our work.

We also benefited from the assistance of the Council's Lee Feinstein, Lindsay Workman, Jennifer A. Manuel, Margaret Winterkorn-Meikle, and Maria J. Kristensen, and we are grateful for all they did to make this Task Force a success. The resources and expertise of the Watson Institute were especially valuable, and we are grateful to the Institute's Thomas Biersteker and Sue Eckert for their major contributions to our Task Force mission.

We would also like to express our deep gratitude to the team from Columbia University's School of International and Public Affairs, Business School, and Law School that researched applicable Saudi Arabian laws and regulations for the Task Force, and whose assessment is referenced in this report: Nicholas Barnard, Seung Woo Chun, Mohamed Essakali, Yair Galil, Ilan Goldenberg, Reginald King, Duncan Long, Jennifer Mendel, Mihaela Nistor, Mitch Silber, Sean Smeland, Anuj Tiku, Deepak Venkatachalam, Michael Wallach, Ryan Wallerstein, and Suh-Kyung Yoon. They are an unusually talented group who brought enthusiasm, diligence, and strong analytical skills to this project. We are especially appreciative of the hard work done by the team leader, Mitch Silber, and for high-quality follow-up work undertaken by Yair Galil.

We would also like to extend special thanks to Christopher Blanchard and Martina Strazanova, rising stars in this new field, both of whom offered expert assistance and consistently wise counsel in the preparation of this report.

Finally, we wish to thank Council President Richard N. Haass for his continued support of our work and Council President Emeritus Les Gelb, whose initial vision made this Task Force a reality.

*William F. Wechsler*

*Lee S. Wolosky*

## INTRODUCTION

In October 2002, this Task Force issued its initial report on terrorist financing. That report described the nature of the al-Qaeda financial network, the actions that had been taken to date to combat terrorist financing, and the obstacles that hindered those efforts.

Among our core findings was that, after a promising start in the immediate wake of 9/11, the U.S. government's efforts to combat terrorist financing remained "inadequate to assure sustained results commensurate with the ongoing threat posed to the national security of the United States." A key problem, we found, was that "deficiencies in political will abroad—along with resulting inadequacies in regulatory and enforcement measures—are likely to remain serious impediments to progress." Specifically, our initial report concluded:

It is worth stating clearly and unambiguously what official U.S. government spokespersons have not: For years, individuals and charities based in Saudi Arabia have been the most important source of funds for al-Qaeda; and for years, Saudi officials have turned a blind eye to this problem.

Our Task Force report also included a number of specific strategic and tactical recommendations to help remedy these problems. Our core recommendations included two organizational ones. We recommended centralizing authority for policy formation and implementation on these issues within the White House. On the international front, we recommended the creation of a new multilateral organization to facilitate international cooperation.

We also recommended the encouragement of the Saudi regime to strengthen significantly its efforts to combat terrorist financing. In this regard, we noted a recent historical record of inattention, denial, and half measures.

We recommended directly confronting the lack of political will in Saudi Arabia and elsewhere through the institution of a declaratory policy that would permit or compel U.S. officials to speak more frankly about the nature of the problem:

Put issues regarding terrorist financing front and center in every bilateral diplomatic discussion with every 'front-line' state in the fight against terrorism—at every level of the bilateral relationship, including the

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highest. Where sufficient progress is not forthcoming, speak out bluntly, forcefully, and openly about the specific shortfalls in other countries' efforts to combat terrorist financing. The Task Force appreciates the necessary delicacies of diplomacy and notes that previous administrations also used phrases that obfuscated more than they illuminated when making public statements on this subject. Nevertheless, when U.S. spokespersons are only willing to say that 'Saudi Arabia is being cooperative' when they know very well all the ways in which it is not, both our allies and adversaries can be forgiven for believing that the United States does not place a high priority on this issue.

The reaction to the release of the Task Force's initial report was reflective of then-prevailing mindsets. The Saudi Arabian Foreign Minister, Prince Saud al-Faisal, told CNN that the report was "long on accusation and short on documented proof." The Saudi ambassador to the United States, Prince Bandar bin Sultan, said the Task Force report was based on "false and inconclusive information" and "clearly out of touch with current activities." He also maintained that "Saudi Arabia has put into place the tools, resources, laws, and regulations to combat terrorism and terrorist financing" and promised to "prosecute the guilty to the fullest extent of the law." The U.S. Treasury Department's spokesperson called the report "seriously flawed."<sup>1</sup>

Meanwhile, the executive branch continued to grapple throughout the fall of 2002 and thereafter with how best to address the problem of Saudi individuals and organizations that it believed to be financing al-Qaeda and other terrorist organizations. In November 2002, a National Security Council Task Force was reportedly prepared to recommend to President George W. Bush an action plan designed to force Saudi Arabia to crack down on terrorist financiers within ninety days or face unilateral U.S. action. During 2002 and into the first few months of 2003, U.S. officials engaged their Saudi counterparts on a sustained basis in Washington and Riyadh—at increasingly high levels, with more intelligence they were prepared to share, and with more aggressive demands.

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<sup>1</sup> Elsewhere, the reaction to the report was more positive. Members of Congress, for example, broadly endorsed the report and sought to implement certain of its recommendations. On July 30, 2003, a bipartisan group of 111 members of the House of Representatives led by Rep. Jim Davis (D-FL) and including the chair of the International Relations Committee, chair of the Financial Services Committee, chair of the Appropriations Committee, and the vice chair of the Intelligence Committee, wrote to the president to ask that he accept a key recommendation of the Task Force and centralize authority for this issue in the White House. Earlier, on July 16, Rep. Nita Lowey (D-NY) led efforts to increase funding for the Treasury's Office of Technical Assistance, citing a recommendation of our initial report. On November 18, 2003, Senator Arlen Specter (R-PA) cited the findings of our report when introducing the Saudi Arabia Accountability Act of 2003, a bill that would impose certain sanctions on Saudi Arabia unless the president certifies that it is cooperating with U.S. efforts to combat terrorism.



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Less transparent methods of curtailing terrorist financing were also stepped up, with significant successes. Although these activities are clearly relevant to the subject matter of this report, for obvious reasons they cannot be addressed in a report such as this one, which must necessarily cite only public information and public statements.

Perhaps out of concern that more direct public statements would have negatively affected increasingly aggressive private demands, the U.S. executive branch's public statements regarding terrorist financing largely remained unchanged. In public, White House and State Department spokespersons continued to refuse to criticize the job Saudi Arabia was doing to combat terrorist financing; indeed, the same week of public reports concerning the possible imposition by the president of unilateral sanctions, the White House spokesperson maintained that Saudi Arabia was a "good partner in the war on terrorism." For their part, Saudi officials continued to maintain that they were taking all necessary and possible steps to combat terrorism and terrorist financing.

The status quo changed on May 12, 2003, when al-Qaeda bombed housing compounds in Riyadh used by U.S. and other foreign residents, prompting more comprehensive Saudi action against terrorism. The need for this action was demonstrated again on November 9, 2003, when a similar al-Qaeda-directed attack took place at another Riyadh housing compound, and on April 21, 2004, when another attack took place in Riyadh, this time against the General Security building. Most recently, at the beginning and end of May 2004, two attacks targeted the Saudi oil industry. They took place in Yanbu and Khobar, respectively, with the latter attack and hostage-taking resulting in twenty-two fatalities.<sup>2</sup>

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<sup>2</sup> The strategic decision to launch attacks within Saudi Arabia was apparently controversial within the al-Qaeda movement, in part because of the possible negative impact on fundraising within the Kingdom. The second issue of "The Voice of Jihad," a biweekly online magazine identified with al-Qaeda, contains an October 2003 interview with Abd Al-'Aziz bin 'Issa bin Abd Al-Mohsen, also known as Abu Hajjer, an al-Qaeda member ranking high on Saudi Arabia's most-wanted list. Abu Hajjer remarked: "Jihad members and lovers of Mujahideen were split: There were those who said we must attack the invading forces that defile the land of the two holy places, and that we must turn the Americans' concerns to themselves and their bases, so they would not take off from there to crush Muslim lands and countries, one by one. There were others who said we had to preserve the security of this base and this country [i.e., Saudi Arabia], from which we recruit the armies, from which we take the youth, from which we get the [financial] backing. It must therefore remain safe. My opinion is midway between the two... It is also true that we must use this country [Saudi Arabia] because it is the primary source of funds for most Jihad movements, and it has some degree of security and freedom of movement. However, we must strike a balance between this and the American invasion of the Islamic world and its [strangling of] the Jihad movement and even other Islamic movements. ..."

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Public statements and actions by both the United States and Saudi Arabia since May 2003 have evidenced in many respects a more urgent approach to terrorist financing, one that is broadly consistent with our initial report's conclusions, findings, and recommendations. For example, Saudi Arabia has announced a profusion of new laws, regulations, and institutions regarding money laundering, charitable oversight, and the supervision of the formal and informal financial services sector. Significantly, the government also took steps to remove donation boxes from mosques and shopping malls. And, for the first time, Saudi Arabia has subjected its anti-money laundering regime to international scrutiny. Recently, the Financial Action Task Force (FATF)—a thirty-three-member international body dedicated to promulgating international anti-money laundering and counterterrorist financing (AML/CTF) standards—conducted an in-depth review of Saudi Arabia's overall AML/CTF regime. FATF is in the process of completing its assessment and is expected to issue a "summary report" shortly. Early indications suggest that the new Saudi laws and regulations meet or exceed international standards in many respects and will receive a passing grade.

While Saudi officials were previously unwilling to acknowledge or address the role government-sanctioned religious messages play in supporting militant Islamic groups, following the May terrorist attacks Saudi officials began to take steps to address the mindset that foments and justifies acts of terrorism. This has included educational reform and steps intended to discipline (or "re-educate") certain extremist Islamic clerics—at least those operating in Saudi Arabia. Several such clerics have publicly dissociated themselves from extremism on state-controlled television.

Most critically, for the first time, the Saudi government decided to use force to hunt—and kill—members of domestic al-Qaeda cells, including, in one case, a financier named Yousif Salih Fahad Al-Ayeeri (aka "Swift Sword"). Actions on this scale were not in evidence prior to the 2003 bombings.

The Bush administration acted quickly to take advantage of newfound political will in Saudi Arabia to renew and reinvigorate its own efforts to combat terrorist financing. In August 2003, the United States and Saudi Arabia announced the creation of the Joint Terrorist Financing Task Force, based in Riyadh. Through this Task Force, investigators from the FBI and from the Internal Revenue Service Criminal Investigation Division (IRS-CID) have developed "agent-to-

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agent” working relationships with their Saudi counterparts and, for the first time, have gained direct access to Saudi accounts, witnesses, and other evidence.

The pace of joint U.S.-Saudi designations quickened, specifically in respect to efforts to close problematic overseas branches of the sprawling, Saudi-based Al Haramain Islamic Foundation, which Saudi officials estimate was, at its height, raising between forty and fifty million dollars per year. On December 22, 2003, for example, the United States and Saudi Arabia jointly designated Vazir—a nongovernmental organization located in Travnik, Bosnia—after it was determined that it was the reincarnation of the previously designated Al Haramain-Bosnia. Bosnian authorities then raided and closed this organization. The two governments also designated Safet Durguti, the representative of Vazir. On January 22, 2004, the United States and Saudi Arabia announced a joint decision to refer four additional branches of Al Haramain to the UN’s al-Qaeda and Taliban Sanctions Committee (the 1267 Committee). These branches—located in Indonesia, Kenya, Tanzania, and Pakistan—had, according to the two governments, provided financial, material, and logistical support to the al-Qaeda network and other terrorist organizations.

