

Combating Terror Financing: Foreign policy implications for the United States¹

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MONEY LAUNDERING and terrorist financing are two types of financial crime with devastating effects. Amounting to trillions of dollars annually, these transactions pose a major threat to state security, democracy, free enterprise, and the effectiveness of international aid programs. This issue underpins many of the challenges facing United States foreign policy in the post September 11 milieu. Focusing on the abuse of the non-profit sector, this paper will explore how terrorist networks are able to carry out their actions through undetected financial support structures and will demonstrate that economic and business interests, along with the increasingly unilateral nature of American foreign policy, interfere with policy design to properly wage the “war on terror”.

MONEY LAUNDERING: BALANCING ECONOMIC HEALTH WITH HOMELAND SECURITY

Since the advent of digital economies and the liberalization of financial markets, North American and European banking systems have been awash in laundered money. The tendency for businesses to turn a blind eye to the subject and the lack of multilateral coordination for legal enforcement allows trillions of dollars to pass through the banking system undetected.¹ The nature of these transactions externalizes the costs of such practices while augmenting the gains to financial institutions from large capital flows.

Money laundering can be broken down into three distinct categories as defined by United States legal code: criminal, corrupt, and commercial. Criminal money laundering comprises money raised from drugs, violent crimes, and bank fraud.² Corrupt money laundering concerns the theft and bribery of foreign governmental officials. Commercial money laundering

¹ We would like to thank Shepard Foreman, Jessica Tuchman Matthews, and Jack Blum for their assistance and inspiration.

encompasses all transactions in which money is intentionally and illegally moved to evade taxes.

Terrorists use increasingly multifarious means to launder money, including insurance fraud, politically exposed persons, and most prevalently, the use of wire transfers. The utility of wire transfers for terrorists lies in their ability to confound audit trails and disguise the source, destination, and agents of the transfer. New internet and electronic banking capabilities pose dangers because of their ability to facilitate an increased number of transactions without an audit trail. Money remitters and non-bank institutions engaged in international money transfer complicate the tracing of funds because they frequently do not require the customer background information that many banks require for transactions. Terrorists move funds in amounts that do not arouse suspicion, often sending less than five hundred dollars. As a result, authorities must rely upon names and geographic destinations to tag suspicious transactions.³

Raymond Baker, author of *Dirty Money and Its Global Effects*, lays out the choice facing policy makers:

Which is more important to the U.S.: to fight crime and terrorism with all reasonable and legal means at our disposal, and to fight poverty which contributes to failed states and fosters crime and terrorism, or to continue to cultivate the hundreds of billions of dollars that flow into the United States illegally from other countries?

What is holding back the United States from fighting terror finance “with all reasonable and legal means at our disposal”? The answer lies in cost-benefit analysis suggesting that the benefit to the American and European economies from the receipt of tainted foreign money outweighs the damage incurred from its entrance. In recent years, U.S. Treasury Department officials have repeatedly indicated that it is U.S. policy to support the investment from foreign countries as it demonstrates the strength of the American economy. Baker again addresses the contradictory nature of U.S. policy preferences in this regard:

The idea that we can successfully protect ourselves from a narrow range of dirty money we do not want, while at the same time cultivating the receipt of a much broader range of dirty money we do want, is fundamentally unworkable.

The financial support structure revealed after the September 11 attacks in the United States revealed the essential role of non-profit organizations (NPOs) in providing terrorists with the necessary financial means to plan and carry out attacks. The Financial Action Task Force (FATF), the international body in charge of safeguarding the global financial system against money laundering and terrorist financing, considers associations, foundations, fund-raising committees, community service organizations, corporations of public interest, limited companies, and benevolent public institutions, as legitimate types of NPOs.⁴ The intelligence community admits that there is rather limited knowledge about the extent to which terrorists exploit the non-profit sector. Such organizations play a crucial social and financial support role in all societies, and thus have the benefit of public trust and

goodwill. It is no surprise, therefore, that depending on the country and legal designation of the NPO, they are often subject to little regulatory scrutiny.

