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## Money Laundering and Terrorist Financing in the Middle East and South Asia

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Testimony before the Senate Committee on Banking, Housing, and Urban Affairs

Washington, DC

July 13, 2005

Thank you for the opportunity to discuss with you the contribution of the Department of State to U.S. Government efforts to combat money laundering and the financing of terrorism in the Middle East and South Asia. My colleague, Ambassador Nancy Powell, Acting Assistant Secretary for the Bureau of International Narcotics and Law Enforcement Affairs is also here, and she can answer any questions on money laundering that you may have. Combating money laundering and the financing of terrorism are vital tasks and high priorities for the Department of State. Your interest and attention to this key area is extremely valuable and much appreciated.

The main theme that you will hear throughout my presentation today is that we have made significant strides at bolstering the political will and ability of governments in the Middle East and South Asia to act against the common threat of terrorism and the financing of terrorism but that we need to do more. We face a resilient, adaptable and ruthless foe and must constantly anticipate and help the countries of these key regions prepare for the next move before it happens. This is why your hearing today is especially important.

Mr. Chairman, your letter to the Secretary noted that your committee is particularly interested in the Department of State's perspective on the interagency effort to execute this component of the war on terror. I have been working on the U.S. Government's campaign against terrorist finance since right after September 11, 2001 and agree with the 9/11 Commission's view that the current interagency structure has improved the coordination and effectiveness of our ability to block funds to terrorists. Our efforts to combat terrorist finance serve many objectives and employ many tools. My goal today is to sketch for you the role the Department of State plays in the overall interagency process that aims to strike the right balance of priorities and use the right mix of tools in our efforts to keep funds out of the hands of terrorists in the Middle East and South Asia.

### Tracking Terrorist Finances

The two major policy strategies utilized by the Administration in the terror finance area are: freezing the assets of terrorist financiers and using information about terrorist financiers to disrupt the terrorist networks themselves. As terrorists largely

operate internationally, a key component of the fight is to build international cooperation. To achieve this goal, our approach has been to draw as appropriate on a wide range of flexible policy tools, including:

- 1) Bilateral and multilateral diplomacy;
- 2) Law enforcement and intelligence cooperation;
- 3) Public designations of terrorists and their supporters for asset-freeze actions;
- 4) Technical assistance; and
- 5) Concerted international action through multilateral organizations and groups, notably the Financial Action Task Force on Money Laundering (FATF) and the United Nations.

Effective diplomacy is a key element in winning the political commitment from which cooperation in other areas flows. Our diplomats are the overseas eyes, ears and voices of the U.S. Government in dealing with foreign governments and financial institutions on terrorism finance. Our diplomats meet additional responsibilities in the many countries where we have no resident legal or Department of Treasury attaché. With enhanced cooperation, intelligence and law enforcement officers are able to follow the money trail. With international cooperation on asset-freezes (as well as travel bans and arms embargoes under UN resolutions), we force terrorists into less reliable and more costly means of moving money. Designations also chill support for terrorism - it is one thing to write a check or transfer money to terrorists when no one is looking; it is quite another to realize that such actions can bring unwanted official attention and lead to prosecution. Public identification of charitable groups that funnel some of their donations off to support terrorists has also proven a powerful tool to discourage further donations and to encourage other governments to monitor more effectively the activities of non-governmental organizations.

Since 9/11, we have ramped up our efforts and made substantial progress. We also acknowledge that much remains to be done. Since September 11, 2001, we have:

- Developed a broad and strong international coalition against terrorist financing;
- Ordered the freezing of the U.S. assets of 400 individuals and entities linked to terrorism;
- Submitted and supported the submission by other countries, including Saudi Arabia and several of our other Middle Eastern partners, over 300 al Qaida- or Taliban-linked names to the UN 1267 Sanctions Committee (also known as the al Qaida/Taliban Committee) for sanctions, including asset-freezing, thereby requiring all countries to act against these names;
- Worked closely with concerned agencies to designate three financiers of the Zarqawi network, or al Qaida in Iraq, since the beginning of 2005 pursuant to E.O.13224. The designations of Bilal Mansur al-Hiyari on April 13, 'Ayyad al-Fadhli on February 15, and Sulayman Kahlid Darwish on January 25 are helping stem the funding of the Iraqi insurgency;
- Designated Jama'at al-Tawhid wa'al-Jihad (JTJ) both as a Foreign Terrorist Organization and separately under E.O. 13224 on October 15, 2004 for having ties to the al-Zarqawi network. At the request of the United States, the United Kingdom, Jordan, and Iraq, this organization was also listed by the UN 1267 Sanctions Committee on October 18. On November 30, the USG amended the previous designation of Jama'at al-Tawhid wa'al-Jihad (JTJ), to include its new alias Tanzim Qa'idat al-Jihad fi Bilad al-Rafidayn and all its possible translations. On December 2, Japan, joined by the United Kingdom and Germany, submitted to the Sanctions Committee the new alias Tanzim Qa'idat al-Jihad fi Bilad al-Rafidayn and all its possible translations and transliterations. The USG fully supported those efforts.
- Designated charities funding HAMAS for asset freeze; and taken action against Saudi terrorism financiers and financial support networks;
- Frozen approximately \$147.4 million and seized approximately \$65 million in assets located internationally, including in the United States;
- Through our embassies, formally approached world governments internationally to freeze the assets of each and every name we designate;
- Supported changing national laws, regulations and regulatory institutions around the world to better combat terrorist finance and money laundering; including working with the European Union, APEC, the Organization of American States, and the Financial Action Task Force and their Members to strengthen their counterterrorism finance regimes; and

- Made it harder for terrorists and their supporters to use both formal and informal financial systems.

