

## Gray Money, Corruption and the Post-September 11 Middle East

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Man passes through Dubai gold market.

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# Gray Money, Corruption and the Post-September 11 Middle East

**John Sfakianakis**

Graft, smuggling and kickbacks in the Middle East create huge sums of money requiring concealment in a secretive banking system. Al-Qaeda has simply used existing mechanisms for hiding cash. Regime and elite corruption, not pervasive regional sympathy with Osama bin Laden, are the main factors inhibiting the cooperation of banks in the Middle East with Bush's "war on terrorist finances."

**W**hen, on September 24, 2001, George W. Bush published his executive order freezing accounts of al-Qaeda and other radical Islamist groups in US-based banks, he called on financial institutions around the world to join the US in its “strike on the financial foundation of the global terror network.” Countries or companies that did not also freeze the assets of the 27 individuals and organizations on his “most wanted list” would face severe US financial sanctions, Bush threatened. Many financial institutions in the Middle East were keen to comply. By early November, Kuwait had closed down several “kiosks” outside mosques that allegedly collected money for al-Qaeda. In Bahrain and the United Arab Emirates (UAE), bankers quickly announced their commitment to tracing “terrorist” money and embarking on a campaign to fight money laundering. Sudan assisted the US in tracking the financial activities of Osama bin Laden and in tracing money transfers between Sudanese banks and their branches abroad. Lebanon’s prime minister assured the international community that his country “is not involved in any money laundering” (though he refused to freeze the assets of Hizballah). Egypt and Iran are drafting money laundering laws. The storm of US media criticism notwithstanding, Saudi Arabia showed signs of willingness to trace the few million dollars transferred out of Saudi Arabia to bin Laden since the mid-1990s.

US ambitions to thwart financing of al-Qaeda operations seem so reasonable as to be unexceptionable, but attempts to monitor financial transactions in the Middle East are fraught with unintended consequences and practical difficulties. The evidence is that al-Qaeda and other groups have exploited gaps in supervision in the international financial system, moving funds through the global banking system and using less conventional channels such as charities and the *hawwala* system of money transfer. Bush’s executive orders now list more than 150 individuals and organizations whose assets should be frozen. While banks in the West have struggled to comply with this apparently straightforward request, banks in the Middle East find it even harder to comply. Their difficulty is rooted in the institutionalized corruption in many states of the region, which mandates that many financial transactions be secret and undocumented. In the Middle East the line dividing legal and illegal money-making activity is quite fuzzy, as is the distinction between public and private funds. At the core of the region’s political economy is an extensive and unchanging patronage system which is intended to be clandestine and lacking in accountability. As a result, the transparency investigators would need to thoroughly track the financial dealings of bin Laden and his associates is non-existent. Regime and elite corruption, not pervasive regional sympathy with bin

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Laden’s ideology, are the main factors inhibiting the cooperation of banks in the Middle East with the “war on terrorist finances.”

## Follow the Money

Priority in the post-September 11 investigation was given to combating money laundering around the world, including the Middle East. Money laundering is the processing of criminal proceeds to disguise their illegal origin, allowing beneficiaries to enjoy their profits without jeopardizing the source. The amount laundered globally is estimated at \$500 billion to \$1 trillion per year.<sup>1</sup> The lower estimate is roughly equivalent to the total annual economic output of Spain. Illegal arms sales, smuggling, drug trafficking and prostitution rings generate huge sums of “gray money” that require laundering. Embezzlement, insider trading, bribery and computer fraud schemes also produce

ill-gotten gains that need to be legitimized.

A number of developments in the international financial system during recent decades have rendered finding, freezing and confiscating criminally derived income and assets all the more difficult. These are the “dollarization” (use of the US dollar in transactions) of black markets, the general trend toward financial deregulation, the progress of the European common market and the proliferation of financial secrecy havens.

