

Testimony of Dr. Matthew Levitt, director of the Stein Program on Counterterrorism and Intelligence at The Washington Institute for Near East Policy, before the U.S. House of Representatives, Committee on Financial Services, Subcommittee on Oversight and Investigations, May 26, 2010

*Hearing entitled “Anti-Money Laundering: Blocking Terrorist Financing and Its Impact on Lawful Charities”<sup>1</sup>*

Chairman Moore, Ranking Member Biggert, and distinguished members of the Committee, I thank you for the opportunity to appear before you today to discuss how to protect the charitable sector from abuse by illicit actors engaged in terrorism, political violence, or other forms of transnational threats.

The Financial Action Task Force (FATF) – the 34-member multilateral body that aims to set global standards for anti-money laundering and counter-terror financing – has found that “Terror networks often use compromised or complicit charities and businesses to support their objectives.”<sup>2</sup> In fact, FATF warned that “the misuse of non-profit organizations for the financing of terrorism is coming to be recognized as a crucial weak point in the global struggle to stop such funding at its source.”<sup>3</sup> According to the Justice Department, intelligence indicates that terrorists continue to use charities as sources of both financial and logistical support.<sup>4</sup> British officials concur. According to a joint UK Treasury/Home Office report, a “significant proportion” of terror finance investigations in the UK over 2006 included analysis of links to charities. The report found that “the risk of exploitation of charities is a significant aspect of the terrorist finance threat.”<sup>5</sup>

Non-profit organizations are especially susceptible to abuse by terrorists and their supporters for whom charitable or humanitarian organizations are particularly attractive front organizations. Indeed, terrorist groups have long exploited charities for a variety of purposes. Charities offer a veil of legitimacy for terrorist fundraising, attracting unwitting donors who are unaware that monies they donate for humanitarian purposes fund terror. Charities are vulnerable to abuse as money laundering mechanisms, and can be abused to provide terrorist operatives with day jobs, salaries, meeting places and means of obtaining official documents such as licenses, mortgages, and more. Consider that Hamas terrorist operatives frequently hold day jobs working within the group’s network

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<sup>1</sup> For a more complete discussion of issues relating to combating the financing of terrorism (CFT), visit [www.washingtoninstitute.org](http://www.washingtoninstitute.org). In particular, see Matthew Levitt and Michael Jacobson, *The Money Trail: Finding, Following and Freezing Terrorist Finances*, Washington Institute Policy Focus # 89, November 2008, available online at <http://www.washingtoninstitute.org/templateC04.php?CID=302>.

<sup>2</sup> Financial Action Task Force, *Terrorist Financing*, February 29, 2008, available online at <http://www.fatf-gafi.org/dataoecd/28/43/40285899.pdf>

<sup>3</sup> Financial Action Task Force, *Terrorist Financing*, February 29, 2008, available online at <http://www.fatf-gafi.org/dataoecd/28/43/40285899.pdf>.

<sup>4</sup> Glenn R. Simpson, “Islamic Charities Draw More Scrutiny,” *Wall Street Journal*, February 23, 2008.

<sup>5</sup> HM Treasury, “Financial Challenge to Crime and Terrorism,” February 28, 2007, available online at [http://www.hm-treasury.gov.uk/documents/financial\\_services/money/fin\\_money\\_financialchallenge.cfm](http://www.hm-treasury.gov.uk/documents/financial_services/money/fin_money_financialchallenge.cfm), 52.

of charities and social service organizations, which provide both a salary to live on and cover for their less charitable activities plotting and carrying out terror attacks. For example, documents seized from the offices of the Islamic Relief Agency (IRA) revealed the charity had been paying the salaries of ten West Bank Hamas activists.<sup>6</sup> Those social welfare organizations funded by the terrorist groups engender grassroots support for said groups and create fertile spotting and recruitment grounds.