In some cases the NPOs serve as a cover and exist solely to funnel money to terrorists. Many of these NPOs, which receive formal charitable or tax exempt status, had their assets frozen by UN Security Council Resolution 1373 in 2001. Nevertheless, many of these groups continue to operate. On April 15, 2003,

While the U.S. may act tactically to end specific threats, it is unwilling and unmotivated to act strategically to counter the forces and environments in which illicit financial activity occurs.

Palestinian-born dentist Tayseer Saleh, who runs the Dar-Assalam Mosque in Budapest, Hungary, was detained by police on suspicion of planning to bomb a Jewish museum. Police claimed the mosque received funds from the Saudi-based al-Haramain charity, which following September 11, has come under scrutiny for suspicion of bankrolling al-Qaeda terrorist activities. Ten branches, mostly in Africa and Asia, have been shut down for alleged ties to al-Qaeda, but NPOs of this kind are still operating all over the world.⁵

Terrorists have adopted mechanisms perfected by Western corporations and banks to capitalize on the fungibility of money by obscuring tainted money through multiple transactions and tax evasion. No group exploited these mechanisms better than al-Qaeda, which according to a UN Security

Council report released in 2002, raised \$300-500 million over the past decade to finance the mobilization, training, and recruitment of terrorists.⁶ Some of the largest benefactors of terror groups reside within the United States. A group of individuals living in northern Virginia raised nearly \$54 million between 1996-2000 through over 100 different for-profit companies and charitable organizations. This money was then funneled to terrorist groups in the Middle East. Federal law enforcement agents accused the individuals of abusing the tax code's charitable exemption provisions by using a web of interlocking corporate entities.⁷ Often, the abuse of non-profit organizations occurs without the knowledge of the donors, the management, or the staff of the organization itself.

Terrorists exploit the fact that global financial transactions are regarded as normal business for many foundations and charities. U.S. Treasury Department officials estimated that 99.9% of the foreign criminal and terrorist money presented for deposit in the U.S. gets into secure accounts. European governments present similar figures for their countries. As Raymond Baker explains, "To put the same point in the opposite way, our anti-money laundering efforts fail 99.9% of the time."

MONITORING TERRORIST FINANCIAL ACTIVITY

In order to remain on the FATF's list of countries in monitoring compliance, a state must force its non-profits to use formal and recognized channels for the transfer of funds and to maintain registered bank accounts.⁸ Banks are integral to combating terror funding from NPOs since they function as nodes on the network which terrorist funds travel. Banks also have the added advantage of being able to monitor NPO and individual transactions and payments, while monitoring audits and taxes may be more difficult. 'Know your customer' (KYC) rules need to be enforced so that banks know who their clients are and where their sources of money are coming from and going.

In the United States, banks have received mixed reviews for compliance to anti-terror regulations. One of the most notorious cases receiving media and government attention was the case of Riggs Bank in Washington D.C. Riggs Bank provides most of the banking services to foreign consulates and embassies in the United States. As early as July 2003, federal regulators rebuked it for their no-questions-asked policy and for neglecting to send reports of suspicious transfers and cash withdrawals to regulators. In 2002 the FBI investigated accounts held by Prince Bandar bin Sultan, the Saudi Ambassador to the United States.⁹ Suspicions arose over the transactions

that his wife, Princess Haifa al Faisal, may have had with the September 11 attackers (which did not turn up anything), and again over transactions where large amounts of money entered the bank and were quickly converted to cash. The deposits were then returned a few days later and sent to an overseas account in December 2003.¹⁰ In March of the same year, the U.S. comptroller's office informed Riggs Bank that it planned to designate it as a "troubled" institution.¹¹ That same month, Riggs Bank and the Saudi diplomats ended their banking relationship.

What incentives do banks have to unilaterally report suspicious behavior? Do incentives exist to compel banks to act and implement 'know your customer' rules or are business interests paramount? The Riggs Bank case demonstrates that the latter is often the case. It took two separate inquiries to prompt action at Riggs. Penalizing banks for not monitoring their donors is an effective means to end 'no questions asked' policies. However, these practices can go undetected unless external regulatory agencies or the media take up the case. This is not an effective or efficient regulatory mechanism as compared to self-monitoring.¹²

FIGHTING TERRORIST FINANCING INTERNATIONALLY

The reporting of suspicious activity is best at the local level, but cooperation on the international level is necessary in order to prosecute and seize assets. The FATF members consist of states in the Organization for Economic Cooperation and Development for the most part, but it is a distinctly separate organization. Because the FATF does not supersede sovereignty on the national level, each member state delegates an authority to monitor financial transactions. These specific national organizations are commonly referred to as Financial Intelligence Units (FIUs). However FIUs in different countries take on different forms.

