

# CRS Report for Congress

## Saudi Arabia: Terrorist Financing Issues

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## Summary

According to the U.S. State Department 2007 International Narcotics Control Strategy Report, “Saudi donors and unregulated charities have been a major source of financing to extremist and terrorist groups over the past 25 years.” The September 11, 2001 attacks fueled criticisms within the United States of alleged Saudi involvement in terrorism or of Saudi laxity in acting against terrorist groups. The final report released by the bipartisan National Commission on Terrorist Attacks Upon the United States (the 9/11 Commission) indicates that the Commission “found no evidence that the Saudi government as an institution or senior Saudi officials individually funded [Al Qaeda].” The report also states, however, that Saudi Arabia “was a place where Al Qaeda raised money directly from individuals and through charities” and indicates that “charities with significant Saudi government sponsorship” may have diverted funding to Al Qaeda. U.S. officials remain concerned that Saudis continue to fund Al Qaeda and other terrorist organizations.

In numerous official statements, Saudi leaders have said they are committed to cooperating with the United States in fighting terrorist financing, pointing out that Saudi Arabia itself is a victim of terrorism and shares the U.S. interest in combating it. Saudi leaders acknowledge providing financial support for Islamic and Palestinian causes, but maintain that no official Saudi support goes to any terrorist organizations, such as Hamas. Since the September 11 attacks, Saudi Arabia has issued numerous decrees and created new institutions designed to tighten controls over the flow of funds in or through the kingdom, with particular emphasis on increasing the effectiveness of governmental supervision over charitable donations and collections.

Al Qaeda affiliated terrorist attacks in Saudi Arabia from 2003 to 2006 appear to have given added impetus to the Saudi leadership in expanding counter-terrorist financing efforts. Since mid-2003, the Saudi government has: set up a joint task force with the United States to investigate terrorist financing in Saudi Arabia; shuttered charitable organizations suspected of terrorist ties; passed anti-money laundering legislation; banned cash collections at mosques; centralized control over some charities; closed unlicensed money exchanges; and scrutinized clerics involved in charitable collections. A planned National Commission for Relief and Charity Work Abroad has not been established. As required by the Intelligence Reform and Terrorism Prevention Act (P.L. 108-458), the President has submitted a strategy for U.S.-Saudi collaboration, with special reference to combating terrorist financing.

In the 110th Congress, Section 2043 of the Implementing Recommendations of the 9/11 Commission Act (P.L. 110-53, signed August 3, 2007) finds that “the Kingdom of Saudi Arabia has an uneven record in the fight against terrorism, especially with respect to terrorist financing,” and requires the Administration to submit a report 180 days after enactment describing the long term strategy of the United States, “to work with the Government of Saudi Arabia to combat terrorism, including through effective measures to prevent and prohibit the financing of terrorists by Saudi institutions and citizens.” For more information about Saudi Arabia, see CRS Report RL33533 - *Saudi Arabia: Current Issues and U.S. Relations*. This report will be updated to reflect major developments.

## Contents

Overview .....	1
Saudi Arabia: Allegations of Terrorist Financing .....	1
General Allegations .....	2
The 9/11 Commission .....	2
Council on Foreign Relations Studies .....	3
The September 11 Lawsuit .....	5
Arab Bank Lawsuits .....	5
Joint Congressional Report .....	7
The Brisard “U.N.” Report .....	7
Allegations of Support for Iraqi Insurgents .....	7
Funding for Palestinian Organizations .....	9
Officially Sanctioned Relief Efforts .....	10
Saudi Committees .....	10
Relief Coordination .....	12
Unified Accounts .....	12
Delivery Mechanisms .....	13
Allegations of Support for Palestinian Terrorists .....	14
Allegations of Support for the Families of Suicide Attackers .....	14
Saudi Committee Website .....	15
Alleged Support to Hamas .....	16
Charitable Giving and <i>Madrasas</i> .....	17
Charity Oversight .....	17
Action Against Questionable Charities .....	19
Saudi Support to Religious Schools ( <i>Madrasas</i> ) .....	21
Saudi Counter-Terrorism Efforts .....	21
Post-September 11 Actions .....	21
Joint Task Force .....	22
Legal and Oversight Measures .....	23
Financial Intelligence Unit .....	24
The FATF-GCC Assessment .....	24
Enforcement .....	25
Continuing Uncertainties and Questions .....	25
Dilatory Action .....	26
Private Donors and Accountability .....	26
Currency Controls and Cash Couriers .....	26
Palestinian Funding .....	27
International Efforts .....	27
Outlook .....	27
Issues for Congress .....	28
Future Steps .....	28

# Saudi Arabia: Terrorist Financing Issues

## Overview

The attacks of September 11, 2001, fueled criticism within the United States of alleged Saudi involvement in terrorism or of Saudi laxity in acting against terrorist groups. One area of particular concern is the suspicion that public or private funds may be flowing from Saudi Arabia and other Middle East countries to finance international terrorist activity.

Reliable figures on the amount of money originating in or passing through Saudi Arabia and ending up in terrorist hands generally are difficult to obtain, for several reasons. First, the relatively small amounts of money required for terrorist acts can easily pass unnoticed. Second, the structure of the Saudi financial system makes financial transfers difficult to trace. Personal income records are not kept for tax purposes in Saudi Arabia and many citizens prefer cash transactions. Third, Muslim charitable contributions (*zakat*) are a religious obligation, constituting one of the five “pillars of Islam.” Contributions are often given anonymously, and donated funds may be diverted from otherwise legitimate charities. Moreover, Saudi funding of international Islamic charities is reportedly derived from both public and private sources which in some cases appear to overlap, further complicating efforts to estimate the amounts involved and to identify the sources and end recipients of these donations.

This report reviews allegations of Saudi involvement in terrorist financing together with Saudi rebuttals, discusses the question of Saudi support for Palestinian organizations and religious charities and schools (*madrasas*) abroad, discusses recent steps taken by Saudi Arabia to counter terrorist financing (many in conjunction with the United States), and suggests some implications of recent Saudi actions for the war on terrorism.

## Saudi Arabia: Allegations of Terrorist Financing

In the aftermath of the September 11 attacks, numerous allegations have been leveled against the Saudi Arabian government and prominent Saudi citizens regarding financial support for international terrorist groups. Although many of the allegations fault the Saudi government for failing to act decisively to close down channels of financial support, some critics go so far as to accuse Saudi government officials of responsibility for the September 11 attacks through design or negligence and for the continuing threat posed by the perpetrators or by like-minded terrorist groups. Some of the allegations also deal with possible ties between Saudi officials, private citizens, and the exiled Saudi terrorist Osama bin Laden and his Al Qaeda organization. However, Saudi authorities revoked bin Laden’s citizenship in 1994,

and senior Saudi officials have stated publicly that the Saudi regime is as much a target of Al Qaeda as is the United States.<sup>1</sup> There also have been suggestions that members of the large and sometimes fractious Al Saud family, numbering 5,000 or more, along with other Saudis have acted independently of the country's senior leadership in providing support to Islamic fundamentalist groups prone to violence.

Since September 11, U.S. government officials have welcomed "undeniable progress" in the Saudi Arabian government's efforts to combat terrorist financing,<sup>2</sup> while maintaining concern that "wealthy donors in Saudi Arabia are still funding violent extremists around the world, from Europe to North Africa, from Iraq to Southeast Asia."<sup>3</sup> The Iraq Study Group report (p. 25) stated that "funding for the Sunni insurgency [in Iraq] comes from private individuals within Saudi Arabia and the Gulf States." On September 11, 2007, Undersecretary of the Treasury for Terrorism and Financial Intelligence Stuart Levey stated in an interview that "If I could somehow snap my fingers and cut off the funding from one country, it would be Saudi Arabia."<sup>4</sup> Saudi officials responded by citing U.S. praise for counterterrorism efforts and underscored the kingdom's commitment to fighting terrorism. The following are summaries of the more publicized post-September 11 reports of alleged Saudi involvement in terrorist financing.

## General Allegations

**The 9/11 Commission.**<sup>5</sup> The final report released by the bipartisan National Commission on Terrorist Attacks Upon the United States indicates that the Commission "found no evidence that the Saudi government as an institution or senior Saudi officials individually funded [Al Qaeda]." The report also states, however, that Saudi Arabia "was a place where Al Qaeda raised money directly from individuals and through charities," and indicates that "charities with significant Saudi

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<sup>1</sup> Foreign policy advisor to then Saudi crown prince and now King Abdullah, Mr. Adel Al Jubeir, said on *Meet the Press*, that "we are targeted by Al Qaeda .... Their objective is to change and topple the government in Saudi Arabia." Available at [<http://saudiembassy.net/2003News/Statements/StateDetail.asp?cIndex=190>]. In June 2004, Saudi Ambassador to the U.S. Prince Bandar bin Sultan called in the Saudi press for "jihad" against Al Qaeda militants in Saudi Arabia. (Prince Bandar bin Sultan, "A Diplomat's Call for War," *Washington Post*, June 6, 2004.)

<sup>2</sup> U.S. Treasury Secretary John W. Snow, "Statement following Visit to Saudi Arabia," September 17, 2003.

<sup>3</sup> Testimony of Stuart Levey, Under Secretary, Office of Terrorism and Financial Intelligence, U.S. Department of the Treasury, Before the Oversight and Investigations Subcommittee of the House Financial Services Committee and the International Terrorism and Nonproliferation Subcommittee of the House International Relations Committee, May 4, 2005; and Testimony of Daniel Glaser, Deputy Assistant Secretary, Office of Terrorist Financing and Financial Crime, U.S. Department of the Treasury, Before the Senate Committee on the Judiciary, November 8, 2005.

<sup>4</sup> Brian Ross, "U.S.: Saudis Still Filling Al Qaeda's Coffers," *ABC News*, September 11, 2007.

<sup>5</sup> National Commission on Terrorist Attacks Upon the United States, "The 9/11 Commission Report," July 22, 2004.

government sponsorship,” such as the Al Haramain Islamic Foundation, may have diverted funding to Al Qaeda. (For more on this subject see ‘Action Against Questionable Charity’ below.)

Specifically, the report describes bin Laden’s use of “the Golden Chain,” an informal financial network of prominent Saudi and Gulf individuals originally established to support the anti-Soviet Afghan resistance movement in the 1980s. U.S. officials state that this network collected funds and funneled them to Arab fighters in Afghanistan, and later to Al Qaeda, using charities and other non-governmental organizations.<sup>6</sup> According to the Commission’s report, Saudi individuals and other financiers associated with the Golden Chain enabled bin Laden and Al Qaeda to replace lost financial assets and establish a base in Afghanistan following their abrupt departure from Sudan in 1996. These activities were facilitated in part, the report argues, by the “extreme religious views” that exist within Saudi Arabia and the fact that “until recently” Saudi charities were “subject to very limited oversight.”