The United States and Saudi Arabia announced on June 2, 2004 the designation of five additional branches of Al Haramain located in Afghanistan, Albania, Bangladesh, Ethiopia, and the Netherlands. The United States also announced the designation of Al Haramain’s founder and former leader, Aqil Abdulaziz Al-Aqil.

Even more significantly, the government of Saudi Arabia announced the dissolution of Al Haramain and other charitable entities and the creation of a nongovernmental organization to coordinate private Saudi charitable giving abroad.

As a result of the foregoing activities, al-Qaeda’s current and prospective ability to raise and move funds with impunity has been significantly diminished. These efforts have likely made a real impact on al-Qaeda’s financial picture, and it is undoubtedly a weaker organization as a result. Much of the impact has been through deterrence—i.e., past or prospective donors are now less willing to support organizations that might be complicit in terrorism.

Key agencies in our government have also grown more accustomed to working with one another in new ways and become better at accommodating one another’s interests. The CIA and the FBI, in particular, cooperate closely up and down the chain of command, on both a tactical and strategic level.

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The record is more mixed when it comes to the implementation of our recommendation that U.S. officials speak clearly, openly, and unambiguously about the problems of terrorist financing. Official reports, such as the State Department's latest Patterns of Global Terrorism report, continue to give praise where praise is due but too often go to lengths to avoid explicit statements about the steps yet to be taken.<sup>3</sup> However, there have been important exceptions to this rule.

On June 26, 2003, for example, at the annual U.S.-EU Summit, President Bush took the important step of publicly urging European leaders to criminalize all fundraising by Hamas, another recommendation of our Task Force report. Extensive work by the State and Treasury Departments preceded and followed up the president's strong remarks. On September 6, 2003, despite longstanding European insistence that Hamas's "political wing" is distinct from its "military wing," the European Union officially added Hamas to its list of banned terrorist groups.

Even more significantly, the same day that President Bush met with his European counterparts, David Aufhauser, the then-general counsel of the Treasury and chairman of the National Security Council's Policy Coordination Committee on Terrorist Financing, testified before Congress that "in many ways, [Saudi Arabia] is the epicenter" of the financing of al-Qaeda and other terrorist movements. This statement of fact—clear to U.S. officials of two administrations since the late 1990s—mirrored a core conclusion of our initial report. It also reflected an implementation of our core recommendation that senior U.S. officials move toward a more frank declaratory policy on these issues.

At the same time, during the summer of 2003, the Treasury Department declined to provide to Congress a list of Saudi persons and individuals recommended for unilateral enforcement action,<sup>4</sup> and the Bush administration declined to declassify twenty-eight pages of a

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<sup>3</sup> Among other things, *Patterns* states: "Saudi Arabia has launched an aggressive, comprehensive, and unprecedented campaign to hunt down terrorists, uncover their plots, and cut off their sources of funding" and "Riyadh has aggressively attacked al-Qaida's operational and support network in Saudi Arabia and detained or killed a number of prominent operatives and financial facilitators... Senior Saudi government and religious officials espouse a consistent message of moderation and tolerance, explaining that Islam and terrorism are incompatible." While we largely concur with these statements, we also believe that official statements and reports should set forth with particularity shortcomings as well as praise, to serve as a benchmark for future progress. For these and other reasons, we have recommended not only a more declaratory U.S. policy but also the imposition of a comprehensive certification regime that would include detailed findings of fact, as set forth on pages 31 and 32 *infra*.

<sup>4</sup> Relevant committees of the Congress were provided with a classified listing of the number of Saudi entities and individuals considered for designation, as well as a number of classified briefings regarding this issue.

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joint congressional report that reportedly detailed the role of Saudi persons or organizations in the 9/11 attacks.

At the end of 2003, two reports concluded that U.S. efforts to combat terrorist financing had yet to accomplish the basic mission of stopping the flow of money to terror groups. The U.S. General Accounting Office, the investigative arm of Congress, concluded that federal authorities still did not have a clear understanding of how terrorists move their financial assets and continue to struggle to halt terrorist funding. The United Nations Monitoring Group, in its second required report to the UN's al-Qaeda and Taliban Sanctions Committee, also found that "al-Qaeda continues to receive funds it needs from charities, deep-pocket donors, and business and criminal activities, including the drug trade. Extensive use is still being made of alternative remittance systems, and al-Qaeda has shifted much of its financial activity to areas in Africa, the Middle East and South-East Asia where the authorities lack the resources or the resolve to closely regulate such activity."

The views expressed in the Task Force's first report are now widely held, at home and abroad. Combating terrorist financing must remain a central and integrated element of the broader war on terrorism, and Saudi Arabia should be—and is—taking important efforts in this regard. Effective international efforts will continue to require both strong U.S. leadership and sustained political will in the source and transit countries for the funds that continue to support international terrorist organizations such as al-Qaeda. As a senior Treasury Department official told Congress on March 24, 2004, "we have found that our success is also dependent on the political will and resources of other governments."

It is with these thoughts in mind that we offer the findings and recommendations that follow. We note at the outset that much of the discussion in the text of this report and in the appendixes concerns Saudi Arabia. That is certainly not because we believe that Saudi Arabia is alone in the need to take effective and sustained action to combat terrorist financing. Indeed, on a comparative basis Saudi Arabia has recently taken more decisive legal and regulatory action to combat terrorist financing than many other Muslim states. Nor is it to minimize the potential significance of new modalities of terrorist financing that have nothing to do with individuals and organizations based in Saudi Arabia. Al-Qaeda financing has almost certainly become more diffuse since the dispersal of its leadership from Afghanistan; whereas once al-Qaeda's funds were managed centrally, communication and logistical difficulties have forced local operatives in

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many cases to improvise and fend for themselves.<sup>5</sup> Rather, it is because of the fundamental centrality that persons and organizations based in Saudi Arabia have had in financing militant Islamist groups on a global basis—a fact that officials of the U.S. government have now joined this Task Force in publicly affirming.

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<sup>5</sup> The Madrid bombing investigation, for example, indicates that the cell responsible for the March 2004 train bombing in that city relied significantly on self-help and drug trafficking to fund its operations.

## FINDINGS

As a general matter, we wish to reaffirm the principal “findings” of our initial report, reproduced here in Appendix A. Although progress has been made on several important fronts, al-Qaeda and other terrorist organizations, as demonstrated by recent attacks and related investigations, still have ready access to financial resources, and that fact constitutes an ongoing threat to the United States (among other states). The problem has not been solved and, as we noted in our initial report, there is no single “silver bullet” to end the financing of terror. With those thoughts in mind, we wish to make the following additional findings regarding the state of efforts to combat terrorist financing since the issuance of our last report.

1. *Various international fora are engaged in a wide array of multilateral activities that collectively constitute a new international regime for combating terrorist financing.* In our initial report, we recommended the creation of a new international organization dedicated solely to issues involving terrorist financing. We find that many of the activities we envisioned such an organization undertaking are now underway under the leadership of existing international institutions and regimes, mitigating the need for a new specialized international organization. Specifically, we note that:
  - In September 2001, only four countries had ratified the International Convention for the Suppression of the Financing of Terrorism; by the end of April 2004, that number had increased to 117 states.
  - The United Nations Counter-Terrorism Committee (CTC), established by Security Council Resolution 1373, requires all member states to criminalize the provision of financial support to terrorists and to freeze terrorist assets. Significant progress has been achieved in focusing states’ attention on implementation measures—all 191 countries have submitted first-round reports to the CTC, and many are engaged in the CTC’s initiative to enhance compliance. The greatest impact of the UN’s efforts has been in the adoption of national terrorist financing legislation, formation of domestic institutions such as Financial Intelligence Units (FIUs), and the identification of technical assistance needs of states. While the CTC’s momentum slowed in late 2003, the Security Council, with strong U.S. support, adopted new measures in March to

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“revitalize” the CTC as the primary mechanism to assist states in combating terrorist financing.

- The G8 established a Counter-Terrorism Action Group (CTAG) at the Evian Summit in June 2003 to assist the CTC in coordinating capacity-building assistance. The CTAG represents a potentially significant effort by donor nations to supplement the UN’s capacity-building initiatives.
- The Financial Action Task Force (FATF) has played an important role in responding to 9/11 by promulgating its Eight Special Recommendations Against Terrorist Financing, establishing a methodology for assessing compliance with the eight recommendations, and issuing guidance for financial institutions in detecting terrorist financing, as well as developing best practices concerning the freezing of terrorist assets, alternative remittances, and nonprofit organizations. The FATF is also refocusing its efforts to ensure more effective implementation. The recent renewal of the FATF mandate shows the commitment of states to these issues.
- The UN’s al-Qaeda and Taliban Sanctions Committee has expanded the list of terrorist entities against which all states are required to restrict financing. The Sanctions Committee has steadily improved the amount of detailed identifying information on listed individuals and increased its oversight and monitoring of states’ implementation and enforcement efforts.
- Since the publication of our initial report, FATF has also reviewed Saudi Arabia’s laws and regulations, an action it had previously not taken.
- In collaboration with the FATF, the International Monetary Fund (IMF) and World Bank have assessed forty-one countries’ compliance with anti-money laundering and countering terrorist financing (AML/CTF) standards in a pilot program. Results indicate that while many jurisdictions are doing a good job countering money laundering, some were lagging behind in measures to deter terrorist financing. In April 2004, the IMF and World Bank agreed to continue the assessments as part of the ongoing Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSCs) but to adopt a more comprehensive and integrated approach to conducting assessments.



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- Cooperation on terrorist financing has become a permanent part of the agendas of regional organizations such as the EU, Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), the Gulf Cooperation Council (GCC), the Organization of American States (OAS), the Organization for Security and Cooperation in Europe (OSCE), and the African Union, as recommended by our first report. In the aftermath of the March 11 terrorist attacks in Madrid, the EU adopted a Terrorism Action Plan, including new proposals to strengthen the fight against terrorist financing through enhanced customs controls on cash movements, establishment of an electronic database of all targeted persons and entities, and possible modification of the procedures requiring unanimity for revisions of the list of terrorist organizations and assets. APEC established a Counter-Terrorism Action Plan, with a specific checklist of measures and a timeframe for members to halt the financing of terrorism.
  - As countries reach a clearer understanding of what is required to stem terrorist financing, the number of requests for training and capacity-building technical assistance have increased. By the end of 2003, more than 160 states had requested or received capacity-building assistance from the CTC. The World Bank reported receiving more than 100 requests from countries to help build capacity to fight money laundering and terrorist financing. The CTC has facilitated assistance in drafting anti-terrorist financing legislation, support to banking supervisory bodies, and establishment of FIUs in almost sixty cases, with eighty-nine countries participating in workshops; countering terrorist financing training has been provided to seventy-one countries thus far.
2. *Saudi Arabia has taken important actions to disrupt domestic al-Qaeda cells and has improved and increased tactical law enforcement and intelligence cooperation with the United States, though important questions of political will remain.* Saudi actions to disrupt, degrade, and destroy domestic al-Qaeda cells are an extremely welcome development since the issuance of our last report. Interior Ministry and other Saudi law enforcement and intelligence officials are now regularly killing al-Qaeda members and sympathizers in violent confrontations—and are just as regularly being killed by them on the streets of Saudi Arabia.