Some FIUs are administrative or intermediary in form, while others take on judicial or police enforcement roles. FIUs augment the ability of governments to communicate with their business communities. Often there is a hesitation on the part of the business community for full disclosure of suspected malfeasance to protect firm-client relationships. An intermediary can lessen these tensions and provide greater information for governments to combat financial crimes and flows of terrorists' funds.

The varying nature of FIUs, combined with varying domestic legal definitions, gives rise to problems of cooperation and information transfer. Problems can be negotiated bilaterally, but often domestic legal restrictions limit police interaction to only preexisting channels. Some countries have

problems implementing blocking orders because of poor infrastructure and lack of technical ability.¹³ Several European allies of the U.S. allege that the U.S. is often slow or unwilling to turn over information on specific suspects or organizations and consequently does not enforce its blocking orders. This reflects fundamental differences in opinion about information sharing. For example, the European Union does not prohibit funding of non-militant wings of Hamas or Hezbollah.¹⁴

HOW THE ABUSE OF NON-PROFIT ORGANIZATIONS HARMS U.S. EFFORTS AT NATION-BUILDING

Abuse in the non-profit sector has undermined U.S. efforts in nation building. The U.S. is the largest bilateral donor in the West Bank and Gaza. Since the signing of the Oslo Accords in 1993, it has provided approximately \$1 billion through the United States Agency for International Development (USAID).¹⁵ Yet, after the terror attack on its homeland, the U.S. realized that the beneficiaries of its funding could be diverting money to terrorist groups. Furthermore, the U.S. realized that the non-governmental organizations (NGOs) in the West Bank and Gaza received significant funding from organizations worldwide, including the Ford Foundation, which granted \$35 million to Arab and pro-Palestinian organizations in 2000 and 2001.¹⁶ Once the money arrives in the territories, it is nearly impossible to account for its whereabouts.

The Palestinian Islamic Resistance Movement (Hamas) has come under particular scrutiny. Hamas has conducted scores of terrorist attacks against Israeli civilian targets, while also supporting an extensive network of social welfare organizations in the West Bank and Gaza Strip. Hamas' misuse of Islamic charitable activities includes diverting charitable funds to finance its military infrastructure and operations and using affiliated Islamic social welfare institutions to incite violence and recruit militants from among the beneficiaries of their services.

USAID issued the Acquisition and Assistance Policy Directive (AAPD) of December 31, 2002 to require applicants for USAID assistance to certify that they do not provide material support or resources for terrorist acts. The directive requires NGOs to sign a "Certification Regarding Terrorist Financing" before entering into funding agreements. The certification requires NGOs to pledge not to "provide material support or resources to any individual or entity that advocates, plans, sponsors, engages in, or has engaged in terrorist activity, including but not limited to individuals and entities."¹⁷ The certification defines "material support and resources" as

including currency or other financial securities, financial services, lodging, training, safe houses, false documentation or identification, communications equipment, facilities, weapons, lethal substances, explosives, personnel, transportation, and other physical assets, except medicine or religious materials.¹⁸

This directive is indicative of the lack of capacity of USAID to monitor the funds it issues and to distinguish between one Islamic charity and another. USAID does not have the proper kind of personnel who can work

U.S. policy...preferred to watch Palestinian civil society wilt rather than risk terrorist funding.

on the ground with these groups to help them avoid abuse by militant groups. A large percentage of the total number of NPOs (up to 90% according to FATF) consists of very small organizations. For these smaller NPOs, and even the larger ones, it can be difficult to carry the substantial administrative burden

associated with regulatory compliance, as by their very nature the resources of NPOs are very scarce in relation to the often-essential services they provide.

