

**DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS**

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Testimony of

**Juan C. Zarate, Deputy Assistant Secretary
Executive Office for Terrorist Financing & Financial Crimes
U.S. Department of the Treasury**

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Introduction

Chairwoman Ros-Lehtinen, Congressman Ackerman and distinguished members of the Subcommittee, thank you for this opportunity to discuss how the Treasury Department and our government are working with the Kingdom of Saudi Arabia to combat terrorist financing.

The ongoing threat of terrorist financing demands a sustained and comprehensive commitment from all governments of the world. I thank the Congress for providing the U.S. government with powerful resources, authorities, and support to assist us in our efforts to attack terrorist financing networks. Of particular importance to these efforts, the USA PATRIOT Act expanded the law enforcement and intelligence community's ability to access and share critical financial information regarding terrorist investigations, while Title III of that Act enhances our joint abilities to obtain, analyze and apply financial information to attack the financing of terrorist activities. At Treasury, we are committed to utilizing, aggressively but judiciously, the enhanced powers you have provided us to ensure that relevant financial information is used to both initiate and support actions against terrorist organizations.

But we have found that our success is also dependent on the political will and resources of other governments. As we have discussed on many occasions with you and your colleagues in the Congress, our investigations and actions against terrorist financing have revealed the global and sophisticated nature of terrorist financing networks. The abuse of charitable organizations, reliance on deep-pocket donors, and the use of informal methods of moving money – like hawala networks – present challenges for ferreting out tainted capital used to finance a global network of terror. Attacking these networks requires critical support from our allies as part of a comprehensive and sophisticated strategy. Indeed, our mission to dismantle the financial infrastructure of al Qaida and like-minded terrorist groups can only be achieved with international cooperation and support.

Since September 11th, we have built an international coalition to attack the sources of terrorist financing and have sustained the momentum in taking the fight to the facilitators of terror. The international community has frozen and seized approximately \$200 million of terrorist-related funds, over 170 jurisdictions have issued blocking orders, and we have built a tighter international financial net through which suspect funds may be captured. Governments around the world have arrested, financially isolated, or otherwise deterred key financial facilitators. The efforts of the Kingdom of Saudi Arabia fall directly in line with this international cooperation and continue to improve in substantively important ways.

The threat of terrorist financing and the need to attack and prevent the flow of funds to terrorists is now an accepted principle around the world and in Saudi Arabia. The al Qaida-directed attacks of May and November 2003 in Riyadh and the uncovering of virulent cells of al Qaida operatives within Saudi Arabia have awakened the Saudi government to the harsh reality that this threat must be dealt with aggressively. The Kingdom has taken important steps, independently and along with us, to attack al Qaida's finances and to prevent the continued support for those who would attack the United States and Saudi Arabia.

Our progress in working with the Kingdom of Saudi Arabia to attack terrorist financing networks is best understood in the context of the complementary targeted and systemic approaches described in our 2003 *National Money Laundering Strategy*. In the short term, we have engaged the Saudis on a number of terrorist financing targets to eliminate key sources and conduits of terrorist support and have established direct mechanisms to work together on the real threat posed to both of our countries. Over the longer

term, we have worked with the Saudis to enhance the transparency and accountability of formal and informal financial systems, particularly those that have been abused by terrorists to raise and move money in the past. These efforts are ongoing, and much work remains to be done. Yet the targeting actions and systemic reforms undertaken by the Kingdom of Saudi Arabia clearly demonstrate its commitment to work with us and the international community to combat the global threat of terrorist financing.

Increased Saudi Understanding, Cooperation and Action against Terrorist Financing

Our dialogue, engagement and cooperation with the Saudis on terrorist financing issues have developed progressively – and often quietly -- over the past two years as the Kingdom of Saudi Arabia, like much of the world, has grown to understand and appreciate its vulnerability to global terrorism. I have witnessed this evolution first-hand in my trips to the Kingdom, first in December 2002, then with Secretary Snow in September 2003, and most recently, with Deputy National Security Advisor Frances Fragos Townsend in December 2003.

