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TRACKING AND DISRUPTING TERRORIST FINANCIAL NETWORKS: A POTENTIAL MODEL FOR INTERAGENCY SUCCESS?

HEARING

BEFORE THE

TERRORISM, UNCONVENTIONAL THREATS AND CAPABILITIES SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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[There were no Questions submitted during the hearing.]

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TRACKING AND DISRUPTING TERRORIST FINANCIAL NETWORKS: A POTENTIAL MODEL FOR INTERAGENCY SUCCESS?

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
TERRORISM, UNCONVENTIONAL THREATS AND CAPABILITIES SUBCOMMITTEE,
Washington, DC, Wednesday, March 11, 2009.

The subcommittee met, pursuant to call, at 3:45 p.m., in room 2118, Rayburn House Office Building, Hon. Adam Smith (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. ADAM SMITH, A REPRESENTATIVE FROM WASHINGTON, CHAIRMAN, TERRORISM, UNCONVENTIONAL THREATS AND CAPABILITIES SUBCOMMITTEE

Mr. SMITH. We will call the committee to order. Apologize for the late start; we had votes. We have a reasonably complicated agenda in that we have two panels in here, and then we are——

VOICE. We can't hear you.

Mr. SMITH. Okay. I think it would be better off skipping the microphone and shouting. There is no way to turn the volume up on these things?

Dr. Levitt will go first, and then we will have another panel. And then for Members' information, we have a hearing after this, it will be down in the Sensitive Compartmented Information Facility (SCIF), for any secret information that we cannot talk about in public, which will make for some interesting questioning to make sure we don't step across the line in this, and we will trust the Members and the witnesses to understand where that line is. So Dr. Matthew Levitt will be first.

The purpose of our hearing today is to look at how we can disrupt terrorist financing. The subcommittee is keenly focused on counterterrorism, primarily because of our jurisdiction over the Special Operations Command, which is the lead command in fighting terrorism. But also we have a number of different pieces of it, and we want to be as comprehensive as possible in putting together what the best plan is to combat terrorism. And certainly disrupting their financing is a key piece of it.

One of the things I am most interested about as we go through this hearing is the various different agencies and entities that have a piece of this. This is a significant problem here. Nobody is directly in charge of it, because there are so many different pieces. Obviously Treasury, Justice, the Drug Enforcement Administration (DEA), a lot of different organizations will have some expertise, some authority and some resources to bring to bear to this fight,

the State Department as well, and obviously the DOD Special Operations Command (SOCOM). How do all those entities work together when they are not accustomed to doing that?

Now, we have had some successes since 9/11, we have disrupted a lot of the financing, but we have not been as successful as we could be, at least according to the updated report from the 9/11 Commission from a couple years ago. So the purpose of the hearing is to learn more of what we have done right and what more we need to do particularly to make sure all the different agencies who have resources that can be brought to bear to this problem do so in the most cooperative, effective and efficient manner possible, and how we might go about making that happen.

With that, I will turn it over to the Ranking Member Mr. Miller for any opening statement he might have, and to request that—I have a written opening statement. Without objection, I would request that that be submitted for the record.

[The prepared statement of Mr. Smith can be found in the Appendix on page 23.]

STATEMENT OF HON. JEFF MILLER, A REPRESENTATIVE FROM FLORIDA, RANKING MEMBER, TERRORISM, UNCONVENTIONAL THREATS AND CAPABILITIES SUBCOMMITTEE

Mr. MILLER. Thank you very much.

Mr. Chairman, likewise I have a written statement I would request be entered into the record. And in view of the fact that we are starting a little bit late, I will waive any opening statement, and let us proceed to the witness.

Mr. SMITH. Thank you very much, Mr. Miller.

[The prepared statement of Mr. Miller can be found in the Appendix on page 24.]

Mr. SMITH. We will start with Dr. Matthew Levitt, who is the director of the Stein Program on Counterterrorism and Intelligence for the Washington Institute for Near East Policy. As you can imagine, he has a much longer biography than that, but to respect the time, I will simply turn it over to Dr. Levitt for his opening statement.

STATEMENT OF DR. MATTHEW LEVITT, DIRECTOR, STEIN PROGRAM ON COUNTERTERRORISM AND INTELLIGENCE, THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY

Dr. LEVITT. Thank you very much, Chairman Smith, Ranking Member Miller, committee members. Thank you for the opportunity to appear before you today to discuss the imperative of interagency synergy to successfully track and disrupt terrorist financial networks.

I am honored to testify today along with senior leadership from the Office of Secretary of Defense and U.S. Special Operations Command, whose offices play a critical role in combating the financing of transnational threats.

My comments today are drawn from "The Money Trail: Finding, Following, and Freezing Terrorist Finances," a Washington Institute study I recently coauthored with my colleague Mike Jacobson, who is here today. The full study is available on the Washington Institute's Web site, and copies have been made available here. I

will offer just a summary of what I have written in my written testimony and ask that the full testimony be entered into the record.

