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## Aid, but abet? – charities and terrorist financing in the Middle East

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*Abuse of charities is a foundation typology of terrorist financing and while much work has been done to safeguard genuine humanitarian work, the threat, especially in the Middle East, remains potent, as **Paul Cochrane** reports, from Beirut.*



Misgivings

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Charities continue to face exploitation by terrorist groups looking to transfer money and finance their operations, with the Middle East a high-risk area. These non-governmental organisations (NGOs) are, however, criticising the extra scrutiny from regulators, banks and governments, saying it is driving charity financing into the shadows, actually increasing risks of criminal and terrorist financing.

### Trigger point

The September 11, 2001 attacks on the United States, and resulting increased focus on combating the financing of terrorism (CFT), put the non-profit sector, especially Islamic charities, under a spotlight by US regulators and, more widely, via the Financial Action Task Force's (FATF) Recommendation 8 on non-profit organisations (NPOs).

Many big-name Islamic charities were investigated, fined and, in some cases, closed down for acting as financial conduits for terrorist groups; examples include the Saudi Arabia-based Al-Haramain Islamic Foundation and the USA-based Holy Land Foundation for Relief and Development.

In the 17+ years since the attacks, as more countries have adopted anti-money laundering (AML) and CFT regulations, charities have largely become better regulated and controlled at both domestic and international level. Increased oversight means that blatant abuse of the sector by terrorist groups, using sham not for profit organisations (NPOs) as fronts, has become rarer. In a relatively recent example, in 2014, the Paris prosecutor's office closed the 'Pearl of Hope' for serving as a front for financing Syrian rebel group the Nusra Front.

"Fake NPOs are probably a minority of cases now, as it's harder to pull off. The difficulty now for terrorist groups is getting funds into the system, which depends on the controls that charities and jurisdictions have; these differ widely," said Jeremy Sandbrook, chief executive of Integrity360, an Australia-based compliance consultancy.

Indeed, in the Middle East many countries have only recently adopted a risk-based approach to NPOs: financial regulators in Jordan and Tunisia, for instance, have committed to follow FATF advice in this regard.

Despite a toughening of controls, terror groups are still targeting NPOs and NGOs, whose international scope and the fact they may operate in conflict zones make them particularly attractive vehicles, according to Sandbrook.

### Heat map – the Gulf

"I really think today the problem is ten times more serious than in 2001, and what people haven't realised is that 9/11 opened the gates to a vast variety of terrorist financing techniques that have been reproduced everywhere. There is still a high risk" of NPOs being abused, said Loretta Napoleoni, an Italy-based independent economist and expert on terrorist financing.

A prime source of funds for Islamic terrorist organisations – including the so-called Islamic State (IS) and other Sunni extremist groups – is believed to be Gulf Cooperation Council (GCC)-based donors, according to Wikileaks US government documents and e-mails. [1] GCC countries are Saudi Arabia, Bahrain, Qatar, Kuwait, Oman, and the United Arab Emirates (UAE).

"In Saudi Arabia, charities come under an organisation established purposely for them", the General Authority of Awqaf (Endowments) [2], noted Napoleoni, who argued that the regulator was a "pet project of many members of the royal family", so charities associated with Saudi royals (estimated to number more than 30,000 people) "are untouchable," she said: "Would a regulator look into the finances of the royal family? I am extremely pessimistic." Donations to aid victims of the conflict in Yemen are channelled through the King Salman Center for Charity and Humanitarian Relief, for example.

Problems with Saudi-based charities were noted by the US State Department's International Narcotics Control Strategy Report (INCSR), most recently in 2015: "Bulk cash smuggling and money transfers from individual donors and Saudi-based charities have reportedly been a significant source of financing for extremist and terrorist groups over the past 25 years," it reported.

Sherine El Taraboulsi-McCarthy, a research fellow with the Humanitarian Policy Group at the UK's Overseas Development Institute (ODI), who has undertaken extensive research in the Gulf on de-risking and charities, suggests, though, that local controls have been beefed-up.

"Everyone I spoke to in Saudi Arabia, Qatar and the United Arab Emirates has been unable to send [charitable] funds [within the GCC region], except with government approval due to restrictions and de-risking," Taraboulsi-McCarthy added. "Philanthropists are really struggling, including members of [the Saudi] royal family," she said, although not those allied with the current powerful Crown Prince Mohammad bin Salman.

### Conflict means opportunity

Meanwhile, elsewhere in the Middle East, very real political chaos has been exploited by terror groups to infiltrate NPOs.

In North Africa, especially Libya following the overthrow of long-time leader Muammar Gaddafi in 2011, there has been a surge in people smuggling, with NPOs offering good cover for terror group members, whether intending to move themselves or cash across borders. The same is happening in Turkey due to the conflict in Syria and instability in Iraq, said Napoleoni.