### **Effective U.S. Government Coordination**

Key to our success in tackling terrorism finance in the Middle East and worldwide is effective U.S. interagency coordination. A Policy Coordination Committee (PCC), chaired by the National Security Council, ensures that these activities are well coordinated. This strong interagency teamwork involves the intelligence agencies and the law enforcement community, led by the FBI, as well as State, Treasury, Homeland Security, Justice, and Defense collectively pursuing an understanding of the system of financial backers, facilitators and intermediaries that play a role in this shadowy financial world. As appropriate, PCC members also draw on the expertise of financial regulators. The overarching lesson I draw from my experience since 9/11 is the importance of overall direction of the terrorist finance effort by a body that can direct all of the USG participants in the process to find the right blend of instruments to use on a case-by-case basis. The NSC is ideally placed to play this coordinating role against terrorist finance, as it has traditionally done in other national security areas.

Treasury develops and coordinates financial packages that support public designations of terrorists and terrorism supporters for asset freeze action. Treasury also leads our outreach to FATF and the international financial institutions. Justice leads the investigation and prosecution in a coordinated campaign against terrorist sources of financing. And, State initiates asset-freeze designations of terrorist groups and shepherds the interagency process through which we develop and sustain the international relationships, strategies and activities to win vital international support for and cooperation with our efforts, including through UN action. These efforts include the provision of training and technical assistance in coordination with Justice, Treasury, Homeland Security and the financial regulatory agencies. The U.S. Government's task has been to identify, track and pursue terrorist financing targets and to work with the international community to take measures to thwart the ability of terrorists to raise and channel the funds they need to survive and carry out their heinous acts.

Our diplomatic posts around the world are essential partners in implementing this global strategy. They have each designated an official, generally the Deputy Chief of Mission, as the Terrorism Finance Coordination Officer (TFCO). These officers chair interagency meetings at posts on a regular basis, not only to evaluate the activities of their host governments, but also to develop and propose individual strategies on most effectively getting at specific targets in their regions. The increased level of interagency cooperation we in Washington are seeing on this front is generating new embassy initiatives focused sharply on terrorist finance. The ability of diplomats at our embassies to develop high-level and immediate contacts with host officials in these efforts has built broad responsiveness around the world to various targeting actions.

### **U.S. Asset Freezing (E.O. 13224) Actions**

One of our tools to prevent terrorism is to starve its practitioners of financial resources. A key weapon in the effort to disrupt terrorist financing has been the President's Executive Order (E.O.) 13224, which was signed on September 23, 2001. That order, issued pursuant to the International Emergency Economic Powers Act and other authorities, provided new authorities that have been fundamental to an unprecedented effort to identify and freeze the assets of individuals and entities associated with terrorism. Under that order, the Administration has frozen the assets of 400 individuals and entities on 65 separate occasions. The agencies cooperating in this effort are in daily contact, examining and evaluating new names and targets for possible designation resulting in asset freezing. However, our actions in relation to E.O. 13224 are not taken in isolation. We consider other actions as well, including developing diplomatic initiatives with other governments to conduct audits, exchange information on records, law enforcement and intelligence efforts; and shaping new regulatory initiatives. While using E.O. 13224 to designate entities and organizations as "specially designated global terrorists" is the action that is most publicly visible, it is by no means the only action or the most important in seeking to disrupt the financing of terrorism.

### **Foreign Terrorist Organizations**

A second tool the Secretary of State has in the war on terrorist finance is the designation of Foreign Terrorist Organizations (FTO). The Congress gave the Secretary of State this authority in 1996, and 40 organizations are currently designated as FTOs. In addition

to requiring the freezing of FTO assets by U.S. financial institutions that know they control or possess FTO funds, this authority renders FTO members who are aliens inadmissible to the United States, and permits their removal under certain circumstances. Once an organization is designated as an FTO, it becomes a criminal offense to knowingly provide material support or resources to the organization. Offenders are subject to prison terms of up to fifteen years (or, if death results from the offense, life imprisonment). The designation of groups under this authority is one of the steps most widely recognized by the American public in the war on terrorism and terrorist finance.

### **United Nations Actions**

Even before 9/11, the UN Security Council (UNSC) had taken action to address the threat of terrorism. It had adopted resolutions 1267 and 1333, which collectively imposed sanctions against the Taliban, Usama bin Laden and al Qaida. Following 9/11, the UNSC stepped up its counterterrorism efforts by adopting Resolutions 1373 and 1390. Among other things, Resolution 1373 requires all States to prevent and suppress the financing of terrorist acts and to freeze the assets of terrorists and their supporters. It also imposes travel restrictions on these individuals. Resolution 1390 (strengthened by Resolutions 1455 and 1526) expanded sanctions, including asset freezes, travel restrictions and arms embargos, against Usama bin Laden, and members of the Taliban and al Qaida and those associated with them. The UN 1267 Sanctions Committee maintains and updates a list of individuals and entities subject to these sanctions, which all States are obligated to implement.