The Middle East is not the money laundering center of the world. New York, Miami, London, Zurich, Singapore, the Caribbean and the South Pacific figure more prominently. But according to the 2001 report of the Financial Action Task Force (FATF) of the Organization of European Cooperation and Development, Lebanon, Egypt and Israel all fall into the select category of money laundering havens. A major factor in the success of Lebanon’s banks has always been their secrecy. Thanks to its banking secrecy, Beirut became a haven for funds spirited away from neighboring countries during the “Arab socialist” era, as well as for not-so-clean profits repatriated by Lebanese merchants involved in the diamond and gold business in West Africa. Lebanon was among the many places where the late Nigerian dictator Gen. Sani Abacha and his associates invested their embezzled billions during the mid-1990s. The Lebanese banking system appears lucrative to prospective clients because the average yield on dollar deposits ranges between four to five percent (compared with less than three percent in the US and Europe). The drug trade, in which Lebanon acts as a hub, has also helped banks in Beirut achieve their money-laundering notoriety. The BBC reported recent estimates that opium and cannabis from the Bekaa valley generated more than \$500 million annually during the Lebanese civil war. It is believed that Lebanese Prime Minister Rafiq Hariri, a billionaire, used the banking system in Lebanon to launder

money from his foreign-based companies and to facilitate deposits from his close Saudi friends. Lebanese banks are also rumored to have laundered public funds on behalf of highly positioned Syrian military personnel and businessmen looking to invest in real estate.

Although there are never precise figures, the amount of money that is believed by the government to be laundered every year in Egypt is about \$4.3 billion—approximately five per cent of the country's gross domestic product.<sup>2</sup> Drug trafficking is presumably the source of 70 per cent of the laundered money. Although Egypt is drafting a money laundering bill, it is predicted that by 2004 the amount of dirty money flowing through Egypt will total \$6 billion. However, according to banking sources interviewed for this article, drug money is not the sole source of laundered funds. Smuggled Iraqi oil, as well as Italian mafia money predominantly invested in the coastal resort of Sharm al-Sheikh, also brings dollars into Egyptian bank vaults. In its attempts to regulate money laundering, the Central Bank of Egypt (CBE) has begun instructing the banking community in the art of "knowing its clients." In October 2001 a CBE statement indicated that banks were instructed to inform the Interior Ministry (not the Ministry of Finance) of any bank deposits or transfers exceeding \$120,000.<sup>3</sup> US banks become suspicious when a cash deposit exceeds \$10,000.

It was only a year ago that money laundering became a criminal offense in Israel. Money laundering in Israel in the 1990s was very much related to Russia. Up to February 2002, new immigrants have been able to bring an unlimited amount of money and assets into Israel without declaring them. In 1997 sources estimated that Israel was attracting some \$4-5 billion annually in laundered money—presumably this number has only increased since then. Reportedly, the Russian mafia has taken advantage of Israel's banking secrecy laws to introduce the laundered money, using immigrants as couriers and local businessmen as fronts. One of the highest-profile cases is that of Gregory Lerner, arrested in 1997 for defrauding four Russian banks of \$106 million, who was reportedly sent to Israel to head up one of the money laundering operations. He is currently serving six years in an Israeli prison. Recent headlines include the ongoing investigation of well-known businessman Gad Ze'evi, who has been questioned for allegedly involving Russian businessmen suspected of money laundering in his 1999 acquisition of 20 percent of the state-controlled telecommunications company Bezeq.<sup>4</sup> More recently, Switzerland's Federal Banking Commission has ordered Bank Leumi, Israel's second biggest bank, to replace the head of its Swiss banking subsidiary after it failed to exercise due care in opening a bank account for Vladimiro Montesinos, the former Peruvian spy chief.<sup>5</sup>

Money laundering opportunities can always be established for people in very close proximity to a regime, even in countries in the good books of the FATF. Fouad Filali, the former husband of Princess Lalla Meriem of Morocco, the sister of King Hassan VI, was involved in a large-scale money laundering operation, according to press reports.<sup>6</sup> Filali was the

son of former Prime Minister Abdellatif Filali and former CEO of Omnium Nord Africain (ONA), the largest Moroccan private group, believed to be majority-controlled by the royal family.<sup>7</sup> A year after the Filali incident, a close adviser to the royal family—according to Moroccan sources, he signed the late king's checks—was charged by France with trying to circulate more than \$360 million in counterfeit Bahraini dinars.<sup>8</sup>

