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# The Globalization of Terror Funding

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## **Introduction**

Islamic terrorism<sup>1</sup> is financed by a global array of individuals, fronts, businesses, banks, criminal enterprises, nominally humanitarian organizations and states. Financial flows take a variety of routes – some complex, some simple, but all are evasive. The combined annual budget of Islamic terror groups between 1995-2005 hovers around the US \$1 billion mark – the equivalent of \$100 million per annum.<sup>2</sup> This represents a substantial increase from estimates for the years 1984-1994 of US \$80 million.

Execution of terrorist activities requires a reliable cash stream. After his capture in 1995, Ramzi Yusif, the convicted mastermind behind the 1993 World Trade Center bombing and other attacks<sup>3</sup> admitted that cash problems prevented his operatives from making as large a bomb as they had intended. Former FBI Director Louis Freeh made a similar assessment, stating the operation did not follow its original plan and was hastily executed due to inadequate resources.<sup>4</sup> Judging from subsequent attacks, Islamic terrorist funders realized their mistake.

Even the synchronized suicide attacks of September 11th, infamous for their crude simplicity, cost between four to five hundred thousand dollars. According to the FBI, the hijackers had to engage in fundraising in order to carry out the attacks.<sup>5</sup> Terror expert Jean-Charles Brisard argues that 90 per cent of terror financing goes toward general maintenance of cells and equipment. Less than 10 per cent actually finances the execution of operations. Most of the above operations took a number of years to plan. Therefore, according to the author's estimates, the real total cost of funding the operational cells and the operation should be multiplied by, at the very least, a factor of twenty.

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Policy makers have been clamoring for greater banking regulation in the fight against international terror funding.<sup>6</sup> This has largely taken the form of unprecedented anti-money laundering legislation, increased scrutiny of banks and intelligence efforts. The logic of targeting terrorist financing can be applied across all terror groups – but the case is particularly strong concerning Islamic groups because of the truly global nature of the financial transfer channels. The operations of Islamic terror groups extend from the Far East to the republics of the former Soviet Union, to the Middle East, Africa, and the Balkans. The Balkans, in particular, have raised an enormous amount of money for Islamic terror. The effects were directly felt in the East African embassy bombings in 1998, the London bombings of July 2005 and the Bali bombings of October 2005. The collective operations of Islamic terror groups throughout the world are often termed ‘global *jihad*.’

Yet this is hardly a risk-free approach. One can argue that the scale, growth and sophistication of Islamic terror’s budgets and geographical reach is partly the result of concerted law enforcement and intelligence initiatives. As the Canadian Ministry of Foreign Affairs website points out, destroying the links between terrorists and their financiers is akin to slaying the Hydra - cut off one head and it is replaced by two more.<sup>7</sup>

There are two distinct forces underpinning international terror financing. On the one hand, the huge anti-money laundering legislation and monitoring of terror groups has driven many terrorist organizations to design sophisticated methods of keeping their operations financially afloat. This includes setting up front companies, closer involvement with organized crime groups, and greater collaboration between different Islamic terror groups. There is now a veritable matrix of interconnected logistical, financial and operational cooperation between Islamic terror groups all over the world. The international hunt has undoubtedly strengthened this trend.

On the other hand, states such as Iran, Syria and elements within Saudi Arabia have actually increased funding to certain Islamic terror groups. Globalization of terror funding is the result of political and

social factors as much as technological ones. Islamic terror groups present a useful strategic tool. This has been particularly exploited by Iran and Syria in their use of Hizballah and Hamas against Israel. As non-state agents, terror groups are capable of carrying out operations without their state backers being directly implicated.

The success of the assimilation of terror financing into legitimate (and illegitimate) businesses and state-sponsored terrorism lies in its discreetness and untraceability. International Islamic terror groups have been so successful in integrating their operations into the business community that many who actively provide money and funding channels are totally unaware of their involvement in any illegal activity.<sup>8</sup> One can make a comparison to al Qaeda functioning like a holding company, which maintains several different business lines and operational divisions, functioning independently. Although it is impossible that there is a consolidated finance division overseeing the entire operation, individual units do direct and share revenues and expenses to carry out attacks. As with business, terror groups have proven adept at penetrating mainstream charities for the purpose of co-opting funds intended for humanitarian purposes.

Globalization of the financial markets, the straight forwardness of international transport and a plethora of new communication tools, including encrypted websites, cell phones, voice over internet technology and email has added traction to these developments.

Financial transactions provide the most concrete leads for investigators in unraveling the identities of those behind terror attacks. A classic example is how Zakarias Mussawi and Ramzi Bin al-Shibh in Germany and Mustafa Ahmed al-Hasnawi in the United Arab Emirates<sup>9</sup> were captured. Their logistical and financial support networks crossed Germany, other European countries and the Gulf. Matthew Levitt argues that wire transfers between Mussawi and Bin al-Shibh constituted critical evidence leading to Mussawi's indictment.<sup>10</sup> The financial investigations also established links between Mussawi and members of the al Qaeda associated cell of Jama'a al-Islamiyya terrorists arrested in Malaysia.<sup>11</sup> After the September 11th attacks, high-level US government officials publicly

declared that the fight against al Qaeda financing was as critical as the fight against al Qaeda itself.<sup>12</sup> Prior to September 11th, the prevailing opinion<sup>13</sup> among terror experts was that the psychological profiling of terrorists and the understanding of their underlying motivations and impetuses were of chief concern.<sup>14</sup>

A major objective of this monograph is to map out how and where Islamic terror groups handle their funding networks. This work largely concentrates on major Islamic terror groups such as al Qaeda, Hamas, Islamic Jihad and Hizballah. These groups all have international state and non-state funders who span the United States, Europe and Asia.

In the few publications on terror financing, researchers focus on the ideological and religious influences that underpin Islamic terror organizations. This is the first academic study of its kind on the topic, using non-public, non-published sources.

This monograph has four chapters. The first is dedicated to the sources of Islamic terror funding. Extensive journalistic coverage has familiarized the world with the use and abuse of Islamic charities, the main sources of such funding. These charities form a key element of life all over the Middle East and have also become a weapon of power and influence. This study will address questions such as what motivates bureaucrats to turn a blind eye to the activities of terror-sponsoring charities and what percentage of their activities are legitimate operations.

The second chapter deals with the logistics of the transfer of terror funds. It explores the process of globalization of Islamic terror and offers a review of the development of financial structures, instruments and methods of transferring money around the world, adopted by those engaged in terror financing. Naturally, Islamic terrorists attempt to diversify their funding channels. For this reason, this monograph will explore both Islamic financial institutions, 'conventional' banks and more covert means of channeling and laundering funds such as the use of commodities, particularly diamonds and drug trafficking.

Additionally, this chapter looks at state funding of terrorism. Terror groups represent an expedient medium for regimes such as Iran and Syria to attack Israel without being directly implicated. States also offer important refuge to terror groups. Al Qaeda under Osama bin Laden always made it a strategic priority to cultivate a sponsoring state, be it Sudan or Afghanistan.

The third chapter is dedicated to means of stopping terror financing, such as different legislation coming from the US, the UN and Europe. This chapter will consolidate the previous chapters by analyzing legislation and initiatives in battling terror financing. Although considerable legislation has been passed, there remains little effective global cooperation. One exception is Japan's heavy involvement in investigating links between the Yakuza mafia and certain Islamic groups, but this is beyond the scope of this work. We will also look at the effect of such Western instruments as the Foreign Terrorist Asset Tracking Center (FTAT), the Financial Action Task Force on Money Laundering (FATF) and the Financial Crimes Enforcement Network (FinCEN).

Finally, the last chapter submits a set of policy recommendations.

## CHAPTER I - SOURCES OF ISLAMIC TERROR FUNDING

### Introduction

Islamic charities play a central role in terror financing. The total annual amount of *zakat* (Islamic charity) collections from individual citizens is estimated at \$20 billion for Saudi Arabia alone and well over \$100 billion globally.<sup>15</sup> The Financial Action Task Force on Money Laundering (FATF), an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing (refer to Chapter IV) dedicated much of its 2004 plenary session to discussing the implication of non-profit organizations in terror funding.

The use of non-profit organizations to raise funds for controversial causes is long established. Irish communities in New York and Boston used charities to support the IRA; West German funds helped dissident groups in Central and Eastern Europe via Protestant and Catholic Church organizations during the Cold War. Similarly, in the 1980s, an informal Islamic network of prominent Saudi and Gulf officials (including Saleh Kamel and Ibrahim Afandi, two of the most prominent financiers of al Qaeda), joined together to assist in the anti-Soviet campaign in Afghanistan in what became known as the “golden chain”. This group donated hundreds of millions of dollars via the Muslim World League, a Saudi Arabian government-backed evangelical charity established in the 1960s.<sup>16</sup> This organization has been implicated in a large number of terror financing scandals. The budget's specific amount is unknown but ranges in the hundreds of millions of US dollars. The “golden chain,” which included Osama bin Laden and helped establish his power base, raised funds for the Muslim World League and presented their operations as humanitarian. While the group did sponsor charitable activities for the Muslim population of Afghanistan, a sizeable portion of funding went to military and ideological causes including the training camps which raised a generation of Islamic terrorists.

However, most Islamic charities raise funds informally within closed communities. Monitoring their activities, especially in the Gulf States, is difficult due to a lack of strong regulatory systems and few obligatory accounting and auditing procedures. In November 2002, Adel Al Jubier, spokesman for the Saudi government, acknowledged the lack of financial control, especially for those Saudi charities operating outside the Kingdom. He also acknowledged “a massive fraud in the name of religion.”<sup>17</sup> Therefore, those giving, and sometimes those collecting, do not always know the final destination of the funds. Funds are transferred through several organizations before being spent on a cause, be it humanitarian or terror. This makes tracking of revenue not only extremely difficult, but also very sensitive. Many Muslim leaders in the US and Europe have won respect for their calls for dialogue and condemnation of terrorist attacks. But there is evidence of duplicity among many of these Islamist preachers. While preachers may not actively encourage terrorist attacks, they blame such attacks on the policies of Western governments in Afghanistan, Iraq and Palestine.<sup>18</sup> The involvement of humanitarian organizations and sponsors in terror is not always direct.

This chapter discusses the various channels of terror funds. As the paper discusses, tracking terrorist funding is difficult, as some funds are channeled towards "legitimate" causes (social, educational), while part of those funds reach terror activities.

### **Activities of US-Based Muslim Charities**

US Islamic charities have been particularly active in raising funds from Muslim populations in the US. The Muslim World League, as of January 2006, was still operating freely in northern Virginia and New York City. For example, throughout the 1990s, tens of millions of dollars were raised on behalf of the war-ravaged Bosnian Muslim refugees, by both Muslim and non-Muslim charities in the US. Even before the twin tower attacks, there was an awareness of the role of Islamic charities in terror financing. In 1997, Canada cut all government funding to Human Concern International, a Canadian-based charity then under investigation in both Canada and the US for

terrorist connections.<sup>19</sup> A CIA report reveals that nearly one-third of Islamic NGOs in the Balkans facilitated the activities of Islamic groups engaging in terrorism.<sup>20</sup> Osama bin Laden was known to have assigned considerable strategic importance to charities in Bosnia and outlying areas in the US because of their central locations.

The situation of Muslim Global Relief Foundation (GRF) is a microcosm of the dilemma facing law enforcers acting against humanitarian fronts for terrorist organizations. Based in Illinois, GRF was the second largest American Muslim charity, operating in 25 countries including Bosnia, Afghanistan, Kashmir, Chechnya and Lebanon with an annual turnover of approximately \$5 million in 2000. It was a household name and was held in high regard for its humanitarian operations by most mainstream American Muslims.