Although the report highlights a series of unsuccessful U.S. government efforts to gain access to a senior Al Qaeda financial operative who had been detained by Saudi Arabia in 1997, the report credits the Saudi government with assisting U.S. officials in interviewing members of the bin Laden family in 1999 and 2000. The report argues that these meetings were integral to U.S. efforts to understand the role of bin Laden’s personal wealth in the financing of Al Qaeda. As a result of this assistance, U.S. officials learned that Saudi government actions in the early 1990s had in effect divested bin Laden of his share of the bin Laden family fortune, leading Al Qaeda to rely thereafter on a “a core group of financial facilitators” based in the Persian Gulf “and particularly in Saudi Arabia” for funding. The report also credits Saudi government actions following the May 2003 bombings in Riyadh which “apparently reduced the funds available to Al Qaeda — perhaps drastically.”

**Council on Foreign Relations Studies.**<sup>7</sup> An independent task force sponsored by the Council on Foreign Relations has issued two reports that address terrorist financing and Saudi Arabia’s alleged financial support for terrorism. The task force’s October 2002 report strongly criticized what it asserted was Saudi

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<sup>6</sup> FBI agents discovered a handwritten list of 20 alleged Al Qaeda financiers during a March 2002 raid on a Saudi-based charity in Sarajevo, Bosnia. Bin Laden apparently referred to the group as “the Golden Chain.” Further details were submitted to the U.S. District Court for the Northern District of Illinois by federal prosecutors in January 2003. The 9/11 Commission Report cites the following document: “Government’s Evidentiary Proffer Supporting the Admissibility of Co-Conspirator Statements, United States v. Enaam Arnaout, No. 02-CR-892 (N.D. Ill. filed January 6, 2003).”

<sup>7</sup> *Terrorist Financing*. Report of an Independent Task Force Sponsored by the Council on Foreign Relations, October 2002. Available at [[http://www.cfr.org/pdf/Terrorist\\_Financing\\_TF.pdf](http://www.cfr.org/pdf/Terrorist_Financing_TF.pdf)] and *Update on the Global Campaign Against Terrorist Financing*. Second Report of an Independent Task Force on Terrorist Financing Sponsored by the Council on Foreign Relations, June 15, 2004. See [[http://www.cfr.org/pdf/Revised\\_Terrorist\\_Financing.pdf](http://www.cfr.org/pdf/Revised_Terrorist_Financing.pdf)]. The Council on Foreign Relations does not institutionally endorse the studies produced by its independent task forces, and notes that task force members are solely responsible for the content of their respective reports.

financial support for international terrorist groups. For example, the report stated both in its summary and in the main body: “For years, individuals and charities based in Saudi Arabia have been the most important source of funds for Al Qaeda. And for years, Saudi officials have turned a blind eye to this problem.” The authors argued that a connection between Saudi donors and Al Qaeda is logical for several reasons:

Saudi Arabia possesses the greatest concentration of wealth in the region; Saudi nationals and charities were previously the most important sources of funds for the *mujahideen* [fighters against the Soviet occupation in Afghanistan]; Saudi nationals have always constituted a disproportionate percentage of Al Qaeda’s own membership; and Al Qaeda’s political message has long focused on issues of particular interest to Saudi nationals, *especially those who are disenchanting with their own government* [emphasis added].

The report grouped Saudi Arabia with Pakistan, Egypt, and other Gulf states and regional financial centers as “source and transit countries,” implying that donations to terrorist causes not only originate in these countries but also that donations from other countries pass through them en route to terrorist organizations. The Saudi government responded by charging that the report’s allegations were based on “false and inconclusive information.”<sup>8</sup> A Treasury Department spokesperson reportedly described the report as “seriously flawed” because in the Department’s opinion it did not describe new initiatives to combat terrorist financing adequately.<sup>9</sup>

The task force’s second report, released in June 2004, updates the first report and chronicles the steps the Saudi Arabian government had taken to strengthen its financial, legal, and regulatory systems and to combat terrorist financing since late 2002. The report acknowledged the Saudi government’s announcement of “the enactment or promulgation of a profusion of new laws and regulations and the creation of new institutional arrangements... intended to tighten controls over the principal modalities of terrorist financing.” The report welcomed the steps and concluded that “on a comparative basis” Saudi Arabia had taken “more decisive legal and regulatory action to combat terrorist financing than many other Muslim states.”

The second report also identified several areas in which its authors argued that Saudi authorities could have done more to combat terrorist financing. It argued that additional action was essential “because of the fundamental centrality that persons and organizations based in Saudi Arabia have had in financing militant Islamist groups on a global basis.” The report cited a lack of publicly available enforcement information as the basis for its questions about the Saudi government’s commitment to implement its new terrorist financing laws and regulations. For example, the report specifically criticized the Saudi government’s “failure to punish, in a demonstrable manner, specific and identified leaders of charities found to be funneling money to militant Islamist organizations.” Saudi authorities claim to have

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<sup>8</sup> Royal Embassy of the Kingdom of Saudi Arabia, “Response to CFR Report,” October 17, 2002. Available at [<http://www.saudiembassy.net/2002News/Press/PressDetail.asp?cYear=2002&cIndex=54>].

<sup>9</sup> Douglas Farah, “Report: Terror Funds Flow Through Saudi Arabia,” *Washington Post*, October 16, 2002.

prosecuted five individuals “for terror financing” and frozen the assets “of number of other individuals.”<sup>10</sup>

In response to the second report’s release, Adel Al Jubeir, then-foreign policy advisor to Saudi Crown Prince Abdullah and chief Saudi spokesman, charged that the task force’s conclusions were “politically motivated, ill-informed, and factually incorrect.”<sup>11</sup> A Treasury Department spokesperson reportedly agreed with the report’s assertion that Saudi Arabia should take further steps to combat terrorist financing.<sup>12</sup>

**The September 11 Lawsuit.** In mid-August 2002, the families of more than 600 victims of the September 11 attacks filed a suit for approximately \$1 trillion against three members of the Saudi royal family, a number of financial institutions and individuals, and the government of Sudan. The suit, which the Saudi media have described as an attempt to extort Saudi deposits in the United States, alleges that the defendants enabled the September 11 attacks to occur by making financial resources available to the perpetrators. On November 14, 2003, however, Judge James Robertson of the U.S. District Court of the District of Columbia ruled that two of the leading defendants, Defense Minister and now Crown Prince Sultan and former Director of Intelligence and Saudi ambassador to the United States Prince Turki Al Faisal, were entitled to foreign sovereign immunity for their official acts. [Burnett v. Al Baraka Inv. and Development Corp., 292 F.Supp.2d 9 (D.D.C. 2003)]<sup>13</sup>

**Arab Bank Lawsuits.** Families of victims killed or injured in terrorist attacks in Israel have filed two civil lawsuits against Arab Bank PLC of Jordan in the U.S. District Court of New York seeking approximately \$2 billion in damages [Linde et al. v. Arab Bank, 04 CV 02799 (E.D.N.Y. filed July 2, 2004) and Almog et al. v. Arab Bank, 04 CV 05564 (E.D.N.Y. filed December 21, 2004)]. Although the Saudi government is not a party to the lawsuit, the complaints allege that the Saudi Committee for the Support of the Al Quds Intifada used accounts established at Arab Bank as conduits for funds to charities and individuals in the West Bank and Gaza Strip associated with the Islamic Resistance Movement (Hamas), Islamic Jihad, and other terrorist entities (for a full description of the Committee, see Funding for Palestinian Organizations below). The complaints also allege that the Saudi Committee used accounts in Arab Bank and Arab Bank branches in the Palestinian territories to provide “insurance benefits” to the families of suicide bombers and others killed or detained in confrontations with Israeli security forces.

In court documents filed with the U.S. District Court in response to the lawsuits, Shukri Bishara, the chief banking officer for Arab Bank PLC, states that “beginning in December 2000, the Saudi Committee made approximately 200,000 payments into

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<sup>10</sup> Adel Al Jubeir, Interview Transcript: *CNN Late Edition*, June 15, 2004.

<sup>11</sup> Adel Al Jubeir, “Saudi Arabia Blasts CFR Task Force Report,” June 15, 2004. Available at [<http://www.saudiembassy.net/2004News/Press/PressDetail.asp?cIndex=223>].

<sup>12</sup> *Reuters*, “Saudis Doing Better Battling Terror Funding-Report,” June 15, 2004.

<sup>13</sup> See also Carol D. Leonnig, “Judge Rejects Saudi Terrorist Link,” *Washington Post*, November 15, 2003.



Palestine through Arab Bank branches totaling over US\$90,000,000.”<sup>14</sup> According to the documents, these funds were primarily used to support “unemployed Palestinians, persons in hospitals, Palestinians that were wounded or injured in the violence, persons whose houses were destroyed as well as payments to Palestinian schools hospitals and infrastructure in general.” Bishara contends that the lawsuits’ allegations of Arab Bank’s involvement in a conspiracy with Saudi officials to promote Palestinian suicide terrorism are “completely false and untrue.” Press reports quote Bishara as stating that Arab Bank “did not have prior knowledge of payments to the families of suicide bombers.”<sup>15</sup> In 2003, the Central Bank of Jordan (CBJ) ordered all Jordanian banks “to freeze any dealing” with six Hamas figures and associated charities. In response to the lawsuits’ allegations, a Saudi Committee official stated that the Committee “didn’t know that some of the people we were sending money to were relatives of suicide bombers.”<sup>16</sup> In the past, however, Committee officials have indicated that the Committee supported “the families of Palestinian martyrs, without differentiating between whether the Palestinian was a bomber or was killed by Israeli troops.”<sup>17</sup>

In a February 25 announcement, the U.S. Office of the Comptroller of the Currency (OCC) ordered the New York branch of Arab Bank PLC to halt its traditional banking activities, including the transfer of funds and the opening of accounts. The OCC order characterized “the inadequacy of the branch’s controls over its funds transfer business” as “especially serious.” On August 17, 2005, the OCC announced a \$24 million civil fine against the New York branch of Arab Bank PLC because of “deficiencies in the Branch’s internal controls, particularly in the area of Bank Secrecy Act and Anti-Money Laundering compliance.”<sup>18</sup> On September 2, 2005, U.S. District Judge Nina Gershon dismissed two of the eight counts in lawsuits filed against Arab Bank PLC but allowed the rest to proceed to trial. In January 2007, Judge Gershon ruled that Israelis and other foreign nationals could pursue similar claims in U.S. court under the terms of the Alien Tort Claims Act of 1789. Statements from Arab Bank in response to both rulings declared, “Arab Bank remains confident that it will prevail at trial. The bank abhors terrorism.”<sup>19</sup>

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<sup>14</sup> Declaration of Shukry Bishara in Support of Defendant’s Motion to Dismiss, November 11, 2004. *Linde et al. v. Arab Bank*, 04 CV 02799, E.D.N.Y.

<sup>15</sup> *Bloomberg*, “Arab Bank Says it Didn’t Know of Payments to Bombers’ Families,” February 10, 2005.

<sup>16</sup> *Ibid.*

<sup>17</sup> In May 2002, Mubarak Al Biker, the “executive manager” of the Saudi Committee to Support the Al Quds Intifada, stated “we support the families of Palestinian martyrs, without differentiating between whether the Palestinian was a bomber or was killed by Israeli troops.” Ra’id Qusti, “Saudi Telethon Funds Go Direct to Palestinian Victims,” *Arab News* (Jedda), May 27, 2002. Available at [<http://www.arabnews.com/?page=1&section=0&article=15591&d=27&m=5&y=2002>].