In particular, the bombing attacks in Riyadh in May and November of last year sparked a series of Saudi actions to confront aggressively the threat posed by al Qaida and its global terrorist network. Targeted actions against specific and identifiable sources and conduits of terrorist support have made an immediate impact on the ability of terrorist cells and organizations to operate. The systemic actions undertaken by the Saudis will take more time to produce results, but these changes could have a substantial long-term effect on the ability of terrorists to use financing mechanisms previously abused to advance terrorist causes and operations.

Targeted Actions

The Saudis have taken direct and important actions to attack the financial underpinnings of al Qaida's terrorist infrastructure, not just in Saudi Arabia but around the world.

First, the Saudis have taken action on their own to capture or otherwise deal with known operatives, financial facilitators and financiers for al Qaida. For example, Saudi action against an al Qaida leader and key financial facilitator known as Swift Sword was an important step in disrupting the financial network of al Qaida in the Gulf region. Just last week, a raid by Saudi agents eliminated Khaled Ali Haj, the suspected al Qaida chief on the Arabian Peninsula, and one of his associates. Aggressive, proactive steps by the Saudi government against key financiers and facilitators are continuing and serve as an important disruptive element of the war against al Qaida.

The Saudi government has also taken steps to isolate and freeze the assets of individuals and entities designated as terrorist supporters – including the freezing of over five million dollars and seizure of terrorist-related assets. We have worked closely with Saudi Arabia to freeze the assets of organizations and individuals suspected of providing support to al Qaida. In this regard, the U.S. and Saudi Arabia have jointly proposed ten names to the United Nations 1267 Sanctions Committee since December 2002. The Committee included these names on its consolidated list, resulting in a binding obligation on all UN member states to freeze the assets of the underlying individuals and entities. Most recently, on January 22, 2004, the US and Saudi Arabia jointly proposed the names of four branches of the Saudi-based Al-Haramain Islamic Foundation to the UN Sanctions Committee. These branches -- located in Indonesia, Kenya, Tanzania and Pakistan -- provided financial, material and logistical support to the al Qaida network and other terrorist organizations.

Other joint US-Saudi designations include the following actions:

- On March 11, 2002, the US and Saudi Arabia jointly designated the Somalia and Bosnia branches of the Al-Haramain Islamic Foundation. These branches were engaged in supporting terrorist activities and terrorist organizations, such as al Qaida and AIAI (al-Itihaad al-Islamiya).

- On September 6, 2002, the US and Saudi Arabia jointly designated Wa'el Hamza Julaidan as an associate of Usama bin Laden and a supporter of al-Qa'ida. Saudi Arabia also forwarded this name to the UN 1267 Sanctions Committee.
- On December 22, 2003, the US and Saudi Arabia jointly designated Vazir -- a non-governmental organization located in Travnik, Bosnia -- after it was determined that Vazir was simply another name for the previously-designated Al Haramain-Bosnia. The two governments also designated Safet Durguti, the representative of Vazir.

Beyond these designations, we have created a close agent-to-agent working relationship with the Saudis to deal with terrorist financing specifically. Last fall, we created the Joint Terrorist Financing Task Force, based in Riyadh. Through this Task Force, investigators from the FBI and from the IRS Criminal Investigation Division (IRS-CID) have gained unprecedented access to Saudi accounts, witnesses, and other information. The Task Force agents both provide and receive investigative lead information on various terrorist financing matters. In addition, U.S. agents seek assistance from Saudi investigators in following terrorist financing, and in using that information to identify or attack terrorist cells and operations. Information received by the U.S. agents is passed through FBI's Terrorist Financing Operations Section in Washington to the interagency Joint Terrorist Task Forces (JTTFs) nationwide.

As part of this initiative, IRS-CID participated in the FBI's two week-long classes of financial investigation training to Saudi Arabian criminal investigators, pursuant to the State Department's sponsorship. These courses included the following topics: charitable entities, money laundering, net worth method of proof, expenditures method, documenting financial crimes, and computer sources of financial information. IRS-CID anticipates participating in a third class that will be presented in the spring of this year, possibly in Riyadh. These combined efforts of capacity-building and working hand-in-hand on the ground in Riyadh have already produced substantial results as we continue to unearth leads and unravel the financial support for al Qaida in Saudi Arabia.