However, in late 2001, NATO forces in Kosovo and Department of Homeland Security officers in the US raided the Balkans and Chicago branches of GRF's offices within a few days of each other. NATO forces claimed to have hard intelligence information regarding the group's alleged involvement in planning attacks.<sup>21</sup> Already under investigation before 9/11, prosecutors in the US Treasury Department designated GRF a terrorist organization and its operations were shut down on 14 December 2001. The government's actions were upheld in court.

There is very hard intelligence evidence, over and above that obtained by NATO forces in Kosovo,<sup>22</sup> that elements within the organization, including a senior director, were an active front of al Qaeda cells.<sup>23</sup> The Spanish Interior Ministry also provided evidence that Muhammad Ghalib Kalaje Zuaydi, a known bin Laden associate, transferred almost a quarter of a million dollars to Nabil Sayadi (Abu Zaynab), head of the Global Relief office in Belgium. This issue was reported in the world press.<sup>24</sup>

In one of the subsequent investigations, the main GRF fund-raiser, Rabih Haddad, a Lebanese citizen, was deported to Lebanon for taking part in illegally smuggling immigrants into the US. The

charges of terrorism against him were dropped. It is more than likely that the majority of GRF's staff was acting in accordance with the mission statement and that only senior directors such as Sayadi in Belgium were involved in money laundering and supporting terror financing activities. Using the cover of a major US charity, the GRF, formed a central part of the global *jihad's* financing techniques.

A second major case of a US-based charity being infiltrated by al Qaeda was the Illinois-based Benevolence International Foundation (BIF). A wealthy Saudi and bin Laden associate, Shaikh Adel Abdul Jalil Batarjee, established the BIF.<sup>25</sup> Batarjee later transferred control to Enam Arnaout. Like the GRF, the BIF was very active in Bosnia and conducted a considerable part of its fundraising on American soil among US Muslims.

Intelligence and human surveillance of the BIF indicated involvement with al Qaeda at the most senior levels in the organization.<sup>26</sup> Investigations in Bosnia led to documents linking leaders of the BIF to bin Laden during the late 1980s. In January 2002, BIF's bank accounts were blocked by the US Treasury Department. The links to terror were corroborated in a series of raids in March. In a raid on its Chicago offices, American anti-terror officers discovered videotapes and brochures produced by the foundation promoting *shahid* (martyrdom). Additionally, there was a report in an official publication that several BIF workers died fighting in Chechnya and the Balkans.<sup>27</sup> The searches also revealed an al Qaeda organizational chart, a history of al Qaeda, and a list of key financial backers mostly from Saudi Arabia, including bin Laden.<sup>28</sup>

After the raids, the US Embassy in Bosnia was shut down for four days,<sup>29</sup> from 20-24 March, after Bosnian officials informed the embassy of a possible threat. According to a Bosnian official, al Qaeda terrorists reportedly met in Sofia, Bulgaria, where they decided that "in Sarajevo something will happen to Americans similar to New York last September." Two days before the Embassy reopened, Bosnian police arrested Munib Zahiragic, the head of the local

Benevolence office and a former officer in the Bosnian Muslim secret police.<sup>30</sup>

In March 2002, Bosnian police also conducted raids on the offices of the Bosnian Ideal Future, the local name under which Benevolence International operated in Bosnia. Officials seized weapons, plans for making bombs, booby-traps and false passports.<sup>31</sup> Bosnian officials investigating foreign humanitarian organizations also reported funds were missing from the Bosnian office of Benevolence International.<sup>32</sup>

Contrary to statements of the executive director, Arnaout, and those of the foundation, the BIF facilitated money and weapons transfers for bin Laden through the foundation and had a personal relationship with both bin Laden “and many of [bin Laden’s] key associates.”<sup>33</sup> In fact, bin Laden trusted Arnaout enough to allow him to host one of bin Laden’s wives at Arnaout’s apartment in Pakistan.<sup>34</sup>

On April 30, 2002, Arnaout was arrested on perjury charges in a lawsuit against the US government. Although this charge was later dismissed on technical grounds, Arnaout was subsequently charged in October 2002 with conspiracy to provide material support to terrorists, among other charges.<sup>35</sup> Arnaout entered into a plea bargain whereby admitting he used funds to provide boots and blankets to Chechen and Bosnian fighters.<sup>36</sup>

In March 2003, Juan Zarate, deputy assistant secretary in the Office of Terrorist Financing and Financial Crime, claimed that the designation of BIF as “a Chicago-based charity that was supporting al Qaeda” was an “example of the international community taking common action to cut off the flow of funds to al Qaeda.”<sup>37</sup> According to the government’s affidavit, senior al Qaeda operative Mamduh Salim (Abu Hajir) traveled to Bosnia on documents signed by Arnaout listing Salim as director of the foundation.<sup>38</sup> Muhammad Bayazid, a bin Laden operative involved in efforts to obtain nuclear

and chemical weapons for al Qaeda, listed the foundation's address as his residence in his application for a driver's license.

Since the end of 2005, a legal battle has been waging over the Holy Land Foundation (HLF), the largest US Islamic charity based in Dallas, Texas, whose main focus of attention was Palestinian refugees and disaster support in the Balkans and Turkey. On 4 December 2001, the Bush administration denounced HLF as a front organization for Hamas and froze its assets. HLF's mission statement declares the charity was founded to "find and implement practical solutions for human suffering through humanitarian programs that impact the lives of the disadvantaged, disinherited, and displaced peoples suffering from man-made and natural disasters." HLF attracted \$13 million in donations in 2001.

The indictments against HLF center on donations to various charity committees throughout the West Bank and Gaza.<sup>39</sup> Its defendants claim that none of the court cases document an actual money trail of funds going from HLF to individuals or organizations resulting in actual terrorist activity. HLF appealed twice and lost before going to the Supreme Court, which refused to hear the case.

The HLF relied heavily on local *zakat* committees in the West Bank and Gaza to funnel funds to Hamas. An FBI memorandum establishes that known Hamas activists ran the *zakat* committees. For example, the memorandum reported that a financial analysis of HLF bank records indicated the foundation donated over \$70,000 to the Tulkarm *zakat* committee from 1997 through 1999. Among the senior Hamas members affiliated with the committee are the head, Muhammad Hamid Qa'adan and Ibrahim Muhammad Salim Salim Nir al-Shams, a member of both the committee and of the supreme Hamas leadership.<sup>40</sup>

The Treasury Department froze the assets of a Muslim World League member organization suspected of funding terrorism; the Rabita Trust. Rabita, which US officials say changed its name to the Aid Organization of the Ulama, is based in Pakistan and actively raised

funds for the Taliban from 1999 to 2001. US officials say that Yasin al-Qadi, a prominent Jeddah businessman and head of the Muwafaq Foundation, has supported a variety of terrorist groups from al Qaeda to Hamas. According to US court documents, in 1992 al-Qadi provided \$27,000 to US-based Hamas leader Muhammad Salah and lent \$820,000 to a Hamas front organization in Chicago, the Quranic Literacy Institute (QLI). Based on their connection to Hamas, the US government froze the assets of both Salah and QLI. Similarly, US officials maintain that the Muwafaq Foundation is a front organization through which wealthy Saudis send millions of dollars to al Qaeda.

A similar case is that of Mercy International Relief Organization (Mercy), operating in the US. In his analysis of Mercy, Matthew Levitt argues that the organization played a central role in the 1998 US Embassy bombings in Africa.<sup>41</sup> At the New York trial of the four men convicted of involvement in the embassy attacks, a former al Qaeda member named several charities as fronts for the terrorist group, including Mercy. Documents presented at the trial demonstrated that Mercy smuggled weapons from Somalia into Kenya, and Abdullah Muhammad, one of the Nairobi bombers, delivered eight boxes of convicted al Qaeda operative Wadi al-Haji's belongings – including false documents and passports – to Mercy's Kenya office.

### **Pakistani-affiliated Charities**

The Karachi-based al-Rashid Trust, another group that funded al Qaeda and the Taliban, is closely linked to the Jaish Muhammad terrorist group (an organization also associated with al Qaeda). Al-Rashid has been directly linked to the 23 January 2002 abduction and subsequent murder of Wall Street Journal reporter Daniel Pearl in Pakistan. The attackers, linked to domestic Pakistani radical Islamic fundamentalist groups (including Jaish) operating in cooperation with, and on behalf of al Qaeda, held Pearl in a two-room hut in the compound of a commercial nursery owned by al-Rashid. Several *madrassas*, or Islamic schools, dominate the immediate area around the nursery, the largest and closest of which is owned by al-Rashid.

Pakistani investigators uncovered twelve telephone calls placed by one of the kidnapers, a rogue policeman named Shaykh Adil, to an unidentified al-Rashid Trust employee.<sup>42</sup> In addition, a British internet site, the Global Jihad Fund, which openly associates itself with bin Laden, provided bank account information for al-Rashid and other groups to "facilitate the growth of various *jihad* movements around the world by supplying them with funds to purchase their weapons."<sup>43</sup>

### **Saudi Arabian-affiliated Charities**

Saudi-affiliated charities occupy center stage in terror financing. They raise approximately \$5 billion annually, of which at least 10 per cent is sent abroad.<sup>44</sup> These charities are generally well endowed. The author broadly agrees with the estimates of terror expert Jean-Charles Brisard who believes that the financial support at the disposal of al Qaeda is around \$50 million per annum.

In late September 2005, Israeli authorities arrested Yakub Muhammad Yakub Abu Etzev, an Israeli Arab, who had been coordinating a financing network for Hamas with senior Hamas officials in Saudi Arabia.<sup>45</sup> Israeli intelligence claims that the Abu Etzev case proves that Saudi Arabia is still very much involved in terror financing. A Council on Foreign Relations report in June 2004 pointed to 60 per cent of Hamas' annual budget coming from Saudi Arabia.

US State Department official Jonathan Winer categorically claimed "a number of Saudi charities either provided funds to terrorists or failed to prevent their funds from being diverted to terrorist use."<sup>46</sup> The case against Saudi Arabian financing of terror extends over several years. In November 2001, a senior US delegation traveled to Saudi Arabia to solicit greater cooperation in the arena of tackling terrorist financing. US Secretary of the Treasury Paul O'Neill visited again three months later, agreeing to broach concerns regarding specific humanitarian

organizations with Saudi officials before putting them on US terrorist lists.

In private conversations at the World Economic Forum, one senior Saudi official admitted that the issue of charity funding is a Pandora's Box. The official was careful to make a distinction between official Saudi government policy and rogue elements within the 4,000 member Royal Family and certain government ministries. Prince Bandar bin Sultan, the former Saudi ambassador to the United States, acknowledged the problem of tracking the money trail in a New York Times/Frontline interview.<sup>47</sup> The governor of the powerful Saudi Arabian Monetary Agency, SAMA, has stated on numerous occasions that once money leaves Saudi Arabia from *zakat* organizations and is transferred to accounts in Europe, its uses are unknown.<sup>48</sup> Another Saudi, Prince Salman, said in November 2002 that "if beneficiaries had used assistance for evil acts, that is not our responsibility at all."<sup>49</sup>

There have been efforts at cooperation. On 11 March 2002, the US joined forces with Saudi Arabia after considerable cajoling and intelligence sharing in an international project to close the offices of Somalia and Bosnia-Herzegovina branches of the Saudi-headquartered Al-Haramain charity. Hard intelligence revealed that several branches, including Chechnya and possibly Indonesia, and not only Somalia and Bosnia, were linked to al Qaeda. According to Umar al-Faruq, al Qaeda's operational point man in Southeast Asia, al Qaeda operations in the region were funded through a branch of al-Haramain: "money was laundered through the foundation by donors from the Middle East."<sup>50</sup> The Saudis, however, faced a fierce backlash in their own constituency. Despite strong accounting irregularities that point to an effort to conceal information,<sup>51</sup> Bosnian authorities released the charity's assets in August 2002.<sup>52</sup> Intelligence sources indicate that Saudi authorities were involved in this decision.