<sup>18</sup> Office of the Comptroller of the Currency, Civil Money Penalty 2005-101, August 17, 2005.

<sup>19</sup> *Associated Press*, “Federal Judge Allows Terror Lawsuits Against Arab Bank to Proceed,” September 2, 2005.

**Joint Congressional Report.** The declassification and release in mid-2003 of the report of the Joint Inquiry into Intelligence Community Activities before and after the Terrorist Attacks of September 11, 2001 also brought attention to the alleged role of Saudi Arabia in supporting terrorism. In the 900-page report, a crucial chapter on foreign support for the hijackers is virtually all blanked out — 28 pages in all — because the Administration refused on national security grounds to release the chapter in a public forum. There has been speculation about the degree to which the deleted pages might reveal Saudi complicity in the September 11 attacks. According to the press, persons who claim to have read the still-classified section of the report say it covers Saudi links with individuals involved in the attacks.<sup>20</sup> The Saudi foreign minister appealed to President Bush to publish the censored pages so as to enable Saudi Arabia to rebut these suspicions, but the President refused on the grounds that an ongoing investigation of the September 11 attacks might be compromised.<sup>21</sup>

**The Brisard “U.N.” Report.** A controversial private report issued by French investigator Jean-Charles Brisard in December 2002 made several detailed allegations about the involvement of prominent Saudi nationals in the financing of international terrorist organizations. The United Nations Security Council did not solicit or endorse Brisard’s report, although it has been mischaracterized as a U.N. report in the public record.<sup>22</sup> Although most public allegations of Saudi support for terrorist activities have not quantified the amounts of money involved, Brisard’s report asserted that Al Qaeda received between \$300 million and \$500 million during the decade prior to 2002, by “abusing this pillar of Islam [charitable donations] and taking advantage of the Saudi regulatory vacuum.”<sup>23</sup> Brisard described Saudi donors as “wealthy businessmen and bankers.” The report has been the subject of a lawsuit in the United Kingdom regarding defamation of character, and a British High Court ruled in July 2004 that allegations contained within the report were “untrue.”<sup>24</sup> [Mahfouz v. Brisard & Others, High Court of Justice, Queen’s Bench Division, United Kingdom - [2004] EWHC 1735 (QB)]

**Allegations of Support for Iraqi Insurgents.** In October 2004, an unidentified Defense Department official told the press that private Saudi individuals

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<sup>20</sup> James Risen and David Johnston, “Report on September 11 Suggests a Role by Saudi Spies,” *New York Times*, August 2, 2003.

<sup>21</sup> Mike Allen, “Bush Won’t Release Classified September 11 Report,” *Washington Post*, July 30, 2003, p. A1; David Johnson and Douglas Jehl, “Bush Refuses to Declassify Saudi Section of Report,” *New York Times*, July 30, 2003.

<sup>22</sup> An April 29, 2004 correction appended to Joel Mowbray, “Saudis Behaving Badly,” *National Review Online*, December 20, 2002, reads, “The Brisard Report was an unsolicited document submitted to the U.N. by its author.” See also a private letter written by former U.N. Security Council President Alfonso Valdieso that disassociates the U.N. from Brisard’s report. Available at [[http://www.binmahfouz.info/pdf/faqs\\_5\\_jsb\\_12march.pdf](http://www.binmahfouz.info/pdf/faqs_5_jsb_12march.pdf)].

<sup>23</sup> Jean-Charles Brisard, *Terrorism Financing: Roots and Trends of Saudi Terrorism Financing*. JCB Consulting, December 19, 2003. Available at [<http://www.nationalreview.com/document/document-un122002.pdf>].

<sup>24</sup> The full text of the Court’s judgment is available at [[http://www.binmahfouz.info/pdf/faq\\_4\\_judgment.pdf](http://www.binmahfouz.info/pdf/faq_4_judgment.pdf)].

and charities were channeling funds to insurgent groups in Iraq.<sup>25</sup> Saudi officials vigorously denied the claims and appealed for U.S. officials to provide concrete information in support of the charges so that Saudi authorities could investigate and prosecute any individuals or entities that may have been involved.<sup>26</sup> In December 2004, press reports cited intelligence gathered following U.S. military operations, including the November 2004 assault on Fallujah, which indicated that “a handful of senior Iraqi Baathists operating in Syria are collecting money from private sources in Saudi Arabia and Europe” and are channeling it to insurgent groups.<sup>27</sup> In addition, news accounts have quoted insurgent facilitators stating that Saudi young men are particularly valuable to insurgent groups because Saudis provide for their own expenses and often personally finance insurgent operations.<sup>28</sup>

As noted above, a senior U.S. Treasury Department official testified in July 2005 that Saudi individuals may be “a significant source” of financing for the Iraq insurgency.<sup>29</sup> The Iraq Study Group report (p. 25) stated that “funding for the Sunni insurgency [in Iraq] comes from private individuals within Saudi Arabia and the Gulf States.” Iraqi officials have called on Saudi Arabia and other neighboring countries to do more to restrict financial networks operating in their countries from supporting insurgents in Iraq.<sup>30</sup>

Saudi Arabia has pledged \$1 billion in loans and credits to reconstruction efforts in Iraq, and U.S. officials have engaged Saudi authorities regarding forgiveness of Iraqi debt.<sup>31</sup> The Saudi government administers official aid programs in Iraq under the supervision of the Saudi Committee for the Relief of the Iraqi People and the Saudi Red Crescent Society. Prince Nayef bin Abd Al Aziz, the Saudi Minister of Interior, directs the Committee’s operations. The Committee held a fundraising telethon in April 2003, which reportedly raised \$11.5 million for relief efforts in

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<sup>25</sup> John Lumpkin, “Insurgents Infiltrating Iraq Have Cash,” *Associated Press*, October 22, 2004.

<sup>26</sup> Royal Embassy of Saudi Arabia, “Saudi Official Refutes Allegation that the Kingdom is Neglecting Issue of Funding to the Iraqi Insurgency,” October 23, 2004.

<sup>27</sup> Thomas E. Ricks, “Rebels Aided By Allies in Syria, U.S. Says,” *Washington Post*, December 8, 2004.

<sup>28</sup> “Our brothers in Iraq are asking for Saudis. The Saudis go with enough money to support themselves and their Iraqi brothers. A week ago we sent a Saudi to the jihad; he went with 100,000 Saudi riyals (\$27,000). There was a celebration among his brothers there!” See Ghaith Abdul-Ahad, “Outside Iraq but Deep in the Fight,” *Washington Post*, June 8, 2005.

<sup>29</sup> Testimony of Stuart Levey, Before the Senate Committee on Banking, Housing, and Urban Affairs, July 13, 2005.

<sup>30</sup> Tarek El Tablawy, “Iraq Minister Urges Neighbors on Militants,” *Associated Press*, May 11, 2005.

<sup>31</sup> Paul Richter, “Nations Slow to Deliver Iraq Aid,” *Los Angeles Times*, July 12, 2004. See also CRS Report RL32105, *Post-War Iraq: Foreign Contributions to Training, Peacekeeping, and Reconstruction*, by Jeremy M. Sharp and Christopher M. Blanchard.

Iraq.<sup>32</sup> In May 2003, the Saudi government established an official government bank account, Unified Account Number 111, to consolidate public and private donations in support of the Iraqi people.<sup>33</sup> Saudi press reports describing the operations of the Committee and the Red Crescent Society indicate that numerous shipments of food aid and medical supplies have been delivered across Iraq since April 2003, including shipments to the former-insurgent stronghold of Fallujah during the summer of 2004.<sup>34</sup> Other Saudi based charities, including the International Islamic Relief Organization (IIRO) have also delivered aid to Iraq, including to Fallujah and other areas of fluctuating insurgent activity. According to press reports, the IIRO maintained collection accounts in two Saudi banks where donations could be made as recently as December 2004.<sup>35</sup> U.S. officials have expressed general concerns about the IIRO's operations and questioned its exclusion from Saudi charitable account regulations (see below).

## Funding for Palestinian Organizations

Support for Palestinian causes and the provision of humanitarian aid to Palestinians has long been an important component of Saudi foreign policy, and many Saudis identify strongly with the Palestinian people and view support for Palestinian causes as a religious, cultural, or, in some cases, political obligation. Repeated allegations made by Israeli and Western sources have contended that Saudi support for Palestinian institutions and individuals has directly or indirectly supported Palestinian terrorist groups, although public reporting has not conclusively linked official Saudi government support to Palestinian terrorist organizations. Some reports suggest that Hamas maintains a significant fund-raising infrastructure inside Saudi Arabia.<sup>36</sup>

Saudi Arabia, like other Arab states, recognizes the Palestine Liberation Organization (PLO) as the legitimate representative of the Palestinian people and provides some financial support to Palestinian institutions sponsored by the PLO. A 2002 Saudi government report stated that overall government and private aid to the

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<sup>32</sup> Agence France Presse, "Saudi Telethon Raises \$11.5 Million for Iraqis," April 28, 2003.

<sup>33</sup> See Royal Embassy of the Kingdom of Saudi Arabia, "Bank Account Ready to Receive Donations for Iraqi Aid," April 24, 2003. Available at [<http://www.saudiembassy.net/2003News/News/RelDetail.asp?cIndex=737>].

<sup>34</sup> *Agence France Presse*, "Saudi Arabia Sends Aid to Residents of Iraqi Rebel Bastion," June 10, 2004; and *BBC Monitoring International Reports*, "Saudi Arabia Sends Relief to Iraq's Al-Fallujah," Saudi TV1 (Riyadh), August 8, 2004.

<sup>35</sup> The accounts reportedly are held in Al Rajhi Bank (Account Number 31900010777023) and National Commercial Bank (Account Number 10477702000102). *International Islamic News Agency* (Jeddah), "IIRO Distributes Aid to Falluja War Victims," December 21, 2004.

<sup>36</sup> Matthew Levitt, "PeaceWatch #521 A Hamas Headquarters in Saudi Arabia?," Washington Institute for Near East Policy, September 28, 2005; and, CRS interview with former U.S. Treasury Department official, September 2007.

Palestinians had reached \$2.61 billion.<sup>37</sup> Currently, Saudi officials say that government support to Palestinian causes, approximately \$80 million to \$100 million per year, goes solely to the Palestinian Authority, which was established pursuant to the Israeli-Palestinian agreement of September 13, 1993, known as the first Oslo Accord.<sup>38</sup>

Following the January 25, 2006, elections for the Palestinian Legislative Council in which Hamas won a majority of the votes, Saudi officials indicated that funding support for the Palestinian Authority would continue. According to press reports, Saudi officials promised \$20 million to cover immediate needs on the part of the Palestinian Authority (Qatar has reportedly promised \$13 million). On March 19, 2006, Prince Saud al Faisal stated the Saudi position, saying that “humanitarian assistance is not given to a government. It is given to a people ...” to help them deal with a difficult humanitarian situation. In late July 2006, the Saudi Arabian government announced plans to transfer \$250 million in reconstruction assistance “to the Palestinian people” and confirmed the transfer of half of a \$92 million budgetary support pledge for the Palestinian Authority. Saudi Arabia made significant efforts to support a Palestinian unity government prior to the intra-Palestinian violence of early 2007 and has offered assistance to Palestinian President Mahmoud Abbas.