### **Potential Abuse of Charity by Illicit Actors**

Charities tend to operate in zones of conflict and traditionally involve the flow of money in only one direction, both of which are characteristics that would arouse money laundering suspicions in other organizations. For this reason, charities are not only ideal fundraising fronts for terrorists and other illicit actors, they can also function as ideal money laundering mechanisms. Through charities, transnational terrorist groups have been able to move personnel, funds, and material to and from high-risk areas under cover of humanitarian or charity work and provide terrorist operatives with day jobs that provide both salary and cover facilitating their terrorist activities. Moreover, terrorists co-opt charitable giving through a range of diverse tactics. Some charities are founded with the express purpose of financing terror, while others are infiltrated by terrorist operatives and supporters and co-opted from within. Recognizing that analysis of this particular preferred means of terror financing demands a discerning and discriminating level-of-analysis approach, Ambassador Francis X. Taylor, then the State Department's Coordinator for Counterterrorism, noted in 2002 that "any money can be diverted if you don't pay attention to it. And I believe that terrorist organizations, just like criminal enterprises, can bore into any legitimate enterprise to try to divert money for illegitimate purposes."<sup>7</sup>

A growing challenge in this arena is that banned or exposed charities tied to terrorism often shut down one day only to open up some time later under new names. For example, the U.S. Treasury Department noted that after being designated in March 2002, the Bosnian branch of the al Haramain Islamic Foundation "reconstituted itself and continue operations under the name 'Vazir.'" In another case, Treasury noted that the Indonesian branch of Al-Haramain also attempted to operate under an assumed name, "Yayasan Al-Manahil-Indonesia."<sup>8</sup> In July 2008, the Treasury Department added new aliases under which Al Rashid Trust and Al-Akhtar Trust International continued to

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<sup>6</sup> Dale L. Watson, assistant director for counterterrorism, Federal Bureau of Investigation, "Holy Land Foundation for Relief and Development, International Emergency Economic Powers Act, Action Memorandum," memorandum to R. Richard Newcomb, director of the Office of Foreign Assets Control, U.S. Department of the Treasury, November 5, 2001 ("Watson Memorandum")

<sup>7</sup> U.S. Department of State, International Information Programs, "State's Taylor Summarizes Annual Global Terrorism Report," *Washington File*, May 21, 2002, available at [http://www.usembassy.it/file2002\\_05/alia/a2052103.htm](http://www.usembassy.it/file2002_05/alia/a2052103.htm).

<sup>8</sup> "Treasury Announces Joint Action with Saudi Arabia Against Four Branches of Al-Haramain In The Fight Against Terrorist Financing," Document number JS-1108, Office of Public Affairs, U.S. Treasury Department, January 22, 2004, available online at <http://www.treas.gov/press/releases/js1108.htm>

operate, years after their U.S. and U.N. designations, in "an apparent effort to circumvent sanctions imposed by the United States and the United Nations."<sup>9</sup>

The evolution of terrorist financing methods has cut across the spectrum of raising, laundering, transferring, storing and accessing funds. As authorities have cracked down, for example, on global charities that were financing illicit activity around the globe, some of these charities have deferred decision making to local offices and personnel from their headquarters offices. Some charities tied to illicit activities reportedly direct donors to fund their regional offices directly, instead of going through central offices. They also hire local people so as not to raise suspicion. Speaking of efforts to radicalize and recruit young Muslims in Zanzibar, a local Islamic leader noted that "there are some (charitable) agencies that sometimes use a native of the village (to recruit) because the others would be caught by the police."<sup>10</sup> Similarly, there has been a shift in funding from investment in specific programs to investment in large infrastructure projects. Such infrastructure is not only much needed but provides effective cover for the transfer of substantial sums of money overseas. In the Philippines, for example, investigators found that terrorist financiers supporting the Abu Sayyaf Group and Raja Sulayman Movement facilitated the construction of mosques and schools under the supervision of Mohammad Shugair, a Saudi national linked by Philippine authorities to terrorist financing.<sup>11</sup>