US authorities have voiced concern that Saudi authorities are glossing over the terrorist connections of other humanitarian organizations,

including the al-Wafa Humanitarian Organization, the International Islamic Relief Organization (IIRO) and its parent, the Muslim World League.<sup>53</sup>

Despite efforts of the Saudi establishment to distance themselves from the terror funding trail, there is hard evidence of a link between many charitable organizations and members of the Saudi government and Royal Family. The most conclusive evidence is that of the State Sponsored Supreme Council of Islamic Affairs, set up in the 1990s to control charity financing and look into ways of distributing donations to eligible Muslim groups.<sup>54</sup> This organization has proved particularly embarrassing for the Saudi government.

Another international investigation and court case against the Arab Bank (see below) rests on claims it is the clearing bank for the Saudi Committee for the Support of the Intifada al-Quds that actively supports Palestinian suicide bombers. The Palestinian cause attracts sympathy throughout the Arab world, including Saudi Arabia. This is reflected in donations of tens of millions of dollars annually. The line between Palestinian welfare organizations and terror groups is often blurred because Palestinian terror groups usually have welfare departments. For example, Hamas was originally a welfare organization related to the Muslim Brotherhood that developed a military wing.

Israeli forces seized documents that proved both the Saudi Committee and the Palestinian Authority were fully aware that Saudi charity funds were flowing directly into the terrorist operations of Hamas. One unpublished document specifically highlighted the funding of families of "martyrs" who conducted "quality attacks" against Israeli civilians. In another case, Israeli authorities arrested Osama Zuhadi Hamid Karika, a Hamas operative, as he attempted to leave Gaza via the Rafah border crossing in December 2001. Karika was found with documents detailing the development of Qassam rockets, and admitted that he was on his way to Saudi Arabia to brief people on the development of the rockets and to obtain funding for the project. Before his arrest, Karika had already made one successful trip to

Saudi Arabia where he secured the initial funding for Hamas' Qassam rocket program.<sup>55</sup>

In addition to Benevolence International Foundation (BIF), Global Relief Foundation (GRF) and Mercy, there are other central committees for Afghanistan, Bosnia and Chechnya that have been linked to terror financing. In particular, the Saudi Joint Relief Committee for Kosovo and Chechnya (SJRC) includes the IIRO and Al-Harama,<sup>56</sup> which as shown, is highly interconnected to the world of terror financing. Between 1998 and 2000, more than \$74 million were diverted to local bureaus of the SJRC that happened to control or to harbor terrorists – the committee was supervised by the Saudi Minister of Interior, Prince Naif bin Abdul Aziz.<sup>57</sup>

In March 2002, US anti-terrorism officers launched a series of raids on Saudi-sponsored charities in Virginia. Most of the information related to the inquiries was kept under wraps by the Federal anti-terrorism teams because of the high sensitivity of the information. The US Treasury Department suspected a number of charities were in collusion of money laundering on behalf of al Qaeda. The offices of the SAAR Foundation, the Safa Trust, and the International Institute for Islamic Thought (IIIT) were raided. These charities have become known as the “SAAR Network” because of the overlapping directors, office space and facilities.

From a diplomatic point of view, the SAAR Foundation has come under particular scrutiny because its former director, Saleh Ibn Abdul Rahman Hussein, became a senior religious minister in the Saudi government. He was under investigation because he checked into the same hotel as three of the hijackers in the twin towers attack. There has been no evidence that he met any of the hijackers, but a senior prosecutor adamantly believes there was a connection.<sup>58</sup> Hussein had arrived in the US in late August 2001, planning to visit some Saudi-sponsored charities.<sup>59</sup> Many of the charities on his itinerary, including the Global Relief Foundation, World Muslim League, International Islamic Relief Organization (IIRO), Islamic Assembly of North America (IANA), and WAMY, have since been shut down or

investigated for alleged ties to terrorism.<sup>60</sup> Hussein's nephew, Sami Omar Hussein, was indicted for aiding terror groups and administering a radical website associated with IANA, which expressly advocated suicide attacks.

The SAAR director Yaqub Mirza, who also worked for Ptech, a Boston-based software company, has links with the al Qaeda financier Yasin Kadi. He has been linked to the senior long-term al Qaeda financiers (who were prominent in the Golden Chain), Saleh Kamel and Ibrahim Afandi, who set up the Washington DC branch of the Sana-Bell Foundation in 1988. Mirza is also a founding trustee for Sana-Bell. Sana-Bell and IIRO are both operational arms of the Muslim World League.

There were close links between the Saudi royal family and Saudi banker Shaykh Sulayman Abd al-Aziz al-Rajhi. Tarik Hamdi, an IIIT employee, described to prosecutors at the New York trial of the East Africa Embassy bombings that he provided the battery for "the phone bin Laden and others will use to carry out their war against the United States."<sup>61</sup>

Like GRF and BIF, the IIRO was active in the relief effort for Bosnian Muslims. Throughout the 1990s, IIRO raised millions of dollars in grants and allocations.<sup>62</sup> From 1986 to 1994, bin Laden's brother-in-law, Muhammad Jamal Khalifa, headed the IIRO's Philippine office, through which he channeled funds to terrorist groups affiliated with al Qaeda, including Abu Sayyaf. In January 1999, Indian police foiled a plot to bomb the US consulates in Calcutta and Madras. The mastermind behind the plot was Sayid Abu Nasir, an IIRO employee who received terrorist training in Afghanistan.<sup>63</sup> In 2001, Canadian authorities detained Mahmud Jaballah based on an Interpol warrant charging him with being an Egyptian Islamic *jihad* terrorist. In 1999, Canadian officials attempted to deport Jaballah based on his work for IIRO and what they described as IIRO's involvement in terrorism and fraud.<sup>64</sup>

The IIRO appeared in the investigation into the September 11th attacks as well: hijacker Faye Ahmed reportedly told his father he was going abroad to work for the IIRO when he left for his suicide mission. Furthermore, documents seized by Israeli forces during recent operations in the West Bank include records from the Hamas-controlled Tulkarm Zakat Committee indicating that the IIRO donated at least \$280,000 to the committee and other Palestinian organizations linked to Hamas.<sup>65</sup>

In November and December 2001, Philippine police arrested four Arabs associated with the Moro Islamic Liberation Front (MILF) and described them as an al Qaeda "sleeper cell." Mohammad Sabri, one of the four men arrested, was a Palestinian who, according to Philippine police, worked closely with Khalifa in running the IIRO office.<sup>66</sup> IIRO relief worker identity cards were found on the bodies of dead *mujahadeen* fighters in Bosnia.<sup>67</sup> Federal anti-terrorism officers started investigating the offices of Sana-Bell and IIRO, days after the African embassy bombings in August 1998. The director, Sulaiman bin Ali, was accused of fraud and money laundering in collusion with; the Chicago-based chemical manufacturer Global Chemical Corporation, with the Islamic Bank for various real estate deals, with BMI and with two bin Laden brothers.<sup>68</sup> Al-Ali is also associated with Lajnat al-Dawa, a Kuwaiti listed by the Treasury Department as a "specially designated global terrorist."<sup>69</sup> These charges were particularly serious because bin Ali was intimately connected with many in the Saudi Royal Family. FBI special agent Valerie Donohue accused the charity of distributing money in ways that were not compatible with its charitable mission.<sup>70</sup>

NATO forces also raided the Saudi High Commission for Aid To Bosnia, founded by Prince Selman bin Abd al-Aziz and supported by King Fahd. Among the items found at the Saudi charity were before-and-after photographs of the World Trade Center, US embassies in Kenya and Tanzania, and the USS Cole; maps of government buildings in Washington; materials for forging US State Department badges; files on the use of crop duster aircraft; and anti-Semitic and anti-American material geared toward children.<sup>71</sup> Currently, an

employee of the Saudi High Commission for Aid to Bosnia and another cell member who was in telephone contact with Abu Zubayda, an al Qaeda operational commander and aide to bin Laden, as well as four other Algerians are incarcerated at Guantanamo Bay's Camp X-Ray for plotting an attack on the US embassy in Sarajevo. Authorities are now trying to track down \$41 million, which are missing from the commission's operating funds.<sup>72</sup>

Both SAAR and IIIT are suspected of financing Hamas and the Palestinian Islamic Jihad through the World and Islamic Studies Enterprise (WISE) and the Islamic Committee for Palestine (ICP), once PIJ fronts in Florida but since closed.<sup>73</sup> Since being outlawed in the US, Hamas has taken steps to obscure its international fundraising operations, bringing it closer to other international terrorist organizations. Militant regional Islamist organizations in the West Bank, such as the Tulkarm Zakat Committee, are funded by a wide array of international organizations, which frequently mask their support for Hamas as generic support for Palestinians. For example, in July 2002, the "Islam-on-line" portal featured a special page stressing the need to support Palestinian armed struggle and glorifying suicide attacks but also the need to support youth education, social activities and economic assistance (which it defined as "economic *jihad*").

Another well-endowed Saudi Arabian charity is the Saudi al-Wafa Humanitarian Organization. This NGO was one of only two organizations quoted in the 9/11 Commission Report. Al-Wafa was sharply criticized by one American official in the international press as a charitable group that "do[es] a small amount of legitimate humanitarian work and raises a lot of money for equipment and weapons."<sup>74</sup> Reuters quoted the Bakhtar News Agency in 2002 when 36 types of chemicals, explosive materials, fuses, laboratory equipment and terror help books were found in a pharmacy used by an Arab national who headed the Saudi Al Wafa Humanitarian Organization during the rule of the former Taliban militia.<sup>75</sup> The Saudi citizen, Abdul Aziz, a senior al Qaeda finance official, and

Camp X-Ray prisoner, also allegedly financed al Qaeda activities through Wafa.<sup>76</sup>

### **Wealthy individuals**

Wealthy individuals, often described by anti-terror investigators as "the check writers,"<sup>77</sup> have taken a leading role in terror financing. In an indication of the significant role played by individual wealthy financiers in sponsoring terrorist operations, Treasury Department Undersecretary for Enforcement Jimmy Gurule traveled to Europe in October 2002 with a list of a dozen of al Qaeda's principal financial backers, mostly wealthy Saudis, to persuade European counterparts to designate them financiers of terrorism and block their assets.<sup>78</sup>

#### *Main individual sponsors of Al Qaeda*

Khalid bin Mahfouz	banker
Sakeh Abdullah Kamel	banker
Abdullah Suleiman al Rajhi	banker
Adel Abdul Jalil Batterjee	businessman
Mohammad Hussein al-Amoudi	businessman
Wa'el Hamza Julaidan	businessman
Yasin al Qadi	businessman, head of the Muwafaq Foundation
Mustafa Ahmad al-Hasnawi	businessman

### **Smuggling Diamonds and Dealing Precious Gems**

Smuggling is a well-established technique employed by terrorist groups. In June 2002, Muhammad and Chawki Hamud, two brothers involved in a Hizballah support cell in Charlotte, North Carolina, were found guilty of a variety of charges including funding Hizballah activities from the proceeds of an interstate cigarette smuggling ring. Seven other defendants pled guilty to a variety of charges stemming from this case, including conspiracy to provide material support to terrorists, cigarette smuggling, money laundering and immigration violations.<sup>79</sup>

Groups such as al Qaeda and Hizballah have also capitalized on black market gold and diamond markets as a means of transferring large sums easily. Most criminal groups try to avoid the conventional banking system altogether, or to diversify their risk by dealing in expensive and portable commodities such as precious stones. Belgium issued an arrest warrant for Victor Bout, an arms dealer accused of supplying weapons to the Taliban, al Qaeda and warring factions throughout Africa in an elaborate guns-for-diamonds scheme.<sup>80</sup> Periodically, officials note the influx of Islamist extremists, including those from Hizballah, to countries with large precious stone markets such as the Congo for the purpose of smuggling.<sup>81</sup>

### **Drug Trade**

Drugs are a major source of revenue for terrorist organizations. US Attorney General John Ashcroft declared that "nearly one-third of the organizations on the State Department's list of foreign terrorist organizations appear also on our list of targeted US drug suppliers."<sup>82</sup> Angela Orozco, Colombia's minister of foreign trade, has long established a link between drug and terrorist money. He has stated, "Money involved in illegal drug trafficking becomes the seed of terrorism."<sup>83</sup>

Terrorists have penetrated the drug trade significantly in recent years. Al Qaeda and Hizballah raise millions of dollars in drug money to support their operations. By one account, al Qaeda raised as much as 35 per cent of its operating funds from the drug trade.<sup>84</sup> Hizballah benefits from the drug business in Lebanon, just as al Qaeda profited from the drug business in Afghanistan. Hizballah not only used the Biqu'a Valley's poppy crop for funds, but also to buy support from Israeli Arabs ready to carry out terrorist operations.<sup>85</sup>

Hizballah also is involved in the narcotics trade in North America. A Drug Enforcement Agency (DEA) investigation into a pseudoephedrine smuggling scam in the American Midwest led investigators as far as Jordan, Yemen, Lebanon, and other Middle Eastern countries,<sup>86</sup> including bank accounts tied to Hizballah and

Hamas. DEA chief Asa Hutchinson confirmed, "A significant portion of some of the sales is sent to the Middle East to benefit terrorist organizations."<sup>87</sup> A senior US law enforcement official added, "There is a significant amount of money moved out of the United States attributed to fraud that goes to terrorism."