## Officially Sanctioned Relief Efforts

**Saudi Committees.** Within Saudi Arabia, two official charitable committees solicited and delivered aid to Palestinian institutions, individuals, and causes after the onset of the second Palestinian intifada in October 2000: the Saudi Popular Committee for Assisting the Palestinian Mujahideen and the Saudi Committee for the Support of the Al Quds Intifada (now known as the Saudi Committee for the Relief of the Palestinian People). According to Saudi press reports, Prince Salman bin Abd Al Aziz, the governor of Riyadh Province, established the Popular Committee and directed its operations.<sup>39</sup> The Popular Committee’s periodic public reports indicate that it provided approximately \$8.8 million to the PLO from October 2000 to April 2003.<sup>40</sup>

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<sup>37</sup> Royal Embassy of the Kingdom of Saudi Arabia, “Kingdom’s Aid to Palestenians (sic.) Nears Ten Billion Saudi Riyals,” May 2, 2002. Available at [[http://www.saudiembassy.net/2002\\_News/News/ForDetail.asp?cIndex=1122](http://www.saudiembassy.net/2002_News/News/ForDetail.asp?cIndex=1122)]. It is unclear if this figure included contributions to the Saudi-sponsored, multilateral Al Aqsa and Al Quds Intifada (Jerusalem uprising) funds established by 22 Arab leaders in October 2000. See embassy website at [<http://www.saudiembassy.net/2000News/Statements/StateDetail.asp?cIndex=357>].

<sup>38</sup> Don Van Natta, Jr, with Timothy L. O’Brien, “Flow of Saudi’s Cash to Hamas Is Scrutinized,” *New York Times*, September 17, 2003, pp. A1, A10.

<sup>39</sup> In one press report, Prince Salman asserted that the Popular Committee had been established after the 1967 Arab-Israeli War “with the aim of assisting the Palestinians.” It is unclear if the Popular Committee operated over a thirty year period or was reactivated in October 2000. See *Arab News* (Jedda) “Salman Rejects Terrorism Charges Against Charities,” November 3, 2002.

<sup>40</sup> Data compiled from official and non-official Saudi press reports spanning the period from October 2000 to April 2003. See *Saudi Press Agency*, “PLO gets more than SR 1.8 million (continued...)”

The Saudi Committee for the Support of the Al Quds Intifada served as the main conduit for Saudi financial and material aid to the Palestinian territories after its establishment under Royal Decree 8636 on October 16, 2000. A December 31, 2003 report issued by the Saudi Embassy in Washington stated that the costs of the Al Quds Intifada Committee's 31 relief programs amounted to 524,265,283 Saudi riyals (SR) [\$139,804,075], in addition to the costs of then-current projects, which amounted to a further 203,699,433 SR [\$54,302,249]. The report also stated that "the value of the services provided by the Committee to the Palestinian people" through December 2003 was equal to an additional 727,964,716 SR [\$194,123,924].<sup>41</sup>

The Al Quds Intifada Committee's periodic public reports describe millions of riyals in monetary aid that its programs provided to the Palestinian people in the form of financial transfers to the Palestinian Authority (PA), donations to charitable organizations in the West Bank and Gaza Strip, and by means of direct assistance to over 35,000 needy Palestinian individuals. In addition to financial assistance, the Al Quds Intifada Committee also provided food, blankets, medicine, ambulances, and other aid in kind through programs aimed at supporting health care, education, and the provision of basic social services in the Palestinian territories that were disrupted during the uprising. The Committee also constructed hundreds of homes for Palestinians who were left homeless due to violence and house demolitions. Palestinian officials reportedly praised the Committee's support for the Palestinian people.

In June 2004, the Saudi government announced that the future activities of all Saudi charitable committees and organizations that send aid abroad (including "the Palestinian committees") will be monitored and directed by the Saudi Nongovernmental National Commission for Relief and Charity Work Abroad.<sup>42</sup> As of January 2007, the National Commission was not operational. However, in October 2006, the Saudi Ministry of Interior submitted plans for its creation to Saudi Arabia's Shura Council for review and consultation. Saudi officials reportedly continue to work to resolve legal and financial hurdles to the integration of the international operations of Saudi Arabian charities.<sup>43</sup> The Al Quds Intifada Committee continues to operate independently under the name — "the Saudi Committee for the Relief of the Palestinian People." The Committee now provides humanitarian relief and assistance via a number of partnerships with U.N. agencies.

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<sup>40</sup> (...continued)

from the Popular Committee for Assisting the Palestinian Mujahideen," April 22, 2003, and Foreign Broadcast Information Service (FBIS) reports: "Press Summary — Saudi Leadership Report," October 1-15, 2000 through June 16-30, 2004.

<sup>41</sup> Royal Embassy of the Kingdom of Saudi Arabia, "Humanitarian Relief Handed Over to Palestinian Officials in Kingdom," December 31, 2003. See [<http://www.saudiembassy.net/2003News/News/ForDetail.asp?cIndex=1189>].

<sup>42</sup> Adel Al Jubeir, "U.S. and Saudi Officials Hold a News Conference on a Major Development in the War on Terrorism," Federal Document Clearing House Transcript, June 2, 2004. The Commission's creation was originally announced in late February 2004.

<sup>43</sup> Josh Meyer, "The World; U.S. Faults Saudi Efforts on Terrorism," *Los Angeles Times*, January 15, 2006.

For example, in September 2006, the Committee announced plans to provide \$6.3 million to finance the construction of 100 housing units in Hebron in cooperation with UN-HABITAT.<sup>44</sup>

**Relief Coordination.** Since 2000, both Committees have issued public solicitations encouraging Saudi citizens to make donations to support the welfare of the Palestinian people. In one often cited instance, the Al Quds Intifada Committee organized a telethon sponsored by King Fahd in April 2002 that raised over \$110 million for families of Palestinians killed or injured in the uprising.<sup>45</sup> Saudi officials told their U.S. counterparts that the proceeds of this telethon were funneled through non-governmental organizations to provide humanitarian support to needy Palestinian families.

**Unified Accounts.** Saudi press reports indicate that the Al Quds Intifada Committee consolidated the proceeds of its fund-raising efforts along with public and private donations in support of Palestinian causes in national, government-sponsored unified accounts established in a number of Saudi banks.<sup>46</sup> “Unified Account Number 98” and “Unified Account Number 90” were referred to in Saudi press reports describing the Al Quds Intifada Committee’s activities, although it is unclear if both accounts existed simultaneously, if they are synonymous, or if one superseded the other.<sup>47</sup> Saudi officials have repeatedly assured their U.S. counterparts that Account 98 no longer exists, most recently in a meeting with a U.S. Treasury delegation that visited Saudi Arabia in January 2006. However, Saudi press reports describe Saudi officials urging Saudi citizens to make donations to the account at their local banks, including a television advertisement that solicited donations to Account 98 in August 2005.<sup>48</sup>

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<sup>44</sup> *Al-Bawaba News*, “Saudi Arabia to fund construction of 100 housing units in West Bank,” September 11, 2006.

<sup>45</sup> Royal Embassy of the Kingdom of Saudi Arabia, “Telethon for Palestinian Victims Highly Successful,” April 14, 2002. See [<http://www.saudiembassy.net/2002News/News/ForDetail.asp?cIndex=1132>].

<sup>46</sup> *Saudi Press Agency*, “Prince Urges Donations for Jerusalem,” October 10, 2000. The press report lists “the National Commercial Bank, the Saudi-American Bank, Al Rajhi Banking and Investment Corporation, the Saudi-British bank, the Saudi-Dutch Bank, the Arab National Bank, the Saudi-French Bank, and Al Riyadh Bank” as sponsors of Unified Account 98. FBIS Translations GMP20001006001246 and GMP20001021000192. See also Robert Lenzner and Nathan Vardi, “Terror Inc.,” *Forbes*, October 18, 2004.

<sup>47</sup> Later, in an April 2002 interview, high-ranking Committee official Dr. Sa’id Al Urabi Al Harithi stated that “All relief agencies that collect funds in support of the Palestinians deposit the funds in the Committee’s Account Number 90.” FBIS Translations GMP20001006001246 and GMP20020419000070.

<sup>48</sup> See Testimony of Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Department of the Treasury, Before the Senate Judiciary Committee, November 8, 2005; and Middle East Media Research Institute (MEMRI), “Saudi Government Official on Iqra TV: All Muslims Must Support Jihad — Send Money to the Saudi Committee for Support of the Al-Quds Intifada, Account No. 98,” Special Dispatch Series - No. 990, September 21, 2005.

**Delivery Mechanisms.** Once collected, the proceeds of the Al Quds Intifada Committee's fundraising efforts were delivered to Palestinian beneficiaries in a variety of ways. Material aid collected by the Committee, such as food, clothing, blankets, and vehicles, was delivered in cooperation with third parties such as the Jordanian Red Crescent Society and the United Nations Relief and Works Agency (UNRWA). The Committee also developed a special process to transfer financial aid to Palestinian individuals in cooperation with Jordan's Arab Bank PLC.<sup>49</sup>

In an April 2002 interview Dr. Sa'id Al Urabi Al Harithi, the "chairman of the Executive Committee in Support of the Al Aqsa Intifada" and an advisor to Prince Nayef, provided details about the process used to identify beneficiaries and deliver financial aid to them:<sup>50</sup>

- Using information provided by "welfare societies" and "official sources" in the Palestinian territories, the Al Quds Intifada Committee prepared lists of potential beneficiaries drawn from the ranks of "the wounded, the families of martyrs, the families of prisoners and disabled persons," and families that had been affected by the uprising. The word "martyr" is used to refer to those killed as a result of violence (usually Israeli actions).<sup>51</sup>
- Then, a "central committee" conducted a "general study" of the lists and verified "the names of the beneficiaries, their telephone numbers, social conditions, addresses, and the date and type of injury." According to Al Harithi, the Committee would "coordinate with the Palestinian Authority and the [Palestinian] ambassador on the information in [the lists]" to confirm that it was "precise, correct, and clear."
- Once the information had been confirmed and approved, the Committee, in coordination with "the National Arab Bank,"<sup>52</sup>

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<sup>49</sup> The Committee's website and Committee officials (see below) state that the Al Quds Intifada Committee opened accounts in Arab Bank PLC, which operates 22 local branches throughout the West Bank and Gaza Strip. The Committee's website, available at [<http://www.alquds-saudi.org>], discusses the use of Arab Bank PLC branches as conduits to transfer funds to beneficiaries.

<sup>50</sup> "Saudi Al Aqsa Intifadah Committee Chief on Delivering Donations to Palestinians," *Jedda Ukaz*, April 2002. FBIS Translation - GMP20020419000070.