## Hands in the Till

Besides drug traffickers and mafiosos, regime officials benefit greatly from the loose and secretive habits of financial institutions in the Middle East. Bribes for state contracts and licenses supply a continuous revenue stream to most rulers and their supporters among big landholders and businessmen. Mobile telephone network licenses issued in Lebanon and Egypt since 1996-1997—and more recently the one in Algeria—provide some examples: the three state licenses combined netted regime figures more than \$2.3 billion in payments. In Lebanon and Egypt, members of the ruling elite, businessmen and bankers benefited. According to well-placed sources, one of the two Lebanese licenses was awarded to the son of the minister of defense, Muhsin Dalloul, who is married to Hariri's stepdaughter. In Algeria it was military circles close to the Bouteflika regime. Construction contracts are another area where money is accumulated by various intermediaries and regime clients. During the 1990s, Lebanon under Hariri's premiership exemplified the interconnection between private business and public office. Not only was Hariri's business team allowed to hold office in various key civil service posts,<sup>9</sup> but the fabled reconstruction of Beirut was, and still is, carried out by Solidère, a privately owned joint stock company in which Hariri maintains a majority interest.

Although illegal arms sales are not the rule in the Middle East, government-to-government arms sales make fortunes for middlemen—mostly from the buyer's side. In the case of Saudi arms purchases, many princes get a "cut" of monies spent; the size of the cut depends on the prince's proximity to the inner circle of the royal family. Tracing these kickbacks is a daunting task, since they very easily enter the local banking system and are promptly reinvested within the country or outside. A Saudi banker interviewed for this article conservatively estimated that arms deals alone have generated more than \$5 billion in kickbacks in the past 25 years in Saudi Arabia. The al-Yamama arms deal sending British weapons to the Saudis topped \$30 billion, with at least two dozen middlemen taking hefty commissions, including the Syrian Wafiq Sa'id and 'Adnan Khashoggi of Saudi Arabia.<sup>10</sup> Over the decade 1973-1983, US arms exports to Saudi Arabia amounted to \$35 billion. Between 1991-1997 there were \$23 billion more in arms agreements between the US and the Saudis.<sup>11</sup> If one includes the rest of the region and other suppliers, such as France, Russia, Italy and Germany, one can imagine the amounts of illicit cash being pocketed by arms trade middlemen.

Bribes and kickbacks are extremely difficult to quantify and to trace, since they never enter the coffers of the central banks but rather are silently stowed in accounts throughout Europe and North America. A report by the London-based Swissmoney Research revealed that, excluding offshore tax havens, residents of Jordan were the heaviest users of Swiss banks last year, with fiduciary deposits equal to 16.4 percent (\$1.317 billion) of the kingdom's gross domestic product (\$8.03 billion). Two other Arab countries followed close behind: Lebanon (with deposits worth \$2.468 billion, equal to 14.4 percent of the country's GDP) and the United Arab Emirates (with deposits worth \$6.387 billion, or 13.6 percent of the UAE's GDP).<sup>12</sup> On an absolute basis, the largest Arab holder of Swiss bank deposits last year was Saudi Arabia, salting away \$9.091 billion, or 6.6 percent of the kingdom's GDP.<sup>13</sup> The size of the deposits does not in itself indicate wrongdoing, but it is suggestive that the recent international investigation into Abacha's embezzlement of over \$4 billion reveals the complicity of at least 19 well-established international banks in "cleaning" that former dictator's stolen money.<sup>14</sup>

## Smuggling

Still more large sums of money requiring concealment come from smuggling. Smuggling in the Middle East can involve anything from unlicensed software in Lebanon to banned alcohol in Saudi Arabia via Dubai to Iraqi oil making its way through various middlemen in Russia, Syria, Turkey and the UAE. But even a target under comprehensive international sanctions—the Iraqi regime—has eluded efforts at a crackdown. The US and Great Britain have had little luck in persuading Russia to cooperate in reducing the number of middlemen involved in purchasing Iraqi oil. (Some 700 companies are registered in Russia to purchase oil from Iraq.)<sup>15</sup> Russia is reluctant to clamp down because many of the kickbacks go to Russian middlemen, certainly including Russian officials. Complicating the matter even further, about a third of smuggled Iraqi oil products travel overland into central and northern Iran. Traders call this oil Iranian "displacement" oil because it replaces products from Iran's own refineries in the south of the country, where products are often blended with Iraqi contraband.<sup>16</sup> Lastly, smuggled Iraqi oil winds up at a discount price in Jordan, Turkey and Syria—whose pipeline to Iraq is now believed to be the most active route for the sanctions-busting oil trade.