Through these actions, the UNSC has sent a clear and strong message underscoring the global commitment against terrorists and their supporters and obligating UN Member States to implement asset freezes and other sanctions. This is extremely important, because: (1) most of the assets making their way to terrorists are not under U.S. control; and (2) when the 1267 Sanctions Committee designates individuals or entities associated with al Qaida, all 191 UN Member States are obligated to implement against those persons the applicable sanctions, which include asset freezes. The 1267 Sanctions Committee has listed over 300 persons and over 100 entities that are subject to the sanctions. With respect to South Asia, we recently convinced the UN 1267 Sanctions Committee to list Pakistani supporters of al Qaida for worldwide asset freeze and travel ban.

In January, then-Treasury Assistant Secretary Zarate and I met with the 1267 Committee to detail U.S. implementation of the resolution's asset freeze, travel ban and arms embargo provisions. At this meeting I proposed several ideas aimed at reinforcing current sanctions, including enhancing the sanctions list, promoting international standards and furthering bilateral and multilateral cooperation. The Committee is actively encouraging other members to make similar presentations. In mid-May, the UK addressed the Committee on their implementation efforts, with an emphasis on oversight of charitable organizations. In July, Dutch and Australian officials addressed the Committee on their implementation efforts. We have also begun initial discussions with other Security Council Members on further steps to strengthen the implementation and reach of these UN sanctions in the context of a new resolution that the Council will consider this month; the U.S. is taking the lead in drafting that resolution.

In those cases where the United States Government decides to propose the inclusion of a terrorist and/or the terrorist's financier on the 1267 Committee list, State plays a key role in recommending how best to gain the broadest international support. First, we need to be sure that we can make an effective public case. This is much more difficult and time-consuming than it sounds – but is crucial to the success of this approach. Often, strong cases are based heavily on classified information, and we must weigh competing priorities. If we go to the UN to propose a designation and the unclassified information standing alone is weak, other Member States will not support us. On the other hand, there are often compelling reasons not to declassify further information. The Department and our embassies help the interagency team strike the right balance by providing advice and insights on what it will require for a designation to gain international approval. Once a designation proposal is decided, the Department seeks international support in the form of potential cosponsors and must garner unanimous support from members of the UN Committee. When a new name goes onto the Committee's list, we bring it to the attention of world governments to ensure that they are able to take effective and quick action against the designee.

### **Improving National Laws, Regulations and Standards**

In addition to advances on the UN front, we have witnessed considerable progress on the part of countries around the world to equip themselves with the instruments they need to clamp down on domestic terrorist financing. Since 9/11, about 90 countries in every region of the world, including the Middle East and South Asia, have either adopted new laws or regulations to fight terrorist financing or are in the process of doing so. This is an ongoing process with many countries refining their laws and regulations to assure they have all of the tools needed to combat terrorist financing.

To ensure that these new laws and regulations are effective, the United States has worked very closely with the Financial Action Task Force (FATF), a multinational organization whose 33 members are devoted to combating money laundering. In 2003, FATF revised its 40 Recommendations to combat money laundering to include terrorist financing provisions. These Recommendations along with the complementary Special Recommendations on Terrorist Financing, adopted in 2001, provide a framework for countries to establish a comprehensive regime to fight money laundering and terrorist financing. The two guiding principles the FATF has identified as critical to fighting terrorist finance are cooperation with the UN (respecting, ratifying and implementing anti-terrorist treaties and resolutions) and identifying, defining and criminalizing terrorist financial activity.

The FATF continues to provide critical guidance on the development of comprehensive regimes to attack the full range of financial crimes, including terrorist financing. In October 2004, the FATF added Special Recommendation IX on terrorist financing (to those approved in 2001), addressing the problem of cash couriers. It also continues its efforts to clarify and refine these Special Recommendations by publishing interpretive notes and best practices guidelines to help regulators, enforcers, financial institutions and others better understand and implement the most technical recommendations. The FATF has also worked closely with the IMF and World Bank to develop a common methodology to incorporate FATF's Recommendations into the financial sector reviews that all three entities undertake.

The FATF-Style Regional Bodies (FSRBS) worked throughout the year to adapt the Recommendations to their particular regional requirements. The FATF approved two new FSRBS in 2004, (bringing the total to eight FSRBS): the Eurasian Group (EAG) and the Middle East and North African Financial Action Task Force (MENA FATF). These two new groups filled in critical gaps in global coverage, and the U.S. is an observer in both. The EAG was inaugurated on October 6, 2004 by six member states: Belarus, China, Kazakhstan, Kyrgyz Republic, Russia and Tajikistan. Seven jurisdictions and nine international organizations were admitted as observers. EAG's second plenary was held just this past April in Shanghai, China. The fourteen founding members of MENA FATF are Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the UAE, and Yemen. The group was inaugurated on November 29, 2004, and held its inaugural plenary meeting the next day. Another plenary session was held in mid-April in Bahrain at which the MENA FATF agreed to begin the first round of mutual evaluations in 2006.