Beyond engendering grassroots support, those charities focused on providing funds to the families, orphans and widows of "martyrs" remove any existing financial disincentives to prospective terrorists and provide an incentive for participation in militant activities. Knowing their families will be provided for after their "martyrdom" enables terrorists to focus on their violent activities with the peace of mind that their families will enjoy the benefits of what amounts to a life insurance policy for terrorists. For example, CARE, a one-time charity based in Boston, actively solicited funds for families of mujahideen (Jihad fighters) and discussed the subject on intercepted telephone calls. Consider, for example, an online solicitation for Orphans Sponsorship that opens with the statement: "Do you know who I am? I am an orphan whose father died in defense of the faith." It continues, "Won't you sponsor me, and fulfill part of your obligation to my father? Won't you sponsor me? I am not really a stranger to you; I am your brother's child."<sup>12</sup>

Not only are donors more willing to give to humanitarian causes, but in the Muslim world they often do so as part of religiously mandated annual *zakat*

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<sup>9</sup> Treasury Identifies New Aliases of Al Rashid and Al-Akhtar Trusts Pakistan-Based Trusts Previously Designated for Supporting al Qaida, July 2, 2008, <http://www.ustreas.gov/press/releases/hp1065.htm>

<sup>10</sup> Chris Tomlinson, "Islamic Extremists Use Missionary Tradition to Recruit Fighters, Spread anti-U.S. Message in East Africa," AP, February 20, 2004.

<sup>11</sup> Alcuin Papa, "New Terror-Funding Network in Place, says PNP," *Philippine Daily Inquirer*, July 12, 2008, available at <http://newsinfo.inquirer.net/breakingnews/nation/view/20080712-148112/New-terror-funding-network-in-place-says-PNP>.

<sup>12</sup> "Orphans Sponsorship," CARE website, <http://web.archive.org/web/20001209030900/care-intl.org/orphans1.htm> (link no longer active). See U.S. v. Muntasser et al, U.S. District Court, District of Massachusetts, 2008

contributions. Such otherwise praiseworthy donations have long been known to lend themselves to abuse, and not only by terrorists. In Pakistan, for example, scholars note that *zakat* recipients have included "orphans" with living parents, "impoverished women" decorated in gold jewelry and "old people" who long since died. The mixing of funds across different "wings" of terrorist groups also shields the group's terrorist activities under a veil of political and humanitarian legitimacy.<sup>13</sup>

An article in *Military Review*, written by a Belgian military officer, offers important insights into what the author describes as "zakat-jihad activism." That is, a means by which a group engaged in terrorism or political violence "generates popular support by establishing an unarmed infrastructure that provides essential services."<sup>14</sup> This tactic not only produces significant grassroots support, it also creates an ideal means to launder and transfer funds as well as a means of providing activists day jobs and a veneer of legitimacy. In many cases, it also serves as a logistical support network for less altruistic activities.

This is certainly the case for Hamas, for example. As U.S. officials have noted, "Hamas is loosely structured, with some elements working clandestinely and others working openly through mosques and social service institutions to recruit members, raise money, organize activities, and distribute propaganda."<sup>15</sup>

The "most critical vulnerability" of this tactic, the *Military Review* article argues, "is its need for a large flow of external funds, necessitated by the local population's inability to finance all of the infrastructure needed to provide essential services."<sup>16</sup> Targeting the primary financing channel – charitable fronts – in a counterinsurgency strategy is complicated by the fact that they enjoy legitimacy for the overtly humanitarian nature of their activities. Neglecting the extremely high cost of maintaining safe houses, buying loyalties, maintaining the physical infrastructure of its organizations, paying its members' salaries and more, critics frequently comment that terrorism is an inexpensive business and conclude that the charitable funds collected by groups engaged in terrorism