For many years US intelligence has been trying to trace the Iraqi regime's oil smuggling revenues outside of Iraq, but this has proven a difficult task. According to business sources interviewed for this article, it is believed that middlemen involved in brokering Iraq's oil use offshore companies, as well as legal companies and banks in Switzerland

and the Middle East, to "clean" and reinvest the Ba'hist government's sanctions-busting proceeds. Some of that money, which is under the control of Saddam Hussein personally, is invested in various countries in the Middle East through recognized local investment houses and a few trusted middlemen acting as fronts for Hussein. Perhaps more than \$50 million has entered the Jordanian stock market, according to Jordanian banking sources, more than double that

amount has entered the Egyptian bourse and even more has gone through the London Stock Exchange. It is also thought—by various Gulf bankers and investment houses—that an undetermined amount has entered the banking system, particularly offshore branches, of Bahrain. The Iraqi regime's exploitation of the global, and more impor-

tantly, the regional systems of finance is not novel. Others use the international system in similar ways.

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## Even a target under comprehensive international sanctions—the Iraqi regime—has eluded a crackdown on smuggling.

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## Destination Dubai

A major haven for money laundering, smuggling and unsurveyed business activities is the UAE, especially Dubai. The *Financial Times* reported that more than half of Iraq's smuggled oil finds its way to the UAE, often through Iranian ports. "The sanctions-busting vessels are registered in Panama, Belize, Liberia and other flag-of-convenience countries," making it extremely difficult to track their financial activities.<sup>17</sup> Ship-owners frequently operate through dummy companies and UAE-based agents under the benignly neutral eye of the authorities. If oil is confiscated by the authorities, the agents frequently buy it back. Apart from oil, smuggling flourishes between Iran and Dubai in consumer goods, TVs and electronics equipment. During the 1990s, Dubai turned into a center of prostitution controlled mainly by the Russian mafia, catering mostly to visitors from the neighboring Gulf countries. Also, the UAE is being used as a major staging point for a more than \$25 million per year caviar smuggling operation.<sup>18</sup>

The almost completely unregulated gold brokerages of Dubai are an exit point for bullion smuggled to the Indian subcontinent. Until 1998, when it was replaced by Singapore, Dubai was the top re-export center of gold bullion in the world. Gold and the informal and anonymous *hawwala* system of money transfer—made famous by Bush's closure of the Somalian al-Barakat companies—are directly linked. At least billions of dollars flow through the *hawwala* system; one estimate even placed the annual total at \$1 trillion.<sup>19</sup> In 1996 it was estimated that the equivalent of \$4 billion entered India through the *hawwala* system that year, counting only the money that moved through banks. No estimate of how much goes through in illegal trades is available.<sup>20</sup> Accusations about the use of *hawwalas* to share bribes and kickbacks among the

South Asian political elite abound. Ex-Indian Prime Minister P.V. Rarasimha Rao, for example, has been indicted for making many *hawwala* payments for kickbacks.<sup>21</sup> An estimated \$5-6 billion is sent to Pakistan from Gulf states annually; only \$1 billion goes through formal banking channels, while the rest is transferred through *hawwalas*.<sup>22</sup>

While the *hawwala* system has ancient roots, much of the contemporary network grew out of gold smuggling operations in South Asia during the 1960s and 1970s, using Dubai as one of the most important transit routes. To get around import restrictions, smugglers shipped gold aboard boats from Dubai and Abu Dhabi to South Asia. After selling the gold, they needed to get the cash back home. The smugglers discovered a solution in the growing population of Indians and Pakistanis working in the Gulf states. These workers often send money home to their families, but banks charged prohibitive commissions and fees. By contrast, the *hawwala* system set up in part by gold smugglers, whose enormous profits and low overhead allow them to offer very cheap rates, was attractive. South Asians give portions of their earnings to *hawwala* offices in the Gulf. Usually by phone, the Gulf office contacts its counterpart in South Asia, which pays out an equal sum to the workers' relatives from its stash of gold profits. In this way, the gold profits are repatriated to the Gulf without being physically moved or leaving a paper trail. Dirty money sent via *hawwalas* cannot be taxed or traced. The system works as if the workers' remittances—

entirely clean money—*become* the revenue from smuggled gold. The smugglers even make a small profit on the fees they charge the South Asian workers for their services.