### **Counterfeiting**

The global market in counterfeit goods is spiraling, especially with the enormous explosion of manufacturing facilities in China and South America. The author of this monograph estimate the global market in counterfeit goods now exceeds \$350 billion per annum. That is equivalent to over 5 per cent of total global trade.<sup>88</sup> Several million of this is related to terror financing.

Hamas has been active in illicit enterprises in what is known as the tri-border area (the intersection of Paraguay, Brazil and Argentina). The Arab population in this area is 60,000 out of a total population of 300,000. An Israeli investigative journalist wrote that Hamas fund themselves with the proceeds of pirated multimedia in South America.<sup>89</sup>

The gravity of counterfeit goods used for terror financing was raised on an international scale in a Brussels conference in 2004, organized to step up cooperation between law enforcement and business in the fight against counterfeiting. Interpol chief Ronald Noble confirmed at the conference that counterfeiting is used to finance terrorist activities and referred to a 2003 seizure in Lebanon of more than one million dollars worth of counterfeit brake pads and other automotive parts. He declared there was intelligence confirmation that this business was helping fund Hizballah. Noble told the gathering that paramilitary groups in Northern Ireland and Colombian Marxist rebels also benefit from sales of fake compact disks and cigarettes.

In the United States, law enforcement officials are investigating a variety of criminal enterprises suspected of funding Middle East terrorist groups, including the stealing and reselling of baby formula,

food stamp fraud, and scams involving grocery coupons, welfare claims, credit cards and even unlicensed T-shirts.<sup>90</sup>

### **Internet Crime**

The internet has become a vital tool for terrorists. Ronald Dick, a former FBI deputy assistant director who headed the FBI's National Infrastructure Protection Center declared, "The individuals that the FBI and other law enforcement agencies have arrested have engineering and telecommunications backgrounds; they have been trained in academic institutes as to what these capabilities are."<sup>91</sup> The use of technical skills is becoming increasingly important as law enforcement agencies easily track any means of communication, be it by phone, fax, email or letter.

First, internet crime serves a defensive purpose; evading law enforcement officials. It is possible to send cryptic messages and communicate easily through web mail accounts and voice over internet protocol accounts, such as Skype, that are easy to open and notoriously difficult to track.

Second, it also has an offensive purpose, being a major avenue and outlet for propaganda, recruitment and fundraising. The September 11th plotters used the internet for international communications and information gathering. Hundreds of *jihadist* websites attract audiences in the tens of thousands daily.

Third, the internet serves as an important platform to raise funds. Richard Clarke, the former counterterrorism special advisor for Presidents Bush and Clinton has categorically stated his fear of the risk of cyber-crime committed by terrorists. There is strong evidence that terrorists have been behind many of the well-publicized phishing cases.<sup>92</sup> 'Phishing' is a simple way of stealing the account numbers and passwords of naïve internet users by sending bogus emails replicating the logos and communications of reputable banking institutions such as Citigroup bank or credit card companies. The usual message requests users to 'update their details' on the system, whereby terrorists proceed to steal the account information of

unsuspecting citizens. Phishing is fraud and has cost financial institutions and insurance companies hundreds of millions of dollars.

There have been reports that al Qaeda terrorists have even tried to exploit the financial markets by selling stock online before an attack only to buy it back afterwards. There is no conclusive evidence that this has happened.

### **Electronic Card Fraud**

There is significant evidence that many terror cells are actively involved in electronic card frauds. Imam Samudra, arrested for involvement in the first Bali bombing, left a trail of evidence on his personal computer of how he tried to commit credit card fraud to help finance terror attacks.<sup>93</sup> A fitness trainer in Boston has been accused of providing customers' social security and credit card numbers to Abd al-Ghani Meskini, an associate of Ahmad Ressam, 'the Millennium Bomber,' the Algerian convicted of plotting to blow up Los Angeles international airport in 2000.<sup>94</sup>

A feature in *Business Week* on 12 December 2005 covered the issue of new open-system electronic cards that can be reloaded online or at check-out counters. The article quoted Don Semesky, chief of the office of financial operations at the DEA, who along with the FBI, has stated he is concerned these cards can become a tool for terrorist cells. Prepaid cards have grown rapidly into a \$63.4 billion business.<sup>95</sup> The article also quoted Larry D. Johnson, head of the Secret Service's criminal investigative unit who argued, "The key problem is that the cards have ATM privileges but are not linked to personal bank accounts, which are closely monitored. It's a very easy way to launder money. Cards are easier to smuggle than cash across the border."

### **State Financial Aid for Terrorism**

Effective and sustained terror financing is only possible with some form of state funding. Terrorist groups would be pressed to commit resources to their operational plans without refuge and support of a

state. Time spent on the run severely diminishes operational ability. The scale of resources available to states, such as Iran, revolutionized the ambitions and destructiveness of terrorists.

State support is a critical area of discussion because on the one hand, there are important economic and financial relationships defining the association between states and the terror groups, as seen in previous chapters. On the other hand, a global financial and legal effort is impossible without addressing the role of states in terror financing.

States can either lend support for terrorism actively or passively. Active support involves granting money overtly from government budgets. Many Islamic terror organizations are extensions of official channels within sovereign states, particularly Iran and Syria, whose funds are woven into the fabric of militant Islamist terrorism. These countries argue that groups defined as terror organizations by the US (such as Hizballah and Hamas), are in effect freedom fighters engaged in a legitimate struggle against an enemy state and therefore their activities do not constitute terrorism.

Terror expert Chris Quillen of the Terrorism Research Center<sup>96</sup> writes that states are indirectly responsible for thousands of terrorist deaths through using non-state entities as agents of their political ambitions. Shaul Bakhash accuses Iran of funding Shiite terror groups in North Yemen, Saudi Arabia, Turkey and Pakistan.

Passive support for terrorism involves turning a blind eye to groups receiving funds or assistance. In states accused of supporting terror but with non-transparent government ministries, such as Saudi Arabia, it is nearly impossible to identify whether the regime as a whole or just elements within the regime support terror.

Syria has a semi-official large black market, backed by senior governmental officials, and is an important internal element in balancing competing power interests. Within this market, there is room for terror financing networks to operate. Italian prosecutors revealed that "Syria has functioned as a hub for an al Qaeda network" run out of Europe and linked to prominent al Qaeda operative Abu

Musab al-Zarqawi.<sup>97</sup> Transcripts of operatives' conversations – first revealed in the Los Angeles Times – "paint a detailed picture of overseers in Syria coordinating the movement of recruits and money" between cells in Europe and Ansar al-Islam training camps in northern Iraq. The amount of money skimmed off by corrupt officials before it reaches the treasury has been estimated at \$1 billion per year.<sup>98</sup> Such a climate is conducive to movements of cash and goods – just what terror financiers need. In addition, in line with Syria's open animosity to Israel, the Syrian regime hosts both Hamas and Islamic Jihad.

The situation in Iran differs because the regime has an official outspoken anti-Western ideological agenda, in support of Islamic revolutions. While Syria treads a carefully covert line, Iran is openly associated with the Lebanese Hizballah and provides ideological, financial and logistical support. Iran's Hizballah terrorist group successfully attacked the US Embassy and Marine Amphibious Unit barracks in Beirut in 1983, resulting in hundreds killed. In more recent years, Hizballah has focused its activities on its ongoing battle with Israel.

In June 2005, the US Department of Treasury publicly warned that Muhammad Yunis Ahmad, a former Iraqi Baath Party official and resident of Syria since 2003, was an important financier of the Iraqi insurgency. The American announcement added that Ahmad moved between the Syrian cities of Bludan and Damascus. It is believed that Syria is housing other former Saddam aides now in the insurgency. Syria supports the Iraqi insurgency as a means of gaining prestige in the region.

### **Conclusion**

The issue of charities financing terrorists is especially sensitive in the Muslim world. The biggest challenge for investigators is understanding which charity organizations are genuine but have been penetrated by terrorist elements. It is likely that much of the work of the GRF was legitimate. But there is also strong evidence that it was also engaged in terror funding.

Founders of charitable organizations who are involved in the support of terror financing genuinely believe their activities are a legitimate charitable cause and do not see a contradiction with humanitarian work.

However, many who give to these charities are not aware of the human suffering these institutions cause. For select audiences, fundraisers talk up the welfare aspects of the charities and do not disclose the militaristic side. It is clear that fundraisers have consciously exploited a humanitarian cover against unwelcome investigations. This has made the job of law enforcement officials particularly difficult because authorities must discern between legitimate charity organizations and those deliberately engaged in supporting terrorist groups.

The only way forward to ensure the integrity of Islamic charity is to encourage greater accountability in the larger Muslim charities in the Middle East and Asia by introducing Western transparency guidelines. There will be considerable challenges: mainly resistance from many charities. Additionally, there will be a need for extensive auditing skills and training. The investment is necessary in order to break the current unregulated non-profit sector in developing countries. This process will take at least a generation before it will have any major impact.

It is clear that Saudi Arabia is the source of a significant proportion of world Islamic terror funding. In the Saudi government's defense, an enduring irony of dictatorial regimes is that the head of state is forced to grant large concessions to certain influential people in the regime. This is necessary to have a degree of continuity. The Saudi government often claims in the world press that donations came from the personal fiefdom of a prince and not from the government. Though this may be true, it appears that Saudi authorities nonetheless retain power to exert greater influence over such sources, and have therefore aided in the facilitation of such funding thus far by not curbing such donations.

## **CHAPTER II - ISLAMIC TERROR FUNDING MECHANISMS**

### **Introduction**

Numerous mechanisms exist through which funds are transferred to terror organizations, with money laundering being one of the most effective and prominent. At least \$500 billion of laundered money circulates through the financial system annually.<sup>99</sup> Islamic terror accounts for \$100 million of this money.<sup>100</sup> Simple processes are the core operating principle of Islamic terror groups. The September 11<sup>th</sup> attacks were financed with routine financial transactions; investigations reconstructed how money was wired from Germany to the UAE to the US. No financial system was able to detect any strange movement.<sup>101</sup>

However, there is a deep and sophisticated infrastructure underpinning these simple transactions, which makes tracking their origins almost impossible. Parallel to the revolution of the western financial markets in the 1980s and 1990s, there was a hive of activity in the Islamic financial world; new banks and banking networks wired funds overseas via accounts at conventional banks and a host of cover companies for radical Islamist groups blossomed with accounts at prestigious financial institutions. Instantaneous information and money transfers facilitated connectivity and interdependence of Islamic groups, just as they have done in the world's financial markets.