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13 Information on the Islamic Red Crescent from Senate Committee on Banking, Housing and Urban Affairs, "Prepared testimony of Jean-Charles Brisard, international expert on terrorism financing, lead investigator, 9/11 lawsuit CEO, JCB Consulting International," October 22, 2003, accessed through Federal News Service; Agence France Presse, "Saudi pilot on FBI list denies terror links," October 16, 2001, and U.S. Department of the Treasury, Office of Public Affairs, "Treasury Department Statement on the Designation of Wa'el Hamza Julidan," September 6, 2002, <http://www.treas.gov/press/releases/po3397.htm>; For Taylor quote see U.S. Department of State, International Information Programs, "State's Taylor Summarizes Annual Global Terrorism Report," Washington File, May 21, 2002, [http://www.usembassy.it/file2002\\_05/alia/a2052103.htm](http://www.usembassy.it/file2002_05/alia/a2052103.htm); For Pakistan see Timur Kuran, "Islam and Mammon: Book Excerpt," The Milken Institute Review: A Journal of Economic Policy (3rd Qtr. 2004), 76.

<sup>14</sup> Erik A. Claessen, "S.W.E.T. and BLOOD: Essential Services in the Battle Between Insurgents and Counterinsurgents," *Military Review*, November-December 2007  
[http://findarticles.com/p/articles/mi\\_m0PBZ/is\\_6\\_87/ai\\_n24225708/](http://findarticles.com/p/articles/mi_m0PBZ/is_6_87/ai_n24225708/)

<sup>15</sup> Written Testimony of David D. Aufhauser, Treasury Department General Counsel, Before the House Financial Services Committee Subcommittee on Oversight and Investigations, September 24, 2003, The United States House of Representatives <http://www.treas.gov/press/releases/js758.htm>

<sup>16</sup> Erik A. Claessen, "S.W.E.T. and BLOOD: Essential Services in the Battle Between Insurgents and Counterinsurgents," *Military Review*, November-December 2007  
[http://findarticles.com/p/articles/mi\\_m0PBZ/is\\_6\\_87/ai\\_n24225708/](http://findarticles.com/p/articles/mi_m0PBZ/is_6_87/ai_n24225708/)

and political violence are solely geared toward good works. In fact, these charities and social service organizations – which fund and facilitate the attacks of a wide variety of groups like al Qaeda, Hamas, Hezbollah, Tamil Tigers, Iraqi insurgents, and others – form the backbone of these groups' grassroots support and operational capacity.

### **The “Million Dollar Man” and other Examples of al Qaeda Abuse of Charity**

While the Treasury Department reports that many of the charities al Qaeda has relied on in the past as a source of funds have been disrupted or deterred from continuing such activity, the department has also noted that charities serving as fronts for terrorist groups often open up under new names soon after they are shut down.<sup>17</sup> After a flurry of designations in the period after 9/11, Treasury has continued to designate charities tied to al Qaeda and its affiliates on a regular basis. These include a number of NGOs based in Saudi Arabia, such as the International Islamic Relief Organization (IIRO) and al-Haramain, as well as the Kuwait-based Revival of Islamic Heritage Society (RIHS).

Connections between the al Haramain Islamic Foundation and terrorism were first exposed in 2002, after the arrest of Omar al-Farouq in Indonesia on June 5, 2002. Al-Farouq, al-Qaeda's operational point man in Southeast Asia, told his interrogators that al-Qaeda operations in the region were funded through a branch of the Saudi-based al-Haramain Islamic Foundation. According to al-Farouq, “money was laundered through the foundation by donors from the Middle East.”<sup>18</sup> In January 2004, the United States and Saudi governments jointly designated the Indonesia, Kenya, Tanzanian and Pakistani branches of the charity and submitted their names to the UN 1267 Sanction Committee. That action was based on information that the offices “provided financial, material and logistical support to the Usama bin Laden's (UBL's) al-Qaida network and other terrorist organizations.”<sup>19</sup>