FATF is also working cooperatively with the UN Counterterrorism Committee (CTC) and the G-8-initiated Counterterrorism Action Group (CTAG) to conduct assessments of selected countries' needs for technical assistance to improve local ability to combat terrorist financing. FATF has conducted six of these assessments: Morocco, Egypt, Nigeria, Cambodia, Indonesia, and Tunisia. FATF did not conduct an assessment in Thailand as was requested because a recent IMF survey had been done, or in Cote d'Ivoire due to political instability there. The UAE did not accept a FATF assessment, indicating to the USG that a prior U.S.-conducted assessment was enough. CTAG donors have established a gaps/assistance matrix based on the counterterrorism finance needs identified in FATF's assessment. Although donors made a good start in meeting the needs of these countries, CTAG agreed that sustained assistance over time would be required to close the gaps.

We have seen substantial progress in securing countries' commitment to strengthen their anti-money laundering laws and regulations, which is inextricably linked to combating the financing of terrorism. In large part due to FATF's focus and our technical assistance and diplomatic pressure, governments pass amendments to improve their ability to combat terrorist financing. For instance, the Indonesian Parliament passed important amendments to its anti-money laundering law on September 16, 2003 that will improve the country's ability to take actions against terrorist financing. Similarly, it was FATF's efforts, in conjunction with

our diplomacy and technical assistance, which led the Philippines to pass legislation in March 2003 that will significantly increase that country's ability to carry out meaningful anti-terrorist financing measures. FATF advises on whether such regulations and legislation meet international standards and are effective instruments to combat money laundering and terrorist financing.

In addition to providing countries with the guidance they need to develop effective regimes, FATF also places pressure on difficult countries via its Non-Cooperating Countries and Territories (NCCT) program, which provides for listing countries that are non-cooperative with respect to internationally accepted anti-money laundering practices. FATF's NCCT program creates an incentive for States to vigorously address their legal and regulatory environments to allow appropriate action against money laundering. Nigeria and the Philippines, for instance, in December 2002 and February 2003 respectively, took meaningful legislative steps to strengthen their anti-money laundering laws to avoid imposition of FATF measures. Our extensive efforts with the Philippines and Indonesia also played a key role in their removal from the FATF Non-Cooperative Countries and Territories list.

As we, together with others in the international community, began to look into how terrorist groups raised and moved their funds, the fact that much of this took place outside regular banking systems quickly became apparent. As a result, international efforts underway to set standards for tackling terrorist financing are also addressing how to prevent charities and not-for-profit organizations from being abused by those with malicious intentions and also how to help keep cash couriers and alternative remittance systems, such as "hawala," from being used to finance terrorism. The FATF, which has already addressed some of these issues through its Special Recommendations on terrorist financing, is now working to develop guidelines and standards on wire transfers and regulation of charities and non-governmental organizations. Setting new standards and norms in these areas is key to making our international efforts more effective.

### **Economic Tools**

U.S. policies to counter terrorism do include economic policies that encourage development. An important tactic to stamp out terrorism is to improve the economic prosperity and employment opportunities in priority countries. Extremism and terrorism thrive in countries that lack freedom, political expression, and economic and educational opportunity. People, especially youth, who live in poverty and have no voice are more likely to be susceptible to extremist ideologies and to join terrorist organizations. To support the reforms already underway in the region, the United States and its G-8 partners joined at the 2004 Sea Island Summit to launch the Broader Middle East and North Africa (BMENA) Initiative in partnership with governments, businesses, and civil society groups from the region. BMENA includes initiatives to increase democratic participation, promote the development of civil society, fight illiteracy, and support job-creating small businesses. These reforms will allow the people of the Broader Middle East more opportunity to have a say in the direction their societies are taking and help combat extremism.

As a matter of United States policy, development is central to the President's National Security Strategy. Well-conceived and targeted aid is a potential leveraging instrument that can help countries implement sound policies, reducing any attraction that anti-Western terrorist groups may have in failing states.

The Millennium Challenge Account represents a new compact for development -- a new way of doing business. It provides assistance to those countries that rule justly, invest in their people and encourage economic freedom. Good governance, which attracts investment and allows the private sector to flourish, not foreign aid, is the key to economic development. U.S. trade and investment flows to the developing world dwarf our foreign aid. Unutilized capital in developing countries, owing to weak policies and poor property rights, is estimated to be as high as \$9 trillion.

Debt relief for the poorest countries is another element of our development strategy. Our long-standing support for the Heavily Indebted Poor Countries (HIPC) initiative promotes debt sustainability and enables the poorest countries to devote additional resources to reducing poverty and promoting economic growth.

Our aggressive multilateral and bilateral trade agenda to open agricultural and non-agricultural markets and liberalize financial services, transportation, telecommunications and government procurement all support development. Free trade and open markets can be drivers for greater prosperity and job opportunities, especially for the young people in these key regions who are thirsting for a stake in the future. Under the President's vision for a Middle East Free Trade Area (MEFTA) by 2013, the U.S. has concluded a bilateral free trade agreement with Jordan. Agreements with Morocco and Bahrain should go into effect in the near future; and Free Trade Agreement (FTA) talks with Oman and the United Arab Emirates have just been launched. We also have Trade and Investment Framework Agreements (TIFA), which typically serve as pre-cursors to an FTA, in place with most Arab countries. We are also aiming to conclude a TIFA with Afghanistan. The U.S. is working with countries in both the Middle East and South Asia, such as Saudi Arabia and Afghanistan, to assist them in their efforts to join the World Trade Organization and become more fully integrated into the global trading system.