Systemic Actions

In addition to taking action against targeted terrorist financing networks, the Kingdom of Saudi Arabia has introduced numerous systemic changes in its formal and informal financial sectors to address vulnerabilities exploited by terrorist organizations in the past. These reforms should enhance the transparency and accountability of these sectors, allowing investigators to more readily identify and interdict terrorists and their supporters who continue to rely upon these sectors to raise and move funds and other elements of support.

Charities

Abuse of the charitable sector by terrorist supporters in Saudi Arabia remains an ongoing concern. Given the generous contributions from Saudi Arabia and the Islamic requirement of zakhat (or charity), there is a deep need for the Saudi government to ensure that money intended for good purposes is not diverted to al Qaida or other terrorist groups. Saudi Arabia has acknowledged this vulnerability and is taking action to safeguard the integrity of its charitable sector. The protection of the charitable sector and the goodwill of donors are not only important for our national security interests but are also essential to preserving the sanctity and faith in charitable giving. For both reasons, the Saudi government has taken concrete steps to deal with this identified risk.

On May 24th of last year, Saudi Arabia issued comprehensive new restrictions on the financial activities of Saudi charities, including the following:

- Charitable accounts can only be opened in Saudi Riyals;
- Enhanced customer identification requirements apply to charitable accounts;
- Each charity must consolidate its banking activity in one principal account. Although sub-accounts are permitted for branches, they are restricted to receiving deposits -- all withdrawals and transfers must be serviced through the main account;
- No cash disbursements are permitted from charitable accounts; payments are only allowed by check payable to the first beneficiary and must be deposited in a Saudi bank;

- No ATM or credit cards may be issued against a charitable account (all outstanding ATM and credit cards for such accounts have been canceled);
- No transfers from charitable accounts are permitted outside of Saudi Arabia.

Moreover, the Kingdom has banned cash contributions in local mosques and removed cash collection boxes for charities from shopping malls.

In some respects, these restrictions go further than those of any country in the world. We commend Saudi Arabia for taking these important steps and urge its officials to ensure that these new rules are rapidly implemented and enforced fully and vigorously. We will continue to work directly with the Saudi government on the concerns we have about the vulnerability of their charity – often sent to crisis regions – being abused by terrorists.

Alternative remittance systems -- Hawala

The Kingdom of Saudi Arabia has also taken comprehensive action to reduce the threat of terrorist financing through alternative remittance systems, such as *hawala*.^{[11](#)} There are more than seven million locally-paid expatriate workers living in Saudi Arabia. These workers support their families living in their home countries, thereby creating a strong and economically legitimate demand for remittance services in the Kingdom. The Kingdom has sought to service this demand and protect remittance systems from terrorist abuse through a mandatory licensing requirement and additional legal, economic, and supervisory measures. Only licensed banks and money-exchangers are allowed to provide remittance services. Licenses are issued by the Saudi Arabian Monetary Agency (SAMA), which controls and supervises Saudi financial sectors.

The Saudi government targets unlicensed remittance systems for prosecution. The Kingdom has reported that over the past 15 years, 204 cases have been filed against 437 individuals for engaging in unlicensed remittance activities, and more than US \$9.6 million in financial penalties have been assessed against these individuals.

Nonetheless, the Kingdom has acknowledged that criminalization alone is insufficient as long as there is a demand for these services, prompting a complementary economic approach to attack unlicensed remittances. The Kingdom has encouraged banks to open special remittance centers to provide secure, inexpensive, and rapid money transfer services. As a result of this policy, a majority of Saudi banks now offer such services -- known as "Speed Cash" -- which are available after traditional banking hours for the convenience of expatriates employed during normal working hours. These banks, as well as money-exchange providers licensed to provide remittance services, are regulated and supervised by SAMA to ensure adequate implementation of client identification, reporting and recordkeeping requirements. These steps represent a sophisticated, multilayered response to the terrorist financing risks presented by alternative remittance systems.

Formal financial sector

The Kingdom has recently amended the legislative and regulatory framework governing its formal financial sector to improve its ability to combat terrorist financing and other financial crimes. These changes attack terrorist financing on a systemic level by promoting greater transparency and accountability. Among the most important legislative and regulatory reforms in this area are the enactment of the Anti-Money Laundering Law of 2003 last autumn, and the issuance of Anti-Money Laundering Implementation Rules just last month. Specific measures include improved reporting and record-keeping requirements, new inter-agency coordination mechanisms, and the establishment of a financial intelligence unit.