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As previously noted, the Task Force recognizes that non-public activities may affect an assessment of the terrorist financing issue, including in the context of the U.S.-Saudi relationship. There may be actions being taken by Saudi officials that are not being made public, some of which may involve cooperation with the United States. There may also be U.S. operations undertaken on the Arabian peninsula or elsewhere that implicate Saudi national interests but that are taking place without Saudi knowledge. All of these possibilities may affect the subject matter of this report. But none is a matter of public knowledge, and these possibilities, accordingly, cannot be addressed in this report. We find that operational law enforcement and intelligence cooperation on counterterrorism matters have markedly improved since the issuance of our last report.

We note that while Saudi actions following May 2003 in confronting al-Qaeda within the Kingdom evidenced vastly increased political will, anomalous elements remained. For example, following the May 2004 attack in Yanbu, Saudi Crown Prince Abdullah said in remarks broadcast on Saudi TV that “Zionism is behind terrorist actions in the Kingdom... I am 95 percent sure of that.” Several days later Saudi Foreign Minister Prince Saud Al-Faisal reaffirmed the crown prince’s remarks, noting, “It is not hidden from anyone that extremist Zionist elements are engaging in a vulgar campaign against the kingdom by espousing and disseminating lies and incitement against the Saudi government.... The terror operations taking place today serve the interests of the extremist Zionist elements, and this means that they [the perpetrators of the operations and the Zionist elements] share common interests.” Saudi Interior Minister Prince Nayef bin Abdul Aziz, asked whether there was a contradiction between these statements and his own statements attributing attacks in the Kingdom to al-Qaeda, reportedly said, “I don’t see any contradiction in the two statements, because al-Qaeda is backed by Israel and Zionism.”

To the best of our knowledge, these statements were never retracted; indeed, at a press conference in Washington on June 2, 2004, neither Adel al Jubeir, the foreign policy adviser to the crown prince, nor a State Department official by his side repudiated them in specific response to questions from reporters. These statements compromise the moral clarity of Saudi actions and the overall effort to change the mindset that foments extremism.

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We also note that few al-Qaeda operatives are being captured alive, which also means that few are made available for questioning by foreign law enforcement or intelligence agencies. And, to date, financiers have largely remained beyond the scope of the more forceful and transparent domestic Saudi enforcement efforts, as described below more fully.

3. *Saudi Arabia has made significant improvements in its legal and regulatory regime.* We noted in our initial report that “In 1999... Saudi Arabia approved amendments to its existing money laundering laws intended to bring it into compliance with international standards, but to date these amendments have not been implemented, according to the most recent State Department reports.” Since the issuance of our initial report—and particularly since the May 2003 Riyadh bombings—Saudi Arabia has announced the enactment or promulgation of a profusion of new laws and regulations and the creation of new institutional arrangements, that are intended to tighten controls over the principal modalities of terrorist financing. Given the historical centrality of funds from Saudi-based individuals and organizations to the problem of terrorist financing, the Task Force considers these matters to be of fundamental relevance to the national security of the United States. Accordingly, since no public assessment of them was available, we commissioned a review of the new Saudi Arabian legal, regulatory, and institutional regime to combat money laundering and terrorist financing.<sup>6</sup> Excerpts of this comprehensive review, undertaken by graduate students from Columbia University’s School of International and Public Affairs, Law School, and Business School, are cited and available on the Council’s website at [www.cfr.org](http://www.cfr.org).

Regrettably, our efforts in this regard were hampered by the unwillingness of Saudi officials to provide a large amount of requested information. Despite a cordial and

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<sup>6</sup> We commissioned this assessment with the knowledge that the FATF was likely to conduct a similar analysis. Indeed, we shared impressions with leaders of the FATF assessment during the pendency of the respective reviews, and we reached similar conclusions. We proceeded with an independent assessment notwithstanding the complementary FATF review because FATF reviews are not normally made entirely public and because the intergovernmental FATF operates by consensus, meaning that, as a general matter, U.S. concerns and perspectives may not ultimately be prioritized or articulated. Moreover, the FATF employs a generic methodology, meaning that country-specific issues, such as charities, may not receive attention that is commensurate with their importance from the standpoint of the country reviewed or from the standpoint of U.S. interests. And perhaps most significantly, while FATF assesses laws and regulations as they exist on paper, it does not normally assess *implementation and enforcement* of those laws and regulations, as discussed elsewhere in this report.

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productive meeting with a senior Saudi official in June 2003, and notwithstanding the promise of full cooperation from the Kingdom of Saudi Arabia, we received only very limited cooperation.

Nevertheless, on the basis of our review of certain publicly available materials and our discussions with Saudi and U.S. officials, we find that Saudi Arabia has made significant improvements to its anti-money laundering and counterterrorist financing regime and has taken the following steps, among others, many of which are discussed and analyzed in greater detail in the above-mentioned review:

- Enactment last year of the new anti-money laundering law of 2003 and the issuance of anti-money laundering implementation rules earlier this year. Specific measures include, among other things, more comprehensive criminalization, improved reporting and record-keeping requirements applicable to the formal financial sector, new inter-agency coordination mechanisms, and the establishment of an FIU.<sup>7</sup>
- The imposition of mandatory licensing requirements and additional legal, economic, and supervisory measures for alternative remittance systems, such as *hawala*.
- New training programs for judges and law enforcement officials on anti-money laundering and counterterrorist financing.
- The announced freezing of assets of persons and organizations supporting terrorism.
- The promulgation last year of comprehensive new restrictions on the financial activities of Saudi-based charitable activities, along with additional oversight initiatives. As we described in our initial report and has been extensively reported elsewhere, Saudi-based charities have fueled radical Islamist activities in many parts of the world, including Asia, Africa, Europe, the Middle East, and North America. In some respects, the new restrictions that have been announced go further than those of any other country in the world, and include the following:

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<sup>7</sup> See, generally, Royal Embassy of the Kingdom of Saudi Arabia, “Initiatives and actions taken by the Kingdom of Saudi Arabia in the war on terrorism,” September 2003 (the “Green Book”). Available online at: <http://www.saudiembassy.net/2003News/News/TerDetail.asp?cIndex=142>.

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- Provisions that limit or prohibit transfers from charitable accounts outside of Saudi Arabia.
  - Enhanced customer identification requirements applicable to charitable accounts.
  - Provisions requiring that charitable accounts be opened in Saudi Riyals.
  - The announcement of the formation of a governmental High Commission of Oversight of Charities to oversee Saudi-based charities.
  - The consolidation of charitable banking activities in one principal account. Although sub-accounts are permitted for branches, they are restricted to receiving deposits, and withdrawals and transfers must be serviced through the main account.
  - The prohibition of cash disbursements from charitable accounts, along with the issuance of ATM or credit cards against such accounts.
  - The banishment of unregulated cash contributions in local mosques and the removal of cash collection boxes for charities from shopping malls.
  - The announced completion, on May 16, 2003, of audits of all Saudi-based charities.
  - The announcement of the creation of the Saudi National Entity for Charitable Work Abroad, a nongovernmental body that, according to Saudi officials, is intended to assume all private overseas aid operations and responsibility for the distribution of private charitable donations from Saudi Arabia and into which other Saudi-based charities and committees operating internationally will be dissolved.
4. *Saudi Arabia has not fully implemented its new laws and regulations, and because of that, opportunities for the witting or unwitting financing of terrorism persist.* The passage of laws and regulations is only the first step toward the creation of an effective AML/CTF regime. Just as important—and more important over the longer term—is effective implementation. Some aspects of implementation—comprehensive and well-

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informed compliance with record-keeping and auditing rules or fully staffing new organizations, for instance—may take time. However, many other aspects of implementation, such as standing up and funding new organizations and oversight bodies—can be accomplished more readily. Despite statements to the contrary, Saudi Arabian authorities did not fully cooperate with our requests for information on the status of their implementation of important aspects of their AML/CTF regime. Nevertheless, on the basis of information publicly available, we are able to conclude with confidence that official Saudi assertions, such as the June 12, 2003, Saudi embassy press release that claimed the Kingdom had “closed the door on terrorist financing and money laundering,” remain premature.<sup>8</sup>

Since the issuance of our first report, the U.S. government has at times agreed with this assessment. On August 12, 2003, for example, Deputy Secretary of State Richard Armitage stated, “We found laws being changed and scrutiny directed towards the private charitable organizations to be greatly heightened. It is still not sufficient.” More recently, on March 24, 2004, Juan Zarate, the senior Treasury Department official with responsibility for these issues, told Congress that the implementation of many of these measures by the Kingdom posed “ongoing challenges” and that a particularly “critical challenge... is fully implementing and enforcing the comprehensive measures [Saudi Arabia] has enacted to ensure charities are not abused for terrorist purposes.”

Among other things, sustained attention to implementation is required in respect of legal, regulatory, and institutional reforms intended to impact the formal and informal financial sectors and the charities sector. Indicia of implementation and enforcement are generally unavailable. We are concerned that the unavailability of such indicia may negatively impact the deterrent effect presumably intended by these measures. As this report was going to press, for example, we were unable to find evidence to suggest that the announced High Commission of Oversight of Charities was fully operational. Moreover, its composition, authority, mandate, and charter remain unclear, as do important metrics of its likely effectiveness, such as staffing levels, budget, and personnel

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<sup>8</sup> As part of the government of Saudi Arabia’s offer of assistance to the work of our Task Force, we sought to visit Riyadh to discuss, among other things, the state and level of the implementation of these new laws, regulations, and oversight mechanisms. Despite a formal invitation from a representative of the crown prince, no visit was ever confirmed and scheduled by Saudi officials.

training. The mandate and authority of the High Commission of Oversight of Charities is also unclear relative to that of the Saudi National Entity for Charitable Work Abroad, which was first announced in February 2004.<sup>9</sup> As Juan Zarate told Congress earlier this spring, “the Kingdom must move forward to clarify and empower an oversight authority that will administer effective control over the [charity] sector and ensure compliance with obligations under the new regulatory measures.” More recently, on June 2, 2004, Zarate called the establishment of the Saudi National Entity for Charitable Work Abroad a “major step forward” and noted, “we’re looking forward to seeing the implementation of that.”

At least one other key body, Saudi Arabia’s FIU, is also not yet fully functional. FIU’s are intended to collect and analyze suspicious financial data. Reliable, accessible metrics are lacking with respect to many of the other newly announced legal, regulatory, and institutional reforms. Critical data necessary to assess the implementation, enforcement, and effectiveness of many of these announced reforms are generally nonexistent or not publicly available. We find this troubling given the importance of these issues to the national security interests of the United States and other countries (including Saudi Arabia) that remain targets of al-Qaeda and similar terrorist organizations. The universal application of rule of law to prominent persons in Saudi Arabia, especially those close to members of the Saudi royal family, also remains uncertain.