The Palestinian Non-Governmental Organizations (PNGO) group, a consortium of 96 Palestinian NGOs, has urged its members not to sign the certification as an act of protest to the prohibitive U.S. policy. According to a press release of July 12, 2003, PNGO “believes that any conditionality in funding beyond the accepted international norms and standards constitutes a violation to the legality of funding, as the Palestinian NGO law prohibits accepting such conditions in obtaining funding from any international body.” The main claim of the Palestinian NGOs is that the list of dozens of organizations in the fifty-three-page annex to the certification directive includes many legitimate and vital community partners, which are not engaged in “terrorism” as defined by the United States, but rather are committed to non-violence.

Jack Blum, a former senior investigator at the U.S. Senate and partner at Lobel, Novins, & Lamont, called the certification policy “insane” not only because of its lack of efficacy, (after all, if you are determined to aid terrorism you are not concerned about the penalties that might accrue if the USAID discovers you violated the certification) but also because of the disastrous unintended consequences of its implementation. By severely constraining the work of humanitarian organizations in Gaza and the West Bank, the certification policy serves to strengthen the terrorist groups it aims to undermine by creating no alternative to their role as providers of

social services. On average, 25-30% of a typical Palestinian NGO's budget comes from USAID; therefore the organizations are highly dependant on the United States. Nonetheless, by signing the certification, these groups feel that they will be viewed as illegitimate entities and their work will be hampered by an inability to work alongside essential providers of welfare.

A more nuanced policy is needed to meet USAID's goals of furthering America's foreign policy interests and improving the lives of the citizens of the developing world. While legitimate, USAID's call for accountability and transparency does not conform to notions of small government. What is needed is an expert presence on the ground with knowledge of local language and culture, knowledge of money laundering and terrorist financing, and a concern for humanitarian relief, health care, and other essential pieces in this puzzle. The FATF report concluded that the method with the best chance of success for detecting possible terrorist financing links to NPOs is intelligence or police work, which builds on links with other NPOs or connections to individuals who are already suspected of terrorist or terrorist financing activities. This would indicate that the U.S. should focus its attention on strengthening the security apparatus of the Palestinian Authority (PA) in a way that does not undermine Palestinian civil society. If the United States is truly committed to supporting the reform of the PA, it must engage seriously in supporting those reforms; nation building cannot happen on the cheap.

SAUDI ARABIA'S ROLE IN TERROR FINANCING

Riyadh has been indirectly, and perhaps directly, implicated in the September 11, 2001 attacks and in terrorist attacks across the Middle East, the Gulf region, and South East Asia. In 1998, William Wechsler, the director of the task force formed by the National Security Council, in partnership with the little-known CIA Illicit Transactions Groups concluded that al-Qaeda was a "fund-raising machine" aided by what a Treasury Department official referred to as "the epicenter" of terrorist financing—Saudi Arabia.¹⁹

Saudi Arabia has engaged in massive overseas aid spending in an attempt to ensure that the Wahhabist version of Islam is able to compete for leadership of the Muslim world with the radicals in Tehran. A study done by the Center for Security Policy (CSP), a Washington based think-tank, claims the Saudi kingdom has spent over \$70 billion on overseas aid since 1975. According to Alex Alexiev, a senior fellow at CSP, this figure dwarfs the Soviets' propaganda efforts at the height of the Cold War. Some of the Saudi charities that received this aid funneled billions of dollars to ragtag

militants to help transform them into a sophisticated, technologically savvy, international network of terrorists.

The International Islamic Relief Organization (IIRO), the parent of the U.S. Islamic Relief charity, provides an example of how an NPO can be manipulated to move terrorist funds. Founded in 1978, the IIRO is the Saudi equivalent of the United Way, with the proclaimed goal “to alleviate the suffering of human beings nationwide.”²⁰ Some of the group’s top officials have prompted concern among U.S. officials. Mohammed Jamal Khalifa, founder of the IIRO branch in the Philippines (and Osama bin Laden’s brother-in-law), was linked to the masterminds of the 1993 bombing of the World Trade Center in New York. There are many allegations against improper movement of funds by the IIRO and yet no charges have been filed. The picture becomes increasingly complicated with the 1999 testimony of Abdullah Al-Turki, the IIRO’s Canadian head. He said, “The Muslim World League, which is the mother of IIRO, is a fully government-funded

organization. In other words, I work for the government of Saudi Arabia.”