Interestingly, the U.S. approach at the time aimed at designating only those branches of a charity most directly involved in terrorist activity. In a sign of the inherent risks of such a strategy, after just six months the U.S. and Saudi governments designated Aqeel al-Aqil, the former overall head of al-Haramain, along with an additional five al-Haramain offices in Afghanistan, Albania, Bangladesh, Ethiopia and the Netherlands.<sup>20</sup> Despite these actions, including the inclusion of several al-Haramain branches on the U.N. designation list, the U.S. Treasury reported in June 2008 that parts of the al-Haramain organization continued to operate and the charity's leadership had attempted to reconstitute the organization's operations. Treasury therefore issued a blanket

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<sup>17</sup> United States Department of Treasury, “Under Secretary for Terrorism and Financial Intelligence Stuart Levey Testimony Before the Senate Committee on Finance,” April 1, 2008, available online at <http://www.treas.gov/press/releases/hp898.htm>; David R. Sands, “Iran uses Fronts to Evade US Sanctions,” Washington Times, June 13, 2007.

<sup>18</sup> Romesh Ratnesar, “Confessions of an Al-Qaeda Terrorist,” *Time.com*, September 15, 2002. Available online at [www.time.com/time/magazine/printout/0,8816,351194,00.html](http://www.time.com/time/magazine/printout/0,8816,351194,00.html)

<sup>19</sup> “Treasury Announces Joint Action with Saudi Arabia Against Four Branches of Al-Haramain in the Fight Against Terrorist Financing,” January 22, 2004, <http://www.treasury.gov/press/releases/js1108.htm>

<sup>20</sup> “Additional Al-Haramain Branches, Former Leader Designated by Treasury as Al Qaida Supporters; Treasury Marks Latest Action in Joint Designation with Saudi Arabia,” June 2, 2004, <http://www.treasury.gov/press/releases/js1703.htm>

designation of the entirety of the al-Haramain Islamic Foundation organization, including its Saudi-based headquarters, for providing financial and material support to al Qaeda and other terrorist organizations.<sup>21</sup>

Also in June 2008, the U.S. Treasury Department designated the entirety of another Gulf-based charity, the Kuwaiti Revival of Islamic Heritage Society (RIHS). In January 2002 the U.S. government and United Nations designated the Afghanistan and Pakistan offices of RIHS, but despite these and other actions – like the closure or raid of six RIHS offices from Azerbaijan to Cambodia -- the organization continued to engage in support for al Qaeda and other terrorist groups, according to the U.S. government. Announcing the designations, Treasury informed that RIHS leadership not only “actively managed all aspects of the organization’s day-to-day operations,” but was fully aware of its illegitimate activities. Such activities included RIHS financing for the operations of the Pakistan-based Lashkar e-Tayyiba, the group responsible for the 2006 Mumbai commuter train attack and the 2001 attack on the Indian Parliament. Similarly, an RIHS employee provided logistical support to then-fugitive Jemaah Islamiyah (JI) leader “Hambali,” while the RIHS office in Bangladesh was accused of funding the military activities of Jamaat Mujahidin Bangladesh, the group that launched near-simultaneous bombings across Bangladesh in 2005. RIHS funded al-Qaeda and other groups in Somalia as well, according to Treasury.<sup>22</sup>

Speaking in the Gulf, Treasury Undersecretary Levey noted that “terrorist organizations and al Qaeda raise money in the Gulf by going to individual donors and through charities.”<sup>23</sup> This was evident in 2006, when Treasury designated Abd Al Hamid al-Mujil, executive director of the Eastern Province office of the International Islamic Relief Organization (IIRO), described by fellow jihadists as the “million dollar man” for his support of Islamic militant groups. According to the public statement announcing his designation, Mujil boasted a long history of financing al Qaeda and its Southeast Asian affiliates, the Abu Sayyaf Group and Jemaah Islamiyah.<sup>24</sup>

### **The Need for Due Diligence within the Charitable Sector**

The findings of investigative bodies in the U.S., Great Britain, and elsewhere, as well as those of technocratic, non-partisan, multilateral bodies such as the Financial Action Task Force (FATF), appear to come as an unwelcome surprise to some in the academic and non-profits sectors. For some, efforts to stem the flow of funds available for terrorism and other transnational threats is a farce and governments are not to be believed when they point to successes in either stemming the flow of funds to terrorists or following financial trails to ferret out terrorist networks. Some dismissively describe