Bilateral Investment Treaties (BITs) are another tool to promote the adoption of market-oriented economic policies that can promote growth and new employment opportunities. Historically, investors in many countries in the Middle East and South Asia have too often faced discrimination or otherwise been treated in a biased and nontransparent manner by host governments. As a result, foreign investors have turned elsewhere. Our bilateral investment treaties address this problem by assuring that certain core investment protections are available to investors, and by providing access to an independent, non-political mechanism for investors to enforce those protections. We have held two rounds of BIT negotiations with Pakistan since February, with a further round likely in August. Saudi Arabia has expressed interest in exploratory discussions on possible BIT negotiations, and we have also identified Algeria as a possible BIT candidate.

### **Capacity Building**

On the technical assistance front, the interagency Terrorist Finance Working Group (TFWG), chaired by the State Department, has provided over \$11.5 million in Foreign Assistance funding to provide technical assistance and training to develop and reinforce counterterrorist financing/anti-money laundering (CTF/AML) regimes of frontline states, many of which are in the Middle East and South Asia regions. To date, over twenty U.S. Government offices and agencies participating in the TFWG, which include the Justice, Treasury and Homeland Security Departments and financial regulatory agencies, have provided assistance to eighteen countries on five different continents including Saudi Arabia, the UAE, Kuwait, Qatar, Jordan and Egypt in the Middle East and Bangladesh and Pakistan in South Asia regions. These comprehensive training and technical assistance programs include legislative drafting, financial regulatory training, Financial Intelligence Unit (FIU) development, law enforcement training, and prosecutorial/judicial development.

We have provided several countries in the Gulf and South Asia with different types of training related to sound counterterrorist finance practices, including the detection of trade-based money laundering (moving money for criminal purposes by manipulation of trade documents), customs training, anti-terrorist finance techniques and case studies for bank examiners, and general financial investigative skills for law enforcement/counterterrorist officials. Our international partners have welcomed this type of training, and we plan to provide it to other vulnerable jurisdictions in other regions.

Burden sharing with our key coalition partners is an emerging success story. For instance, the Governments of Australia, New Zealand and the United Kingdom, as well as the EU, and the Asian Development Bank, have significant technical assistance initiatives underway in countries such as the Philippines, Indonesia, Pakistan, Malaysia, and Egypt. We have also funded the UN Global Program Against Money Laundering to place a yearlong mentor in the Philippines to assist with further development of its FIU. Despite its importance in the overall counterterrorism effort, and all the discussions about it, relatively few dollars are devoted to training and technical assistance for AML and CTF. Congress could strengthen this tool by fully supporting the Administration's funding request for this crucial task.

### **Areas of Focused Cooperation**

The Administration is actively involved in combating terrorist financing through partnerships we have established throughout the

Middle East and South Asia. These activities rely on the full range of tools in our toolkit.

### **Saudi Arabia**

We are working on this approach with many countries, but I want to highlight for you the range of activities in Saudi Arabia, where we have used each of these elements in a process steered by the NSC-led Terrorist Finance PCC. We have instituted a regular high-level diplomatic effort to urge enhanced emphasis by the Saudis on combating terrorist finance. Homeland Security Advisor Frances Townsend has traveled regularly to Saudi Arabia to engage with the highest-level Saudi authorities on this issue. The U.S. Ambassador to Saudi Arabia and his staff also reinforce these messages in their daily dialogue with a wide range of Saudi officials.

We have jointly designated, with the Saudis, over a dozen Saudi-related entities and multiple individuals under UNSCR 1267.

As part of a State-led interagency assistance program, Federal banking regulators have provided specialized anti-money laundering and counter terrorist financing training to their Saudi counterparts.

Demonstrating its commitment to address systemic factors contributing to the flow of funds to terrorists, Saudi Arabia is working to establish a Charities Commission to regulate all charitable donations leaving the Kingdom. Saudi Arabia has made important changes to its banking and charity systems to help strangle the funds that support al Qaida. Saudi Arabia's new banking regulations place strict controls on accounts held by charities. Saudi Arabia has also ordered an end to the collection of donations at mosques and instructed retail establishments to remove charity collection boxes from their premises. These steps have been extremely challenging for the Saudi government, but they have been ordered because it understands that terrorists are more likely to use funds collected anonymously and without an audit trail than those that move through regular banking channels. We believe that Saudi actions have, in fact, significantly reduced the flow of cash from Saudi Arabia to al Qaida and other terrorist groups in the region.