5. *We have found no evidence that Saudi Arabia has taken public punitive actions against any individual for financing terror. As a result, Saudi Arabia has yet to demand personal accountability in its efforts to combat terrorist financing and, more broadly and fundamentally, to delegitimize these activities.* The lack of transparent and compelling

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<sup>9</sup> The following statement was issued by the Royal Court on February 28, 2004: “In response to the merciful Shari’ah teachings which call for the brotherhood of the faithful, to enable the noble Saudi people to continue helping their Muslim brothers everywhere and to rid Saudi charity work abroad from any misdeeds that might undermine it or distort its reputation, the Saudi government has decided to put clear methodical rules to organize Saudi charity work abroad. In this context, the Custodian of the Two Holy Mosques King Fahd Bin-Abd-al-Aziz has issued order number A/1 dated on 6/1/1425 H. To approve the creation of a charity commission called “the Saudi Non-Governmental Commission for Relief and Charity Work Abroad.” The state-controlled SPA news agency stated: “The royal order stated that the task of forming and administering the commission will be carried out by a selected group of citizens working in the charity field and enjoying experience, integrity and good reputation. The royal order also charged the commission exclusively with all charity work and relief abroad. The commission will announce its regulation and how it will work as soon as its creation is completed during the next few weeks.”

evidence of implementation is particularly troublesome in the criminal law enforcement context. Despite the flurry of laws and regulations, we are aware of no publicly announced arrests, trials, or incarcerations in Saudi Arabia in response to the financing of terrorism—despite the fact that such arrests and other punitive steps have reportedly taken place. Against its poor historical enforcement record, any Saudi actions against financiers of terror are welcome. But actions taken in the shadows may have little consistent or systemic impact on ingrained social or cultural practices that directly or indirectly threaten the security of the United States.

Individuals and organizations based in Saudi Arabia long have been the most significant source of funds for al-Qaeda. As a general matter, such individuals and organizations have had close ties to the Saudi establishment. For example, Saudi government officials and members of the *ulema*, or clerical establishment, participate directly in the governance of Saudi charities.

Aggressive action against financiers therefore requires greater political will, not just action against the politically powerless or socially marginalized. So far, demonstrable evidence of this political will has been lacking. These concerns are even codified to a certain extent in Saudi Arabia's new anti-money laundering law, which appears to contain overly broad exemptions for "politically exposed persons" who might otherwise be subject to enhanced due diligence and reporting requirements.

Deeply ingrained social, cultural, and religious norms have facilitated and reinforced Saudi Arabia's status as the main source of financial support to groups such as al-Qaeda. Those norms must be fundamentally delegitimized. The public condemnation of extremism by senior Saudi officials, discussed in greater detail below, is an important start. But criminalization and public enforcement are also critical components of the delegitimization process. Without them, it is difficult to create deterrence and a governance system that demands personal accountability.

Put more simply: People and organizations need to be publicly punished, including for past involvement in terrorist financing activities.

Not only have there been no publicly announced arrests in Saudi Arabia related to terrorist financing, but key financiers remain free or go unpunished. For example, Yasin



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al-Qadi, a Specially Designated Global Terrorist, appears to live freely in Saudi Arabia. According to the Treasury Department, “He heads the Saudi-based Muwafaq Foundation. Muwafaq is an al-Qaeda front that receives funding from wealthy Saudi businessmen. Blessed Relief is the English translation. Saudi businessmen have been transferring millions of dollars to bin Laden through Blessed Relief.” Wa’el Julaidan, who was jointly designated on September 6, 2002, by the governments of the United States and Saudi Arabia as “an associate of Usama bin Laden and a supporter of al-Qa’ida terror,” also appears to live freely in Saudi Arabia. According to the Treasury Department, “The United States has credible information that Wa’el Hamza Julaidan is an associate of Usama bin Laden and several of bin Laden’s close lieutenants. Julaidan has directed organizations that have provided financial and logistical support to al-Qa’ida.”<sup>10</sup> The same is true for Aqeel Abdulaziz Al-Aqil, the founder and long-time leader of the Al Haramain Islamic Foundation (AHF). According to the Treasury Department, “As AHF’s founder and leader, Al-Aqil controlled AHF and was responsible for all AHF activities, including its support for terrorism.... Under Al Aqil’s leadership of AHF, numerous AHF field offices and representatives operating throughout Africa, Asia, Europe and North America appeared to be providing financial and material support to the al-Qa’ida network. Terrorist organizations designated by the U.S. including Jemmah Islammiya, Al-Ittihad Al-Islamiya, Egyptian Islamic Jihad, HAMAS, and Lashkar E-Taibah received funding from AHF and used AHF as a front for fundraising and operational activities.”

Since the issuance of our last report, knowledgeable U.S. officials have privately expressed frustration at Saudi Arabia’s failure to act against, among others, specific and identified members of that country’s merchant class. They have expressed concerns about Saudi Arabia’s failure to punish, in a demonstrable manner, specific and identified leaders of charities found to be funneling money to militant Islamist organizations. Moreover, despite a promising start, the U.S.-Saudi Joint Terrorist Financing Task Force, as of June 2004, has generated no public arrests or prosecutions to our knowledge.

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<sup>10</sup> Although the designation was jointly reported to the United Nations, Prince Nayef bin Abdul Aziz, the Saudi interior minister, publicly disavowed his government’s designation of Julaidan within twenty-four hours after it was announced in the United States. On September 7, he reportedly stated: “Those who say this [about Julaidan] should provide the evidence they have to convince us. We do not accept that a Saudi citizen did any action against his religion and country, but we depend on facts.”

These same U.S. officials have underscored the extent to which enforcement matters can be highly nuanced. Indeed, we recognize that our views regarding enforcement and deterrence are shaped by the nature of the open society in which we live. Saudi society is far more opaque. Measures that may have been taken within Saudi Arabia against financiers but that are not fully transparent to outside observers may certainly be meaningful within Saudi society. These nuances should inform the vigorous public debate on this matter. Although we have little context for judging these measures, we do question how effective non-public actions can ever be in changing social norms and achieving broad deterrence.

Moreover, notwithstanding the foregoing nuances, we find that a key barometer for measuring Saudi Arabia's commitment to combat terror financing is whether authorities there hold responsible senior members of the Saudi elite who conduct such activity. We find it regrettable and unacceptable that *since September 11, 2001, we know of not a single Saudi donor of funds to terrorist groups who has been publicly punished*—despite Ambassador Bandar's assertion, in response to the issuance of our first report, that Saudi Arabia would “prosecute the guilty to the fullest extent of the law.”<sup>11</sup>

6. *Saudi Arabia continues to export radical extremism.* A battle of ideas undergirds the global war on terrorism. Militant groups such as al-Qaeda are fueled by uncompromising fundamentalist interpretations of Islam that espouse violence and that millions of Muslims, Christians, and Jews reject.

As a core tenet of its foreign policy, Saudi Arabia funds the global propagation of Wahabism, a brand of Islam that, in some instances, supports militancy by encouraging divisiveness and violent acts against Muslims and non-Muslims alike. We are concerned that this massive spending is helping to create the next generation of terrorists and therefore constitutes a paramount strategic threat to the United States. Through the support for *madrassas*, mosques, cultural centers, hospitals, and other institutions, and the training and export of radical clerics to populate these outposts, Saudi Arabia has spent

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<sup>11</sup> We note that Saudi Arabia is not alone in failing to incarcerate Specially Designated Global Terrorists. Yousef Nada, for example, the founder of Bank Al Taqwa, remains free in Switzerland. According to U.S. officials, Bank Al Taqwa provided financial and other services to al-Qaeda and Hamas, and Nada, a senior member of the Muslim Brotherhood, provided financial assistance to Osama Bin Laden and al-Qaeda following the terrorist attacks of September 11, 2001.

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what could amount to hundreds of millions of dollars around the world financing extremism.<sup>12</sup>

We recognize the complexity associated with making policy recommendations concerning this activity, which is motivated in large part by deeply held religious principle. We have no doubt that this financing has in many instances improved the human condition in hard-pressed corners of the world, providing aid and comfort to orphans, widows, refugees, the hungry, the sick, and the infirm. But precisely because religious impulses undergird support for such financing, it is not necessarily “no strings attached” assistance.<sup>13</sup> Rather, it is inextricably tied to the global spread of Wahabism, in both Muslim and non-Muslim countries.<sup>14</sup> As a result, because it frequently is intended to, and does in fact, propagate extremism in vulnerable populations, this spending is fundamentally problematic from the standpoint of U.S. strategic interests. We find that it must be directly, immediately, and unequivocally addressed.

Such Saudi financing is contributing significantly to the radicalization of millions of Muslims in places ranging from Pakistan to Indonesia to Nigeria to the United States. Foreign funding of extremist *madrassas* in Pakistan alone, for example, is estimated in the tens of millions, much of it historically from Saudi Arabia. Saudi patronage has played an important role in promoting *jihadi* culture in Pakistan, including through extensive assistance to Ahl-e Hadith (Salafi/Wahabi) *madrassas*. More than a million young Pakistanis are educated in these *madrassas*, according to a recent report co-sponsored by the Council on Foreign Relations and the Asia Society.<sup>15</sup> Islamic religious schools in Afghanistan, India, Yemen, Africa, Central Asia, the Balkans (particularly

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<sup>12</sup> Estimates of Saudi charitable spending are difficult to come by. According to the Charity Report issued by the Saudi government on April 21, 2002, Saudi Arabia has spent over \$24 billion on charitable causes since 1970. In June 2004, Adel al Jubeir, foreign policy adviser to the crown prince, estimated that Saudi charities disbursed approximately \$100 million per year, which could double or triple as circumstances warranted. We are by no means suggesting that all or even a majority of this spending is financing terrorism or extremism.

<sup>13</sup> As the May 2003 report of the U.S. Commission on International Religious Freedom notes, “The Saudi government also funds numerous relief organizations that provide humanitarian assistance, but which also have propagation as a component of their activities.”

<sup>14</sup> Although reliable data concerning these activities are hard to come by, we attach as Appendix B official Saudi data detailing some such efforts in non-Muslim countries.

<sup>15</sup> *New Priorities in South Asia: U.S. Policy Toward India, Pakistan, and Afghanistan*, Chairmen’s Report of an Independent Task Force Co-Sponsored by the Council on Foreign Relations and the Asia Society (2003). See also *Pakistan: Madrasas, Extremism and the Military*, International Crisis Group Asia Report No. 36, July 29, 2002.

Bosnia and Kosovo), North America, Chechnya, and Dagestan are also significantly financed by Saudi sources.

This massive spending is an integral part of the terrorist financing problem. It fosters virulence and intolerance directed against the United States, Christians, Jews, and even other Muslims. The May 2003 report of the U.S. Commission on International Religious Freedom notes, “Many allege that the kind of religious education propagated in Saudi-funded Islamic schools, mosques, and Islamic centers of learning throughout the world fuels hatred and intolerance, and even violence, against both Muslims and non-Muslims. Some Saudi government-funded textbooks used both in Saudi Arabia and also in North American Islamic schools and mosques have been found to encourage incitement to violence against non-Muslims. There have also been reports that some members of extremist and militant groups have been trained as clerics in Saudi Arabia; these groups promote intolerance of and even violence against others on the basis of religion.”