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<sup>21</sup> “Treasury Designates Al Haramain Islamic Foundation,” June 19, 2008, <http://www.treas.gov/press/releases/hp1043.htm>

<sup>22</sup> “Kuwaiti Charity Designated for Bankrolling al Qaida Network,” June 13, 2008, <http://www.treas.gov/press/releases/hp1023.htm>; “Fact Sheet: The Continuing War on Terrorist Assets,” January 9, 2002, <http://www.ustreas.gov/press/releases/po909.htm>

<sup>23</sup> “Millions of Dollars ‘May Fund Terrorism,’” *Gulf Daily News*, February 27, 2008.

<sup>24</sup> United States Department of Treasury, “Treasury Designates Director, Branches of Charity Bankrolling Al Qaida Network ,” August 3, 2006, available online at <http://www.treas.gov/press/releases/hp45.htm>.

abuse of charities for terrorist financing as a “reflexive equation of Islamic charities with terrorism.”<sup>25</sup> This, however, is a critique that flies in the face of the extensive available evidence and simply falls flat.

Consider, for example, that in October 2007, Sheikh Abdel-Aziz Al-Asheikh, the Grand Mufti of Saudi Arabia and the most senior Wahhabi cleric, released a religious edict, or *fatwa*, instructing Saudis not to leave the Kingdom to participate in jihad – a statement directed primarily at those considering going to Iraq – and urged Saudis to “be careful about where [their money is] spent so it does not damage Muslims.”<sup>26</sup> More recently, the Saudi Council of Senior Ulema (scholars) issued a *fatwa* in April 2010 explicitly forbidding the financing of terrorists and their activities.<sup>27</sup> Beyond the obvious, such statements are notable for acknowledging that Saudi charitable giving is susceptible to abuse by terrorists and insurgents– and taking public action to mitigate the threats this poses for both the personal security of citizens and the public integrity of charitable giving.

There can be no doubt that charity is a value of paramount importance to donors and recipients alike. International aid is a powerful tool in U.S. foreign policy and humanitarian giving is an American value and a laudable religious tradition. Recognizing, as illicit actors already have, that the charitable sector is vulnerable to abuse, and devising policies that protect charities from abuse even as they promote charitable giving, is the true challenge of the day.

The clean image of violent organizations engaged in charitable activity, often operating in a corrupt environment, also leaves them open to exposure. It is therefore critical to expose the underlying fraud inherent in such organizations whereby donors are led to believe they are donating funds to non-violent, humanitarian organizations, when those funds are actually going to fund Hamas, Hezbollah, Tamil Tigers, or similar groups. The most effective means of doing this is by publicly designating such groups as a means of informing the public and disrupting terrorist financing.

Recognizing this truism, the U.S. Treasury Department has proactively sought to help the charitable sector better regulate itself from diversion or exploitation by rogue actors. Treasury developed and published guidelines of best practices for charities, as well as a risk matrix identifying “common risk factors associated with disbursing funds and resources to grantees.” But even Treasury acknowledges that self-regulating

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<sup>25</sup> Ibrahim Warde, *The Price of Fear: The Truth Behind the Financial War on Terror*, Berkely: University of California Press, 2007.

<sup>26</sup> “Saudi Cleric Issues Warnings Over Militants.” Reuters, October 1, 2007, accessed at: <http://www.reuters.com/article/topNews/idUSL0117164820071001?feedType=RSS&feedName=topNews>

<sup>27</sup> “Council of Senior Ulema Fatwa on Terror-Financing,” Press Release from the Royal Embassy of Saudi Arabia, Washington, D.C., May 2, 2010, <http://www.saudiembassy.net/print/announcement/announcement05071001.aspx>

guidelines are only designed to assist charities that attempt "in good faith" to protect themselves from terrorist abuse.<sup>28</sup>

