

A COMPARATIVE ASSESSMENT OF SAUDI ARABIA  
WITH OTHER COUNTRIES OF THE ISLAMIC WORLD

**Targeting Terrorist Finances Project\***  
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During the December 2003 discussion by the Task Force of the Columbia University team's assessment of Saudi Arabia, Task Force members commented on the importance of assessing the extent of Saudi Arabia's compliance with international standards in comparison with other states. In particular, given similarities in legal, administrative, and governmental structures, it would be important to consider measures taken in other countries of the Islamic world. This is especially true with regard to the regulation of charities and informal value transfer systems. Countries located in the Islamic world are also more likely to be sources of potential funds raised or locations for the transmission of funds to groups like al-Qaeda.

Over the past two and a half years, a research team at Brown University's Watson Institute for International Studies has been investigating the extent to which countries across the globe have been complying with and implementing international standards to counter the financing of terrorism. The Targeting Terrorist Finances Project, represented on the Task Force by Thomas Biersteker, is investigating degrees of compliance and implementation of the counter-terrorism effort by examining publicly available reports

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from different countries, along with other sources of country-specific information. Countries are evaluated relative to each other according to their degree of compliance of mandatory provisions of resolutions passed by the UN Security Council and other relevant indicators (particularly those recommended by the Financial Action Task Force (FATF)).

The research team has built on its previous work on the implementation of targeted financial sanctions,<sup>1</sup> differentiating between four aspects of policy implementation: (1) the establishment of a legal framework; (2) the creation or strengthening of an administrative infrastructure; (3) the introduction and use of a variety of different regulatory measures; and (4) evidence of enforcement. At the request of the Council Task Force co-directors, the Watson Institute project team has undertaken a systematic analysis of Saudi compliance in comparison to that of other countries of the Islamic world. The project has compared Saudi Arabia with nine other countries: Egypt, Indonesia, Jordan, Malaysia, Morocco, Pakistan, Tunisia, the United Arab Emirates, and Yemen. This is not a comprehensive sample, but it is representative of major regional financial centers, countries centrally involved in the global counter-terrorist effort, countries exhibiting a variety of different approaches and degrees of policy innovation, and different regions of the Islamic world (from North Africa to Southeast Asia).

The Watson Institute team has relied on publicly available documents submitted to the United Nations' Counter Terrorism Committee (responsible for implementing Security Council resolution 1373, criminalizing the provision of funds to groups utilizing terrorism) and the United Nations' 1267 Committee (responsible for targeted sanctions

against the Taliban, members of al-Qaeda, and associated entities). While these reports consist largely of self-reporting by states, they also include queries by issue area experts and state responses to those queries. This is an iterated process, with most states supplying two or three successive reports. In addition, the research team has drawn upon 1267 Committee monitoring group reports, conversations with individuals involved in the UN monitoring and assistance effort, reports of the joint IMF/World Bank assessments of country compliance with anti-terrorism measures, information provided directly by governments, newspaper and other media sources, and the research on Saudi Arabia carried out by students at Columbia University. The evaluation that follows is not based on in-country field research work or interviews conducted by members of the Watson Institute research team.

The assessment provided below should be read as a provisional one. There is not fully comparable information available on all of the countries. Moreover, this is a dynamic and constantly changing process, and accordingly, the Watson Institute research team welcomes corrections, additions, or clarifications regarding the countries included in the comparative assessment.

### *Method of Analysis*

For the purposes of systematic comparison, each of the ten countries has been evaluated according to the following criteria.

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<sup>1</sup> *Targeted Financial Sanctions: A Manual for Design and Implementation, Contributions from the Interlaken Process* (Published by the Swiss Confederation in cooperation with the UN Secretariat and the Watson Institute for International Studies, Brown University, 2001).

## Legal Framework

With regard to the establishment of an adequate legal framework, states were accorded the highest evaluation if they have legislation in place that criminalizes the provision of funds for terrorism, have the ability to act to freeze funds immediately, and have signed the International Convention for the Suppression of the Financing of Terrorism. Each of the three criteria is defined more precisely below.

1. **Criminalization of Terrorist Financing:** States have criminalized the raising or provision of funds for terrorist acts, whether or not an act has been committed.
2. **Capacity to Freeze:** States have the authority to freeze funds expeditiously without prior judicial action (wherever that authority resides).
3. **Terrorist Financing Convention:** States have signed (or ratified) the International Convention for the Suppression of the Financing of Terrorism.