Much of the \$500,000 used to fund the September 11 attacks is believed to have come through US banks in Dubai, among others Citibank of Dubai. The *Washington Post* revealed that, just as the US began bombing Afghanistan, Taliban and al-Qaeda operatives, using Karachi as a transit route, sent millions of dollars through couriers and the *hawwala* system to Dubai, where the assets were converted to gold bullion. Pakistani and US officials estimate that about \$10 million was taken out of Afghanistan by courier in late November and early December of 2001. US investigators are now examining records from Dubai's top gold brokerages for any transactions showing links to the movement of al-Qaeda or Taliban money, and have found unusual gold shipments into the US after September 11. As well as using gold to hide assets, al-Qaeda may have smuggled gold into Pakistan and India for profit. An al-Qaeda manual found in Afghanistan included chapters on smuggling gold.<sup>23</sup> Al-Qaeda also used diamonds and honey to make money and hide assets, but gold is believed to have been the most important commodity. Gold is easily divided into smaller chunks and it is much easier to sell than diamonds, especially in South Asia and Southeast Asia. Diamonds are beginning to be universally recognized by serial number, but gold is impossible to trace, since even stamped bars can simply be smelted.

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Without the tacit encouragement of the UAE government, gold brokerages and *hawwalas* would not have developed into such a powerful transaction system. The UAE has fashioned itself as a free-market zone to differentiate itself from its often rigid and undiversified Gulf neighbors. Oil revenue is falling; in 2001 it contributed just 28 percent of the country's GDP. Tourism contributed 20 percent.<sup>24</sup> The UAE will be quite reluctant to abolish activities like the *hawwala* system for fear of sabotaging its attempts to become a global shopping center.

## The Saudi Image Problem

Most prominent among the countries being pressured by the US to trace and cut off funds associated with bin Laden and al-Qaeda is Saudi Arabia.<sup>25</sup> At the request of the US, the Saudi Arabian Monetary Authority (SAMA), the kingdom's central bank, is trying to monitor accounts associated with some of the country's most prominent businessmen to prevent them from being used wittingly or unwittingly to funnel money to al-Qaeda. However, business and the state in Saudi Arabia are so intertwined that finding out who is clean and who is not will be extremely difficult. One acquires business prominence in Saudi Arabia as the direct result of proximity to the royal family.

Among the 150 accounts being monitored by SAMA are those belonging to Salih Kamil and the bin Mahfouz family, both very close to the House of Saud. Although it is difficult, at this point, to prove that either of them directly or knowingly padded al-Qaeda's bank deposits, their immense business networks are suggestive. Salih Kamil is considered one of the wealthiest and most diversified Saudi Arabian businessmen. Along with the Rome-based ART satellite TV channel, Kamil owns the Dallah al-Baraka Group, with around \$7 billion in assets.<sup>26</sup> He also owns the Jidda al-Baraka Bank and is a majority stakeholder in al-Baraka Islamic Investment Bank of Bahrain. Russian intelligence has charged that the Jidda al-Baraka Bank was used by a Saudi religious charity, al-Haramayn, to funnel funds to Islamist fighters tied to al-Qaeda in Chechnya. Kamil also holds shares in the Sudanese Islamic Bank, a branch of the Faisal Islamic Bank of Egypt, and is listed as an original investor and top shareholder in the al-Shamal Islamic Bank of Khartoum—founded by National Islamic Front leader Hasan al-Turabi—which US prosecutors say was used to channel large amounts of money to al-Qaeda operatives.<sup>27</sup> The other non-Sudanese shareholder of the al-Shamal Bank is the Faisal Islamic Bank. The Faisal Islamic Bank of Saudi Arabia, chaired by former Saudi intelligence chief Prince Turki al-Faisal, is the head bank of a number of affiliates under the same name from Egypt to Pakistan to Malaysia. Banking authorities in Luxembourg have named the Faisal

Islamic Bank as directly involved in running accounts for bin Laden and his associates.<sup>28</sup>

In 1995, *Forbes* named Khalid bin Mahfouz as the 125th wealthiest man in the world. Long-time chairman of the National Commercial Bank (NCB), the kingdom's most venerable financial institution, bin Mahfouz was at one

point closer to the royal family than Kamil, according to some. Apart from being the owners of one of the biggest family-run banks in the world, in 1976 the bin Mahfouzes founded the Saudi Economic Development Company to invest in other sectors, like contracting, global real estate, financial services and Islamic investing. The family business

was founded by Salim bin Mahfouz, possibly the most prominent among a handful of immigrants from the Hadramawt valley in southern Yemen who have made their mark on Saudi Arabia's commercial scene. NCB grew out of the money-changing operation Salim set up in 1938. In 1951, having earned the trust and respect of King 'Abd al-'Aziz Al Saud, Salim was granted a banking license and NCB became a joint liability partnership between his immediate family and his in-laws the Kakis, a prominent Jidda trading family. After the 1987 oil price crash and the 1990-91 Gulf war seriously depleted the kingdom's cash reserves, the higher echelons of the royal family turned to NCB for money. For years NCB published no financial statements.