The government's admission that it can only do so much to help the charitable sector self-regulate, and the inherent limitations of self-regulation, highlights the critical need for independent scholarship on the gray area between charitable giving and terror financing. The fact that the government's work in this area is often based on sensitive intelligence and therefore cannot be fully transparent, makes the work of outside scholars even more essential. Similarly, the activities of those who divert charitable funds for illicit purposes are by their very nature covert. Proper due diligence demands more than just hiring a reliable accounting firm to balance the books. It requires collecting information about the charity's partners and recipient agencies operating on the ground, often in areas of conflict where such scrutiny is difficult. Scholarship can fill these gaps. Research can inform donors whether recipient agencies have taken all possible precautions against supporting terrorism. Research can also uncover whether recipient organizations partner with any other charities or service agencies with ties to terrorist elements.

Identifying those charities that conduct proper due diligence to prevent association -- either willful or inadvertent -- with terrorist entities, and identifying those that do not, is critical to achieve this goal. To maintain their good reputations, credibility, and donor trust -- and to protect the donor public from abuse and fraud -- charities must partner with transparent institutions with due diligence programs aimed at weeding out recipients tied to terrorist groups. Scholarly research and writing on such important issues, of concern to both policymakers and the general donor public, serves a clear public need.

Consider the case of charitable giving in the Palestinian context. Robust international aid to meet the needs of Palestinians is important, but with the caveat that such support is completely detached from terrorism. In essence, providing Palestinians much-needed international aid and denying Hamas the ability to muddy the waters between charitable giving and suicide bombings are simply two components of one foreign policy objective. To this end, the example of American Charities for Palestine (ACP), is illustrative. ACP works with the U.S. Agency for International Development (USAID) and other groups to improve the lives of Palestinians in the West Bank and Gaza. According to its mission statement,

ACP acts as prudent fiduciary of the American people's resources and expertise. Inherent to our Mission is the maintenance of a formal partnership with the government of the United States of America, to ensure that all support and expertise provided to Palestinian civil society has been thoroughly vetted, and is provided in strict coordination with, and adherence to, U.S. government guidelines.<sup>29</sup>

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<sup>28</sup> U.S. Department of the Treasury, "Risk Matrix for the Charitable Sector," March 8, 2007, available at [http://www.treas.gov/offices/enforcement/ofac/policy/charity\\_risk\\_matrix.pdf](http://www.treas.gov/offices/enforcement/ofac/policy/charity_risk_matrix.pdf).

<sup>29</sup> See <http://www.acpus.org/mission-statement>

Foreign aid is an important and effective tool for buttressing allies, alleviating poverty and suffering, supporting key foreign policy objectives, and promoting the image and ideals of the United States abroad. Indeed, as its own website attests USAID "plays a vital role in promoting U.S. national security, foreign policy, and the War on Terrorism."<sup>30</sup> Toward these goals—and considering that several agency-approved aid recipients have been linked to terrorist groups in recent years – the implementation of a global partner-vetting system (PVS) is a welcome and overdue development.<sup>31</sup>

## **Conclusion**

The charitable sector remains vulnerable to terrorist financing. One reason for this, according to FATF, is that charities are subjected to lesser regulatory requirements than other entities, such as financial institutions or private companies.<sup>32</sup> The US has been largely alone in cracking down on abuse of charities and NGOs. Many other countries have been reluctant to take any steps to tackle this problem, often out of concern that they will appear to be targeting Muslim humanitarian efforts. Countries in the Middle East have been particularly resistant to taking action against charities. Since charity or “zakat” is one of the five pillars of Islam, the governments are worried that they will be portrayed as anti-Islamic. In Europe, some E.U. member states have resisted European Union efforts to develop solutions – pushing back against a 2005 EU initiative in this area. The member states regard this as an issue within their sovereignty, and the charities are resistant to EU oversight as well. For some European member states, regulating charities is more than merely a sensitive issue – but one actually raising constitutional issues. For example, in Sweden and Denmark even the prospect of registering charities triggers constitutional considerations.<sup>33</sup>

Despite some criticism, the U.S. government has been consistent in its efforts to crack down on the abuse of the charitable sector by terrorist organizations. The Treasury Department has designated more than 40 charities with ties to al Qaeda, Hizballah, and Hamas among others, some with branch offices in the U.S. The U.S. has also prosecuted charities and their leaders, including in the case of the Holy Land Foundation for Relief and Development (HLF) which was found guilty on all counts in November 2008.