In light of the frantic investigations against Islamic terror groups after September 11<sup>th</sup>, terrorists were able to conceal their funding sources thanks to the strong Islamic financing networks built up in the 1980s and 1990s. Tracking Islamic terrorist transactions is more difficult than following the money trail of organized crime groups. On the one hand, organized crime groups often have a few huge drug or arms deals a year, carried out by a limited number of people. On the other hand, Islamic terror groups aim for constant, relatively small revenues and expenses. By integrating their activities into legitimate business, Islamic terror financiers can easily avoid arousing suspicion. Frequent

cash transfers between tiny cells through businesses are risk averse and highly efficient because the transfers remain under the threshold of detection. All terrorist groups use the cell system. Junior members know only those in their own cell. Cell leaders know only the leaders of other cells. Over time, the cumulative effect of many everyday transactions between these cells becomes considerable.

There are thousands of Islamic terror groups and cells spanning the globe. They have demonstrated a high degree of coordination in carrying out terror attacks in America, Asia and Europe. The groups share a religious affiliation to Islam and a public desire to establish an Islamic state, as a basic common denominator. Their numbers range from separatist terror groups in Thailand and the Philippines to the Palestinian groups Hamas and Islamic Jihad to African Islamic networks to radical Muslim groups in Europe and the US.

Although Islamic groups share a similar rhetoric, their policy priorities and geographical focus inevitably reflect their immediate political situation. Strong rivalries exist. Yet, the shared denominator of hatred of the West and regimes that are deemed 'cronies of the West' (Jordan is an obvious example because of its close ties to Israel) has led to a situation where terror groups cooperate to cause social and economic havoc that harms Western interests. Cooperation mainly takes the form of laundering funds, sharing techniques and information and providing cover.

It is not coincidental that the blossoming of Islamic money transfer systems coincided with the renaissance of political Islam and the US' War on Terror. Such systems have existed for centuries but were never as sophisticated and widespread. The War on Terror has actually helped strengthen this industry.

The following chapter has several parts. The first looks at alternative remittance systems and Islamic Banking. The second part looks at the main methods of money laundering the use of conventional banks. The final section examines methods of distribution used by Islamic terrorists to get access to money.

## **Part I**

### **Alternative Remittance Systems**

*Hawala* is an alternative or parallel international remittance system,<sup>102</sup> also known as an informal value transfer system.<sup>103</sup> *Hawala* works by transferring money, without actually moving it, by using a matrix of IOUs guaranteeing that money left with a particular service provider or merchant in one location will be paid to a specified recipient elsewhere. "Money transfer without money movement" is a common definition of *hawala* used in several money laundering cases. The system is dependent on extensive use of fairly loose connections, particularly familial or regional, and is often integrated into existing business dealings. Many *hawaladars* are involved in businesses where money transfers are necessary, providing that remittance services fits well into these activities. Manipulation of invoices is a common way of settling accounts, particularly to avoid taxation and to increase profits.

Communication is on a no-questions-asked basis usually by phone or fax (but email is becoming more common). *Hawala* transfers leave a sparse or confusing paper trail if any because written records are limited or non-existent. There are no receipts and there is no bookkeeping involved.

Its origins are disputed, but *hawala* has developed into the standard remittance system throughout cash-based economies with undeveloped banking systems, especially in the Asian subcontinent, the Middle East and parts of Africa. The system is known as "*hawala*" in the Middle East; "*hundi*" in the Indian subcontinent; "*chop*", "*chit*" or "flying money" in China and "*al-barakat*" in Muslim Africa. In the West, it is usually referred to as "underground banking."

The *hawala* system functions with what equate to promissory notes and is run in parallel to the conventional banking system. Unlike traditional banking, *hawala* makes little use of negotiable instruments. One can compare it to an international courier service for cash.

Transfers of money take place between members of a *hawaladar* (network of dealers) who make profits by charging commissions. One reason for *hawala's* cost effectiveness is its low overhead. Monies from remittances and business transfers are processed through the same bank accounts, and few, if any additional operational costs are incurred by a business that offers *hawala* remittance services.

In the Urdu language, the term "*hawala*" actually is associated with the word "trust." Breaches of trust are extremely rare in the *hawala* system because of the religious connections. Therefore, *hawala* dealers are almost always honest in their dealings with customers and fellow *hawaladars*. There are usually clear retribution channels if funds disappear.

The range of people attracted to the *hawala* system extends from workers trying to avoid taxes or not wishing to draw attention to expired visas, to major criminals and terrorists who wish to escape attempts to track their assets or movements. *Hawala* transactions became particularly commonplace in import-export businesses, which often operate with very low margins and therefore expend considerable efforts to evade oppressive tax and other regulatory authorities.

The banking network throughout most of the Middle East is slow, inefficient and expensive; many workers prefer to use people they trust to avoid paying high commissions. Those using the *hawala* system avoid opening a bank account, commissions, delays and long queues in bank branches, and benefit from better exchange rates (black market rates). In certain cases, there was an increased awareness among certain migrant populations of the availability of transferring money according to Islamic law, which motivated some to use this transfer system.

The phenomenon of Islamic finance began to gain recognition. The versatility and liquidity of the "alternative remittance system" proved extremely useful and cheap. More complex *hawala* transactions arose where complex loans were made.

While an international wire transfer can take up to several weeks, a *hawala* remittance takes only one or two days. This is about the same amount of time required to send a bank draft from North America to South Asia via a courier service. While there are obvious risks for those using the informal system, its speed and efficiency has proven valuable to businessmen, workers and terrorists.

In contrast to its blackened reputation since September 11<sup>th</sup> when the international profile of *hawala* was raised in terror finance investigations, alternative remittance systems often operate openly and honestly and their services are heavily and effectively advertised. A distinction between legitimate, or white *hawala*, and illegitimate, or black *hawala*, is therefore valuable for anti-money laundering enforcement strategy. White *hawala* transactions are essentially remittances. Black *hawala* transactions are associated with serious offenses such as narcotics trafficking and fraud. Unfortunately, remittance systems are now often unfairly confused with any type of financial crime. While the system is liable to be exploited for the purposes of money laundering, it is not inherently fraudulent.

The availability of *hawala* dealers greatly assisted the global effort to raise and transfer funds for Islamic causes. The *hawala* system laid the foundation for the genesis of an Islamic banking system.

### **Islamic Banking Systems**

Aware of the need for reliable funding, bin Laden himself acquired an Islamic banking network called Al Shamal Islamic Bank, backed by Saleh Abdullah Kamel, Mohammad al-Faisal and Adel Abdul Jalil Batterjee. This network used similar lines of operation to traditional *hawala*. In fact, *hawaladars* were responsible for the launch of Islamic banking, which has now developed into a respected and mainstream branch of finance throughout the Muslim world and beyond. It is important to emphasize that Islamic finance grew at the same time as the humanitarian organizations and radical groups promoting "global *jihad*."

Further examples of Islamic quasi-banks which were set up in the 1980s with the express objective of assisting Islamic groups, many of which turned to terrorism, were Bank al-Taqwa (established 1988) with significant backing from the Muslim Brotherhood and which financed groups such as Hamas, Algeria's Islamic Salvation Front and Armed Islamic Group, Tunisia's An-Nahda, and bin Laden's al Qaeda. A 1996 Italian intelligence report also linked al-Taqwa to the Egyptian Jama'at al-Islamiyya.<sup>104</sup> Another institution, the Al-Aqsa Islamic Bank, has been described by the Israeli army as the financial branch of Hamas. Several Israeli intelligence officers visited Citibank New York, Al Aqsa's American partner, to inform them of connections with terrorism. Al Aqsa's financial backing came from the Saudi group Dallah al Baraka, which is a subsidiary of the Al-Tawfeeq company.

Following investigations and tip-offs, the Treasury Department froze the assets of more than 60 organizations and individuals associated with the al-Taqwa financial networks in November 2001. Federal agents raided offices across the United States, Europe and the Bahamas. US President George Bush stated that the two institutions provided fundraising, financial, communication, weapons-procurement and shipping services for al Qaeda. A few months later, US Deputy Assistant Secretary of Treasury Juan C. Zarate told Congress that in 1997 \$60 million collected for Hamas was moved to accounts with Bank al-Taqwa.<sup>105</sup> Al-Taqwa shareholders reportedly include known Hamas members and individuals associated with a variety of organizations linked to al Qaeda.

In August 2002, the United States and Italy, in cooperation with the Bahamas and Luxembourg, designated 25 individuals and institutions – including 14 businesses owned or controlled by Ahmed Idris Nasraddin or Yusif Nada and linked to al-Taqwa – as terrorist entities and blocked their assets.<sup>106</sup> Ghalib Himmat Himmat, a board member of the Geneva section of the Kuwait-based International Islamic Charitable Organization (IICO),<sup>107</sup> and the head of IICO's Palestine Charity Committee (PCC) and Nadir al-Nuri (both Italian citizens), had their asset frozen because of links to Hamas.<sup>108</sup> Himmat is also an

executive of the al-Taqwa banking network and was reported in a German intelligence report to have expressed "pleasure" over the news of the September 11th attacks.

The al-Barakat alternative banking system took shape after the collapse of the Somali government. The intelligence community received information that bin Laden had contributed money to al-Barakaat to start operations. It was believed that al-Barakaat was closely associated with or controlled by the terrorist group, Al-Itihaad Al-Islamiya (AIAI), and that some of al-Barakaat's proceeds went to fund AIAI, which in turn gave a portion to bin Laden.

In the United States, the FBI developed an intelligence case on the al-Barakaat network in early 1999, and had opened a criminal case by 2000. Shortly after 9/11, al-Barakaat's assets were frozen and its books and records were seized in raids around the world, including in the US. Subsequent investigation by the FBI, including financial analysis of the books and records of al-Barakaat, provided in unprecedented cooperation by the UAE, failed to establish the allegations of a link between al-Barakaat and AIAI or bin Laden. No criminal case was made against al-Barakaat in the United States for these activities.

The US-based al-Barakaat money remitters filed a lawsuit challenging the action. Although OFAC claims that it met the evidentiary standard for designations, the majority of assets frozen in the US under executive order (and some assets frozen by other countries under UN resolution) were unfrozen and the money returned.

Another similar offshore venture is Dar Al Maal Al Islami (DMI), founded in 1981 with Saudi backing, with an initial capital of \$1 billion in Switzerland. The bank adheres to Islamic finance that poses difficult accounting and accountability problems for tracking deposits. *Zakat* funds are recorded off balance sheets.

## Part II

### Money laundering

In **retrospect**, it is relatively "simple" to trace terror financing channels, as was illustrated by the case of the 9/11 bombers. The challenge is establishing that link in advance. There are three phases to money laundering: placement, layering and integration. As a remittance system, *hawala* can be used at any phase. Such a cheap, discreet and efficient system providing deep cover for frequent money transfers around the world was an instant draw for terrorists.

In placement, money derived from criminal activities is introduced into the financial system. In many money laundering schemes, the biggest "problem" criminals or terrorists face is placing the cash somewhere safe and out of sight of the law. Some jurisdictions, such as the United States, require that financial institutions must report cash transactions over a certain amount and attempting to circumvent such requirements by making smaller transactions is illegal. *Hawala* is a solution for 'placement' of dirty cash.

In the layering stage, the illicit funds are manipulated to make them appear to be from a legitimate source. This usually involves transferring money between accounts. The "traditional" banking system presents two problems for the money launderer. First, all banks and governments are under immense pressure to report any suspicious transactions. Secondly, bank transfers leave a paper trail that can lead investigators directly to the source of the transfers. Even when invoice manipulation is used, the mixture of legal goods and illegal money, confusion over "valid" prices and a complex international shipping network create a trail much more complicated than a simple wire transfer.

Terrorist financiers have mastered the art of layering *hawala* transfers between various legitimate front companies by using *hawala* brokers in several countries and distributing the transfers over irregular time frames. The final stage of money laundering, integration, involves investing in other assets, illegal or legal.