The Saudi Government has continued to publicize counterterrorism efforts and to speak out denouncing terrorism. The declaration from the February 2005 International Counterterrorism Conference, hosted by the Saudi Government, in Riyadh stated that there can be no justification for terrorism and called for greater religious tolerance. Homeland Security Advisor Townsend led a large U.S. interagency delegation to the conference and spoke at the plenary session, emphasizing the need to block the financing of terrorism. I participated in the working group on terrorist finance. The Saudi Government plans to establish an international counterterrorism center in Riyadh which can further international efforts at curbing all aspects of terrorism, including terrorist finance. We plan to continue to work with the Saudis on ways to make this center most effective. On the issue of greater religious tolerance, the Saudi Government, on its own initiative, recently completed a comprehensive revision of textbooks to "remove objectionable language," and these new textbooks are now being used in Saudi schools. In 2005, the Saudis intensified their wide-ranging anti-terror public relations campaign. The campaign condemns terrorism and encourages moderation through statements by politicians and religious leaders. A mix of television programs, advertisements, and billboards depict the graphic results of terrorism to send a strong anti-terror message to the Saudi public. For the last four years, the State Department has sponsored special International Visitors programs for Saudi religious educators, to expose them to the nature of U.S. religious diversity and the role of religion in U.S. society. Two groups of ten had visited so far in fiscal year 2005, with another group of ten scheduled in the fall.

Saudi Arabia has been working with us for a year and a half in the context of the Joint Task Force on Terrorist Financing, led on the U.S. side by the FBI. As part of the State-led interagency counterterrorist financing assistance program, experts from the FBI and IRS have completed a training module designed to strengthen the financial investigative capabilities of the Saudi security forces, with more advanced courses to follow. The Department of Homeland Security's Bureau of Immigration and Customs Enforcement (ICE) will provide a week of cash courier-related training to Saudi customs officials starting July 16. That being said, this remains a work in progress. We have reason to believe that the new task force on terrorist financing will be effective, but we

need to see results.

We believe the Saudi Arabian Government is implementing its new charity regulations, but there too, we continue to stress in our discussions with the Saudis the need for full implementation, including a fully functioning Charities Commission. Additionally, appropriate regulatory oversight of organizations headquartered in the Kingdom such as the World Muslim League, the International Islamic Relief Organization (IIRO) and the World Assembly of Muslim Youth (WAMY) is absolutely necessary. The Saudi government is working to train personnel to staff its nascent Financial Intelligence Unit (FIU) and we will encourage the Saudi FIU to join the Egmont Group in 2006. On June 19, a Ministry of Interior spokesman announced that a "special department for tracing illegal financial activities in the Kingdom" (the FIU) will be completed soon. The September 2003 FATF mutual assessment of Saudi Arabia found that the Kingdom has taken essential steps - closer bank supervision, tighter banking laws, enhanced oversight - critical to curbing terrorist financing and money laundering. On June 14, for example, the Council of Ministers adopted a recommendation that private donations to beneficiaries outside the Kingdom be channeled only through the National Commission for Relief and Charitable Work Abroad. There is more to do, and we will continue to press ahead with our efforts with the Saudi Arabian Government and with other governments in the region.

Beyond these activities, the Saudis are also continuing to fight terrorism on the ground. On June 28, Saudi Arabia issued a new list of 36 "most wanted" terrorists in the Kingdom. At least one has been killed and one has surrendered since the list was released.

### **Other Gulf States**

The governments of the Arabian Peninsula are themselves on the front lines in the war on terrorism, and have become essential partners of the United States in countering the threat of terrorism in the region. We have developed highly cooperative and mutually beneficial relations with the Gulf States in the areas of law enforcement, intelligence sharing, and terrorist finance. However, there is still more that can be done. We will continue high-level engagement and will focus on sustaining the capacity of these governments to effectively address the terrorist threat.

Our efforts to combat the financing of terrorism are working, and now al Qaida and other terrorist groups are increasingly resorting to cash couriers to move their funds across borders to fund their terrorist activities. The USG is working with the governments in the Gulf to combat the illicit use of cash couriers, which is especially pertinent to these cash-based economies. We have recently provided training to the Saudi Customs Service to identify cash couriers. We look forward to supporting these governments as they enhance their cash courier regulations. Additionally, FATF issued Special Recommendation IX in October 2004, under which member countries should ensure that they have measures in place to detect, and appropriately sanction, those moving currency if suspected of money laundering or terrorist financing.

The Gulf States have made significant progress to improve their ability to combat terrorist financing and have worked closely with us in this area. These nations have diligently implemented UNSC sanctions.

Kuwait formed a ministerial committee to develop strategies to combat terrorism and extremism, and forbade Kuwaiti Ministries and other institutions from extending official invitations to twenty-six Saudi clerics who reportedly signed a statement in support of Jihad in Iraq. There are regular consultations between U.S. and Kuwaiti officials on ways to strengthen measures to combat money laundering and terrorist finance. [During a recent visit to Kuwait by Treasury Deputy Assistant Secretary Daniel Glaser, the Kuwaitis discussed some of the additional measures they are taking to combat terrorist financing. The GOK has formed a working group to draft a new piece of legislation that would specifically criminalize terrorist finance and strengthen Kuwait's anti-money laundering/terrorist finance \(AML/TF\) regime. The legislation is intended to address weaknesses in Kuwait's current anti-terrorist finance legal regime \(absence of a law specifically criminalizing terrorist finance; prohibition of direct information-sharing by the Financial Intelligence Unit \(FIU\) without prior case-by-case approval of the Public Prosecutor's Office; lack of restrictions on cash couriers\). The USG has offered, and the GOK has accepted, USDOJ Office of Overseas Prosecutorial Development, Assistance, and Training \(OPDAT\) assistance in reviewing Kuwait's legislation. GOK officials have also indicated that they may ask the IMF and FinCEN for assistance. The Embassy is](#)