In none of these cases was U.S. government action capricious or based on sparse, dated, or unreliable information. The designation process in particular, I know from first hand experience, is appropriately robust, vigorous and errs on the side of caution.

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<sup>30</sup> USAID, "U.S. Small Businesses: Creating Opportunities with USAID," Office of Small and Disadvantaged Business Utilization/Minority Resource Center, March 2005, available at [http://www.usaid.gov/business/small\\_business/1\\_Small\\_Business\\_Introduction.pdf](http://www.usaid.gov/business/small_business/1_Small_Business_Introduction.pdf)

<sup>31</sup> See Matthew Levitt, "Better Late than Never: Keeping USAID Funds out of Terrorist Hands," Policywatch # 1277, The Washington Institute for Near East Policy, August 24, 2007, available online at <http://www.washingtoninstitute.org/templateC05.php?CID=2653>

<sup>32</sup> FATF Report Combating the Abuse of Non-Profit Organizations. October 11, 2002. <http://www.fatf-gafi.org/dataoecd/53/53/34260889.pdf>.

<sup>33</sup> Interview with European Commission Official, September 2007

Designated entities can and do appeal their designations, and the Treasury Department has a record of lifting designations when warranted.<sup>34</sup>

It should be clear that charities and international aid organizations come to this problem set from a noble and well intentioned perspective focused on the need to highlight opportunities to facilitate quick, efficient and timely aid. Thankfully, promoting opportunities for charitable giving and reducing the risk those opportunities are abused for illicit purposes are in no way mutually exclusive goals. Unfortunately, there are those who insist otherwise. They stress that due diligence on the part of charities is difficult and costly, and insist it has only limited value. In fact, the real question of the day is how to most effectively streamline due diligence and make it more cost effective. There should be no debate over the basic threshold for harmonizing charity and security: a basic commitment to non-violence. Balancing the risk of violence and the opportunity for charity, government and the non-profit sector both have a responsibility to err on the side caution. Both also have a responsibility to work cooperatively to thaw the chilling effect that the government's public response to terrorists' abuse of charities has had on charitable giving within the United States, and within Muslim-American communities in particular. The problem is not enforcement of U.S. laws banning material support to terrorist organizations (indeed, in the history of Treasury's designation regime only a handful of U.S. based charities have been designated), but rather the unintended impact this has had on charitable giving. Greater due diligence on the part of non-profit organizations, combined with government outreach and information campaigns such as Treasury's "Updated Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities," would go a long way toward resolving this problem.<sup>35</sup>

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<sup>34</sup> Note for example, the appeals of the Holy Land Foundation for Relief and Development (HLFRD), the Islamic African Relief Agency (IARA), Al-Haramain Foundation, and Kindhearts, to the U.S. courts. Examples of individuals removed from the Treasury designation lists can be found on the Treasury website. For the removal of Mohamad Nasir Abas, a former commander of Jemah Islamiyah, see <http://www.treas.gov/offices/enforcement/ofac/actions/20081002.shtml>. For other examples, see <http://www.treas.gov/offices/enforcement/ofac/actions/20100506.shtml> for removals made on May 6, 2010; See <http://www.treas.gov/offices/enforcement/ofac/actions/20100108.shtml> for removals made on January 8, 2010; See <http://www.treas.gov/offices/enforcement/ofac/actions/20091103.shtml> for removals made on November 3, 2009.

<sup>35</sup> See Treasury's "Updated Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities," <http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities-intro.shtml>