Given the strong networks that have been built between Islamic financing institutions and conventional businesses, it becomes easy for terrorist financiers to undertake money laundering. After September 11th, investigators uncovered only individual parts of the Islamic financing system. When the hunt against terror financiers intensified, the Islamic financing system was versatile enough to obscure their activities.

### **Banking and Front Companies**

A terrorist group will only operate a bank account under its own name when it is state-sponsored, or state approved, as is the case of Hizballah in Lebanon. However, terrorists find ways of using conventional banks by operating within legitimate businesses.

The investigations into the September 11th attacks revealed the widespread use of legitimate businesses and employment by al Qaeda operatives to derive income to support both themselves and their activities. According to US Congressional testimony by a senior FBI official, a construction and plumbing company run by members of an al Qaeda cell in Europe hired *mujahadeen* arriving from places like Bosnia where they returned from a *jihad*.<sup>109</sup> In another case, cell members ran a used car "business." In these and other examples, cell members deposited their legitimate salaries, government subsidies, supplemental income from family members and terrorist funds received by cash or wire transfer into the same one or two accounts.<sup>110</sup> According to the Lebanese state prosecutor, members of a disbanded Lebanese al Qaeda cell had funded their activities by buying and selling cars in Germany and discussed establishing other business interests to cover the cell's activities.<sup>111</sup> In this way, terrorist groups have built up considerable assets through the conventional banking system in the US, Britain, Switzerland and Dubai.

Legitimate employment offers terrorists cover, livelihood, and useful international contacts. For example, Muhammad Haydar Zammar, the Syrian-born German national who recruited a number of the

September 11th hijackers, worked at Tatex Trading. Tatex's director, Abd al-Matin Tatari, was reportedly a member of the Syrian Muslim Brotherhood. One of its principal shareholders is Muhammad Majid Said, who was director of Syria's General Intelligence Directorate from 1987 to 1994.<sup>112</sup>

Numerous legal cases since the twin towers attack in 2001 have exposed the extent to which legitimate businesses have been involved in terror financing. During the beginning of the hunt against terror financing, businesses linked to Hizballah were discovered with turnovers of tens of thousands of dollars but few items on the order book. Anti-terror investigators have been forced to investigate world class banks and do away with traditional bank secrecy to uncover terrorist financing trails. There are sophisticated statistical techniques that identify unusual rhythms in a bank account, similar to those used by credit card companies, to detect fraud. Unfortunately, this is a less practical option because terrorist groups are aware of this type of data mining.

Investigators often resort to simple paper-based techniques, such as combing through individual cheques. In one investigation, many cheques for large amounts to the same person had the word "textile" scribbled on them.<sup>113</sup> The word was in fact a cover to channel funds for terrorist groups while using a "legitimate" business dealing. Investigators concluded that this was obviously a front and investigated further the origin of the cheques. Without such basic techniques, officials might not have caught the hand-written clue.

The following sections examine two cases of banks being implicated in terror financing; Arab Bank and Riggs National Bank as well as two informal networks; Al Barakat and the Al-Taqwa.

### ***Arab Bank***

One of the most prominent examples of institutions financing terror has been the Arab Bank.<sup>114</sup> Founded in 1930, the bank has \$20-30 billion in assets<sup>115</sup> and is active in thirty countries around the world.

Arab Bank is the largest private bank in both Jordan and the Palestinian Authority. In 2005, after an investigation of the Office of the Comptroller of the Currency, the Bank's New York branch was closed pending an investigation into violations of money laundering and terror financing.<sup>116</sup> The announcement of the closure of the branch, and the gradual winding down of its US activity, was released through the Jordanian Central Bank and attracted great publicity in Washington and New York. The bank simply stated "the climate of operating in the United States at present is not expedient with the bank's strategy and vision."<sup>117</sup> The claimants' lawyers say the bank was trying to evade possible rulings against it and avoid potential enforcement measures by government authorities when the federal investigation into its alleged involvement in transfer of money to terrorists began.

As explained above, in money laundering cases there are primary placement, secondary layering and integration channels. As an international bank, the Arab Bank offers an infrastructure to move primary funds raised locally in the US or Europe to organizations in the Middle East, or vice versa.

The case against the Arab Bank rests on claims it is the clearing bank for the Saudi Committee for the Support of the Intifada al-Quds ("Saudi Committee") that actively supports Palestinian suicide bombers. The case started with documents captured by the Israeli army during the April 2002 invasion of the West Bank. Targeted raids of terror organizations yielded a considerable cache of evidence tying the Arab Bank to the funding of Hamas (the Bush Administration designated Hamas as a Foreign Terrorist Organization in August 2003), Palestinian Islamic Jihad and families of suicide bombers through branches of the Arab Bank in the West Bank.<sup>118</sup> The documents revealed that the Saudi Committee "reported the transfer of \$55.7 million mostly to the families of suicide bombers and to the families of imprisoned or injured Palestinian militants."<sup>119</sup>

In addition, it is believed that the Arab Bank is the official bank of Hamas, the Popular Front for the Liberation of Palestine (PFLP), and

the Palestinian Islamic Jihad (PIJ).<sup>120</sup> Thabet Mardawi and Ali Saffuri, two captured PIJ activists from Jenin revealed in interrogations by the Israeli army that they opened several bank accounts, some in their names and others in the name of an elderly woman, and that PIJ leaders in Damascus transferred funds into these accounts via the Arab Bank.<sup>121</sup>

In another example, Colonel Munir al-Maqda, also known as Abu Hasan, used the Arab Bank to funnel Iranian funds to Fatah's al-Aqsa Martyrs Brigades.<sup>122</sup> Beginning in mid-2001, al-Maqda transferred between \$40,000 and \$50,000 for weapons, expenses, and bomb-making materials to the Arab Bank account of Nasser Aweis, a senior Fatah figure. In return, al-Maqda instructed Aweis to report back by telephone on the success of his attacks, such as the assault on the Hadera banquet hall in Israel that resulted in the deaths of six Israeli civilians.<sup>123</sup>

Furthermore, according to court documents filed in Spain, an al Qaeda cell charged with helping prepare the September 11th attacks and serving as a logistics hub and recruitment center, used the Arab Bank to wire money from Spain to associates in Pakistan and Yemen.<sup>124</sup> The cell included Imad Eddin al-Yarkas (Abu Dahdah), who discussed terrorist attacks on a telephone line tapped by Spanish intelligence.<sup>125</sup> Further evidence against the Arab Bank has come from fundraising pages of many radical *jihadist* web sites and prominent Palestinian newspapers. The web sites and newspapers inform prospective donors to direct contributions for the cause of "martyrs" – suicide bombers – to numbered accounts with the Arab Bank.

Some of America's top lawyers have joined the case against the Arab Bank in a campaign called Terror Victims Litigation Project. The project claims to have evidence that the Arab Bank was the principal tool for funneling money used by Iran, Syria, and the Damascus headquarters of Hamas (which had an Arab Bank account in Beirut<sup>126</sup>) and Palestinian Islamic Jihad to transfer funds to operatives in the West Bank for attacks.<sup>127</sup> According to the lawsuit, the Arab

Bank's New York branch was employed to convert Hamas contributions from Middle Eastern currencies to dollars and then wire the funds to Arab Bank branches in the West Bank and Gaza. George Washington University law professor Peter Raven-Hansen, a national security expert and plaintiff's co-counsel, says bank wire transfers enabled terrorists to work beyond Israeli army roadblocks in Palestinian strongholds.<sup>128</sup>

### ***Riggs National Bank***

Another prominent international bank that has been seriously undermined by charges of supporting terror financing is the exclusive private Riggs National Bank. Established in 1896, Riggs served as the bankers of the Saudi Embassy in Washington. After considerable pressure from US law enforcement officials, Riggs Bank was fined \$25 million for money laundering violations and "violations of the Bank Secrecy Act."<sup>129</sup> Previously, Riggs had been investigated for associations with former Chilean dictator Augusto Pinochet.

A large part of the prosecution's case rested on lax procedure that allowed potential terror financing to take place through several Saudi accounts with suspicious financial transactions, inadequate background checks and a failure to notify relevant officials of transfers of large sums. Many of these transactions involved Saudi Ambassador to the US, Prince Bandar bin Sultan bin Abdul Aziz al Saud.

## **Part III**

### **Means of Distribution**

Terrorists rarely receive monthly salaries and often are forced to fund themselves. This is one of the reasons why terror financing techniques run the gamut from drug and diamond smuggling, to mundane import and export systems using alternative remittance systems, to internet and credit card crime.

There is an important distinction between the heads of terror groups and the operational cells, particularly regarding financing. Usually, the operational terror cells are dormant and terrorists engage in regular civilian jobs such as jewelers, carpet salesmen, and couriers. Funds are transferred among and between cells using legitimate channels, sometimes through the conventional banking system, but more often through the sophisticated and more discreet *hawala* system. Often before a large action, groups need to raise more cash and they resort to criminal acts such as "phishing" schemes on the internet and credit card fraud.

Heads of terror groups operate in a different fashion, using higher value and higher risk methods of financing. Examples are drug and diamond smuggling and liaising with influential people in sympathetic states such as Iran, Syria and Saudi Arabia. Weapons and explosives are often procured by the group heads and through specialized cells and then the weapons are transferred to operational cells.

### ***Front Companies***

A registered company affords a terror group vital information to maintain a bank account, such as a permanent address, office space and logistics. Mark Cantor argues in The American Society of International Law Task Force on Terrorism that considerable sums are moved by deliberate pricing distortions through over and under invoicing, re-export and commodity exchanges and other such business conveniences only possible with the existence of a registered company. Intelligence sources relate that one of the first leads into the 1993 World Trade Center attack was a company that imported holy water from Mecca to Pakistan for the faithful.<sup>130</sup>

Front companies are an essential lynchpin between business activities and accessing the *hawala* system. Once a terrorist front business has raised funds and wants to transfer money to a cell, it can do so by receiving invoices as an excuse to pay out funds. These funds can

then be transferred through the alternative remittance systems such as Al-Taqwa and Barakat.

An example of a legitimate business used for terrorist ends is that of the internet company Infocom. Five brothers and one woman were charged with selling computers and computer parts to Libya and Syria, countries on the US State Sponsors of Terrorism list at that time. The 33-count indictment accused the group of illegal exports to Syria and Libya, money laundering, dealing in the property of a designated terrorist and making false statements.<sup>131</sup> The company shared personnel, office space, and board members with the Holy Land Foundation (an organization analyzed in Chapter II). The organization was formed in California and received seed money from Hamas leader Musa Abu Marzuk.<sup>132</sup> According to its 2000 tax return, Holy Land Foundation's (HLF) total revenue exceeded \$13 million. In a detailed 49-page memorandum, the US government established that these funds were used by Hamas to support schools and indoctrinate children to become suicide bombers.

### **Conclusion**

The methods used to transfer money to support Islamic terrorist groups are almost identical to those used for moving and laundering money for general criminal purposes. However, due to the secrecy involved, funds used to finance terrorist operations are very difficult to track.

Generally speaking, there are different and sophisticated methods for financing Islamic terror. The main channels used by terrorist organizations for self-financing and receiving funds are: Investments in off-shore countries, payment of the *zakat*, Islamic banking transactions and Islamic investment funds. The main payment systems to transfer funds to finance the global Islamic terrorism are through the traditional banking channel: wire-transfers and the *hawala*.

### CHAPTER III - MEASURES TO THWART TERROR FINANCING

A host of regulations, including legislation against money laundering, have been implemented in an effort to curb the flow of funds to terrorist organizations. In the course of the last decade, legislation against money laundering has been felt across the world economy, from individuals wishing to open simple checking accounts or make standard remittances, to multinational companies' transactions. Before September 11th, the impetus to prevent money laundering was organized crime, corruption and fraud. As Rachel Ehrenfeld argues, "In most countries, September 11th caused the shift from control to prevention."<sup>133</sup> However, even today, the majority of legislation against money laundering extends to existing criminal laws.<sup>134</sup>

Terror financing legislation can be divided into two main categories. The first type of legislation comes in the form of international treaties that often lay the foundation for specific legislation in sovereign states. The second category consists of legislation passed in individual states, predominantly spearheaded by the US. There has also been considerable international pressure on Saudi Arabia and other Gulf States to monitor the flow of *zakat* more closely.