[also working with the Department of Justice, the Federal Reserve and other agencies on a counterterrorism training package for the Government of Kuwait.](#)

In November 2004, Bahrain hosted the inaugural meeting of the Middle East and North Africa (MENA) FATF, which will promote the implementation of the FATF Recommendations to combat money laundering and terrorist finance. In April 2005, Bahrain hosted a two-day plenary session of the MENAFATF followed by a two-day anti-money laundering/counterterrorist finance workshop co-hosted by the World Bank and IMF.

The UAE aggressively enforces anti-money laundering regulations and in 2004 enacted legislation criminalizing terror finance. In April, the UAE hosted the third international conference where ways to prevent use of the hawala (informal money transfer) system by terrorist financiers was discussed. We sent U.S. delegates and a speaker to this conference, and over 400 participants from 74 different countries attended. Conference attendees included representatives from financial institutions, Central Banks, law enforcement agencies, FATF, the IMF, and the World Bank, as well as other international officials involved in regulating money transfer systems. The government registers hawala dealers.

Oman has implemented a tight anti-money laundering regime that monitors unusual transactions. Financial institutions plan to verify customer identities using sophisticated biometrics technology.

Qatar has enacted laws to combat terrorist financing and to monitor all domestic and international charity activities.

Yemen routinely cooperates with U.S. law enforcement and took action against al Qaida by arresting several individuals suspected of al Qaida ties and prosecuting the perpetrators of several terrorist acts, including the 2002 attack on the USS Cole.

We have conducted Anti-Terrorism Assistance (ATA) programs with all of the Arabian Peninsula states.

Now that MENAFATF is set up, it needs to become an effective, practicing institution. Members of MENAFATF should all set up operational FIUs, conduct mutual assessments, establish best practices and meet overall FATF standards.

## **Jordan**

The government of Jordan has cooperated with us on a wide range of terrorist finance issues, including designations at the UN. We urge passage of the new anti-money laundering legislation, which will strengthen significantly Jordan's legal basis for tackling the financing of terrorism and its international cooperation on AML and counter-terrorism financing cases.

## **Syria**

In May 2004, Treasury designated the Commercial Bank of Syria (CBS) as a "primary money laundering concern" pursuant to Section 311 of the USA PATRIOT Act and proposed to implement a special measure against the bank. Since then, we have worked with the Syrian government and the CBS to strengthen their anti-money laundering controls and their cooperation with the U. S. on money laundering and terrorist financing issues. We have not implemented the special measure, which would require U. S. financial institutions to sever their correspondent relationships with CBS, pending an assessment of Syrian progress toward resolving U.S. concerns. In addition, the Syrians joined us on the submission of Sulayman Khalid Darwish to the UN 1267 Committee.

However, the Syrian government needs to do more to address U.S. concerns about Syria's continued efforts to influence Lebanese political developments, its pursuit of WMD, and the use of Syrian territory by those supporting terrorism and the insurgency in Iraq. On June 9, the Treasury Department designated a Syrian-based entity and its two managers pursuant to EO

13315, which is aimed at blocking the property of the former Iraqi regime or those who acted for on its behalf. On June 29, the Treasury Department designated another Syrian entity pursuant to its newly-issued Executive Order on WMD Proliferation Financing. On June 30, the Treasury Department designated two Syrians for an assets freeze pursuant to the provision in EO 13338 that is aimed at financially isolating those individuals and entities contributing to the Syrian government's military and security presence in Lebanon.

### **South Asia**

South Asia, and especially Pakistan, is a priority region for counterterrorist financing, due to the presence of al Qaida and other terrorist groups, porous borders, and cash-based economies that often operate through informal mechanisms, such as hawala. All countries in the region need to improve their terrorist financing regimes to meet international standards, including the establishment of functioning Financial Intelligence Units. Both political will and technical assistance are needed to make this region a more effective partner.

Turning to Pakistan specifically, we welcome the concrete actions it has taken to implement its obligations under UN Security Council Resolutions, including the freezing of over \$10 million of al Qaida assets. Pakistan has also apprehended terrorists, including Abu Farraj Al Libbi, al Qaida's operational leader. We are encouraged by Pakistan's concern about the infiltration of terrorist groups into charitable organizations, and would welcome the opportunity to provide technical assistance to help Pakistan meet international standards on preventing abuse of its non-profit sector.

We have provided Pakistan assistance on drafting an anti-money laundering/counterterrorist financing (AML/CTF) law that meets international standards, but this legislation is still awaiting parliamentary consideration. As soon as a law that meets international standards is enacted, we will be able to accelerate training efforts, including assistance for the establishment of a Financial Intelligence Unit (FIU). In the absence of an anti-money laundering and counterterrorism financing law, the State Bank of Pakistan has introduced FATF-compliant regulations in know-your-customer policy, record retention, due diligence of correspondent banks, and reporting suspicious transactions. Also in compliance with FATF recommendations, the Securities and Exchange Commission of Pakistan has applied know-your-customer regulations to stock exchanges, trusts, and other non-bank financial institutions. All settlements exceeding Rs 50,000 (\$840) must be performed by check or bank draft, as opposed to cash.