Saudi Arabia has begun to crack down on *domestic* extremism, most dramatically through education reform and the banishment or “re-education” of scores of radical Wahabi clerics. But we find that there is less evidence of effective action to curb the ongoing *export* of extremism. The Saudi Ministry of Islamic Affairs, for example, continues to provide inflammatory materials and clerics outside the Kingdom. The ministry has offices in every Saudi embassy and relies on its own funds rather than a central budget, giving it an important degree of operational autonomy. Saudi Arabia has begun to scrutinize more closely, and in some cases recall, its Islamic attaches. More comprehensive vetting, faster action, and greater policy clarity is necessary.<sup>16</sup>

The overseas branches of Saudi-based charities are another key link in this chain. According to a March 2003 State Department report, “Hundreds of millions of dollars in charitable donations leave Saudi Arabia every year and, wittingly or unwittingly, some of these funds have been channeled to terrorist organizations.” Although, as discussed above, Saudi Arabia has introduced new legal, regulatory, and institutional reforms

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<sup>16</sup> It is not clear, for example, whether and to what extent Islamic Affairs offices are being closed down internationally as a matter of policy. From October 2003 to late January 2004, individuals associated with Islamic Affairs activities in the United States and who previously held Saudi diplomatic credentials left the United States. In December 2003, a Saudi official remarked, “We are going to shut down the Islamic affairs section in every embassy.” In January 2004, the Minister of Islamic Affairs responded, “the [Islamic Affairs] centers are working and they are part of the Kingdom’s message.”

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intended to regulate and control these disbursements, the recent evidence of effective enforcement action against wayward overseas branches is not encouraging, and there have continued to be concerns regarding the flow of private funds to them.

Halting efforts to reform or close branches of the Al Haramain Islamic Foundation, one such charity, offer a case in point. Even before September 11, U.S. investigators had tied the Tanzanian branch of Al Haramain to the 1998 bombings of the U.S. embassies in Nairobi and Dar es Salaam. According to its founder, Al Haramain has built 1,300 mosques, sponsored 3,000 preachers, and produced twenty million religious pamphlets since its founding. According to the Treasury Department, “When viewed as a single entity, AHF is one of the principal Islamic NGOs providing support for the al-Qaeda network and promoting militant Islamic doctrine worldwide.”

In March 2002, Saudi Arabia, in a joint enforcement action with the United States, announced that the closure of the Bosnia and Somalia branches of Al Haramain. By October 2002, the Bosnia branch was reportedly back in operation, building a \$530,000 Islamic Center in Sarajevo. After months of pressure from the United States, Saudi Arabia agreed last winter to restructure Al Haramain and to put in place a new board and management. Following the May 12 Riyadh bombings, the Saudis agreed to close additional branches of Al Haramain in places such as Pakistan, Kosovo, Indonesia, Kenya, Ethiopia, and Tanzania. In July 2003, the *New York Times* reported that the once-closed Indonesia affiliate was back in operation. And on December 22, 2003, the United States and Saudi Arabia jointly designated Vazir, which turned out to be the successor to the previously designated Al Haramain-Bosnia. On January 22, 2004, the United States and Saudi Arabia jointly proposed to the UN’s al-Qaeda and Taliban Sanctions Committee Al Haramain branches located in Indonesia, Kenya, Tanzania, and Pakistan, which the two governments said provided financial, material, and logistical support to the al-Qaeda network and other terrorist organizations and which the Saudi government had said in 2003 would be closed. On February 18, 2004, a federal search warrant was executed against property purchased on behalf of an Ashland, Oregon, affiliate of Al Haramain, and its accounts were blocked. On June 2, 2004, the United States and Saudi Arabia announced the designation of five additional branches of Al Haramain located in

Afghanistan, Albania, Bangladesh, Ethiopia, and the Netherlands. More significantly, Saudi Arabia announced the dissolution of Al Haramain.

Remarkably, no one has gone to jail for allowing Al Haramain to be used as a financial conduit for terrorism, although earlier this year it was announced that the founder and leader of Al Haramain—Aqeel Abdulaziz Al-Aqil—stepped down from his post, and was replaced by his deputy. Before doing so, he asserted last June, without public contradiction by Saudi officials, that his organization has done nothing wrong: “It is very strange that we are described as terrorist. . . . Maybe there has been a mistake.”

We also note that more recently the United States has formally designated Al-Aqil as an individual supporting terrorism, but Saudi Arabia has thus far refused to take this action.

Enforcement action against Al Haramain took too long and was frustrated by lethargy and half-steps. Al Haramain, moreover, is only one of a handful of large Saudi-based charities fueling extremism; some half a dozen others, including some of the largest and most visible, such as the International Islamic Relief Organization (IIRO) and the World Assembly of Muslim Youth (WAMY), have repeatedly been linked to global terrorist organizations.<sup>17</sup> We welcome the announced dissolution of Al Haramain and look forward to the prompt dissolution of other large Saudi-based charities tied to the support of global terrorist organizations.

Although the United States is not and should not be at war with any religion or any religious sect, we find that U.S. policy should affirmatively seek to drain the ideological breeding grounds of Islamic extremism, financially and otherwise.<sup>18</sup> To do so, we will

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<sup>17</sup> For example, Kenyan security authorities reportedly expelled the IIRO from Kenya following the 1998 bombings of the U.S. Embassies in Nairobi and Dar es Salaam for “working against the interests of Kenyans in terms of security.” Since then, IIRO has also reportedly been accused by U.S. and Philippine officials of serving as a conduit for funding the militant Abu Sayyaf Group. Similarly, WAMY has reportedly directed funds to Pakistani-backed terrorists in Kashmir. WAMY has also reportedly been under federal investigation in the United States for its alleged involvement in terrorist financing activities.

<sup>18</sup> In this regard, we agree with the following observation of the May 2003 report of U.S. Commission on International Religious Freedom: “The Commission is concerned about numerous credible reports that the Saudi government and members of the royal family directly and indirectly fund the global propagation of an exclusivist religious ideology, Wahhabism, which allegedly promotes hatred, intolerance, and other abuses of human rights, including violence. The concern is not about the propagation of Islam *per se*, but about allegations that the Saudi government’s version of Islam promotes abuses of human rights, including violent acts, against non-Muslims and disfavored Muslims. The concern is broader than the allegation that the Saudi government is supporting and financing terrorism, which has received substantial attention following the September 11, 2001, terrorist attacks in the United States.” See also the Commission’s 2004 report and statements.

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need more demonstrable cooperation from Saudi Arabia, which so far as not been sufficiently forthcoming.

7. *The Executive Branch has not widely used the authorities given to it in the USA PATRIOT Act to crack down on foreign jurisdictions and foreign financial institutions suspected of abetting terrorist financing.* In our first report, we urged the U.S. government to make use of the new powers given to the secretary of the Treasury to designate individual foreign jurisdictions or foreign financial institutions as being of “primary money laundering concern” to the United States and thereby impose “special measures” that could include cutting off such jurisdictions or banks from U.S. financial markets. At the time of our initial report, those authorities had never been used or even publicly threatened, notwithstanding their obvious potential effectiveness in affecting the behavior of recalcitrant states or financial institutions. Soon after the issuance of our initial report, the U.S. government announced its intention to impose “special measures” against Nauru and Ukraine and, in November 2003, its intention to impose “special measures” against Burma and two Burmese banks—all of which, in our judgment, are appropriately designated as being of “primary money laundering concern” to the United States, but none of which is a modality of terrorist financing. As this report was going to press, the Bush administration used “special measures” for the first time in a terrorist financing context, against a Syrian bank and its Lebanese subsidiary. Several times since we made our October 2002 recommendation, senior officials of the Bush administration have stated, both publicly and privately, that they were considering the wider use of “special measures” in connection with the financing of terrorism—but to date the Bush administration has not used this powerful tool to combat terrorist financing, with the exception of its actions against the Syrian bank and its Lebanese subsidiary noted above. With recent changes to the law that will protect from disclosure classified information used as a basis for such designations, we anticipate, and again strongly urge, the increased use of “special measures,” particularly against problematic foreign financial institutions.
8. *Global coordination to curtail the financing of Hamas is inadequate.* Targeting the financial support network of Hamas is an important part of the overall war on terrorist financing, affecting both the Middle East peace process and the larger U.S.-led war on

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terrorism. However, in Saudi Arabia, whose people and organizations may contribute as much as 60 percent of Hamas's annual budget, the government still does not recognize Hamas as a terrorist organization, notwithstanding important recent steps, such as the announced cessation of official efforts to raise money for the families of Palestinian suicide bombers. In this respect, Saudi actions and opinions are widely mirrored throughout Arab and Muslim communities around the world. Even if official support and telethons have stopped, much more needs to be done to monitor the disbursement of private funds.

The EU has now officially added Hamas to its list of terrorist groups. But to date, the EU has designated only a small number of Hamas-affiliated entities. Britain and only a handful of other European states have joined U.S.-led enforcement actions against Hamas leaders and fronts, although Britain has not yet taken effective action to close the Palestinian Relief and Development Front (Interpal), perhaps the largest Hamas front organization in Europe. No such action has been taken by other European countries that are home to other Hamas front organizations, such as Austria, France, and Italy. The EU's decision to ban Hamas will remain meaningless until such time as the EU and its constituent member states act aggressively to restrict Hamas financial activities to the maximum extent possible.



## RECOMMENDATIONS

As a general matter, we wish to reaffirm the principal recommendations of our initial report, reproduced here in Appendix A.<sup>19</sup> With our new “findings” in mind, we wish to make the following additional recommendations:

1. *U.S. policymakers should seek to build a new framework for U.S.-Saudi relations.* The Task Force recognizes the broader context of the complex and important bilateral relationship in which the terrorist financing issue is situated. The U.S.-Saudi relationship implicates many critical U.S. interests, including energy security, Iraq, the Middle East peace process, and the broader war on terrorism. And although most of us are not regional experts, we do have experience working on issues of bilateral concern and we feel competent to offer a perspective on U.S.-Saudi relations based on the manner in which Saudi financial support for terrorism—one of the most important issues in that relationship—has been addressed or avoided by both countries.
  - a. For decades, presidents of both parties built U.S.-Saudi Arabia relations upon a consistent framework understood by both sides: Saudi Arabia would be a constructive actor with regard to the world’s oil markets and regional security issues, and the United States would help provide for the defense of Saudi Arabia, work to address the Israeli-Palestinian conflict, and not raise any significant questions about Saudi Arabian domestic issues, either publicly or privately. For decades, this unarticulated framework held despite its inherent tensions. It broadly served the interests of both the U.S. and Saudi Arabian governments.
  - b. Since then, however, al-Qaeda, a terrorist organization rooted in issues central to Saudi Arabian domestic affairs, has murdered thousands of Americans and

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<sup>19</sup> Some of our initial recommendations have been overtaken by events or otherwise require modification owing to the passage of time. In our initial recommendations, for example, we suggested that banks should build specific anti-terrorist financing compliance components and avail themselves of public and private sources of information that identify persons or institutions with links to terrorist financing. As is suggested by our current recommendation seven, the most viable means by which banks can identify persons or institutions that may have links to terrorist financing is for the government to provide relevant information to banks. Extensive work by banks, in coordination with the government, has not yielded any specific anti-terrorist financing compliance tools that will assist banks in identifying persons or institutions related to terrorist financing. Similarly, banks have not been able to rely solely or effectively on public and private sources of information as such information is extremely diverse and often times either inaccurate or not sufficient to provide any meaningful assistance.

