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Arab States' Efforts to Combat Terrorism Financing

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On April 1-5, the seventeen Arab members of the Middle East and North Africa Financial Action Task Force (MENAFATF) met in Jordan to discuss terrorism financing and money laundering in the region. Although the task force's record to date shows some promise, the organization can do far more to address these critical issues.

Origins

MENAFATF was formally established in November 2004 as a regional body modeled after the Financial Action Task Force (FATF), an international, Paris-based organization responsible for setting global standards on combating money laundering and terrorism financing. Among others, the United States, Palestinian Authority (PA), International Monetary Fund, World Bank, and FATF itself serve as observers for MENAFATF, which is headquartered in Bahrain.

Launched by the G7 in 1989, FATF includes thirty-one member countries as well as the Gulf Cooperation Council and the European Commission (the bureaucratic arm of the European Union). Since its founding, FATF has issued forty core recommendations to strengthen members' capacity against the growing threat of money laundering.

In response to the September 11 attacks, FATF added combating terror financing to its mission in October 2001, and has since put out nine special recommendations in this area. These recommendations are fairly broad in nature and impose many responsibilities on member countries. Requirements include criminalizing terrorism financing, developing a system of freezing terrorist assets, adequately overseeing nonprofit organizations and the informal financial sector, and other measures.

Similarly, MENAFATF imposes a variety of requirements on its members. Of greatest interest to U.S. policy are mutual evaluations, in which task force members must agree to participate. During these evaluations, members assess each other's progress in implementing FATF recommendations and developing an effective regime against terrorism financing and money laundering.

Critical Evaluation of Syria

MENAFATF's most high-profile and important action to date was its mutual evaluation of Syria, completed in November 2006. In performing the assessment, the evaluation team was able to interview officials from numerous Syrian government agencies as well as from the private sector. (This stands in stark contrast to the UN investigation of former prime minister Rafiq Hariri's assassination, in which Damascus repeatedly refused requests for interviews and documents.)

The subsequent report -- though overly focused on analyzing Syrian laws instead of their implementation -- summarized the status of Syrian efforts to comply with FATF recommendations in great detail. It criticized the government's efforts in a number of areas, which is somewhat surprising given Arab governments' notorious

reluctance to take each other to task publicly. For example, the evaluation team expressed its concern that terrorism financiers and money launderers may be able to exploit gaps in Syria's financial and banking regulations. It also stated that "a few" Syrian officials underestimated these risks. In addition, the report criticized Syria's ability to freeze terrorist assets, its system of reporting suspicious financial transactions, and its recordkeeping practices.

Interestingly, the report also referred to the Treasury Department's enforcement action against the Commercial Bank of Syria in April 2006 as a "primary money laundering concern," calling the action itself and the identification of the bank as a body suspected of supporting terrorism "noteworthy."

Despite the report's level of detail, however, it clearly did not go far enough. For example, it did not mention Syria's support of terrorist groups or its U.S. designation as a state sponsor of terrorism. It also failed to note the extent to which Syrian political and business elites are engaged in illicit financial activity, which the State Department described in its 2007 International Narcotics Control Strategy Report as the "biggest obstacle to Syria fully choking off money laundering and terrorist financing activities." Finally, the report did not indicate whether Damascus has the political will to bring itself in line with international standards on these issues. In the State Department's view, this will likely prevent Syria from taking the necessary steps to "punish terrorist financing, to classify what it sees as legitimate resistance groups as terrorist organizations, or to address the corruption that exists at the highest levels of government and business."

While these problems may be particularly pronounced in Syria, the country is hardly alone among MENAFATF members. To one extent or another, the same serious limitations exist in many other countries in the region. For example, Sudan, another member state, is also on the State Department's state sponsors list.

Other MENAFATF Initiatives

In addition to its mutual evaluations, MENAFATF has issued several studies on key subjects. In 2005, it released papers on hawalas (an informal remittance system for transferring money) and charities, describing best practices to prevent terrorists and money launderers from abusing these entities. The studies describe the characteristics of hawalas and charities and explain why they have attracted criminals and terrorists, laying out possible measures to avoid misuse. The papers are far from perfect -- leaving out, for example, the possibility that a charity could be established by terrorists to support their activities, and not just infiltrated and misused by terrorists -- but they nevertheless represent a step in the right direction.

Few Advances at Jordan Meeting

In terms of significant developments, little of note emerged from the latest MENAFATF plenary session in Jordan. Task force members did make a number of encouraging statements about the importance of their efforts, however. For example, officials from Jordan -- which currently holds the rotating MENAFATF presidency -- emphasized the organization's growing importance in an era of increasing globalization. The head of Jordan's Central Bank added his view that terrorism financing and money laundering are global problems that could potentially undermine the international financial system. According to Jordanian officials, the kingdom has increased its focus on these issues, passing a money laundering law currently awaiting approval by parliament. Adel al-Qemeish, chairman of the MENAFATF secretariat, offered similar thoughts, pointing out that money laundering and terrorism financing are two crimes that cross all borders and require regional and international cooperation in response.

Members also used the meeting to discuss their plans for the next several years, including mutual evaluations of all states by 2010 (although the evaluation of Iraq, originally scheduled for 2007, is on hold due to security concerns).

U.S. Policy Opportunities

Despite MENAFATF's limitations, it is in Washington's best interests to continue encouraging the task force's development. The United States may want to make greater use of its role as a FATF member and an observer of MENAFATF to pressure member countries into taking the necessary steps toward establishing robust regimes against terrorism financing and money laundering. Of particular importance are countries' records of criminalizing and taking action against terrorism financiers, regulating the nonprofit sector, and designating all terrorist organizations as such. The upcoming mutual evaluations will be a good opportunity for the organization to demonstrate how seriously it takes its responsibilities in these areas.

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