America’s greatest ally in the Gulf should not be one of the region’s most oppressive regimes, nor the foremost financier of terrorism worldwide—it is bad policy, poor politics, and reflects unfavorably on the United States.

A 1996 CIA report identified 50 Islamic charities engaged in international aid and found that one-third were tied to terrorist groups. The report implicated the Saudi High Commission for being involved in “illicit activities, including support for terrorists.” Saudi Foreign Minister Prince Faisal insists that his country is “an active and strong ally in the war on

terrorism” and that accusations that Saudi individuals may have assisted the September 11 hijackers are “misguided speculation... born of poorly disguised malicious intent.”²¹

The Americans are not the only ones who are threatened by the Saudi financing of terror. A December 2000 letter written by Mahmoud Abbas (Abu Mazen), addressed to Prince Salman, governor of Riyadh, indicates that Palestinian leadership felt undermined by the Saudi financing of Palestinian terror groups. The Israeli Defense Forces (IDF) uncovered the letter during Operation Defensive Shield in April 2000. The letter, marked “personal”, notes, “The Saudi committee responsible for transferring the contributions to beneficiaries is sending large sums to radical committees

and associations including the Islamic Association (*al Jamiah al Islamiah*) which belongs to Hamas, the al Salah Association, and brothers belonging to the Jihad in all areas.” Indeed, according to recent intelligence estimates cited by Matthew A. Levitt in *The Weekly Standard*, up to 60% of Hamas’ annual budget (\$12-14 million) flows from Saudi Arabia. The IDF claims that it has found records showing that IIRO donated at least \$280,000 to the Tulkarem Charity Committee and other Palestinian organizations linked to Hamas. Although the Crown Prince officially withdrew the Kingdom’s support for Hamas in early 2002, special accounts called “Accounts 98”, which the Saudi government created to funnel money to Palestinian organizations, continue to function and fund groups like Hamas. In October 2002, the very month the Saudis released a new statement detailing their anti-money laundering efforts, the Crown Prince himself hosted Hamas leader Khaled Mishal in a conference of the World Assembly of Muslim Youth, an organization whose IRS records were recently requested by the U.S. Senate Finance Committee as part of its ongoing investigation into alleged ties between tax-exempt organizations and terrorist groups.²²

THE REACTION OF THE UNITED STATES: A LACK OF POLITICAL WILL

While the U.S. may act tactically to end specific threats, it is unwilling and unmotivated to act strategically to counter the forces and environments in which illicit financial activities occur. A report released in 2002 by the Council of Foreign Relations concluded that a lack of political will abroad and in the U.S. is leading to a deterioration of the commitment to stop terror financing.²³ The “war on terror” has been undermined by a trilemma of oil, realpolitik, and business interests. John O’Neill, the FBI counterterrorism expert who perished in the World Trade Center attack, understood long before September 11 that “all the answers, everything needed to dismantle Osama bin Laden’s organization, can be found in Saudi Arabia.”²⁴

With a plethora of evidence mounting against Saudi Arabia, “political will” is indeed lacking in confronting the Saudi government and its associated money laundering network. When it was discovered that the IIRO was funneling money to terror groups via the Saudi Embassy in Washington, the Justice Department forced the case to be dropped, citing “national security” concerns. Mark Flessner, a prosecutor on the case, summarized the frustration with Washington’s impotent and intransigent policy, “Did someone say to me we can’t do this because it would offend the Saudis? No. But was that always an undertone? Yes. Was that a huge issue? Yes.”²⁵