The first step towards international cooperation on money laundering was the establishment in 1989 of the Financial Action Task Force (FATF) in Paris. The FATF, an international body, was proposed by the G7 industrialized nations to establish uniform legal and regulatory standards to fight money laundering. Its original focus was on organized crime, but its mandate was gradually extended to terror financing. Its remit covers 31 member states, including all states in the EU and the Gulf Cooperation Council (Saudi Arabia, UAE, Kuwait, Oman, Bahrain and Qatar).

Central pieces of anti-terror financing legislation pre-September 11th include the 10 December 1999 UN International Convention for the Suppression of the Financing of Terrorism. The Convention was then seen as a powerful weapon in the fight against terrorist financing because it allowed for the lifting of banking secrecy and for the

freezing of funds deemed to be intended for terrorist activities.<sup>135</sup> Its central tenets were preventing people and organizations from providing or collecting funds to be used to commit terrorist acts. Furthermore, it introduces a more comprehensive approach to terrorism by cutting off funding for terrorist acts identified in other international agreements.

In the aftermath of September 11th, FATF articulated eight special recommendations.<sup>136</sup> In addition to the existing 40 FATF Recommendations<sup>137</sup> on money laundering, they provided an international blueprint for the fight against terror financing. The eight include:

- Ratifying UN instruments
- Criminalizing terror financing
- Confiscating terrorist assets
- Reporting suspicious transactions
- Enforcing international cooperation through treaties
- Regulating remittance businesses
- Requiring full details on originator data for wire transfers
- Overhauling NGO and charity financial regulations

FATF has faced significant difficulties with both member and non-member states in ensuring compliance with all the recommendations. Therefore, FATF established a Working Group on Terrorist Financing to coordinate international compliance.

### **US Legislation**

The main thrust of legislation after September 11th came when US President Bush rushed through Executive Order 13224 on September 23, 2001, under the authority of the International Emergency Economic Powers Act (IEEPA). EO 13224 established a state of national emergency on the grounds of threats by foreign terrorists against the United States. One of the central facets of EO 13224 was the right of the United States to freeze assets subject to US jurisdiction. This essentially gave the President the right to freeze any

assets of institutions deemed a threat to US national security, foreign policy or economy. Instantly, 27 organizations and individuals lost access to their funds. Under the order, \$142 million in assets of 387 individuals and entities have been blocked.<sup>138</sup> This includes the assets of bin Laden and some of his top aids. The international community is responsible for blocking \$105 million.<sup>139</sup>

For this purpose, the Terrorist Financing Operations Section (TFOS) was established to conduct financial analysis of terrorist suspects and their financial support structures in the United States and abroad. The TFOS coordinates joint participation, liaison and outreach efforts to appropriately utilize financial information resources of private, government and foreign entities; utilizes FBI expertise to fully exploit financial information from foreign law enforcement, including the overseas deployment of TFOS personnel; works jointly with the intelligence community to fully exploit intelligence to further terrorist investigations; works jointly with prosecutors, law enforcement and regulatory communities; and develops predictive models and conducts data analysis to facilitate the identification of previously unknown terrorist suspects.

In addition, the FBI has undertaken a number of initiatives to improve information sharing and coordination with their national and international partners. For instance, they have significantly increased the number of Joint Terrorism Task Forces (JTTFs) across the country. Prior to September 11th there were 34 JTTFs in existence,<sup>140</sup> as of 2005 there were 84, and as of the middle of 2007, the number is well over 100.

The Office of Foreign Assets Control (OFAC) was the treasury organization charged by law with searching out, designating, and freezing bin Laden assets. The OFAC was coordinated by the Financial Crimes Enforcement Network (FinCEN), a network founded in 1990 to fight money laundering. Previously, the OFAC lacked comprehensive access to actionable intelligence and was beset by the indifference of higher-level treasury policymakers.<sup>141</sup> Today, OFAC's principle role within the US Department of Treasury is to maximize information sharing among law enforcement agencies and

its other partners in the regulatory and financial communities. Similarly, the National Security Council (NSC) formalized the Policy Coordinating Committee (PCC) on Terrorist Financing at the end of 2001. The NSC chairs the PCC, which generally meets at least once a month to coordinate the US government's campaign against terrorist financing.

Under the authority of the Patriot Act 2001, the government introduced the Anti-Terrorist Financing Guidelines: Voluntary Best Practices for US-Based Charities in November 2002, as a first step towards implementing detailed and more stringent regulations governing the operations of financial institutions, including foundations. These guidelines provoked criticism and opposition from many larger foundations and representative organizations such as the Council on Foundations.<sup>142</sup>

The US government and institutions have taken bold measures in recent years. The New York Stock Exchange's regulatory arm in January 2006 fined Oppenheimer and Co. \$4.15 million for failing to establish an adequate anti-money laundering compliance program as a result of action brought by the US Department of Treasury's Financial Crimes Enforcement Network (FinCEN). Part of the problem was during Oppenheimer's integration of acquired brokerage accounts.<sup>143</sup> There is no evidence that terror financing took place through these accounts. However, lax integration techniques are the type of loopholes that terrorists and other criminal elements excel in exploiting for money laundering purposes.

### **UN Action**

The speed with which American legislators drafted anti-terror bills, combined with American pressure, forced the UN to draft international treaties. The UN had already made a few public moves on terror financing before 11 September; Resolution 1267 in 1999 established a UN Sanctions Committee, consisting of all members of the Security Council. The Committee's purpose was to coordinate freezing all international assets of the Taliban, bin Laden, al Qaeda and those linked or associated with them. The Sanctions Committee

ran a list of all of terrorists and terrorist financiers. Once a name was placed on that list, member states were obligated to freeze the funds and assets located within their respective countries for that individual or group. The US has worked closely with the 1267 Sanctions Committee. As long as no other member of the Sanctions Committee objects, a US submission of a suspect individual or entity is automatically added to the list and the assets are blocked worldwide.

The UN added to this legislation on 28 September 2001, when the Security Council unanimously adopted Resolution 1373, requiring all member states to "[f]reeze without delay funds and other financial assets or economic resources of persons who commit, or attempt to commit, terrorist acts." The Counterterrorism Committee (CTC), made up of all 15 members of the Security Council, was formed to help implement this treaty.<sup>144</sup> As is the problem with most UN resolutions, there are few effective enforcement mechanisms to sanction noncompliant countries. Resolution 1373 had no enforcement mechanisms; therefore, it effectively served only an advisory function.

Recognizing the lack of enforcement, Resolution 1373 was followed by the Security Council Resolution 1390, on 16 January 2002. This directly tackled the loopholes in international sanctions against the Taliban, bin Laden and al Qaeda in Resolution 1267.

### **EU Legislation**

One of the major challenges of the international effort to combat terror financing was the encroachment on individual states' financial mechanisms and practices. This challenge was particularly acute when the European Union and the United States started considering cooperation in reconciling legislation in asset freezes. Not only was cooperation very limited in the past, but there were very different views on how the issue should be handled. The European Foundation Center and the European Council for Non-Profit Organizations (CEDAG) represented foundations and associations in the European Forum for the Prevention of Organized Crime respectively.

US officials complained that European allies contributed few names to the list of alleged terrorist financiers subject to financial blocking orders, that they have yet to act on all the names already on the list, and that those names their European allies have added to the list are primarily domestic groups such as Basque and Irish groups. For example, in February 2002, the United States joined Spain in designating 21 individuals linked to ETA, the Basque terrorist group.<sup>145</sup>

Exceptions include the UK, which has been at the forefront of the anti-terror legislation with the 2000 Terrorism Act and the 2001 Anti-terrorism, Crime and Security Act. UK government support for anti-terrorism measures increased in response to the 2005 London bombings. These pieces of legislation increase government powers to seize both cash and assets. Rachel Ehrenfeld provides statistics that such treaties led to the freezing of 35 suspect bank accounts in the UK, comprising £63 million in funds.<sup>146</sup> Another exception occurred in August 2002, when Italy joined the United States in submitting to the UN Sanctions Committee the names of 25 individuals and entities linked to al Qaeda, so that their assets could be frozen worldwide.

Europeans, in return, have repeatedly expressed their frustration with US requests to add people or groups to terrorist lists while supplying insufficient evidence, if any. One major point of contention is Palestinian groups. The Europeans favor a distinction between the nonviolent activities of terrorist groups and the terror attacks that they carry out. The US has argued that by distinguishing between the terrorist and welfare sections of Hamas, which is on the US list of terror groups, the EU has lent legitimacy to the activities of charitable organizations that fund and facilitate terrorist operations.

### ***Proposed EU Legislation Since the London Attacks***

New legislation to keep track of terror financing inevitably involves limiting individual freedoms. Below are two proposals that were considered at the beginning of 2006 by the EU Legislative Committee:

- Data retention: legislation mandating telecom companies to retain details of all telephone calls, e-mails and web traffic for a minimum period of time. An earlier proposal on this subject was overwhelmingly rejected by the EU Parliament in June 2005 (see EurActiv 7 June 2005).
- Combating terrorist financing: including implementation of the third money laundering directive, measures to prevent charities being used to raise terrorist funds and asset freezing powers.

### **Saudi Legislation**

The Saudis have been at the receiving end of pressure to regulate the thousands of charity organizations operating within in their territory. As shown in previous sections, numerous terror financing investigations repeatedly lead back to Saudi territory and Saudi sponsors. The UN has reported that al Qaeda finances are "fit and well" and that "the prime targets of the organization are likely to be persons and property of the United States of America and its allies."<sup>147</sup>

The Kingdom has argued they have taken regulatory measures. In 1994, there was a Royal Decree banning the collection of money in the Kingdom for charitable causes without official permission.<sup>148</sup> The new regulations governing private fundraising are problematic. Saudis are now encouraged to donate funds in fulfillment of their *zakat* obligations only through established groups operating under the direct patronage of a member of the royal family. However, as shown in the previous section on Islamic charities, these organizations have been shown to actively sponsor organizations with a direct links to terror financing. The Saudi government, as illustrated by the quotes in Chapter II, has been unwilling to assume responsibility for funds spent outside the Kingdom and has resisted pressure to regulate these organizations more closely. The Saudi authorities have taken small steps to battle money laundering and freeze accounts related to the September 11th conspirators. The author estimates that Saudi Arabia has frozen less than 10 per cent of terrorist funds actively in the Kingdom.

### **Impediments to Stronger Regulation against Terror Financing**

As of 2006, the legislative measures and governmental bodies described here have not gone far enough to create an international body capable of effectively monitoring terror financing techniques. Moreover, there are inadequate mechanisms for applying direct pressure on governments to change regulation to prevent terror financing from succeeding. The FATF task force is the closest to an international task force, but it is the creation of rich nations and is therefore distrusted by poor countries, who feel it is an excuse to exploit their weaker financial position.

By definition, any attempt to fight terror financing through legislation will involve a restriction of freedom, reduction in flexibility and costs in transactions. Relatively, these costs will always affect poorer countries more harshly. The US Department of Treasury is leading most of the money laundering efforts on terror suspects. Since there is relatively little information sharing between the Treasury and the FBI and CIA, there are strong rivalries in the US government. This inevitably impacts the motivation of the rest of the international community to implement legislation that has adverse effects on their own economies.