U.S. and international efforts to combat terrorist financing are a little understood, and often unappreciated, aspect of the global counterterrorism efforts. For example, while unilateral or U.N. terrorist designations are public actions, they constitute only one of a broad set of tools available to governments, international bodies and their private- and public-sector partners around the world.

Pundits and the press alike show insufficient appreciation for the extent to which public designations are related to other equally productive ways of countering terrorist financing, such as diplomatic engagement, law enforcement and intelligence collection.

It is not uncommon for a potential designation target to remain unnamed due to diplomatic or intelligence equities, policy considerations, or ongoing investigations. Designation may not be the most appropriate tool for every case of terror financing. Indeed, overt actions like designations and prosecutions are not the sum total of international efforts to combat terror financing, they are only the most visible.

In a nutshell, that explains why an integrated, coordinated, interagency approach to countering the financing of transnational threats is so critical. The Treasury Department, where I served as Deputy Assistant Secretary for Intelligence and Analysis, brings to the table a powerful set of tools to protect the U.S. financial system from abuse, deny illicit actors easy access to the U.S. and international financial systems, and to follow the money as a means of identifying terrorist financiers and operators up and down the financial pipeline. But these are only some of the tools available in the counter financing of terrorism (CFT) tool kit and cannot be fully leveraged without the full participation of interagency partners. A successful strategy to combat the financing and transnational threats must leverage all elements of national power, including designations, prosecutions, intelligence and law enforcement operations, diplomacy, technical assistance, capacity building, military power and more.

Terrorist groups need money. Although mounting an individual terrorist attack is relatively inexpensive, the cost of maintaining the infrastructure to support terrorist activities is high. Terrorist networks need cash to train, equip, pay operatives, secure materials, bribe officials and promote their cause.

To eliminate or reduce a cell's means of raising and transferring funds is to significantly degrade that cell's capabilities. Additionally, by forcing them to abandon formal financial channels in favor of informal transfer in smaller denominations, the use of targeted measures has the cumulative effect of making the funds-transfer process slower, more cumbersome and less reliable.

As the terrorist threat has evolved, the means by which terrorist groups raise, store and move funds has changed as well, often in ways that have hindered government efforts to combat illicit financial activity. Keeping pace with the evolutionary nature of the transnational threats we face today and the means of financing these threats in particular, demands close interagency cooperation and timely and actionable intelligence. Consider just a few examples.

Mirroring the broader shift toward the use of technology in global commerce, shifts have occurred in how funds are actually transferred using new technology. M-payments, where cell phones are utilized to transfer money electronically, are growing in importance. In 2006, a U.S. Government report assessed that "groups of all stripes will increasingly use the Internet to obtain logistical and financial support." Technology and globalization have also enabled small groups of alienated people not only to connect, but to raise resources for attacks without need for an established terrorist organization.

Terrorist groups are increasingly resorting to acts of crime to finance their activities. In some cases acts of petty crime, such as welfare fraud and credit card bust-out schemes, raise limited amounts of money for small operations. In others, aspiring terrorists raise significant sums through brazen crimes. One cell in France netted about a million euro when a member whose job it was to restock ATMs enacted robberies on several machines.

According to the DEA, 19 of the 43 designated foreign terrorist organizations are linked definitively to the global drug trade, and up to 60 percent of terrorist organizations are connected in some fashion with the illegal narcotics trade. According to the Financial Action Task Force, the misuse of the nonprofit 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. British officials concur, by the way, according to a British report, the risk of exploitation of charities is a significant aspect of the terrorist finance threat.

Trade-based money laundering is a particularly effective method of hiding illicit transactions under the cover of legitimate business. Instead of actually transferring funds, one simply purchases and transfers commodities such as food or other goods. Such goods can be sent internationally even to sanctioned countries under the guise of humanitarian support. Once they have entered the country, the goods can either be sold directly for cash or transported to a third country for sale.

Illicit actors have not only taken advantage of technology to finance activities, they have also reverted to older, less sophisticated methods to avoid official banking systems. This includes the growing use of cash couriers, bulk cash smuggling, hawala brokers, along with alternative commodities.

Reacting to counterterrorism efforts, terrorists have begun transferring funds through their members' personal accounts and those of their families, sometimes directly and sometimes through charities, in an effort to evade the scrutiny given to organizational accounts.

It is important to recognize, however, that combating the financing of transnational threats will not in and of itself defeat these threats, nor is it intended to do so. But focusing on the financing of transnational threats has several concrete benefits. It has a deterrent effect. As difficult as it may be to deter a suicide bomber, terrorist designations can deter nondesignated parties who might otherwise be willing to finance terrorist activity. Major donors inclined to finance extremist causes who may be heavily involved in

business activity throughout the world may think twice before putting their personal fortunes and their reputations at risk.