## Administrative Infrastructure

With regard to the creation or strengthening of their administrative infrastructure to address terrorist financing, states were accorded the highest evaluation if they have a Financial Intelligence Unit, have committed additional resources to strengthen their institutional capacity, and have requested or received assistance for strengthening their administrative infrastructure from another state, or from an international or regional organization. Each criterion is defined more precisely below.

1. **FIU:** Countries have in place an established Financial Intelligence Unit.
2. **Additional Resources:** There is evidence of an increase in personnel or funds for building the institutional capacity to deal with some aspect of terrorist financing.

3. **Requested/Received Assistance:** The country has requested or received assistance related to financial law and practice, training for financial institutions, etc.

### Regulatory Measures

With regard to the introduction and use of a variety of different regulatory measures, states were accorded the highest evaluation if they have gone beyond the United Nations' list of individuals or groups associated with the use of terrorism, if they have introduced measures to ensure bank and financial institution compliance, have established systems for regulating or registering informal value transfer systems (IVTS or *hawalas*), and if they have taken steps to regulate and monitor the operations of charities within and beyond the borders of their country. Each criterion is defined more precisely below.

1. **Listing:** Countries showed evidence of implementing lists that go beyond that promulgated by the UN (i.e. either their own list or the US Treasury's OFAC list).
2. **Bank/FI Compliance:** Countries have introduced at least three of the following measures:
  - (a) Banks were notified of the names of individuals or groups.
  - (b) Reporting requirements have been placed on banks.
  - (c) Reporting requirements have been extended to other financial institutions beyond banks.
  - (d) There is evidence that assistance was provided to banks.
3. **IVTS:** Countries have established some system for registering or regulating Informal Value Transfer Systems (*hawalas*).

4. **Charities:** Countries regulate and monitor the operations of charities within (and beyond) their borders.

#### Enforcement

With regard to enforcement, states were accorded the highest evaluation if they have actually frozen funds, made arrests or pursued prosecutions related to the financing of terrorism, and if there was other significant evidence of enforcement related to the financing of terrorism. Each criterion is defined more precisely below.

1. **Freezing of funds:** Countries have frozen terrorist assets, either pre-9/11 (under United Nations Security Council Resolution S/RES/1267) or subsequently. Most of this information was derived from Appendix III to S/2003/1070, published by the United Nations.
2. **Arrests since 9/11:** Countries have made arrests relating to the financing of terrorism.
3. **Other evidence:** There is some tangible evidence of additional enforcement, such as countries like Saudi Arabia that have bilateral cooperation arrangements with the United States specifically related to terrorist financing.

This framework enables the project team to evaluate degrees of compliance with mandatory provisions of resolutions passed by the UN Security Council and other relevant (FATF) indicators. For present purposes, the team deployed this framework to derive comparative assessments. In doing so, each country was initially evaluated independently by two different members of the project team. After their initial, independent evaluations, the two met to determine a consensus assessment, based on their

best interpretation of the information available about the country involved (and in an explicit effort to establish consistent evaluation and inter-coder reliability standards). Each country was evaluated based on the most recently available assessments (usually dating from 2003 and 2004) on each of the criteria listed above. We state our findings below in terms relative degrees of compliance and implementation, i.e. states that have complied with or implemented all or the vast majority of the measures elaborated in the numbered paragraphs above, are judged to be relatively “stronger” than those that have complied with or implemented fewer or none at all, who are therefore considered to be relatively “weaker.”

*Findings*

Assessed according to the framework set out above, Saudi Arabia appears relatively compliant with standards to suppress the financing of terrorism when viewed in relation to other states from the Islamic world. While in some areas, most notably in regulatory measures, Saudi Arabia does not achieve as high a degree of compliance as others in the sample, in other aspects, particularly the establishment of a legal framework, Saudi Arabia’s effort equals or exceeds measures taken by others. The comparative assessment is summarized in the table below.

*Relative Degrees of Compliance and Implementation*

	← STRONGEST	→	WEAKEST
<b>Legal Framework</b>	Indonesia Morocco Saudi Arabia Tunisia	Jordan Malaysia Pakistan	Egypt UAE Yemen
<b>Administrative Infrastructure</b>		Egypt Indonesia Malaysia	Jordan Pakistan Tunisia

		Morocco Saudi Arabia UAE Yemen		
<b>Regulatory Measures</b>	UAE Yemen	Egypt Malaysia Saudi Arabia	Indonesia Jordan Pakistan Tunisia	Morocco
<b>Enforcement</b>		Pakistan Saudi Arabia UAE	Indonesia Morocco Yemen	Egypt Jordan Malaysia Tunisia

Each of the rows in the table corresponds to elements of the analytical framework presented previously (legal, administrative, regulatory, and enforcement). Within each row, states that achieve full compliance with all of the criteria are rated “strongest,” and states that are abjectly non-compliant on all measures are rated “weakest.” Empty cells reflect instances in which none of the states in the sample was coded as fully compliant or abjectly non-compliant.