<sup>51</sup> According to an official Saudi government statement: "The Saudi government offers assistance to the families of those killed, and these, the victims of the violence, are often referred to as martyrs. Nevertheless, the Saudi government does not condone the act of killing oneself and killing others by means of suicide bombings, and Saudi religious leaders have condemned the taking of innocent lives." See [<http://www.saudiembassy.net/2002/News/Statements/StateDetail.asp?cIndex=146>].

<sup>52</sup> Jordan's Arab Bank PLC owns a 40% stake of Saudi Arabia's Arab National Bank. Although the Committee clearly states that funds were delivered via Arab Bank PLC branches it is unclear what role, if any, Saudi Arabia's Arab National Bank played in the (continued...)



opened a bank account in the beneficiary's name, into which a standard amount of riyals or dollars were transferred based on the individual's circumstances and the criteria set by the Committee for each of its different programs. For example, "the committee allocated 20,000 riyals [\$5,333] for the family of each martyr," and "the sum of 10,000 Saudi riyals [\$2,666] for every prisoner."

- After the deposit had been made, a team in the Palestinian territories followed up "on the process of delivering aid directly to the beneficiaries" and filed "regular reports to the Saudi Committee in Support of the Al Quds Intifada."

## **Allegations of Support for Palestinian Terrorists**

**Allegations of Support for the Families of Suicide Attackers.** In May 2002, Israeli officials released a report that alleged that the Saudi Committee for the Support of the Al Quds Intifada had "transferred large sums of money to families of Palestinians who died in violent events, including notorious terrorists."<sup>53</sup> The report argued that this alleged financial support encouraged Palestinian terrorism by easing the potential burden on the families of attackers. Saudi officials called the allegations "baseless and false," and stated "unequivocally that Saudi Arabia does not provide financial support to suicide bombers or their families."<sup>54</sup> Saudi officials also questioned the claim that Palestinian suicide attacks were financially rather than politically motivated. Statements made by Committee figures in response to specific claims that the Al Quds Intifada Committee provided support to the families of suicide bombers or otherwise supported terrorism have been less consistent.<sup>55</sup> Then-Saudi government spokesman Adel Al Jubeir discussed the possibility that money from the Committee may have gone to the families of suicide bombers but

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<sup>52</sup> (...continued)  
process.

<sup>53</sup> Ben Barber, "Saudi Millions Finance Terror Against Israel," *Washington Times*, May 7, 2002. Israel also released allegedly seized documents that featured "the letterhead of the 'Saudi Arabian Committee for Support of the Al Quds Intifada.'"

<sup>54</sup> See Royal Embassy of the Kingdom of Saudi Arabia, "The Kingdom of Saudi Arabia Responds to False Israeli Charges," May 6, 2002. Available at [<http://www.saudiembassy.net/2002News/Press/PressDetail.asp?cYear=2002&cIndex=36>] and Royal Embassy of the Kingdom of Saudi Arabia, "Saudi Arabia Doesn't Reward Terrorism," May 11, 2002. Available at [<http://saudiembassy.net/2002News/News/TerDetail.asp?cIndex=45>].

<sup>55</sup> Dr. Sa'id Al Urabi Al Harithi stated in April 2002 that the Al Quds Intifada Committee had "nothing to do with terrorism" and "nothing to do with politics," and added that Saudi Arabia "rejects and fights terrorism." [FBIS Translation GMP20020419000070] In May 2002, Mubarak Al Biker, the "executive manager" of the Al Quds Intifada Committee, stated "we support the families of Palestinian martyrs, without differentiating between whether the Palestinian was a bomber or was killed by Israeli troops." Ra'id Qusti, "Saudi Telethon Funds Go Direct to Palestinian Victims," *Arab News* (Jedda), May 27, 2002. Available at [<http://www.arabnews.com/?page=1&section=0&article=15591&d=27&m=5&y=2002>].

categorically ruled out the existence of any quid pro quo arrangement or reward system similar to that sponsored by former Iraqi President Saddam Hussein.<sup>56</sup>

**Saudi Committee Website.** The Al Quds Intifada Committee website, maintained in the name of “the Saudi Committee for Relief of the Palestinian People,”<sup>57</sup> once contained over 40,000 transaction records that featured the names individuals who received humanitarian aid and financial support from the Committee. The records portion of the Committee website was deactivated in March 2005. The website states that “many accounts were opened for the harmed persons at the Arab [B]ank branches in the Palestinian territory, and fixed aids [i.e. donations] were transferred to the harmed people in their respective accounts.”<sup>58</sup> One of the Committee’s programs supported Palestinian families whose primary breadwinners were killed by Israeli forces or under other violent circumstances during the uprising. Online records for this program contained the names of deceased individuals, transaction numbers, the date of their deaths, their home towns, and the circumstances in which they were killed. The Committee’s description of the program indicated that payments of 20,000 SR [\$5,300] were transmitted to the family members of these individuals in their names following their death.

Of the 1,300 names contained in the records for this specific Committee program, over 60 matched or closely resembled the names of known Palestinian militants who carried out attacks on Israeli military personnel and civilians from October 2000 to March 2002.<sup>59</sup> These individuals included suicide bombers and gunmen who were killed during actual and attempted attacks inside Israel and the Palestinian territories. Most of the Committee records assigned to individuals whose names matched or closely resembled those of suicide attackers listed “assassination” as the cause of death — however other records credited “martyrdom.” A handful of these records indicated that the individuals they referred to were killed during a

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<sup>56</sup> See Royal Embassy of the Kingdom of Saudi Arabia, “Saudi Arabia Does Not Support Terrorism,” Interview Published in *National Journal*, May 11, 2002. Available at [<http://www.saudiembassy.net/2002News/Statements/TransDetail.asp?cIndex=149>]. “Palestinians Said to Get Iraq Millions,” *Boston Globe*, May 30, 2002.

<sup>57</sup> See [<http://www.alquds-saudi.org/>]. Archived versions of the Committee website are available at [[http://web.archive.org/web/\\*/http://www.alquds-saudi.org](http://web.archive.org/web/*/http://www.alquds-saudi.org)]. The website cited Royal Decree 8636 as the basis for the establishment of the “Relief Committee.”

<sup>58</sup> In archive, see [<http://www.alquds-saudi.org/programs/programsDetails.asp?id=1>].

<sup>59</sup> The Palestinian Human Rights Monitoring Group (PHRMG) maintains comprehensive English and Arabic language lists of suicide attackers. These lists contain names that also appeared on the Saudi Committee website. Further information provided in these and other Committee records such as individuals’ home towns and dates of death matched information provided in public press accounts of attacks. In some instances, date and name data reflect slight variations and inconsistencies. Transcriptions of Arabic names often differ in Western media reporting and there is considerable uniformity in Arabic names. Mohammed and Ahmed, for example, are very common Arabic names often found among Palestinians. The PHRMG lists are available online at [<http://www.phrmg.org/PHRMG%20Documents/Suicide%20bombers/Tables/>].

“martyrdom operation.”<sup>60</sup> The Committee removed all records from its website in early 2005.

**Alleged Support to Hamas.** Since the early 1990s, there have been unsubstantiated reports of Saudi public and private assistance to the fundamentalist Islamic Resistance Movement (Hamas), which the U.S. government has designated as a foreign terrorist organization.<sup>61</sup> The Saudi government has not officially described Hamas as a terrorist organization. In its annual report on terrorism for the year 2001 (*Patterns of Global Terrorism, 2001*), the State Department noted that Hamas received funding from “private benefactors in Saudi Arabia and other moderate Arab states.” The 2002 and most 2003 editions of the report did not mention Saudi Arabia as a specific source of funding for Hamas. The State Department’s 2005 Country Reports for Terrorism (released in March 2006) indicated that “private benefactors in Saudi Arabia and other Arab states” remained a primary source of funding for Hamas.<sup>62</sup> The 2006 report did not cite Saudi Arabia specifically.

Previous reports have estimated varying amounts of aid to Hamas from private Saudi donations. According to one report, individuals in Saudi Arabia contributed approximately \$5 million to Hamas each year, or approximately half of its annual operating budget.<sup>63</sup> Then-Saudi spokesman Adel Al Jubeir rejoined that “no Saudi government money goes to Hamas, directly or indirectly.”<sup>64</sup> Al Jubeir further stated that he considers it “very likely” that “some Saudi individuals” have provided financial support to Hamas.<sup>65</sup>

In mid-2004, reports citing unidentified U.S. and Israeli intelligence officials indicated that Saudi funding for Hamas has been curtailed and replaced by other regional sponsors. In June 2004 testimony before the Senate Governmental Affairs Committee, former Treasury Department General Counsel David Aufhauser quoted “informed intelligence sources” as saying that “for whatever reason, the money going

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<sup>60</sup> The Arabic text in the “Details” field of these Committee records read “amaliyah istishadiyah,” a commonly used euphemism for a suicide attack that translates literally to “martyrdom operation.” In archive see, for example, [<http://www.alquds-saudi.org/programs/beneficiaryDetails.asp?id=96940>] and [<http://www.alquds-saudi.org/programs/beneficiaryDetails.asp?id=97139>], accessed January 2006.

<sup>61</sup> Some individuals and groups in Europe, North America, and the Middle East have argued that financial support for Hamas is legitimate because of the social services the organization provides to Palestinians, which they argue are separate from the group’s military wing, the Izzedine Al Qassam Brigades, and its role in conducting terrorist operations.

<sup>62</sup> Department of State, *Country Reports on Terrorism*, April 27, 2005. Hamas entry available at [<http://www.state.gov/s/ct/rls/45394.htm>].

<sup>63</sup> Don Van Natta, Jr, with Timothy L. O’Brien, “Flow of Saudi’s Cash to Hamas Is Scrutinized,” *New York Times*, September 17, 2003, pp. A1, A10.

<sup>64</sup> *Ibid.*

<sup>65</sup> *AFP*, “Saudi Official Condemns Terrorism, But Not Hamas,” June 12, 2003.

to Hamas from Saudi Arabia has substantially dried up.”<sup>66</sup> Aufhauser indicated that Saudi financial support “has been supplemented by money from Iran and Syria flowing through even more dangerous rejectionist groups in the West Bank.”<sup>67</sup> Similarly, a report in the June 23, 2004 edition of the Israeli daily *Maariv* quoted an unidentified Israeli military official as saying that “for the first time in years the Saudis have begun to reduce the flow of funds to Hamas and to the Gaza Strip.”<sup>68</sup> This unidentified source attributed the change largely to U.S. pressure on Saudi Arabia to stem the flow of funding to Hamas and other terrorist organizations. In September 2005, Israeli authorities announced they had arrested an alleged Hamas operative who reportedly served as a financial courier between Hamas figures in Saudi Arabia and the group’s operatives in the West Bank and Gaza.<sup>69</sup>

## Charitable Giving and *Madrasas*

Charitable giving (*zakat*) is a religious obligation for Muslims, constituting one of the five “pillars of Islam.” Many wealthy Saudis contribute approximately 2.5 percent of their annual income or more to charitable causes and relief organizations that fund religious education programs, orphanages, hospitals, and other development projects both within Saudi Arabia and around the world. One expert estimates Saudi charitable donations, in general, to be about \$3 billion to \$4 billion annually, of which 10-20% is disseminated abroad.<sup>70</sup> Saudi officials estimate that \$100 million in charitable donations are directed abroad each year.<sup>71</sup> It is unclear how much money is channeled from Saudi Arabian donations towards charitable endeavors in the United States, but some estimates suggest that \$100 million has been donated over the last decade.<sup>72</sup> To what extent these donations have stemmed from the Saudi government or from private individuals is unknown.