The failure of U.S. leadership is manifested in the government’s

unwillingness to pursue the matter by diplomatic or public means. The Executive Branch has been hesitant to enact the “special measures” enabling it to limit the access of countries with inadequate money laundering controls to the U.S. financial system, or to use these measures to provoke change within another country. The United States recently gave its consent to the FATF to remove Lebanon from its list of non-cooperative countries and territories, despite its apathetic enforcement of its new legislation and its legacy of secrecy in banking. Egypt, a formerly blacklisted country, faced no U.S. sanctions when it was on the list. Saudi Arabia managed to get into FATF compliance in February 2004 when the organization stated that the country implemented most of the benchmark reforms. However, the limited FATF report was conducted under terms that will keep the results secret. It is noteworthy, however, that the report prevents investigation into the diligence of Saudi implementation and enforcement mechanisms.²⁶ Unwillingness to pressure U.S. allies and acceptance of dubious structural changes in foreign countries characterizes the lack of U.S. leadership in moving this issue to the forefront of anti-terror measures.

PRESSURE FOR SAUDI REFORM

Public pressure, as well as pressures from Congress led by Charles Schumer (D-NY), has prompted the Bush administration to increase pressure on the Saudi regime for reform. After the domestic terror attacks in Saudi Arabia of May and November of 2003, the monarchy had even greater incentive to cooperate. Saudi authorities have arrested hundreds of terrorist operatives, begun educational reforms, removed collection boxes from mosques, arrested radical clerics, and pulled others from their pulpits. The United States has tried to increase pressure by encouraging the FATF to reissue its recommendations on money laundering. Additionally, President Bush issued Executive Order 13224, which authorized the Secretary of State, Secretary of the Treasury, and Attorney General to designate individuals and entities that have committed, threaten to commit, or support global acts of terrorism and seize their property and assets.

In order to truly curb terror-financing emanating from the Kingdom, the Saudis must hold their elites accountable. The al-Raji Bank is a Saudi institution implicated in criminal terrorist investigations, yet not subject to scrutiny by the Saudi authorities. State Department officials learned that the Saudis would not target members of the Jedda merchant class, a sector of society closely tied to the royal family, suspected of connections to tainted charities and individuals. The Saudi Arabian Monetary Agency (SAMA)

passed impressive money laundering and terrorist financing regulations in May 2003, yet according to Levitt it remains “unempowered”. The proposed Saudi FIU is still not functioning, and upon its launch it will operate under the Ministry of the Interior, headed by Prince Nayef, the most powerful of Abdullah’s potential challengers, rather than by the more independent and professional SAMA.^{27,28}

IMPLICATIONS FOR UNITED STATES FOREIGN POLICY

Two major lessons regarding the imperatives for U.S. foreign policy-making in the near future can be drawn from the case study of terror financing. First, unilateralism is incompatible with efforts to counter the financing of terrorism. FATF experts highlight that the diversity of possible detection mechanisms and information sources regarding potential terrorist abuse of charities underscores the importance of constructing effective information-sharing arrangements among nations. Once the knowledge is generated and shared, the question of who will take action is raised. Experts such as Jack Blum argue that the answer lies in an international agency with cross-border capability. Over the past decade the United States has opted out of multilateral arrangements and treaties, declined to ratify or implement agreements widely supported by the world community, and has engaged in armed conflict without the authorization of the United Nations. Such skepticism and ambivalence on the part of the world’s sole superpower begs the question posed by UN Secretary General, Kofi Annan, “Is it [the U.S.] no longer convinced of the myriad of benefits to be had from multilateral cooperation?”

The United States must realize that selectively choosing to engage in multilateral frameworks that do not directly benefit the U.S. will lead to a dramatic decrease in its diplomatic capital and global leadership. This in turn will complicate future joint efforts against money laundering. Stewart Patrick, research associate at the Center for International Cooperation, highlights America’s ambivalence towards multilateralism when he says, “No other nation has done so much to create international institutions, yet few have been so ambivalent about multilateralism, so well positioned to obstruct it, or so tempted to act unilaterally.” America’s grand strategy must embrace multilateralism and move away from neoconservative notions of empire, if it wants to truly secure the homeland.

The second foreign policy imperative is that in order to ensure the efficacy of nation-building efforts, the United States must be willing to engage head-on with professional personnel in the field who are familiar

with both the language and culture and provide professional expertise to the civil society within the war-torn region. If the United States is committed to humanitarian intervention, it must be willing to commit to the region for the long-term. Regional stability can only be reached with determined peacekeeping operations—a task the American military is not currently trained to perform. Under these circumstances, the U.S. and its federal agencies are forced to resort to *carte blanche* policies that alienate the host society, and hinder mission objectives.