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conspires to kill even more. Thus changing circumstances have called into question at least one key tenet of the historical framework for U.S.-Saudi relations. When domestic Saudi problems threaten Americans at home and abroad, a new framework for U.S.-Saudi relations must be struck, one that includes focused and consistent U.S. attention on domestic Saudi issues that previously would have been “off the table.”

- c. This evolution is already underway, as evidenced by new tensions in the bilateral relationship since 9/11. We believe that U.S.-Saudi relations can and should come to resemble more closely U.S. bilateral relations with other large, important regional powers with which the United States has a complex pattern of bilateral relations and where domestic issues are always “on the table,” often to the consternation of the other party. China and Russia (and before it, the Soviet Union) have been forced to confront domestic issues they would otherwise ignore in the context of their bilateral relations with the United States. Consistent U.S. demands for human rights and political and economic freedom in these places may only have or have had a marginal impact on the course of events, but they are a fundamental expression of U.S. interests and values. And just as U.S. demands on China and Russia have become a challenging but fundamentally manageable (and constructive) aspect of our diplomacy, so too will U.S. demands regarding Saudi “domestic” issues like terrorist financing and the global export of Islamic extremism.<sup>20</sup>
- d. More immediately, both U.S. policymakers and the American people should fully recognize the significance of what is currently taking place in Saudi Arabia. After the bombings this April, Prince Bandar, the Saudi ambassador to the United States, declared that “it's a total war with them now.” Some Bush administration officials have privately characterized the current state of affairs as a “civil war” and suggested that the appropriate objective for U.S. policy in this context is to

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<sup>20</sup> In this regard, we agree with the approach proposed in May 2003 by the U.S. Commission on International Religious Freedom for reformulating the U.S.-Saudi relationship: “As with other countries where serious human rights violations exist, the U.S. government should more frequently identify these problems and publicly acknowledge that they are significant issues in the bilateral relationship.” See also the Commission’s 2004 report and statements. We believe that such a declaratory approach should extend beyond human rights issues to include specifically the issues within the mandate and expertise of this Task Force.

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help the current regime prevail. We agree, but we also believe that this perspective does not go far enough.

- e. Under this view, the domestic Saudi problem is conceived primarily in terms of the presence of a certain number of al-Qaeda cells and members in Saudi Arabia. When they have been discovered and dispatched, the problem will be over and the “civil war” will be won. In our view, the current al-Qaeda problem in Saudi Arabia will not be won by eliminating a certain number of terrorists; rather, victory will only be achieved when the regime finally decides to confront directly and unequivocally the ideological, religious, social, and cultural realities that fuel al-Qaeda, its imitators, and its financiers all over the world. Therefore, the appropriate goal for U.S. foreign policy is for the Saudi regime to win their civil war—and to change responsively and fundamentally in the process.
2. *Saudi Arabia should fully implement its new laws and regulations and take additional steps to further improve its efforts to combat terrorist financing.* Saudi Arabia should take prompt action to implement fully its new laws and regulations. It should deter the financing of terrorism by publicly punishing those Saudi individuals and organizations who have funded terrorist organizations. It should increase the financial transparency and programmatic verification of its global charities. And it should publicly release audit reports of those charities that are said to have been completed.
    - a. Saudi Arabia should ratify and implement treaties that create binding international legal obligations relating to combating money laundering and terrorist financing, including the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism and the 2000 UN Convention against Transnational Organized Crime (Palermo Convention).
3. *Multilateral initiatives must be better coordinated, appropriately funded, and invested with clear punitive authorities.* The need for a new international organization specializing in terrorist financing issues, as recommended by our initial report, has diminished as a result of significant efforts being undertaken by a variety of international actors. The need for proper coordination and clearer mandates has increased for the same reason. Duplicative efforts should be minimized and resources reallocated to the most logical lead organization.

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- a. For example, coordinated efforts among the CTC, the CTAG, the IMF, and the World Bank will be necessary to assess and deliver capacity-building assistance with efficiency. Such assistance is critical. Substantial progress has been made in many countries to put in place legal authorities to criminalize terrorist financing and to act expeditiously to freeze funds. But in many places, a lack of technical capacity inhibits the ability of member states to comply fully with the U.S.-led multilateral sanctions regime. The vast majority of financial institutions in these states still lack the ability to identify and block—effectively, efficiently, or at all—designated financial or non-financial assets.
- b. Given the profusion of actors, clear mandates are essential. As a general matter, we believe that the CTC should lead international efforts to coordinate the delivery of multilateral capacity-building efforts. Although somewhat outside its mandate, we also believe that the CTC should lead international efforts to develop universally acceptable evidentiary, intelligence-sharing, and enforcement standards acceptable to a large number of member states, the lack of which has also impeded the effectiveness of the U.S.-led multilateral sanctions regime.
- c. We believe that the FATF should lead international efforts not only to articulate international standards relating to anti-money laundering and counterterrorist financing (AML/CTF), but also to monitor and assess implementation and compliance with those standards. In order to do so, the FATF will need an expanded mandate and budget, since it currently does not normally assess implementation. It will also need to be reinvested with the political authority to “name and shame” nations that fail to adopt or implement regimes that meet international standards, as described in our initial report. In this regard, it should work closely with the CTC and the UN Security Council, which have the authority to impose sanctions on member states that fail to comply with mandatory international legal obligations relating to terrorist financing.
- d. FATF’s resources should also be expanded to allow it to spearhead additional initiatives in the global campaign against terrorist financing, including those relating to the regulation of charities and *hawala* and, as described in our initial report, the creation and promulgation of global “white lists” of financial

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institutions and charities that conform to the highest compliance standards, regardless of the legal environment in their home jurisdictions. Additional resources for FATF might be found by reprogramming resources from other international organizations performing similar or redundant assessment functions.

4. *The Bush administration should formalize its efforts to centralize the coordination of U.S. measures to combat terrorist financing.* Our last report criticized the organizational structure then being used to coordinate U.S. diplomatic, intelligence, regulatory, and law enforcement policies and actions. Although organizational in nature, this was a core recommendation of our last report, since from good organization comes good policy. Our understanding is that, in practice, responsibilities for this coordination have since shifted from the Treasury Department to the White House, as we recommended in our original Task Force report. However, while outgoing Deputy National Security Adviser Frances Townsend has led interagency efforts and critical delegations abroad, there has been no formal designation of which we are aware of her or her office's lead role. That should happen forthwith, in the form of a National Security Presidential Directive (NSPD) or otherwise. Given Townsend's imminent departure, the usual bureaucratic realities of Washington, and the unique complexity of the terrorist financing issue—compounded by dislocations caused by the birth of the Department of Homeland Security, the resulting elimination of the Treasury Department's historical enforcement function, and the Treasury Department's more recent announcement of the creation a new Undersecretary for Terrorism and Financial Intelligence—such clarity is needed. The unusually rapid turnover seen in senior White House personnel responsible for counterterrorism makes it even more critical that such a clear designation is made, so leadership on this issue becomes a matter of institutional permanence rather than a function of individual personalities and relationships. Moreover, such a designation will go a long way toward putting issues regarding terrorist financing front and center in every bilateral diplomatic discussion with every “frontline” state in the fight against terrorism—at every level of the bilateral relationship, including, on a consistent basis, the highest.
5. *Congress should enact a Treasury-led certification regime on terrorist financing.* Many countries have taken steps to improve their anti-money laundering and counterterrorist fighting regimes, but many have not. Certification regimes can be controversial and are

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occasionally inefficient, and they frequently become a bone of contention with foreign governments that do not wish to be seen as giving in to congressional or more broadly U.S. pressure. Nevertheless, they also have the ability to galvanize quickly action consistent with U.S. interests. Moreover, they require official findings of fact that have the effect of compelling sustained U.S. attention to important topics that, on occasion, U.S. officials find it more expedient to avoid. For these reasons, we believe that Congress should pass and the president should sign legislation requiring the executive branch to submit to Congress on an annual basis a written certification (classified if necessary) detailing the steps that foreign nations have taken to cooperate in U.S. and international efforts to combat terrorist financing. Within the executive branch, this certification process is naturally led not by the State Department but by the Treasury Department, which has the deepest expertise and is on the frontlines of broader U.S. efforts. Such a regime would otherwise be similar to the State Department-led regime that is currently in place to certify the compliance of foreign nations with U.S. and international counternarcotics efforts and should appropriately take into account the capacity and resources available to states subject to the regime. In the absence of a presidential national security waiver, states that cannot be so certified would be subject to sanctions, including the revocation or denial of U.S. foreign assistance monies and the restriction or denial of access to the U.S. financial system pursuant to Section 311 of the USA Patriot Act or the International Emergency Economic Powers Act. As outlined in Section 311, and as discussed in depth in our previous report, these authorities are examples of “smart sanctions,” allowing the U.S. government to target specific foreign institutions or classes of transactions, as well as entire foreign jurisdictions.

6. *The UN Security Council should broaden the scope of the UN’s al-Qaeda and Taliban Sanctions Committee to include the development of a comprehensive list of sanctioned international terrorist organizations and associated entities—including specifically Hamas and its fronts, among others.* Rather than focusing exclusively on entities related to the Taliban and al-Qaeda, the Sanctions Committee should explicitly designate other groups utilizing terrorism transnationally or globally that constitute a threat to international peace and security. The UN Security Council should specifically impose international sanctions on other groups and individuals that have been designated as

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terrorists, as Hamas has been by the United States and EU, and require, as a matter of international law, that member states take enforcement action against such entities designated by the Sanctions Committee. The enabling resolution for these expanded authorities should explicitly reject the notion that acts of terror may be legitimized by the charitable activities or political motivations of the perpetrator. No cause, however legitimate, justifies the use of terror; indeed, the use of terror delegitimizes even the most worthy causes.

7. *The U.S. government should improve the flow of information to financial services sector pursuant to Section 314 of the USA PATRIOT ACT.* International financial institutions subject to U.S. jurisdiction are among our best sources of raw financial intelligence—if they know what to look for. Section 314(a) of the USA PATRIOT ACT requires the Treasury Department to promulgate regulations “to encourage further cooperation among financial institutions, their regulatory authorities, and law enforcement authorities, with the specific purpose of encouraging regulatory authorities and law enforcement authorities to share with financial institutions information regarding individuals, entities, and organizations engaged in or reasonably suspected based on credible evidence of engaging in terrorist acts or money laundering activities.” These procedures are not working as effectively as they might, and very little information flows back from the government to financial institutions that spend considerable resources on compliance programs that they wish to be effective. Accelerated efforts are necessary to make operational Section 314 of the USA PATRIOT ACT, so that financial institutions are best able to marshal their considerable resources and expertise in furtherance of the national interest. This should include the further exploration of ways to share classified information with the private sector and to ensure that relevant information is not overclassified. Civilian employees of other private sector enterprises impacting national security—such as the defense and transportation industries—receive sensitive information, and there is no reason why employees of U.S. financial services firms cannot do so as well.
8. *The National Security Council and the White House Office of Management and Budget (OMB) should conduct a cross-cutting analysis of the budgets of all U.S. government agencies as they relate to terrorist financing.* Because we do not today have a clear sense

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of how many financial and human resources are actually devoted to the various tasks involved in combating terrorist financing, it is impossible to make fully informed, strategic decisions about whether functions are duplicative or resource allocations are optimal. For this reason, the NSC and OMB should conduct a cross-cutting analysis of all agencies' budgets in this area, to gain clarity about who is doing what, how well, and with what resources. Provision should be made to incorporate classified material, so that the full range of activity underway is considered: (1) intelligence collection, analysis, and operations; (2) law enforcement operations (including related operations against money laundering, drug trafficking, and organized crime); (3) regulatory activity, including policy development, enforcement, and international standard setting and implementation; (4) sanctions, including an analysis of their effectiveness as an interdiction and deterrence mechanism; (5) diplomatic activity in support of all of the above; and (6) contributions made by the Defense Department. Only with such a cross-cut in hand can we begin to make assessments regarding the efficiency of our existing efforts and the adequacy of appropriations relative to the threat.