## Charity Oversight

In response to criticism and allegations of involvement in terrorist financing directed at Saudi Arabian charitable organizations, the Saudi government has taken

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<sup>66</sup> David Aufhauser, testimony before the U.S. Senate Committee on Governmental Affairs, June 15, 2004, transcript provided by Federal Document Clearing House.

<sup>67</sup> Ibid.

<sup>68</sup> Amir Buhbut, “Saudis Cutting Back Hamas Funding,” *Maariv*, June 23, 2004.

<sup>69</sup> Matthew Levitt, “A Hamas Headquarters in Saudi Arabia?” Washington Institute for Near East Policy, *PeaceWatch* #521, September 28, 2005.

<sup>70</sup> Jonathan M. Winer, Congressional testimony before the Committee on Senate Governmental Affairs, July 31, 2003. Mr. Winer, a former State Department official, is an independent consultant.

<sup>71</sup> Adel al-Jubeir, “U.S. and Saudi Officials Hold a News Conference on a Major Development in the War on Terrorism,” *Federal Document Clearing House Transcript*, June 2, 2004.

<sup>72</sup> John J. Miller, “On the House...of Saud, That Is: The Kingdom’s Spending in America,” *National Review*, 54, no. 6: 2002, p. 19.

a series of steps to provide greater oversight to charitable giving in the Kingdom. In December 2002, the government announced the creation of the High Commission for Oversight of Charities to provide assistance to Saudi Arabian charities in reforming their operations and improving their transparency.<sup>73</sup> At that time, Saudi officials also indicated that all Saudi charities had been audited; however, the results of those audits have not been made publicly available.

In February 2004, King Fahd issued a royal decree establishing the Saudi Nongovernmental Commission on Relief and Charity Work Abroad.<sup>74</sup> The Commission was publicly reintroduced in June 2004, and described as “the sole vehicle” through which all private Saudi donations marked for international distribution will flow in the future.<sup>75</sup> In June 2005, the Saudi press reported that the Council of Ministers had decided that all future overseas charitable contributions must be channeled through the Commission.<sup>76</sup>

In May 2003, the Saudi government introduced new banking regulations that prohibited private charities<sup>77</sup> and relief groups from transmitting funds overseas until further regulations could be instituted to ensure that the money would not be channeled to terrorist organizations.<sup>78</sup> The new banking regulations do not place similar restrictions on the operations of “multilateral” charitable organizations based in Saudi Arabia, such as the Muslim World League (MWL), the International Islamic Relief Organization (IIRO), or the World Assembly of Muslim Youth (WAMY), which actively raise funds among the Saudi population.<sup>79</sup> Saudi officials have stated that in spite of the regulatory exclusion, in practice these charities are being subjected

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<sup>73</sup> Adel al-Jubeir, “Saudi Plans to Fight Terrorism,” *Federal News Service*, December 3, 2002.

<sup>74</sup> *Agence France Presse*, “Saudi Arabia to Create Body for All Charity Abroad after Terror Charges,” February 28, 2004.

<sup>75</sup> Adel al-Jubeir, “U.S. and Saudi Officials Hold a News Conference on a Major Development in the War on Terrorism,” *Federal Document Clearing House Transcript*, June 2, 2004.

<sup>76</sup> P.K. Abdul Ghafour, “Kingdom Streamlines Flow of Funds to Charities Abroad,” *Arab News* (Jeddah), June 14, 2005.

<sup>77</sup> It is estimated that there are 267 charities operating in Saudi Arabia. See Jamil al-Dhiyabi, “Supervisor of Saudi Charities to al-Hayat: There Are No Deception or Illegal Remittances in Our Work; Ministry To Apply New Measures Starting Next Year,” *Al-Hayat* (London, in Arabic), October 6, 2003, translation by Foreign Broadcast Information Service (FBIS).

<sup>78</sup> Royal Embassy of the Kingdom of Saudi Arabia, “Saudi Arabian Monetary Agency Implements New Regulations Regarding Charities,” June 12, 2003. Available at [<http://www.saudiembassy.net/2003News/Press/PressDetail.asp?cYear=2003&cIndex=99>].

<sup>79</sup> See Saudi Arabian Monetary Authority, “Rules Governing the Opening of Bank Accounts in Saudi Arabia and General Operational Guidelines,” April 2003, Section 300-1-6-5. In June 2004, the Northern Virginia offices of the WAMY were raided by FBI and Customs officials in relation to a terrorism investigation. WAMY spokesmen have repeatedly denied the group is linked to terrorist organizations.

to identical levels of scrutiny as all Saudi charities.<sup>80</sup> Officials from the Defense Department and Treasury Department have stated that the IIRO, WAMY, and the MWL “continue to cause us concern” and that the charities “need to be included” in the oversight of new Saudi charity regulations and regulatory bodies.<sup>81</sup>

As noted above, the Commission was not operational as of September 2007; Saudi authorities reportedly are working to resolve remaining legal and financial obstacles to the consolidation of the international operations of Saudi Arabian charities under its authority. The Saudi Interior Ministry reportedly submitted plans for the Commission’s creation to the Saudi Shura Council in October 2006. Once the Commission is operational, Saudi charities with overseas operations reportedly will either be dissolved or have their assets consolidated under the control of the new Commission. The U.S. Treasury Department has urged the Saudi government to include the MWL, IIRO, and WAMY under the Commission’s jurisdiction. The extent to which further oversight of Saudi charities will prevent their abuse by terrorist financiers remains to be seen.

## **Action Against Questionable Charities**

In late-2004, the Saudi government dissolved the Al Haramain Islamic Foundation, a large charity with links to the royal family, after years of sustained criticism and a series of joint U.S.-Saudi actions relating to its alleged involvement in terrorist financing. U.S. investigators have linked a former Al Haramain employee to the 1998 U.S. embassy bombing in Tanzania,<sup>82</sup> and a June 2, 2004 Treasury Department statement called Al Haramain “one of the principal Islamic NGOs providing support for the Al Qaida [variant transcription of Arabic word] network and promoting militant Islamic doctrine worldwide.”<sup>83</sup> Since March 2002, the United States and Saudi Arabia have jointly designated 12 branches of Al Haramain as front organizations for terrorist activities, including its U.S. chapter. The two countries

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<sup>80</sup> According to Deputy Assistant Treasury Secretary Daniel Glaser, “It is not clear to us that this de facto prohibition is having true effect and we remain deeply concerned about this issue. Furthermore, these restrictions do not apply to foreign branches of Saudi-based NGOs and charities, which can transfer money among themselves throughout the world with little accountability to the Kingdom. It is possible, for example, for an IIRO official in Saudi Arabia to advise IIRO branches in country X and country Y to transfer money to each other, outside of Saudi regulatory reach.” Glaser, Testimony Before the Senate Committee on the Judiciary, November 8, 2005.

<sup>81</sup> Testimony of Stuart Levey, Before the Senate Committee on Banking, Housing, and Urban Affairs, July 13, 2005; and Testimony of Caleb Temple, Director of Operations, Joint Intelligence Task Force for Combating Terrorism Before the Terrorism, Unconventional Threats and Capabilities of the House Armed Services Committee and the Oversight and Investigations Subcommittee of the House Financial Services Committee, July 28, 2005.

<sup>82</sup> U.S. Department of the Treasury, “JS-1108: Treasury Announces Joint Action with Saudi Arabia Against Four Branches of al-Haramain In The Fight Against Terrorist Financing,” January 22, 2004. Available at [<http://www.treasury.gov/press/releases/js1108.htm>].

<sup>83</sup> U.S. Department of the Treasury, “JS-1703: Additional al-Haramain Branches, Former Leader Designated by Treasury as Al Qaida Supporters,” June 2, 2004. Available at [<http://www.ustreas.gov/press/releases/js1703.htm>].

have asked the U.N. Al Qaeda and Taliban Sanctions Committee (which monitors sanctions pursuant to U.N. Security Council Resolution 1267) to add the branches to the Committee's consolidated list of terrorists tied to Al Qaeda and the Taliban.<sup>84</sup>

In the United States, prosecutors recently dropped charges against Al Haramain's U.S. branch, based in Oregon. Prosecutors are continuing to pursue charges against the branch's founders and corporate officers, including Suliman Al Buthe, a U.S. designated terrorist financier and Saudi national currently in Saudi Arabia.<sup>85</sup> Al Buthe maintains his innocence.<sup>86</sup> U.S. authorities also designated Al Haramain's founder and director, Aqeel Abdulaziz Al Aqil, as a supporter of terrorism in June 2004.<sup>87</sup> In early January 2004, Al Aqil had stepped down from his position and remains in Saudi Arabia. Al Aqil's successor, Dabbas Al Dabbasi, resigned as director of the organization on July 14, 2004 because of "the freezing of the establishment's internal accounts and the inability to give charitable support."<sup>88</sup> Saudi officials have indicated that Al Haramain's international operations were to be absorbed by the new Nongovernmental Commission for Relief and Charity Work Abroad, which is not yet operational.

In August 2006, the Treasury Department designated the Philippine and Indonesian branches of IIRO, along with the Saudi executive director of the IIRO's branch in the kingdom's Eastern Province, Abd al Hamid Sulaiman al Mujil. According to the Treasury Department, Al Mujil "has been called the 'million dollar man' for supporting Islamic militant groups," and "provided donor funds directly to Al Qaeda" while raising funds for other groups.<sup>89</sup> The United Nations designated Al Mujil on August 4, 2006. Saudi authorities have not prosecuted Al Mujil to date.

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<sup>84</sup> The designated branches are Indonesia, Pakistan, the Netherlands, Afghanistan, Albania, Kenya, Tanzania, Bangladesh, Ethiopia, Bosnia, Comoros Islands, Somalia, and the United States.

<sup>85</sup> Les Zaitz, "Tax Case Ends Against Charity," *The Oregonian* (Portland), August 5, 2005; and U.S. Department of the Treasury, JS-1895:U.S.-Based Branch of Al Haramain Foundation Linked to Terror, September 9, 2004.

<sup>86</sup> Paul Elias, "Wiretap Case Centers on Saudi" *Associated Press*, August 15, 2007.

<sup>87</sup> The designation of individuals and organizations under the regulations blocking or freezing terrorist assets requires an administrative determination by the Secretary of State or the Secretary of the Treasury, in consultation with one another and with the Attorney General. The initial determination is conducted without input from the subject of the determination and, thus, at this stage, the rigorous standards applicable to adversarial legal procedures such as criminal or civil trials are inapplicable.

<sup>88</sup> Majid Al-Kanani, "Al-Haramain Director Resigns," *Arab News* (Jeddah), July 15, 2004.