"There is human trafficking and the smuggling of migrants, whereby NPOs have been infiltrated [by terrorist organisations]. Charity workers are not any different from another human being - they can be corrupted," she said. A migrant could pay a member of an NPO to be included on an evacuation or relocation list, and that bribe might facilitate the movement of a terrorist.

### Lesser of two evils?

Meanwhile, charities can also play a middleman role in resolving kidnappings and so help terrorist organisations generate revenue, a method favoured by IS. "A lot of ransoms paid by Western governments in various locations are actually paid by charities, with the money returned [ie, repaid to them] through charitable donations [by those same governments]," said Napoleoni.

### Insider risk

Infiltration of NPOs or local partners by terrorist organisations or sympathisers is a particular concern for the sector, with larger institutions carrying out due diligence on new employees and suppliers, but smaller NPOs cannot always afford software to screen for designated terrorists, according to Sandbrook.

A recent case of alleged infiltration occurred in 2016, when the Gaza Strip operations manager of US charity World Vision was arrested by Israeli intelligence agency Shin Bet for diverting US\$7.2 million-a-year to Hamas, which controls Gaza and has been designated a terrorist organisation by the USA, the European Union and Israel. The official, Mohammad Al Halabi, had worked with the NGO since 2010.

According to Shin Bet, some US\$1.5 million-a-year was "given in cash" to Hamas combat units, while money raised to support injured children had been diverted to Hamas activist families by "fraudulently listing their children as wounded".

The charity has denied the accusations [3], while an Australian government investigation – funds had come from the Department of Foreign Affairs and Trade in Canberra – also failed to turn up any evidence, according to Sandbrook. "It doesn't mean it didn't happen, as the Israelis have charged the manager, but the charity denies it and claims it's a political issue, so who knows?" said Sandbrook. "It is a good example of how a terrorist organisation allegedly, or could have, infiltrated an NGO."

The case highlights the difficulties that NGOs face in navigating international regulations and domestic politics, and the need for greater clarity regarding AML and CFT rules. Working in Gaza is a case in point, since Hamas has run the strip as a quasi-independent state since seizing power in 2007 from its Palestinian rivals Fatah (which Hamas had defeated in 2006 elections).

Taraboulsi-McCarthy explained: "In Gaza, all activity linked to Hamas could be construed as terrorist activity, as you couldn't get anything done without the approval of Hamas. At the international level there seems to be less of an understanding about how it works on the ground for actors to secure acceptance from the Hamas government.

"And the rules [relating to NGOs] are quite obscure, so NGOs are not sure what Hamas wants exactly or what international regulators want. More often than not, NGOs don't know, or there are new requirements, so there's another layer of obscurity," said Taraboulsi-McCarthy, who has also studied the interlinkage of de-risking and the rising debt levels of Palestinian NGOs.

Due to the complexity and the potential reputational risk of engaging with Hamas, a number of Arab governments have placed restrictions on the transfer of funds to Palestinian NGOs, she added. The same has occurred in Lebanon in respect of the armed Shia Moslem group Hizbullah, which is designated as a terrorist organisation by the USA, the EU and many Arab states.

There has been a regional attempt to clarify guidance on how charities can work in the Middle East: in November 2014 the GCC adopted the Manama Declaration on CFT, which recommended strengthening FATF and UN rules on terrorist finance, notably to "prevent non-profit organisations and charitable collections from being abused by terrorist organisations to raise, move, or use funds, while not disrupting or discouraging legitimate charitable activities".

### De-risking - consequences

NGOs operating in the Middle East are also facing heightened de-risking from banks, with governments also deciding which NGOs can operate, can access funds, and for what projects, as in Jordan and Egypt.

The results could, though, be counter-productive, said Dima Jweihan, executive director of the International Center for Non-Profit Law in the Middle East and North Africa, based in Amman, Jordan. "If governments keep putting restrictions on NPOs from accessing funding, they will resort to processing cash, and that's where there are risks, as it is difficult to track and supervise."

Charities and civil society in Europe and North America are also complaining about over-zealous regulations on the sector, and the risks of driving NPOs towards bulk cash transfers and the informal banking sector. "Banks see NGOs and charities as increasingly risky so don't want them as clients; they're de-risking the whole sector. Counter-terrorism efforts are disproportionately affecting NPOs," said Fulco van Deventer of the Netherlands-based Human Security Collective, which is working with charities and FATF to improve recommendations and typologies on this issue. He estimates it costs between US\$6,000 and US\$12,000 for a bank to carry out due diligence on an NPO.

### Notes

- <https://www.wikileaks.org/podesta-emails/emailid/3774#searchresult>, and [https://wikileaks.org/plusd/cables/09STATE131801\\_a.html](https://wikileaks.org/plusd/cables/09STATE131801_a.html)
- <http://www.awqaf.gov.sa>
- <https://www.wvi.org/jerusalem-west-bank-gaza/pressrelease/statement-world-vision-staff-arrest>

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