



The Truth About Charities & Terrorist Financing

Myth: The Department of Treasury says, "A significant source of alleged terrorist support has been the use of charities and nonprofit organizations to raise money, move persons and materials, and provide logistical support for the international operations."¹

The Truth: Treasury tries to substantiate this myth by claiming that 15 percent of terrorist financing comes from charities or individuals associated with charities.² This figure is misleading because it:

- Distorts the data by using the number of designated individuals, companies and organizations on Treasury's Specially Designated Nationals (SDN) list, and not the total dollars alleged to have been diverted to terrorists
- Unfairly lumps individuals and charities together
- Ignores what is known about major sources of terrorist financing

Distorting the Data

Based on the available Treasury data, the following calculations can be made:

Table 1: Charities & Individuals Associated with Charities on OFAC's SDN List

Charities & Individuals Associated With Charities (43 Charities & 29 Individuals)	15%
All Charities (43 listed on OFAC list)	8.95%
Individuals Associated With Charities (29 listed on OFAC List)	6.04%
International Charities (37 Listed on OFAC List)	7.70%
U.S. Based Charities (6 Listed on OFAC List)	1.25%

(Of approximately 480 entities listed on 2006 OFAC list)

These figures suggest that U.S. based charities represent a little over one percent of organizations with suspected ties to terrorists.

¹ Department of the Treasury's May 21, 2007 Final Audit Report – Screening Tax-Exempt Organizations' Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified (Audit # 200610044)

² Annex, Anti-Terrorist Financing Guidelines, 2006 version, at <http://www.treas.gov/press/releases/reports/0929%20finalrevised.pdf>

Treasury has not publicly released information on the dollar amounts associated with specific designated entities or individuals. The best available information we have found is in the 2005 Office of Foreign Assets Control Terrorist Assets Report to Congress.³ Using this data, as the table below indicates, all designated charities, both U.S. and foreign, appear to account for no more than 3.6 percent of known blocked assets. And this figure is artificially high, since the assets of designated individuals on the list are not included in the total.

Table 2: Charity Share of Blocked Assets

OFAC List Category	Reported Blocked Assets	% of Known Blocked Assets
Foreign Terrorist Organizations	\$ 13,793,102	3.6%
Six State Sponsors of Terrorism	\$368,900,000	96.4%
Individuals	? (not reported)	?
Total	\$382,693,102	100%

Unfairly lumping individuals and charities together

Individuals that abuse their position within charities should be prosecuted. However, a distinction must be made between the deceptive actions of individuals within charities and the charities themselves. A research paper published in 2004, *Terrorism and Money Laundering: Illegal Purposes and Activities*,⁴ reviewed publicly available information on charities shut down by the Treasury Department and examined how diversion of funding to terrorists may have occurred. It concluded that diversion of funding to terrorism is most likely to occur when an individual acts out of ideological and criminal motivation. In some cases charities may have been used for these purposes, but the evidence did not point to organizational conspiracies or collusion. It also noted that evidence of "links" to terrorist organizations has not resulted in criminal convictions of charities. This is still true today.

One or even a handful of fraudulent actors within an organization should not erase years of otherwise commendable work. When abuse occurs, a charity's assets should not be frozen. Instead, guilty individuals should be prosecuted and steps should be taken to ensure funds are used for the group's charitable mission. This is the approach taken in the United Kingdom, and one that the U.S. should adopt.

Ignoring what is known about major sources of terrorist financing.

When compared to other sources of terrorist funding, the evidence of charity sponsored terrorism is quite sparse. In fact, Hawala⁵ transfers account for an estimated \$200 billion a year to terrorist activity, while remittances from the World Bank contribute approximately \$150 million⁶. The perception that charities are supporting the work of terrorists on a broad scale is contrary to this evidence.

³ <http://www.treas.gov/offices/enforcement/ofac/reports/tar2005.pdf>

⁴ Victoria Bjorklund, Jennifer Reynoso and Abbey Hazlett *Simpson, Thacher & Bartlett, LLP*

⁵ Hawala is a traditional alternative funds remittance system. For background see <http://www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm>

⁶ Napoleoni op. cit; GAO op. cit; Council on Foreign Relations, *Terrorist Financing: Report of an Independent Task Force*. New York, 2002.