<sup>89</sup> U.S. Department of the Treasury, "HP-45: Treasury Designates Director, Branches of Charity Bankrolling Al Qaida Network," August 3, 2006.

## Saudi Support to Religious Schools (*Madrasas*)<sup>90</sup>

*Madrasas* are religious schools that have historically existed throughout the Muslim world. Their curricula varies regionally and culturally; however, for the most part these schools provide a religiously-based education, focusing on the Quran and other Islamic texts, usually to students at the primary or secondary school age. *Madrasas* offer a free education, room, and board to their students, and thus they appeal to impoverished families and individuals. On the whole, these religious schools are supported by private donations from Muslim believers through *zakat*.

On a global front, concern has been expressed over the spread of radical Islam through Saudi-funded schools, universities, and mosques, which exist in many countries including Bangladesh, Bosnia-Herzegovina, Indonesia, Pakistan, Uzbekistan, Spain, and even in the United States. Some view the teaching of Saudi Wahhabism, an Islamic movement that encourages a return to the pure and orthodox practice of the “fundamentals” of Islam, as threatening the existence of more moderate beliefs and practices in other parts of the Muslim world. In November 2003, a Saudi Embassy spokesman indicated in a press release that “we do not fund the so-called radical *madrassas* [variant transcription of Arabic word] that people accuse us of funding, because that goes against our policy.”<sup>91</sup> To date, there are no published reports on the aggregate amount of funding which has been donated from inside Saudi Arabia to specifically support the building of *madrasas* worldwide.

## Saudi Counter-Terrorism Efforts

### Post-September 11 Actions

Saudi officials maintain that they are working closely with the United States to combat terrorism, which they say is aimed as much at the Saudi regime as it is at the United States. A month after the September 11 attacks, the Saudi Government announced that it would implement U.N. Security Council Resolution 1373, which called for freezing terrorist-related funds. The Saudi Arabian Monetary Agency has issued a number of “white papers” detailing actions taken by Saudi Arabia to combat terrorist financing. An update, issued in April 2004, addresses various steps including adopted legislation, implemented regulations and resolutions, and cooperation with the United States.<sup>92</sup>

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<sup>90</sup> This section of the report was prepared by Febe Armanios. For more details on *madrasas*, see CRS Report RS21654, *Islamic Religious Schools, Madrasas: Background*. See also pages 1 and 10 of this report.

<sup>91</sup> Royal Embassy of the Kingdom of Saudi Arabia, “Statement by Adel Al Jubeir, Foreign Affairs Advisor to the Crown Prince,” November 14, 2003, Available at [[http://www.saudiembassy.net/press\\_release/releases/03-PR-1114-terrorism.htm](http://www.saudiembassy.net/press_release/releases/03-PR-1114-terrorism.htm)].

<sup>92</sup> Available at [<http://www.saudiembassy.net/ReportLink/SAMA%20INITIATIVES%20BY%20KSA%20UP%20DATED%20APRIL%202004.pdf>].



In the past, U.S. officials, while acknowledging Saudi efforts, have expressed frustration with Saudi reluctance to share information gleaned from Saudi investigations of terrorist incidents and to move against organizations and individuals suspected of involvement in terrorism. Since mid-2003, however, the Saudi government seems to have become increasingly convinced of the seriousness of the terrorist threat and its attendant financing. Many commentators attribute this increased Saudi concern to the Al Qaeda terrorist campaign that swept the kingdom from 2003 through 2006.<sup>93</sup> At a hearing before the Senate Select Committee on Intelligence on February 24, 2004, then-Director of Central Intelligence George Tenet stated that “since the May 12<sup>th</sup> bombings, the Saudi government has shown an important commitment to fighting Al Qaida in the kingdom, and Saudi officers have paid with their lives.” The State Department’s 2003 *Patterns of Global Terrorism* report stated that the May and November 2003 attacks “galvanized Riyadh into launching a sustained crackdown against Al Qa’ida’s presence in the Kingdom and spurred an unprecedented level of cooperation with the United States.”

**Joint Task Force.** Shortly after the May 2003 attacks in Riyadh, a joint U.S.-Saudi intelligence task force was set up to help identify the perpetrators. This set the stage for a more permanent bilateral group with a broader mission. During the first week in August 2003, a delegation of senior U.S. counter-terrorism officials from the National Security Council, the State Department, the Treasury Department, and the Federal Bureau of Investigation met with Saudi leaders reportedly to urge them to do more to cut off the funneling of money to terrorists through Saudi businesses and organizations.<sup>94</sup> U.S. officials traveled to Riyadh later that month to set up a joint task force to investigate terrorist financing in Saudi Arabia. Subsequently, agents from U.S. organizations including the Federal Bureau of Investigation and the Internal Revenue Service joined Saudi officials to set up a center to focus on bank accounts, computer records, and other financial data. In addition, the FBI and the Internal Revenue Service Criminal Investigative Division have carried out a program of terrorism financing training for the Saudi government and have held sessions in Riyadh and Washington, D.C.<sup>95</sup>

The U.S.-Saudi task force apparently has two components: one focused mainly on intelligence and the other on financing. The intelligence side shares intelligence information related to threats to the United States, especially general terrorism leads. The financing side shares information related to terrorist financing, including sharing financial leads, requests for bank records, and information on accounts.<sup>96</sup> The overall

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<sup>93</sup> Patrick E. Tyler, “Stability Itself Is the Enemy,” *New York Times*, November 10, 2003.

<sup>94</sup> Susan Schmidt, “U.S. Officials Press Saudis on Aiding Terror,” *Washington Post*, August 6, 2003, p. A12.

<sup>95</sup> U.S. Congress, House of Representatives, Hearing of the Subcommittee on the Middle East and Central Asia of the House Committee on International Relations on Saudi Arabia and the Fight Against Terrorism Financing, Rayburn House Office Building, Washington, DC, March 24, 2004; testimony of Mr. Thomas Harrington, Deputy Assistant director of the FBI Counterterrorism Operational Support Branch, Federal News Service transcript, p. 7.

<sup>96</sup> Testimony of Deputy Assistant Secretary of the Treasury Juan Zarate and Deputy (continued...)

task force is composed of a small groups of FBI agents, FBI employees, analysts, IRS agents, and intelligence agents. Among other capabilities, it is apparently able to receive real time information on potential leads in the United States and then request Saudi assistance to pursue them in Saudi Arabia.<sup>97</sup> According to press articles, this is the first time that U.S. law enforcement officials have been stationed in Saudi Arabia to pursue intelligence and financing issues.<sup>98</sup> Many observers see this joint effort as a test of how responsive Saudi Arabia may prove to be in dealing with the issue of terrorism and blocking the flow of money from its citizens to terrorist organizations.<sup>99</sup> In March 2005, Saudi Ministry of Interior officials reported that U.S.-Saudi Joint Task Force on Terrorist Financing operations had led to the investigation of 1,098 Saudi bank accounts for suspicion of involvement in terrorism financing since September 11, 2001.<sup>100</sup>

**Legal and Oversight Measures.** Prior to 2003, Saudi Arabia lacked legislation specifically criminalizing money laundering and terrorist financing. Following Al Qaeda attacks within Saudi Arabia in May 2003, Saudi authorities moved forward with a number of draft laws and regulations, including a law adopted in August 2003 making money laundering and terrorist financing criminal offenses.<sup>101</sup> That month, the Saudi Arabian government also introduced new banking regulations that prohibited private charities and relief groups from transmitting funds overseas until further regulations could be instituted to ensure that the money would not be channeled to terrorist organizations. New financial regulations also created a requirement for charitable organizations to have single disbursement bank accounts and an approved official with signatory authority to facilitate tighter controls over charity accounts and transactions.<sup>102</sup> The Saudi Arabian Monetary Agency (SAMA) continues to serve as the chief regulatory body for Saudi Arabia's banks and financial institutions.

A number of other oversight and regulatory mechanisms were also created, including a ban on cash collections at mosques and new rules governing the

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<sup>96</sup> (...continued)

Assistant Director of the FBI Counter-terrorism Operational Support Branch Thomas Harrington, Hearing of the Subcommittee on the Middle East and Central Asia of the House Committee on International Relations on Saudi Arabia and the Fight Against Terrorism Financing, March 24, 2004; Federal News Service transcript, pp. 9-10.

<sup>97</sup> *Ibid.*, Harrington, p. 10.

<sup>98</sup> Douglas Farah, "U.S.-Saudi Anti-Terror Operation Planned; Task Force Will Target Funding," *Washington Post*, August 26, 2003.

<sup>99</sup> "U.S. and Saudis Join in Antiterror Effort," *New York Times*, August 25, 2003; and Matthew Clark, "There's a New Task Force in Town," *The Christian Science Monitor*, August 26, 2003.

<sup>100</sup> Author meeting with Ministry of Interior officials, Riyadh, Saudi Arabia, March 2005.

<sup>101</sup> The implementing regulations for the Saudi anti-money laundering and terrorist financing law that was introduced in August 2003 had not been issued as of September 2005.

<sup>102</sup> Again, "multilateral organizations" based in Saudi Arabia like the IIRO, WAMY, and MWL are not subject to these restrictions.

insurance sector and capital markets. All unlicensed money exchange houses were ordered closed, and authorities put in place close supervision mechanisms on traditional money transfer mechanisms used to send funds abroad, such as the *hawala* system.<sup>103</sup> The kingdom's religious authorities also have engaged in closer vetting of religious clerics and supervision of money given to them by their congregations. The government suspended more than 1,000 clerics during 2003 and another 900 in February 2004 reportedly "on the grounds of negligence," which may include negligent financial accounting procedures.<sup>104</sup> In September 2007, Interior Minister Prince Nayef bin Abd al Aziz urged citizens to comply with directives restricting the solicitation and collection of donations.<sup>105</sup>

**Financial Intelligence Unit.** According to the Financial Action Task Force (FATF),<sup>106</sup> Saudi Arabia has established a Permanent Committee on Combating the Financing of Terrorism to coordinate its counter-terrorist financing policy efforts. A Financial Investigation Unit (SA-FIU) has been designated to serve as Saudi Arabia's financial intelligence unit (FIU). The SA-FIU began operations in September 2005.<sup>107</sup> Treasury Department officials have welcomed the SA-FIU's establishment, and the U.S. Financial Crimes Enforcement Network (FinCEN) is a sponsor of the SA-FIU for membership in the Egmont Group.<sup>108</sup>

**The FATF-GCC Assessment.** In September 2003, members of the Financial Action Task Force (FATF) and representatives of the Gulf Cooperation Council (GCC) visited Saudi Arabia to examine Saudi financial practices. The FATF 2004 annual report, released on July 2, 2004, states that Saudi Arabia's legal and regulatory system is "compliant or largely compliant with most of the FATF 40+8

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<sup>103</sup> For background information on *hawala* transactions see, Patrick M. Jost and Harjit Singh Sandhu, "The Hawala Alternative Remittance System and its Role in Money Laundering," Interpol General Secretariat, January 2000. Available at [<http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/hawala/default.asp>].

<sup>104</sup> "Show of Force," *Middle East Economic Digest*, 26 March-1 April 2004, p. 30.