9. *The U.S. government and private foundations, universities, and think tanks in the United States should increase efforts to understand the strategic threat posed to the United States by radical Islamic militancy, including specifically the methods and modalities of its financing and global propagation. At the dawn of the Cold War, the U.S. government and U.S. nongovernmental organizations committed substantial public and philanthropic resources to endow Soviet studies programs across the United States. The purpose of these efforts was to increase the level of understanding in this country of the profound strategic threat posed to the United States by Soviet Communism. A similar undertaking is now needed to understand adequately the threat posed to the United States by radical Islamic militancy, along with its causes, which we believe constitutes the greatest strategic threat to the United States at the dawn of this new century. This national undertaking should specifically include study and analysis of the financial and other means by which this threat to the United States is propagated, concerning which almost no reliable data is publicly available. In this regard, we endorse the May 2003 recommendation of the U.S. Commission on International Religious Freedom (reaffirmed in 2004) that Congress initiate and make public a study on Saudi exportation of*



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intolerance, to include, from the Saudi government, “an accounting of what kinds of Saudi support go to which religious schools, mosques, centers of learning and other religious organizations globally.” We also endorse steps taken in recent weeks by the General Accounting Office to implement this recommendation. To be commensurate with the threat, much more will need to be done, not only in Washington, but also by private foundations, universities, and think tanks, in a more sustained, deliberate, and well-financed manner than that afforded through ad hoc initiatives such as this Task Force.

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## APPENDIX A

### PRINCIPAL FINDINGS AND RECOMMENDATIONS OF OCTOBER 2002 TASK FORCE REPORT ON TERRORIST FINANCING

#### FINDINGS

1. The Task Force recognizes and welcomes the recent progress that has been made in combating terrorist financing, both at home and abroad. It congratulates Congress and the Bush administration—and President Bush personally—for focusing on this issue, particularly in the immediate wake of the September 11 terrorist attacks.
2. Notwithstanding substantial efforts, the Task Force finds that currently existing U.S. and international policies, programs, structures, and organizations will be inadequate to assure sustained results commensurate with the ongoing threat posed to the national security of the United States. Combating terrorist financing must remain a central and integrated element of the broader war on terrorism
3. Two administrations have now grappled with this difficult, cross-cutting problem. Neither has found a single “silver bullet,” because none exists. Given the very nature of the problem, it must be continually “worked” rather than “solved.”
4. Gaining international cooperation through a mix of incentives and coercion is a necessary prerequisite for progress. Effective international efforts will require strong U.S. leadership.
5. Deficiencies in political will abroad—along with resulting inadequacies in regulatory and enforcement measures—are likely to remain serious impediments to progress. One-time affirmations cannot substitute for sustained enforcement, regulatory, and institution-building measures.
6. In the short term, “following the money” can go a long way toward disrupting terrorist cells and networks and thereby help prevent future terrorist attacks. But real and sustainable success will be achieved only over the very long term, as key countries make fundamental changes to their legal and regulatory environments.
7. Long-term success will depend critically upon the structure, integration, and focus of the U.S. government—and any intergovernmental efforts undertaken to address this problem.

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### RECOMMENDATIONS

With these findings in mind, the Task Force makes the following core structural recommendations:

1. *The president should designate a Special Assistant to the President for Combating Terrorist Financing with the specific mandate to lead U.S. efforts on terrorist financing issues.* Such an official would direct, coordinate, and reaffirm the domestic and international policies of the United States on a day-to-day basis and with the personal authority of the president of the United States. He or she would report to the president through the national security adviser. In addition, he or she would serve as sous-sherpa to the G-7 and chief U.S. representative to all important regional organizations with respect to terrorist financing issues once they are made permanent agenda items as described below. He or she would be responsible for implementing the strategic and tactical recommendations contained in this report and leading U.S. efforts with respect to the international initiatives described below.
2. *The United States should lead international efforts, under the auspices of the G-7, to establish a specialized international organization dedicated solely to investigating terrorist financing.* Such an organization would assume ad hoc terrorist financing-related initiatives undertaken by the FATF since September 11, 2001, and support and reinforce the activities of the UN Counter-Terrorism Committee undertaken since that time to coordinate and assist in the implementation of member states' obligations under Security Council resolutions pertaining to terrorist financing. Membership in this specialized organization could initially be limited to the G-7 itself, an approach similar to that taken by the G-8 in 1994 in forming the Lyons Group against international crime. Membership could then be expanded to include other states with highly developed financial regulatory and enforcement systems that are committed to the top-down promulgation of the most stringent international standards to combat terrorist financing. This new organization would be tasked with the implementation of the *multilateral* initiatives described below. (See Section II: Recommendations Applicable to the International Community).

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### I. RECOMMENDATIONS APPLICABLE TO THE UNITED STATES

#### *Strategic*

1. Put issues regarding terrorist financing front and center in every bilateral diplomatic discussion with every “front-line” state in the fight against terrorism—at every level of the bilateral relationship, including the highest. Where sufficient progress is not forthcoming, speak out bluntly and forcefully about the specific shortfalls in other countries’ efforts to combat terrorist financing. The Task Force appreciates the necessary delicacies of diplomacy and notes that previous administrations also used phrases that obfuscated more than they illuminated when making public statements on this subject. Nevertheless, when U.S. spokespersons are only willing to say that “Saudi Arabia is being cooperative” when they know very well all the ways in which it is not, both our allies and adversaries can be forgiven for believing that the United States does not place a high priority on this issue.
2. Reconsider the conceptually flawed “second phase” policy that (1) diminishes the likelihood of additional U.S. designations under IEEPA of foreign persons and institutions with ties to terrorist finances, and (2) relies on other countries for leadership, a role they are not suited for nor willing to play. IEEPA designations and blocking orders—actual or threatened—are among the most powerful tools the United States possesses in the war on terrorist finances. The United States should not relinquish them, nor should the United States relinquish U.S. leadership to coalition partners uninterested or unsuited for this role.
3. As an example to U.S. friends and allies, bring *hawaladars* and other underground money service businesses fully into the federal regulatory system. During both the Clinton and Bush administrations, FinCEN has been very slow in its efforts to register *hawaladars*. There is currently no federal plan to coordinate federal, state, and local law enforcement efforts to identify, surveil, and prosecute unregistered *hawaladars*. FinCEN should immediately make its register of money services businesses available online, to facilitate the use of the information by federal, state, and local law enforcement agencies seeking to determine the legality of local money changers’ and money transmitters’ operations.

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Similarly, as a further example to the United States' friends and allies, require charities operating in the United States to abide by certain U.S. anti-money laundering laws, by, for example, having the Treasury Department define them as "financial institutions" for purposes of implementing any "special measures" put in place pursuant to the Patriot Act.

4. Expand U.S. bilateral technical assistance programs in problem countries to assist in the creation of effective regulatory, enforcement, and control regimes for financial institutions and charitable organizations. The president's fiscal year 2003 budget includes only \$4 million for the Treasury Department's Office of Technical Assistance to provide training and expertise to foreign governments to combat terrorist financing; funding for such efforts should increase at least tenfold. Rather than being distributed directly to individual providers, such funds should be centralized and then distributed to appropriate providers, consistent with priorities established by an interagency process. Integration and coordination of such assistance is vital so that such assistance reflects administration policy. The United States should urge other nations with developed financial regulatory infrastructures, and the IMF and World Bank, to provide similar assistance.
5. Immediately develop and implement a comprehensive plan to vet and conduct background investigations on institutions, corporations, and nongovernmental organizations that receive U.S. government grant funding to ensure that U.S. funds are not diverted to organizations that either have links to terrorist groups or a history of supporting terrorist aims.
6. For the first time, make use of the new powers given to the secretary of the Treasury under the Patriot Act to designate individual foreign jurisdictions or financial institutions as being of "primary money laundering concern" to the United States, and thereby impose sanctions short of full IEEPA blocking orders. These sanctions could include cutting off correspondent relations between foreign financial institutions with weak anti-money laundering practices and U.S. banks. Unlike IEEPA, these "special measures" do not require presidential action and do not require the United States to prove a specific connection to terrorism, only that the jurisdictions or institutions targeted do not have adequate anti-money laundering controls—a much lower hurdle.

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### *Tactical*

1. Create streamlined interagency mechanisms for the dissemination of intelligence, diplomatic, regulatory, and law enforcement information. All information relating to terrorist financing—regardless of its source—should be centrally analyzed and distributed to *all* relevant policymakers. The formation of the CIA-based Foreign Terrorist Asset Tracking Group is a good start, but adequate budgets should be requested, and intelligence agencies will need to build up the level of linguistic, financial, and cultural expertise to investigate and combat Islamic terrorist financing effectively.
2. Broaden U.S. government covert action programs to include the disruption or dismantling of financial institutions, organizations, and individuals knowingly facilitating the financing of terror. Information warfare—computer hacking—and other forms of disruption should be considered when intelligence compellingly demonstrates that foreign financial institutions are knowingly and actively participating in the financing of terrorism.
3. Reinvigorate U.S. intelligence and law enforcement capacities against terrorist finance by further strengthening FinCEN. As the financial intelligence unit for the United States, FinCEN needs to be able to play a significant role in terrorist finance intelligence and analysis; liaise with other financial intelligence units (FIUs) and with domestic and international training and institution building efforts to combat terrorist finance; and play a role in international regulatory harmonization. The administration should act promptly to strengthen FinCEN's funding, personnel, and authorities to make it possible for FinCEN to perform these roles.
4. Assure the full implementation of the provisions of the Patriot Act intended to improve and deepen U.S. anti-money laundering capabilities.