Afghanistan recently passed anti-money laundering and counterterrorist financing legislation, and many efforts are being made to strengthen police and customs forces. However, there remain few resources and little expertise to combat financial crimes, or to produce meaningful financial intelligence, and they have requested the U.S. for assistance in building capacity to do so. Arrangements are underway to send an assessment team. The most fundamental obstacles continue to be legal, cultural and historical factors that many times conflict with more Western-style proposed reforms to the financial sector generally.

In India, the Prevention of Money Laundering Act (PMLA) became effective on July 1. The Act provides the statutory basis for the Financial Intelligence Unit (FIU) to perform its functions. It criminalizes money laundering and requires banks and other financial institutions and intermediaries to report individual transactions valued over \$23,000 to the FIU. Two accounts belonging to terrorist individuals/entities have been identified, but the Government of India (GOI) has not frozen any assets to date. It is aware of the UN 1267 Committee list, however, and has conducted investigations. India has indicated that it wants to join FATF. However, at a recent FATF Plenary meeting in Paris, concerns were raised regarding India's ability to provide effective international cooperation in a timely manner, and to extend mutual legal assistance. The GOI maintains tight controls over charities, which are required to register with the government. The November 2004 amendment of the 1967 Unlawful Activities (Prevention) Act criminalized terrorist financing.

Speaking generally, South Asian countries lack sophisticated tools to combat the financing of terrorism. Not one country in the region is a member of the Egmont Group of countries with operational FIUs, which is unusual given the large numbers and regional spread of Egmont's membership. Anti-money laundering programs also tend to be absent or not up to international standards.

Nonetheless, there is a degree of interest in all countries of the region, and we have seen some progress.

Efforts are underway to develop and implement international AML/CTF standards bilaterally and regionally through such organizations such as the Asia Pacific Group on Money Laundering (APG). Bilaterally the U.S. has conducted training and technical assistance assessments for most countries in South Asia. We have provided AML/CTF legal drafting assistance, financial regulatory training, and FIU development support. In Bangladesh we support a Resident Legal Advisor to assist authorities in drafting and implementing AML/CTF laws as well as providing specialized training for prosecutors and other law enforcement officials.

### **Designations and Asset Freezes: Only Part of the Picture**

The international designations and asset freeze process has helped us develop and deepen a set of invaluable long-term relationships with our interagency and international partners. Through this collaborative international effort, we have built cooperation and the political will necessary to fight terrorism, both through designations and asset freezes, as well as through operational law enforcement actions. As described above, U.S. Government agencies meet regularly to identify, track and pursue terrorist financing targets and to determine, on a case-by-case basis, which type of action is most appropriate. Designation for asset freezing should not come at the expense of taking appropriate law enforcement action. On the contrary, the two approaches frequently complement each other. There are cases where operational law enforcement action can be initiated quickly to trace, prosecute and shut down terrorists. In other cases, for instance where long-term investigations are under way, the better option may be to designate for asset freezing in order to stop the flow of money that might be used to carry out terrorist activity until law enforcement actions can be taken.

We have used multilateral asset freezes, together with technical assistance and the FATF multilateral standard setting process, as valuable devices to isolate terrorist financiers, drive them out of the formal financial system, and unite the international community through collective action. In these cases, designations are preventative, making it harder for terrorists and their supporters to operate. We continue to work together with our international partners to strengthen the multilateral designation process. By carefully working with our allies, we seek to build international consensus, thereby preventing unwanted delays in the process. We urge all foreign governments to fulfill their UN obligations to freeze assets without delay. In cases where an individual or entity assumes a new name, we initiate action to designate the alias, thwarting their efforts to simply continue "business as usual" under a new name. These actions prevent open fundraising, diminish support to illicit charities, and act as an element of diplomacy to demonstrate international resolve.

In the fight against global terrorism, the Administration must continue to use vigorously all of the tools at its disposal - including designations/asset freezing, law enforcement/intelligence cooperation, and the establishment and enforcement of international norms and standards. Given that the money that gets into the hands of terrorists flows around the world, the only way we will be successful in drying up their financial resources is through continued, active U.S. engagement with allies, friends, and other countries around the globe. We *must* continue to broaden and deepen our efforts worldwide. These efforts have paid off – and they will continue to do so.

The Department of State plays a pivotal role in, and adds great value to, this broadening and deepening of international cooperation. Officers in our embassies and in Washington bring their experience to bear in judging the best approach to a specific terrorist or group in a specific country or region. Their political, economic and cultural expertise allows them to weigh the pros and cons of various approaches given the other political and economic dynamics of the countries whose help we are enlisting in the war against terrorism. There are no "off-the-shelf" answers in this field. Each case is different, and the State Department is uniquely placed to help weigh options and craft tailor-made strategies to produce effective action.

Released on July 13, 2005

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