The pressure on NCB was intensified by Khalid bin Mahfouz's association with BCCI, whose operations were closed down by the Bank of England in 1991. Khalid resigned from NCB's management in 1992. In 1995 he paid a \$225 million fine for his role in the BCCI scandal and reappeared as chairman and sole owner of NCB in 1996, having bought all of the bank's shares in the two preceding years. In 1997 he sold some 20 percent to other members of the bin Mahfouz and Kaki families, but remained chairman until 1999, when the government bought his shares and his links with the bank were cut.

During the same year Khalid was placed under house arrest when Saudi officials, at the urging of the US, audited his bank and found that millions of dollars were being funneled to charities controlled by bin Laden. Other members of the bin Mahfouz family, including two sons of Khalid who sit on the board, still own more than 20 percent of the shares. Much of the suspicion about bin Mahfouz's involvement with al-Qaeda revolves around a 1999 audit conducted by the Saudi government that reportedly discovered that NCB had transferred at least \$3 million to charitable organizations believed to be fronts for bin Laden's network. Khalid's sister is one of bin Laden's wives.<sup>29</sup> It is also believed that 'Abd al-Rahman bin Mahfouz, Khalid's brother, is a board member of Blessed Relief, a Sudan-based charity, which US officials

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## One acquires business prominence in Saudi Arabia as the direct result of proximity to the royal family.

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say served as a front for bin Laden. 'Abd al-Rahman also served as a board member of Muwafaq, a defunct charity formerly registered in Jersey and headed by Yasin al-Qadi from Jidda, also accused by the US of being associated with al-Qaeda networks.<sup>30</sup>

Perhaps fearing that US scrutiny of charities that may have sent money to al-Qaeda will interfere with the religious duty of alms-giving and damage their Islamic legitimacy, the Saudis have taken some steps to rectify the image problem of charities based in the kingdom. In January 2002, the Jidda Chamber of Commerce set up a task force to develop a financial and administrative system for charities that would enhance their credibility.<sup>31</sup> It is difficult to imagine a system that allows outsiders to track who gives to Islamic charities and how the charities use their money, and at the same time can be deemed Islamic, since it is considered impious to publicize large donations. Further, bankers who work in Saudi Arabia say that monitoring charitable donations is difficult because the kingdom has no tax system or internal revenue service that audits accounts. Companies pay *zakat*, a religious tax, but in many cases keep two sets of books to minimize the payments.

### Ambitious Task

The anti-terrorist bill signed into law by Bush on October 27, 2001 would open a can of worms if such measures were passed and adopted in the Middle East. Section 315 of the bill classifies foreign corruption offenses as money laundering crimes: if US companies are involved in the "bribery of a public official, or the misappropriation, theft or embezzlement of public funds by or for the benefit of a public official" they can be charged with facilitation of money laundering under the new legislation. A similar law was recently passed in the UK. Although it might be feasible to enforce this law domestically, to remain competitive in bids for Middle East contracts, US and British companies will likely find new ways of hiding graft money in offshore accounts and dummy subsidiaries.

Any effort to control flows of money into and within the Middle East is an ambitious task at best. Investigations tracing financial transactions are predicated upon the existence of careful record-keeping of banks and wire transfer houses. Neither the *hawwala* system nor many business activities in the Middle East leave a paper trail. The economies of most Middle Eastern countries are still cash-dependent, and transactions occur much more often in cash. But even if Middle Eastern economies were credit-oriented, it is still the banker who approves or denies large deposits. Banks worldwide have a fundamental interest in increasing their assets. According to one Gulf banker, the lesson absorbed from the success of American banks in the 1990s was "you find out how much the customer is willing to deposit in your bank," and treat the customer accordingly. As long as regime corruption generates cash to be hidden, there will be bankers who can be bought to hide it. Without thorough reform of business-



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regime relations in the Middle East—the system of regime survival through graft and cronyism—the task of achieving transparency in financial transactions will outlast many US presidents. ■