The Saudis have subjected their newly reformed anti-money laundering regime to intense international scrutiny. The Financial Action Task Force (FATF) -- a 33-member international body dedicated to promoting international compliance with anti-money laundering and counter-terrorist financing (AML/CFT) standards -- has recently conducted an in-depth review of Saudi Arabia's overall AML/CFT regime, which

included an extensive on-site examination. The willingness to undergo this assessment represents a new commitment to openness by Saudi authorities and an opportunity to benefit from the insight of international AML/CFT experts. FATF is in the process of completing the assessment, and we look forward to FATF's issuance of a summary report in June.

Ongoing Challenges

The measures and initiatives described above demonstrate considerable progress and commitment by the Kingdom of Saudi Arabia in combating terrorist financing. But like all countries, the Kingdom faces several ongoing challenges in the global campaign against terrorist financing. Many of these challenges involve the implementation of the measures and initiatives described above. Other challenges are more fundamental.

The most fundamental challenge facing the Kingdom is defusing the religious extremism that facilitates support and recruitment for radical Islamist terrorist organizations like al Qaida. The Kingdom of Saudi Arabia has begun to take action to deal with this problem. These efforts are important to ensure that militant religious extremism cannot provide a platform for terrorists to justify and launch their terrible actions. The Kingdom is working with clerics, and has also launched a public campaign against terrorism, including publishing a hotline and offering rewards to those who have information on identified or suspected terrorist individuals or operations. These efforts must be sustained to overcome the threat of terrorism engendered by militant religious extremism, which has no scruples in attacking innocent civilians -- including Muslims.

Another critical challenge for the Kingdom is fully implementing and enforcing the comprehensive measures it has enacted to ensure charities are not abused for terrorist purposes. In a cultural environment committed to charitable giving, the Kingdom must move forward to clarify and empower an oversight authority that will administer effective control over the sector and ensure compliance with obligations under the new regulatory measures that I have described. This authority must also coordinate its efforts with other elements of the regulatory and criminal justice system.

In addition to these primary challenges, the Kingdom faces a number of secondary challenges in combating terrorist financing. These challenges include ensuring that originator information is recorded on all cross-border wire transfers, protecting its borders from illicit cash couriers, and sharing critical information on terrorist financing investigations with all relevant investigatory authorities, both domestically and internationally. These types of challenges are common to all countries, and we will be working together with the Kingdom to improve global performance on these issues.

Finally, the Kingdom must continue to publicize and promote its actions against terrorists as necessary measures to protect the safety of the Saudi and global populace. My sitting here and discussing these measures with you not only sends a message to the Saudi people regarding the commitment of their government, but also to other Islamic countries regarding their need and ability to undertake similar initiatives.

We work in close partnership with the Saudis on these issues on a daily basis to protect the American and Saudi people from the scourge of terrorism.

Conclusion

As I stated earlier, the ongoing threat of terrorist financing demands a sustained and comprehensive commitment from all governments of the world. The measures and initiatives adopted by the Kingdom of Saudi Arabia indicate that the Kingdom stands committed with us to defeating this threat. The targeted actions undertaken by the Kingdom have already produced tangible results, and the systemic changes made by the Kingdom could prove even more effective in defeating terrorist financing over the long term. We look forward to continuing to work with the Kingdom as it begins to implement the systemic changes discussed above. The terrorist financing challenges we all face are considerable, but the progress we

have achieved provides a solid basis from which to move forward. We appreciate the efforts of the Kingdom to date – as they put the lives of their agents and people on the line to fight this battle. We anticipate continued progress in the months ahead.

Thank you again for the opportunity to testify before you today on these matters of great importance. We look forward to our continued work with Congress to combat the threat of terrorist financing.

Note:

^[1] Alternative remittance systems represent informal or unregulated means of transferring value between or among multiple locations. Often these systems are comprised of geographic networks and are described by a variety of specific terms depending on the region or community they serve. *Hawala* is the term often used to describe alternative remittance systems or services in the Middle East.