A few countries pose problems for efforts to regulate terror financing. The major impediment to halt terror financing is Iran. Iran is an active sponsor of Hizballah, Hamas and Islamic Jihad. Similarly, Russia and China are two major economies particularly resistant to changes in regulation. Russia itself has suffered greatly from Islamic terrorism. Russian leaders have been claiming that terror attacks in recent years were part of the global terror network. Russian experts suggest the funds for attacks by Islamists inside the country are channeled from abroad and mainly from the Persian Gulf states.

Within the Russian fight against terror finance, President Putin nominated Anatoly Safonov to serve as the Presidential Representative for International Anti-Terrorist Cooperation in 2004. According to Safonov:

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These (Gulf) states account for a considerable share of incoming finance - some 50 per cent to 70 per cent. However, the financial aid is also arriving from Canada, in the guise of donations and finance collection by funds. This is also happening in mosques of London and other states of favorable Europe. (...) A report has flashed of late that Al Qaeda has contacts with a leading criminal group in Latin America.<sup>149</sup>

## CHAPTER IV - CONCLUSIONS AND RECOMMENDATIONS

This monograph has explained the main methods used by Islamic terror groups to fund their activities and to launder money, as well as offered an historical background and context of how funding methods developed. Two conclusions can be drawn from the analysis. First, the concerted international effort against money laundering is essential but is ironically hurting the international fight against terror financing. Terror financiers adapt to the international criminal system and make less use of ways that authorities can track, such as charities. Second, terrorism is a convenient proxy for the strategic ambitions of rogue states and this gives Islamic terror a financial cover. Without the support of states such as Iran, Syria and Saudi Arabia, it would be much harder for terrorists to maintain their current scope of business fronts and money transfers.

Tackling terrorist financing through legislation represents an effective tool in reacting to terrorist attacks across the globe and acts as a deterrent against future attacks, but is not the solution. Terror financing is not limited to individual terror groups. It is an international network drawing on every resource in the global economy and international global *jihad* network. Therefore, terror financing is intertwined with money laundering, bogus accounts and skeleton companies. The worlds of terror financing and international crime are inextricable. Tackling terror financing and tackling organized crime are two sides of the same coin. Until an attack occurs, the practical distinction between terrorists and criminals is slight.

Terror financiers have become more sophisticated. A global network of businesses, operating independently, ensures that terror groups can exploit everyday financial transactions and keep money flows below the radar of detection. The fact that certain Islamist terror groups, such as Hamas and Hizballah, operate freely or undercover in Iran and Syria, keeps the global *jihad* effort afloat.

While humanitarian organizations continue to be exploited and abused by terror financiers, the trend is changing. As more controls are set on charities, it is likely that Islamic terrorists will turn more to the world of organized crime and alternative remittance systems to provide channels of funding. Nevertheless, there is still a lack of accounting and regulatory control of *zakat* foundations in the Gulf. *Zakat* is an enshrined religious institution and officials are wary of upsetting sensitivities by changing the status quo abruptly. This is especially true following the current of anti-American sentiment throughout the Middle East. Moreover, certain terrorist groups such as Hamas, Palestinian Islamic Jihad and Hizballah are not considered terrorists by Muslim states.

Many of the charities have developed over the course of the past few decades and have a wide-ranging scope of activity. Some of the central charities involved in terror financing, the Saudi Al-Haramayn and the Benevolence Fund for example, have been closed down. However, thousands of smaller organizations operate throughout the Middle East and Islamic world. Most of their financial transactions are too small to be detected as suspicious movements by the international financial system, especially because most money transfers use the *hawala* system. Legislation can prevent fundraising for overt terrorist activities by so-called charities, but it cannot stop the phenomenon of benevolent societies donating small amounts of money to groups that will eventually use these funds for terrorist purposes.

The issue of how money is transferred between states and terror groups is central to understanding international terror financing. Saudi Arabia is in a difficult position. On the one hand, the regime enjoys historically close ties with the US and has undertaken certain steps against Islamic terror financing. After all, the regime itself is also under threat from terrorists. On the other hand, there is considerable evidence (as presented in this monograph) indicating that influential people in the Saudi government, including princes and several charity organizations operating legally within Saudi Arabia, have actively sponsored terror. From the view of the leaders of the Saudi regime, attacking these elements within the Kingdom is more dangerous than

being exposed to terror against the regime. The Saudi regime itself has often been a target of al Qaeda. Therefore, while some influential figures in the regime support Islamic terrorism, others turn a blind eye to their activities. This does not mean the entire Saudi regime is unanimously behind these actions.

The Saudi patronage system works in such a way that it is nearly impossible for the central government to keep track of the activities of all princes. If the government probes too hard, the resulting clashes could destabilize the regime. This is one of the pervading paradoxes of dictatorships. Dictatorial regimes easily maintain control over the activities of its citizens, but find it harder to act against those in power.

The international community will only be successful in preventing more terror attacks if the states that support Islamic terrorism refuse to give refuge to terrorists. Once the world of terror financing goes completely underground and has no more state support, there will be no distinction between Islamic terror financiers and organized crime.

### **Recommendations**

Several recommendations are in order to curtail the continuation of such financing:

1. G8 leaders and the UN should pressure the GCC to transparently monitor more charities in their jurisdictions. One clear sign that ignites suspicion of abuse of charities is the opening of a second bank account for no apparent reason.

Many Muslims argue that terror financing through charitable organizations is not unique to Islamic charities and is also found in South America, India and Japan. It is a fact that many Islamic charities have been involved in terror financing and this has caused severe damage in relations with many innocent Muslim bodies. It is important to pressure Arab and Muslim

countries and organizations to work as part of an international effort, but not to make them feel as if they are being hounded.

2. Targeting as wide a range of terror groups and organizations as possible must be conducted as part of a well-coordinated international effort. More pressure needs to be put on the EU to implement regulations that can keep better track of terror and criminal financing. The moral argument about limiting personal freedom is important, but subservient to the risks that the threat of terror poses.
3. It is counter-productive to ban the practice of *hawala* money transfers, as has already been implemented in certain US jurisdictions because enforcement is nearly impossible and is a waste of important public resources. Secondly, *hawala* transactions will remain part of the financial fabric in many countries, especially the UAE and other Gulf countries where the large expatriate population uses *hawala* for remittances, and the gold market is largely run on *hawaladar* guidelines.

Instead, states should help facilitate efficient and cheap cross border remittances. Working with banks and exchange houses to coordinate this is essential. Poorer states should be encouraged to abolish dual and parallel exchange markets, which are an incentive to keep transactions underground.

Following negotiation, an agreement can be reached with countries with more advanced economies to form an international regulation effort. Severe penalties should be imposed against those agents that do not conform to the regulation.

4. Strong cooperation between intelligence agencies is essential. At the moment there are too many vested interests looking after different aspects of terror financing in the US government – including the Department of Treasury, the FBI,

CIA, and DHS. This undermines international cooperation because each of the liaising parties do not have access to the full picture.

The FATF is the closest thing to an international body on terror financing. Its powers can be boosted by increased funding and appointing a high ranking cabinet minister. One idea is to have the president or prime minister from each of the member states to sit on its board, giving its meetings top level authority, similar to the G7 and G8 summits.

5. State funded terrorism is one of the murkiest areas of terror financing. Not only is it nearly impossible to trace the trail of money back to the regime in question, but it is not always certain what the regime's ministers and senior civil servant are doing. The only way of addressing this problem is using diplomatic channels to make clear to corrupt regimes, such as Syria and Saudi Arabia, that not being fully aware of what all its public servants are doing is tantamount to lack of control and therefore a sign of weakness and instability.

A long term approach is essential to the problem of terror financing, alongside the short term approach. The fight against terror financing will take a concerted long term investment; it will take at least a generation before the financial, regulatory, political and training measures have been implemented to make a significant impact. This is not a sign of failure. It is rather a statement of the huge gaps in financial infrastructure, regulation and auditing between the developed and developing worlds. Closing this gap will also close the loopholes available to terrorists.

## Notes

<sup>1</sup> The term 'Islamic terrorism' has been used to cover a vast array of groups with a religious affiliation to Islam. The definition used here is borrowed from Bruce Hoffman, an expert on international terrorism; "violent acts with deliberate political repercussions carried out by a non-state entity." 'Islamic terrorism' is defined here as "violent acts with deliberate political repercussions carried out by non-state entities with a public commitment to establish an Islamic state and bound by the principal of 'global *jihād*.'"

<sup>2</sup> This figure includes legitimate business carried out in front companies to raise and channel funds for Islamic terror. Only a small proportion of these funds are ultimately channeled into terror operations. The funds exist, however, for the purpose of promoting 'global *jihād*.'

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<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Michael Dawson, deputy assistant secretary for critical infrastructure protection and compliance policy, 15 July 2003, to the Bankers' Association for Finance and Trade in Washington.

<sup>7</sup> Canadian Ministry of Foreign Affairs website: [http://www.dfait-maeci.gc.ca/internationalcrime/financing\\_terrorism-en.asp](http://www.dfait-maeci.gc.ca/internationalcrime/financing_terrorism-en.asp).

<sup>8</sup> Canadian Ministry of Foreign Affairs website: Available HTTP: <[http://www.dfait-maeci.gc.ca/internationalcrime/financing\\_terrorism-en.asp](http://www.dfait-maeci.gc.ca/internationalcrime/financing_terrorism-en.asp)>.

<sup>9</sup> Matthew Levitt, "Stemming the Flow of Terrorist Financing: Practical and Conceptual Challenges," *Fletcher Forum of World Affairs*, Winter/Spring 2003, vol. 27, no. 1.

<sup>10</sup> Ibid.

<sup>11</sup> Paul Beckett, "September 11 Attacks", *Wall Street Journal*, 15 May 2002.

<sup>12</sup> Roth, Greenburg, Wille. Monograph on Terrorist Financing, op. cit.

<sup>13</sup> For an alternative perspective before 11 September 2001 cf. Gil Feiler, *Financing Islamic Terror* (in Hebrew), ICT, 1999, p.4.

<sup>14</sup> Ibid.

<sup>15</sup> Author's estimate.

<sup>16</sup> Author's estimate.

<sup>17</sup> Jean-Charles Brisard, "Terrorism Financing, Roots and Trends of Saudi Terrorism financing", Report prepared for the President of the Security Council of the United Nations, 19 December 2002.

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<sup>21</sup> Philip Shenon, "US-Based Muslim Charity Raided by NATO in Kosovo," *The New York Times*, 18 December 2001.

<sup>22</sup> Intelligence sources.

<sup>23</sup> Personal interviews with intelligence sources.

<sup>24</sup> Carlta Vitzthum and Keith Johnson, "Spain Detains al-Qaeda Financier in Flurry of Europe Terror Arrests," *The Wall Street Journal*, 25 April 2002.

<sup>25</sup> United States of America v. Benevolence International Foundation, INC, and Enaam M. Arnaout, a/k/a 'Abu Mahmoud,' a/k/a 'Abd al- Samia,' Case number 02CR0414, Northern District of Illinois, Eastern Division.

<sup>26</sup> Interviews with intelligence sources.

<sup>27</sup> Ibid.

<sup>28</sup> United States of America v. Enaam M. Arnaout, aka 'Abu Mahmoud,' aka 'Abu Mahmoud al Suri,' aka 'Abu Mahmoud al Hamawi,' aka 'Abdel Samia,' Case number 02CR892, Northern District of Illinois, Eastern Division (October 2002).

<sup>29</sup> "Al-Qa'ida Terrorists Planned Bosnia Attack, Official Says," *AP March 23*, 2002.

<sup>30</sup> See: Islamic extremism in Europe: Hearing Before the Subcommittee on Europe and emerging threats of the committee on international relations - House of representatives One Hundred Ninth Congress; First session 27 April 2005; Serial No. 109-34.

<sup>31</sup> Matthew Levitt. (19 March 2004) "Charitable Organizations and Terrorist Financing: A War on Terror Status-Check," The Washington Institute for Near East Policy Website. Online. Available HTTP: <<http://www.washingtoninstitute.org/templateC07.php?CID=104>>.

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