## II. RECOMMENDATIONS APPLICABLE TO THE INTERNATIONAL COMMUNITY

### *Multilateral*

1. The new international organization dedicated solely to issues involving terrorist financing would be tasked with the implementation of the multilateral initiatives described below.
  - Contribute to agenda-setting for the G-7 and other international and regional organizations, as described below.
  - From the top down, establish strong international standards on how governments should regulate charitable organizations and their fundraising. Once those standards have been set, have technical experts publicly evaluate countries, including those in the Middle East, against them.
  - Engage in similar international standard setting with regard to the regulation of *hawala*, and create and maintain a global registry of institutions that participate in *hawala* and similar alternative remittance systems.
  - Work with the private and nongovernmental organization sectors to create global “white lists” of financial institutions and charities that, regardless of the legal environment in their home jurisdiction, commit to the highest due diligence, anti-money laundering, and anti-terrorist financing procedures, and agree to a system of external assessment of compliance. In addition to the reputational benefit from being included on such a “white list,” inclusion on the list could be a factor taken into consideration by the World Bank, the IMF, and other international financial institutions (IFIs) in considering with which financial institutions to work. It could similarly be a factor taken into account by the U.S. Agency for International Development (USAID) and other national development and humanitarian relief agencies, as well as the United Nations High Commissioner for Refugees (UNHCR), the United Nations Development Programme (UNDP), and other multilateral agencies in determining what charities or relief organizations to work with.

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- Facilitate multilateral cooperation and information sharing between the various government offices responsible for sanctions enforcement, such as the U.S. Treasury's Office of Foreign Asset Controls (OFAC). This will require each government to identify a central contact point to coordinate implementation of efforts to block terrorist finances.
  - Facilitate the provision of technical assistance for all countries that need it, and further the development of the Egmont Group and capabilities to develop and share, on an intergovernmental basis, tactical financial intelligence.
  - Recommend to the IMF ways in which its funding can be made contingent upon countries' implementation of strict anti-terrorist financing laws.
  - Make formal recommendations to the FATF concerning which countries should be included in its "naming and shaming" processes on the basis of passive acquiescence to terrorist financing.
  - Establish procedures for appeal and potential removal of the names of individuals and institutions wrongly designated as being associated with the financing of terrorism. Legitimate disquiet in some quarters concerning the potential for due process violations associated with the inaccurate listing of targeted individuals can retard progress in global efforts. Since the full sharing of sensitive intelligence information is unlikely, the establishment of such procedures will take such concerns "off of the agenda" and prevent them from being used as an excuse for inaction.
2. Terrorist financing should become a permanent agenda item of the G-7/8 and a permanent part of the agenda of all regional organizations as appropriate, such as the Association of Southeast Asian Nations (ASEAN), Asian-Pacific Economic Cooperation (APEC), and the U.S.-SADC (Southern African Development Community), among others.
  3. Terrorist financing should become a permanent part of the EU-U.S. Summit agenda. EU-U.S. Summits are held twice a year and are supported by the Senior Level Group of EU and U.S. officials, which meets two or three times a semester. The Senior Level Group can and should act as a "scorecard" to monitor the progress of transatlantic cooperation.

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4. Rather than superceding the FATF process of “naming and shaming” non-cooperative jurisdictions in the fight against money laundering with a “cooperative” approach, the G-7 should agree to resume and expand immediately the blacklisting of such countries. Countries on the FATF blacklist should be ineligible for certain types of IMF and World Bank lending. Once reinvigorated, the FATF needs to begin requiring full implementation and enforcement of laws and regulations, not just their passage or issuance.
5. The World Bank should provide technical assistance to less developed countries to help them establish anti-money laundering and anti-terrorist financing regimes that meet international standards.

### *Source and Transit Countries*

Significant “source and transit” countries—especially Saudi Arabia, Pakistan, Egypt, the Gulf States, and other regional financial centers—have special responsibilities to combat terrorist financing. They should:

- Make a fundamental policy decision to combat all forms of terrorist financing and—most importantly—publicly communicate this new policy to their own nationals.
- Cooperate fully with international—especially U.S.—requests for law enforcement assistance and intelligence requests for information and other forms of cooperation. This means, among other things, allowing U.S. investigators direct access to individuals or organizations that are suspected of being involved in terrorist financing.
- Bring their bank supervision and anti-money laundering laws, regulations, and institutions completely up to international standards, and have them cover all financial institutions, including Islamic and underground ones—like the *hawala* system. Implementation of laws is necessary, not just their drafting and passage. For the most part, these countries each have the resources to do this themselves. If not, international financial and technical assistance are readily available from a variety of multilateral and bilateral

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sources. The UN Counter-Terrorism Committee has compiled a directory of sources of support for this purpose.

- Require the registration and licensing of all alternative remittance mechanisms, such as *hawalas*, and close down financial institutions that fail to obtain licenses or that fail to maintain adequate customer and transaction records.
- Fully and unapologetically regulate charities subject to their jurisdiction, particularly those that serve the legitimate victims of anti-Islamic violence. Donors to legitimate charities deserve to know that their money is actually going to good causes; unknowing donors to illegitimate charities deserve to know they are being defrauded; individuals who knowingly donate to terrorist front organizations deserve to be prosecuted.
- Fully regulate the trade in gems, precious metals and other items of value regularly used to store and transfer terrorist wealth. This effort can draw on the precedents established by international efforts (what is known as the Kimberly Process) to curtail the trade in “blood diamonds.”

### III. NONGOVERNMENT/PUBLIC-PRIVATE

1. Recognizing that the financial services sector does not have the necessary information and intelligence to identify potential terrorists or their activities, the U.S. government should work diligently with the financial services sector to create new public-private partnerships that facilitate the sharing of intelligence information.
2. Banks and all other financial institutions should:
  - Build specific anti-terrorism financing components into their compliance and due diligence processes.
  - Utilize widely available name-recognition software to improve the efficiency of their compliance with regulatory efforts. Avail themselves of reputable public and private sources of information on the identities of persons and institutions who are suspected of links to terrorist financing and who therefore should be the subject of additional due diligence.

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- Cooperate fully with any multilateral efforts to build a “white list” of institutions that have adequate anti-terrorist financing controls. A key factor for inclusion on such a list would be evidence of an institution’s ability to identify and manage potential risks, such as the development and implementation of adequate anti-money laundering controls.

APPENDIX B

NEWS RELEASE

***SAUDI COMMITMENT TO ESTABLISHING ISLAMIC CENTERS, MOSQUES AND INSTITUTES***

Source: The Saudi Arabian Information Resource (<http://www.saudinf.com/main/y3742.htm>)

Riyadh, February 15, 2002

The Kingdom of Saudi Arabia has paid great attention to establishing mosques and Islamic centers, institutes and universities in a number of non-Islamic countries all over the world. Sure that this is the most effective way to spread Islamic culture and Arabic language, the Kingdom, under the leadership of the Custodian of the Two Holy Mosques, King Fahd bin Abdul Aziz, has established 210 Islamic centers in non-Islamic countries in Europe, North and South America, Australia and Asia. Among the biggest is King Fahd Islamic Center in Malaga, Spain, on an area of 3,848 sq. m., whose foundation stone was laid in 1998. The university-like Center embraces academic, educational, cultural, and propagatory activities.

King Fahd has donated five million US dollars for the cost of the Islamic Center in Toronto, Canada, in addition to 1.5 million US dollars annually to run the facility.

The Islamic Center in Brasilia; King Fahd Cultural Islamic Center in Buenos Aires; King Fahd Cultural Islamic Center in Gibraltar; King Fahd Cultural Islamic Center in Mont La Jolly, France; King Fahd Islamic Center in Edinburgh, Scotland were built at the personal expense of the Custodian of the Two Holy Mosques King Fahd bin Abdul Aziz.

The Kingdom of Saudi Arabia has also contributed to the establishment of a number of Islamic centers e.g. The Islamic Center in Geneva; Islamic Cultural Center in Brussels; Islamic Center in Madrid; Islamic Center in New York; Islamic Center in Australia; Islamic Center in Zagreb, Croatia; Cultural Center in London; Islamic Center in Lisbon, Portugal; and Islamic Center in Vienna, Austria. In Africa, the Kingdom fully financed King Faisal Center in N'djamena, Chad, and contributed to the establishment of the Islamic Center in Abuja, Nigeria, and Islamic African Center in Khartoum, the Sudan.

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In Asia, the Kingdom of Saudi Arabia has fully financed King Fahd Islamic Center in the Maldives, Islamic Center in Tokyo and contributed to the establishment of the Saudi Indonesian Center for Islamic Studies in Indonesia.

The Kingdom has established more than 1,359 mosques abroad at a cost of SR 820 million, notably King Fahd Mosque in Gibraltar; Mont La Jolly Mosque in France; King Fahd Mosque in Los Angeles; King Fahd Mosque in Edinburgh, Scotland; Islamic Center Mosque in Geneva, Switzerland at a cost of SR 16 million; the 4000-worshippers-capacity Brussels Mosque at a cost of SR 20 million; and Madrid Mosque, the biggest in the West. Other mosques partially financed by the Kingdom included mosques in Zagreb, Lisbon, Vienna, New York, Washington, Chicago, Maryland, Ohio, Virginia and 12 mosques in a number of countries in south America.

In Africa, the Islamic Solidarity Mosque was established in Mogadishu, Somalia, four mosques in main cities in Gabon, two mosques in Burkina Faso, Zanzibar Mosque in Tanzania and Grand Mosque in Senegal. Among mosques which received the Kingdom's or King Fahd's personal financial support are Leon Mosque in France (SR 11 million); King Faisal Mosque in Chad (SR 60m); King Faisal Mosque in Ghenia (SR 58m); Grand Mosque in Senegal (SR 12m); Farooee

Mosque in Cameroon (SR 15.6m); Zanzibar Mosque in Tanzania (SR 10m); Bamako Mosque in Mali (SR 23m); Yaoundi Mosque in Cameroon (SR 5m); al Azhar Mosque in Egypt (SR 14m for rehabilitation); Bilal Mosque in Los Angeles; repairs of the Rock Tomb and Omer bin al Khattab Mosque in al Quds; and Central Brent Mosque in Britain. King Fahd also established a number of scholarships and academic chairs in foreign prominent universities and colleges.

We can cite King Abdul Aziz Chair for Islamic Studies at the University of California, King Fahd Chair for Islamic Sharia Studies at the College of Law at Harvard University, King Fahd Chair for Studies at the Oriental and African Studies Institute at the University of London, and Prince Naif Department for Islamic Studies at the University of Moscow.

The Kingdom also established a number of Islamic academies abroad. Among them are the Islamic Academy in Washington at a cost of 100 million US dollars, where multinational students are taking lessons. Now it accommodates 1,200 students, of which 549 are Saudis. The rest represent 29 nationalities; King Fahd Academy in London whose students belong to 40 nationalities; King Fahd Academy in Moscow; King Fahd Academy in Bonn, which cost 30

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million German Marks. A number of institutes, designed to spread Islamic culture and the Arabic language were also opened in foreign countries to serve Islamic communities in non-Muslim countries. They include the Arab Islamic Institute in Tokyo, an affiliate of the Riyadh-based Imam Mohammed bin Saud Islamic University.

Moreover, there are several Islamic schools (e.g. in South Korea) where 20,000 Muslims have formed the Korea Islamic Federation. King Fahd has appropriated an annual donation worth 25,000 US dollars to the federation. There are also many Islamic institutes all over the world, most notably the Arab and Islamic Institutes in Washington, Indonesia, Ras al Khaimah Emirate (UAE), Nouakchott (Mauritania), and Djibouti. The Institute of the History of Arab and Islamic Sciences in Frankfurt, Germany, receives an annual financial support from the Kingdom worth 15 million German Marks while the Arab World Institute in Paris receives considerable Saudi contribution to its annual budget.