Following the recent assessment of Saudi Arabia’s compliance with FATF standards, the financial press reported that the country has “world class” terrorist financing laws.<sup>2</sup> From the comparative evaluation summarized above, Saudi Arabia’s legal framework appears to be among the more robust of the sample. For example, in Saudi Arabia, “terrorist financing” (that is, the collection and movement of funds intended for terrorism, whether or not a terrorist act actually occurs) is now criminalized. Other states have not created a separate offense for terrorist financing, contrary to FATF standards. A number of states in the comparative study (such as Yemen) have taken the

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<sup>2</sup> Robin Allen, “Saudis meet anti-terrorist financing benchmarks: International assessment,” *Financial Times*, 8 March 2004, p. 7.

step of listing terrorist financing as a predicate offense pursuant to anti-money laundering legislation. While this is an important step, it is not sufficient in itself, as it requires that a terrorist act occur before its financiers can be charged. Regarding the timing of legislative change in Saudi Arabia, the introduction of these and other measures reflect a sense of urgency induced by the May 2003 and subsequent bombings. Other states that have experienced devastating attacks on their territory (such as Indonesia) also criminalized terrorist financing subsequent to such violence.

In other ways, too, Saudi Arabia's legal framework compares favorably against other states in the sample. Saudi authorities now possess the legal power to freeze suspected terrorist assets expeditiously. Other states (such as Egypt) still require that separate judicial authority be sought prior to each freezing action. And again, others have not acted as quickly as the Saudis in ensuring capacity to freeze.

Finally, as a signatory to the UN Convention for the Suppression of the Financing of Terrorism, Saudi Arabia has taken on binding commitments to combat terrorist financing. While Saudi Arabia is yet to ratify the Convention, nearly half of the states in the sample have not yet signaled their willingness to act against terrorism in this way (e.g. Malaysia, Pakistan, the UAE, and Yemen are still debating whether or not to sign). In sum, Saudi Arabia's effort to establish a legal framework to suppress terrorist financing is relatively strong, and among the strongest of the states surveyed. However, as the Task Force report notes, "The passage of laws and regulations is only the first step toward the creation of an effective anti-money laundering and counter-terrorist financing regime. Just as important – and more important over the longer term – is effective implementation."

Saudi Arabia compares less favorably when its administrative infrastructure to support the implementation of terrorist financing measures is examined. In developing the capacity to act against terrorist financing effectively, states are expected to create a Financial Intelligence Unit. Saudi Arabia's recent initiatives in this regard fulfill this requirement, where others in the sample (such as Jordan and Pakistan, where legislation establishing an FIU remains in process) have not. However, there is no publicly available evidence that Saudi Arabia has committed additional resources to combat terrorist financing. While at least one other state (Morocco) has increased personnel for building the institutional capacity to deal with aspects of terrorist financing, there is no clear evidence that Saudi Arabia has committed additional resources to the counter-terrorist financing effort. Lastly, along with most other states in the sample, Saudi Arabia has utilized multilateral mechanisms and requested assistance for capacity-building needs to implement new legislative mandates. Seven out of the ten states surveyed have requested assistance in developing financial law and practice.

Regarding regulatory measures, when viewed in comparative perspective, Saudi Arabia performs well, but not outstandingly. Saudi Arabia has utilized the UN Security Council list of individuals and entities belonging to, or associated with, Osama bin Laden, al Qaeda, and the Taliban. It had even taken action against some of those listed prior to the passage of UN Security Council Resolution 1267, by freezing the accounts of Osama bin Laden in 1994. Other countries included in the comparative assessment (such as the United Arab Emirates and Pakistan), however, have implemented more extensive lists, including the list developed by the US Treasury's Office of Foreign Asset Control.

Overall, Saudi Arabia has made relatively strong progress in ensuring that the formal banking sector complies with new measures to combat terrorist financing. It is only one of three countries (the others are Egypt and Malaysia) that have taken steps to notify domestic banks of their obligations in this regard, to impose reporting requirements on banks, to extend these requirements to non-bank financial institutions, and to provide assistance to banks and financial institutions in implementing new legal and administrative measures. This record of activities compares favorably with Morocco and Pakistan (which have not enhanced reporting requirements) and Indonesia, Tunisia, the UAE and Yemen (which have not yet undertaken activities to assist compliance by banks and other financial institutions).