<sup>105</sup> "Saudi Interior Minister Bans Using Donation Boxes in Public Areas," OSC Document - GMP20070904614006, September 3, 2007.

<sup>106</sup> The Financial Action Task Force is "an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing." For more information, see the FATF website at [<http://www1.oecd.org/fatf/>].

<sup>107</sup> Prior to September 2005, investigations and prosecutions of financial crimes were being administered by elements of the Ministry of Interior in conjunction with specially seconded SAMA personnel. For a full description of Saudi Arabia's current financial regulatory structure see the State Department's 2005 International Narcotics Control Strategy Report. Saudi Arabia entry available online at [<http://www.state.gov/p/inl/rls/nrcrpt/2005/vol2/html/42395.htm>].

<sup>108</sup> The Egmont Group is the international membership organization that formally links financial intelligence units and facilitates information sharing for money laundering and terrorist financing investigations.

Recommendations” on terrorist financing.<sup>109</sup> The FATF review dealt only with the adequacy of legal and regulatory provisions and did not assess the degree to which the laws and regulations were being effectively implemented. The FATF report concludes that the Saudi government’s legal definition of terrorist financing “does not conform to the international standards as expressed in the UN International Convention on the Suppression of Terrorist Financing.”<sup>110</sup>

In November 2004, the Saudi Arabian government announced its participation in the newly established Middle East and North Africa Financial Action Task Force (MENAFATF). Membership in the regional body commits Saudi Arabia to implementing the internationally recognized anti-money laundering and counter-terrorist financing standards designed by FATF.

**Enforcement.** According to the State Department’s 2007 International Narcotics Control Strategy Report, “there is little money laundering in Saudi Arabia related to traditional predicate offenses” such as narcotics trafficking or smuggling. Since 2003, the Saudi government has undertaken a number of enforcement actions in response to international concerns about terrorist financing, including freezing some suspect accounts and jointly designating a number of individuals and organizations as Specially Designated Global Terrorists along with U.S. authorities. Saudi Interior Ministry officials reported in March 2005 that security forces had seized \$4.5 million through raids on terrorist safe houses and operatives, along with \$6.5 million in 11 separate bank accounts since early 2003.<sup>111</sup> The U.S. Department of the Treasury also reports that Saudi security forces have killed a number of Al Qaeda financiers, including Yousif Salih Fahad Al Ayeeri (a.k.a. “Swift Sword”) and Khaled Ali Al Hajj, who reportedly were key financial facilitators for terrorist operatives in the Persian Gulf region.<sup>112</sup> Administration officials continue to criticize the Saudi government for failing to prosecute prominent individuals accused of financing international terrorism (see below).

## Continuing Uncertainties and Questions

Saudi Arabia has undertaken significant administrative reforms in its efforts to curtail terrorist financing. A FATF official involved in the 2003-2004 assessment of Saudi practices was quoted as saying that the new regulations to control Saudi-

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<sup>109</sup> See “Kingdom of Saudi Arabia: Executive Summary - FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism” in Annex C of the report Available at [[http://www1.oecd.org/fatf/pdf/AR2004-Annexes\\_en.PDF](http://www1.oecd.org/fatf/pdf/AR2004-Annexes_en.PDF)]. The FATF’s “40+8” Recommendations on terrorist financing and money laundering are internationally recognized regulatory and legal benchmarks.

<sup>110</sup> Saudi officials maintain that the wider body of Islamic *sharia* law that underlies the Saudi legal system adequately criminalizes material support for terrorism. U.S. and FATF officials argue that the language of Saudi Arabia’s criminal statutes on terrorist financing should explicitly reflect international standards.

<sup>111</sup> Author meeting with Ministry of Interior officials, Riyadh, Saudi Arabia, March 2005.

<sup>112</sup> *Ibid.*, testimony by (then) Deputy Assistant Secretary of the Treasury Juan Zarate, p. 8.

based charities “probably go further than any country in the world.”<sup>113</sup> As noted above, however, the effectiveness of many of these steps will depend on their implementation. Several uncertainties and unresolved questions remain.

**Dilatory Action.** U.S. officials have complained in the past that Saudi officials have been slow to take action against organizations and entities implicated in terrorist financing. According to the 9/11 Commission Monograph on Terrorist Financing, “the Saudi government turned a blind eye to the financing of al Qaeda” before September 11, 2001, and “the Saudis did not begin to crack down hard on Al Qaeda financing in the Kingdom until after the May 2003 Al Qaeda attacks in Riyadh.” The report recognized the “significantly higher levels of cooperation” that U.S. officials have received from their Saudi counterparts since May 2003. Securing timely cooperation remains an important component of U.S. efforts to curb the flow of funds to terrorist groups.

**Private Donors and Accountability.** U.S. officials have said that the Saudi government should give more emphasis to demanding personal responsibility for terrorist financiers and act against those who tolerate or promote financing of terrorist activity. The U.S. Treasury Department has observed that “while current regulations take account of the financial activities of charitable concerns, they do not apply to direct donations made by private donors.”<sup>114</sup> The 9/11 Commission terrorist financing monograph states that “the Saudis have failed to impose criminal punishment on any high-profile donor.” Some individuals have had their assets frozen by Saudi authorities and have been forbidden from traveling outside Saudi Arabia. However, several prominent Saudi individuals suspected by U.S. authorities of involvement in terrorist financing have not been charged or prosecuted in the United States, Saudi Arabia, or other jurisdictions. These individuals are believed to be in Saudi Arabia. The U.S. State Department has stated that “Saudi Arabia should demonstrate its willingness to hold elites accountable” for money laundering and terrorist financing related offenses. On September 11, 2007, Treasury Undersecretary Stuart Levey stated that, “when the evidence is clear that these individuals have funded terrorist organizations, and knowingly done so, then they should be prosecuted and treated as real terrorism because it is.”<sup>115</sup>

**Currency Controls and Cash Couriers.** Although Saudi Arabia’s financial customer information requirements are more stringent for international transfers under newly adopted regulations, some loopholes may remain. The FATF report calls on Saudi officials to increase the amount of information required for foreign currency conversion transactions at money remittance centers in the Kingdom. Saudi authorities lowered the threshold for declared transport of currency and gold across its borders for all amounts under \$16,000. According to the U.S. State Department, Saudi customs agencies have not “issued new declaration forms,

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<sup>113</sup> Robin Allen, “Saudis meet anti-terror finance benchmarks,” *Financial Times* (London), March 8, 2004.

<sup>114</sup> Glaser, Testimony Before Senate Committee on the Judiciary, November 8, 2005.

<sup>115</sup> Brian Ross, “U.S.: Saudis Still Filling Al Qaeda’s Coffers,” *ABC News*, September 11, 2007.

and therefore cannot enforce the current regulation.” The use of cash couriers has been identified as “primary mechanism for the transfer of insurgency funds into Iraq” and U.S. Treasury Department officials have stated that Iraq’s neighbors have a responsibility to act to prevent the transfer of large amounts of cash to insurgent organizations in Iraq. The extent to which couriers may be ferrying cash from Saudi Arabia into Iraq is unclear. However, press reports have described insurgent groups’ preferences for Saudi recruits because of the large amounts of personal funding, usually in cash, that some Saudi nationals have brought with them to Iraq.<sup>116</sup>

**Palestinian Funding.** Saudi leaders have said that Saudi government contributions to Palestinian causes have gone exclusively to the Palestinian Authority<sup>117</sup> and Palestinian individuals, and not to Hamas. The victory of Hamas in legislative elections complicated Saudi relations and funding support for the Palestinian Authority during 2006. The possibility remains that private donors in Saudi Arabia may circumvent Saudi regulatory controls. The State Department notes that Hamas has received funds from benefactors in various locations, including Saudi Arabia, but has not identified the donors as government officials.

**International Efforts.** The U.S. State Department notes that Saudi Arabia has signed but not ratified the International Convention for the Suppression of the Financing of Terrorism, adopted by the U.N. General Assembly in December 1999. The State Department has urged Saudi Arabia to become a party to the convention.

## Outlook

It seems clear that challenges to internal security and terrorist incidents in Saudi Arabia have impelled the Saudi leadership to devote heightened attention to countering the financing of terrorism. This has been particularly true since mid-2003, when terrorists began mounting a series of attacks on residential and office compounds, apparently in an effort to target the Saudi government as well as the western presence in Saudi Arabia. Both U.S. officials and independent observers have welcomed the mechanisms that Saudi authorities have put in place with the aim of stemming the flow of funds destined for terrorist groups. They point out, however, that the effectiveness of these measures will be tested by the degree to which Saudi authorities succeed in implementing the various institutions and regulations that have been established in recent years. To date, U.S. officials have continued to express their disappointment with Saudi enforcement measures, particularly with a lack of public prosecutions for individuals accused of financing terrorism outside of the kingdom.

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<sup>116</sup> Ghaith Abdul-Ahad, “Outside Iraq but Deep in the Fight,” *Washington Post*, June 8, 2005.

<sup>117</sup> It is unclear how donations from the Saudi Popular Committee for Assisting the Palestinian Mujahideen to the PLO were considered in this regard.

## Issues for Congress

Several Committees and Members in the 108<sup>th</sup> and 109<sup>th</sup> Congresses expressed interest in these issues and held hearings and introduced legislation relating to U.S.-Saudi cooperation in the fight against terrorism and terrorist financing. Section 575 of the FY2005 Omnibus Appropriations Bill (P.L. 108-447) prohibited Saudi Arabia from receiving aid or any direct assistance from the United States unless the President exercised waiver authority and certified that Saudi Arabia was “cooperating with efforts to combat international terrorism and that the proposed assistance will help facilitate that effort.” The President exercised this waiver by Presidential Determination 2005-38 on September 26, 2005, and provided \$200,000 in terrorism financing assistance (NADR-CTF) to Saudi authorities. The Intelligence Reform and Terrorism Prevention Act (P.L. 108-458) required the President to submit to Congress within 180 days a strategy for collaboration with the people and government of Saudi Arabia, including a framework for cooperation on efforts to combat terrorist financing.

In the 110<sup>th</sup> Congress, Section 2043 of the Implementing Recommendations of the 9/11 Commission Act (P.L. 110-53, signed August 3, 2007) finds that “the Kingdom of Saudi Arabia has an uneven record in the fight against terrorism, especially with respect to terrorist financing,” and requires the Administration to submit a report 180 days after enactment describing the long term strategy of the United States, “to work with the Government of Saudi Arabia to combat terrorism, including through effective measures to prevent and prohibit the financing of terrorists by Saudi institutions and citizens.”

**Future Steps.** Members of Congress may seek to support executive branch efforts to encourage implementation of new Saudi laws and regulations. Hearings and inquiries seeking specific information about terrorist financing threats and monitoring U.S. and foreign government efforts to strengthen regulatory regimes, implementation capacity, and enforcement may improve public consideration of these issues. Intelligence considerations may limit the degree to which officials can publicly discuss terrorist financing threats and U.S. and foreign responses. Domestic political considerations may continue to limit the Saudi government’s willingness to enforce existing regulations, particularly to prosecute prominent alleged financiers.