Repression of all terror financing is impossible. However, strong multilateral efforts and a more nuanced nation building strategy are two critical means to preventing terror financing. Multilateral cooperation in other areas of foreign policy will create linkages that will strengthen the informational and legal inter-linkages, which are necessary to successfully monitor and seize terrorist funds. Multilateral actions and support for civil society may also foster more amicable perceptions of U.S. intentions abroad. While these measures will not prevent terror financing, they may provide the critical paradigm shift needed in frustrated societies, where populations have turned to polarizing and destructive ideologies such as al-Qaeda.

Multilateralism is not synonymous with apathetic engagement in the “war on terror”. It must be emphasized that while the U.S. needs multilateral frameworks to combat terror, it too must expend the political capital necessary to provide leadership on these issues. Long term safety concerns trump short-term financial profits, yet the Bush administration continues to cater to petrodollar and business interests. The duality of money laundering strategies taken vis-à-vis the Saudi government and Palestinian groups highlights the proclivity of the Bush administration to cater to its business constituency despite threats to national security. The U.S. policy did little to pressure Saudi Arabia to regulate its charities until several years after September 11, during which time the link between these charities and al-Qaeda had been firmly established. The U.S. did not explicitly turn a blind eye to the charities; however, the apathy of U.S. leaders to move this issue to the forefront of diplomatic relations certainly reflected its interests in Saudi oil.

Saudi lobbying efforts after September 11 illustrate their eagerness to placate American fears and to encourage American politicians to keep the mutually beneficial economic relationships intact. According to *The National Journal*, business spiked on K Street soon after the September 11 terrorist attacks. The Saudis have spent more than \$20 million on lobbying and public relations efforts in the United States, according to foreign lobbying disclosure filings with the U.S. Department of Justice.²⁹ Business interests

trumped terrorist financing concerns. The U.S. policy towards Palestinian NPOs demonstrates the opposite attitude. However, this attitude assumes the worst, which created policies that preferred to watch Palestinian civil society wilt rather than risk terrorist funding. This contradictory strategy is particularly baffling for the U.S., considering that most terrorists use the Israeli-Palestinian issue to gain support for their cause; these causes, moreover, are usually funded by Saudi sources.

A reversal in policy stances is imperative. It is paramount that the United States focus its energies on moving the Arab-Israeli peace process forward by setting up a vibrant and accountable Palestinian civil society which will provide propitious circumstances for a smooth transition to statehood. Second, the United States must take on a more aggressive anti-money laundering stance, while working with the world community to create a unified system of information gathering and standards that will assist global efforts at halting terrorist financing. Finally, the United States must reconsider its relations with the House of Saud. By developing alternative sources of energy and lessening its reliance on Saudi oil, the United States could afford a more direct line with the monarchy and pressure it to embrace a more dissonant political reality aimed at democratic elections and power sharing arrangements with marginalized sectors of their society. America's greatest ally in the Gulf should not be one of the region's most oppressive regimes, nor the foremost financier of terrorism worldwide—it is bad policy, poor politics, and reflects unfavorably on the United States.

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² Legal categories defined by the 1970 Bank Secrecy Act and 2002 Patriot Act

³ Financial Action Task Force on Money Laundering. Report on Money Laundering and Terrorist Financing Typologies, 2003-2004. www.fatf-gafi.org/dataoecd/19/11/33624379.PDGF (Accessed 14 February, 2005).

⁴ Financial Task Force on Money Laundering. Combating the Abuse of Non-Profit Organizations: International Best Practices October 11, 2002. www.fatf-gafi.org/dataoecd/53/53/34260889.pdf (Accessed 14 February, 2005).

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- ¹⁷ The Acquisition and Assistance Policy Directive (AAPD) of December 31, 2002 can be read in its entirety at www.usaid.gov/procurement_bus_opp/procurement/cib/pdf/aapd02_19.pdf
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- ¹⁹ Kaplan, et al.
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