Similar to other states included in the comparative evaluation, Saudi Arabia initially denied the existence and prevalence of informal value transfer systems (IVTS), and declared them illegal under non-specific legal mandates (e.g. Sharia Law). Saudi Arabia has since taken specific measures to bring *hawaladars* into the broader regulatory framework. In doing so, it has followed the lead of the UAE, which has shown initiative in developing and implementing measures to improve the accountability of IVTS mechanisms (e.g. by imposing registration, reporting and record-keeping requirements upon IVTS operators). These recent initiatives distinguish Saudi Arabia from other states that continue to deny the existence of IVTS in their country (such as Morocco and Tunisia), or have not yet acted to impose basic transparency requirements on *hawaladars* (e.g. Jordan).

If Saudi Arabia was slow to act against IVTS, however, it has been among the first and most stringent in regulating charities operating in the non-profit sector. Saudi

charities are now among the best regulated in the sample (these measures are outlined in the main body of the Task Force report). Other states have improved their legislative and administrative responses to terrorist financing without extending measures to the non-profit sector (e.g. Indonesia), or have yet to impose transparency requirements upon charities (e.g. Pakistan).

Of the ten countries surveyed, Saudi Arabia has one of the relatively stronger records of enforcing the measures it has taken to combat terrorist financing. Of course, the fact that Saudi Arabia is relatively wealthier and has historically been reputedly one of the largest sources of financial support for groups utilizing terrorism, suggest that it should be able to demonstrate relatively more evidence of enforcement than most of the other countries included in the comparative assessment. A more robust conclusion would require that Saudi Arabia be compared with countries that present a comparable risk in terms of the raising and movement of terrorist funds. Within this limitation, Saudi Arabia is reported to have frozen the second largest amount of terrorist-related assets of the countries included in the sample (after Pakistan).<sup>3</sup> In at least one instance, however, funds were allegedly frozen and then returned to the depositor.<sup>4</sup> Nevertheless, because the Saudi government has reported that it has closed a total of forty-one accounts, it has therefore been credited in this comparative assessment with showing evidence of enforcement.

The Saudi government claims to have made arrests related to terrorism, but from a review of publicly available sources, there is no evidence that any arrests have been made

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<sup>3</sup> Appendix III to S/2003/1070, published by the United Nations. Saudi Arabia has reportedly frozen \$5.7m, compared with Pakistan's \$10.7m.

specifically related to terrorist financing. Finally, the fact that Saudi Arabia is involved in a bilateral initiative with the United States to enforce measures against terrorist financing suggests tangible evidence of additional enforcement.

This comparative assessment of Saudi Arabia is based entirely on public source documents and has not benefited from interviews with any of the principals involved in the bilateral initiative. Thus, the conclusion that Saudi Arabia shows certain evidence of enforcement should not be interpreted as a contradiction of the Task Force conclusion regarding the nature of Saudi enforcement. However, this comparative study shows that few states are able to produce compelling evidence of enforcement. Viewed in this perspective, Saudi Arabia enforces counter-terrorist financing measures relatively strongly and is grouped with those countries showing the greatest evidence of enforcement.

### *Conclusions*

While the results of this research are provisional, within the context of a systematic comparative analysis of legal frameworks, administrative infrastructure, regulatory measures, and enforcement across ten countries of the Islamic world, Saudi compliance with counter-terrorist financing measures is relatively strong. There are certainly additional measures it can take in each of these areas. It could ratify the terrorist financing convention, devote additional resources to its administrative infrastructure, register and monitor IVTS, and make public arrests related to terrorist financing.

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<sup>4</sup> Douglas Farah, "U.S. – Saudi Anti-Terror Operation Plan: Task Force Will Target Funding, Washington Post, August 26, 2003, p. A1.

These findings underscore the importance of ongoing international engagement on the issue of terrorist financing. Across the world, states have initiated legislative and administrative changes in response to the need to suppress terrorist financing. Exemplifying this broad trend, Saudi Arabia has responded to external criticism of its compliance with international standards to suppress terrorist financing. In doing so, it has achieved a relatively strong degree of compliance in comparison with other states in this sample of states from the Islamic world; but clearly, more needs to be done to improve and verify compliance and implementation across all states. This points to the general need for ongoing and appreciably enhanced international coordination, monitoring, assessment, and capacity building efforts, as discussed in Recommendation 3 of the Task Force report.