## Endnotes

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- 5 *Financial Times*, November 15, 2001.
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- 8 *Reuters*, March 1, 2000.
- 9 Riyad Salama was appointed to the Central Bank after handling Hariri's account at Merrill Lynch. Fuad Siniora at the Finance Ministry was chief financial officer for Hariri's business operations. Suhail Yamout jumped from directorship of Hariri's business interests in Brazil to the governorship of Mount Lebanon. See Guilain Denooux and Robert Springborg, "Hariri's Lebanon: Singapore of the Middle East or Sanaa of the Levant," *Middle East Policy* 6/2 (October 1998), p. 162.
- 10 Allegations that Mark Thatcher, son of then-British Prime Minister Margaret Thatcher, received a £12 million commission for his mediating efforts in the al-Yamama deal still abound. See John Pilger, "Flying the Flag: Arming the World," in *Hidden Agendas* (London: Vintage, 1998), pp. 131-132.
- 11 International Institute for Strategic Studies, *Annual Military Balance Reports* (London, 1991-1997).
- 12 Swissmoney Research-Middle East Division, *Review* (London, 2001).
- 13 Fiduciary deposits are large cash deposits placed with banks in Switzerland and then transferred to banks abroad in order to avoid the 35 percent Swiss withholding tax on interest. They are placed abroad anonymously, in the name of a Swiss bank, but at the risk of the client. Swiss banks charge a small fee for providing this service. Swiss banks currently have over \$335 billion in anonymous deposits, mostly from foreign customers.
- 14 Among those involved are: Citibank, Merrill Lynch, Goldman Sachs, NatWest, Barclays, HSBC, UBS, Credit Suisse, Credit Agricole, BNP Paribas, Commerzbank, Deutsche Bank.

BBC, October 3, 2001.

15 *Financial Times*, August 24, 2001.

16 *Financial Times*, October 4, 2000.

17 *Financial Times*, October 4, 2000.

18 BBC, November 17, 2001.

19 *Chicago Tribune*, September 26, 2001.

20 *Associated Press*, January 19, 1996.

21 *American Banker*, October 12, 2001.

22 *The Guardian*, November 8, 2001.

23 *Washington Post*, February 17, 2002.

24 *Oxford Analytica*, October 1, 2001.

25 *Wall Street Journal*, February 6, 2002.

26 Kamil's company DBG is considered among the top three corporate entities of Saudi Arabia, outmatched only by the Kingdom Holding Company of Prince Walid bin Talal and SABIC. Among the diversified interests of DBG is FLAG Telecom, which owns and operates the FLAG (Fiber Link Around the Globe) cable running 27,300 kilometers from the United Kingdom to Japan. The shareholders in FLAG Telecom are Bell Atlantic, the Asian Infrastructure Fund of Hong Kong, DBG, Gulf Associates of the US, the Telecom Holding Company of Thailand, General Electric Capital-US, the Marubeni Corporation of Japan and AT&T Capital. Al-Baraka Banking Group, part of DBG, relocated itself as an offshore bank in Bahrain at the end of 2000, making a lot of its financial transactions less taxable and traceable. According to Syrian business sources, DBG is also part of a holding company, formed in the summer of 2000, to invest in Syria's mobile telephone network, Internet network and hotels. It is joined in the consortium by Saudi Oger, a contracting concern headed by Lebanese premier Rafiq Hariri and run by his son Saad, the Bin Laden Group and the First Saudi Investment Company, owned by Syrian businessman Wafiq Sa'id.

27 *Wall Street Journal*, November 6, 2001.

28 As a result of US probing into Kamil's activities, former President Bill Clinton insisted that neither he nor representatives of the bin Laden family be invited to a dinner speech he gave to the Jidda Marketing Board on his recent trip to Jidda. Neil Bush, brother of George W. Bush and head of the software company Ignitel, also addressed the forum. Kamil is a founding member of the Jidda Marketing Board. It is believed that Clinton was paid an honorarium of \$500,000 for his appearance at the gala dinner. *Al-Hayat*, January 21, 2002.

29 Former CIA Director James Woolsey revealed the familial connection between Khalid bin Mahfouz and bin Laden in 1998 Senate testimony. See Wayne Madsen, "Questionable Ties," *In These Times*, October 19, 2001.

30 *Wall Street Journal*, February 6, 2002.

31 *Financial Times*, January 29, 2002