It is a useful tool for preventive intelligence. Unlike information derived from human spies or satellite intercepts, which require vetting to determine their authenticity, a financial transfer is a matter of fact. Raising, storing and transferring money leaves a financial trail investigators can follow. Definitively linking people with numbered accounts or specific money changers is a powerful preemptive tool, often leading authorities to conduits between terrorist organizations and individual cells, and it is a very useful disruptive tool.

According to terrorists themselves, while following the money will not stop all plots, it will likely frustrate some of these activities. Back in 1995, captured World Trade Center bomber Ramzi Yousef was flown over the Twin Towers on his way to a New York jail. When the FBI agent flying with him pointed out that the towers were at that time still standing, Yousef replied, "They wouldn't be if I had enough money and explosives."

At a minimum, tracking terrorists' finances will make it harder for them to travel, procure materials, provide for their own families and radicalize others. Denying terrorists as well as insurgents and proliferators easy access to financial tools forces them to use more costly, less efficient, and often less reliable means of financing. Keeping them on the defensive and denying them the luxury of time and space puts them under stress, deters donors, restricts the flow of funds, and helps constrict their operating environment.

Mr. SMITH. I am sorry, Dr. Levitt. We actually have a fairly full schedule in terms of having other people testify and questions and all that. If you could sum up in the next minute, that would be great.

Dr. LEVITT. Sure. There are lots of reasons for the successes. One of them is interagency cooperation, and one example of that is the threat finance cells that have been useful in Iraq and now Afghanistan. The Iraq Threat Finance Cell (ITFC) in Baghdad is a good example of interagency efforts that make the success possible and is something that needs to be continued.

As the Director of National Intelligence highlighted in testimony before this committee earlier this week, the international financial crisis is also having far-reaching consequences for a variety of key U.S. foreign policy and security concerns. While the financial crisis may dry up some resources of funds for terrorists, proliferators, and insurgents, it will also impact governments' ability to finance efforts to counter illicit finance. It is my sincere hope that the successful efforts like the Iraq and Afghan Threat Finance Cells continue to receive the necessary funding to fulfill their critical missions in those respective theaters.

Thank you.

Mr. SMITH. Thank you very much. I appreciate your testimony.

[The prepared statement of Dr. Levitt can be found in the Appendix on page 27.]

Mr. SMITH. We will now have a few questions. We will now go through questions; five-minute rule for everybody. I will yield until the end, so we will start with Mr. Miller.

Mr. MILLER. Mr. Chairman, allow me to yield as well.

Mr. SMITH. Mr. Marshall.

Mr. MARSHALL. I am going to yield back to the Chairman so he can get the ball rolling.

Mr. SMITH. Ah, they are never happy about anything. Normally they are sitting back there going, how come the Chairman and the Ranking Member are always talking? You try to be polite, it doesn't work.

I will be happy to ask the first question, therefore. I guess we talked a little bit about the interagency piece. The threat financial cell in Iraq and elsewhere in Afghanistan, I think they are working fairly well in terms of how that was pulled together. I guess the question is, stepping back to D.C. and looking at the entire terrorist financing network, because obviously it is in many, many places other than Iraq and Afghanistan, who should be taking the lead? How do you see the interagency piece working? How should they cooperate in a more comprehensive manner so that we can get—my read is we are fairly successful in Iraq and Afghanistan. When you get everybody into one place and you are working together, it is a very focused necessity being in a combat zone, but the broader problems can present greater bureaucratic challenge, and I am wondering what your take is on that.

Dr. LEVITT. Thank you, sir.

I think the first thing is there have been bureaucratic problems in the theater as well, especially when these MTs were first set up. But, of course, you are right; under pressure you make it work. I think that has had an impact back in Washington where the interagencies stepped up and I think became much better integrated in its efforts to support our fighters in Iraq and Afghanistan.

Mr. SMITH. Can you walk us through the different pieces of that, who is taking the lead, how is it working, who is playing what role?

Dr. LEVITT. There are a variety of roles, and I think it is probably better for the people who are actually running it to answer those questions since I have been out of government now for two years, and my answers would be two years old anyway.

But to me this is something that has to be better coordinated. I don't know that necessarily we are going to improve by giving one department or agency the lead. Perhaps the most important thing here is that there are lots of tools and lots of authorities. And like I said in my statement, as a former Treasury official, designations are a great tool. They are not always going to be the right authority, the best authority.

What you need is to get people around the table in a subcounterterrorism security group, for example, and discuss, okay, we have a target, great. I don't care if we use my authority or someone else's authority, what are we going to do, as long as we do something. And my impression is that has gotten much better.

There are always going to be turf wars, who has a lead on this, who has a lead on that. When I was back in government, we saw people were trying to figure out who took responsibility for this part of the National Intelligence Program (NIP) or that part of the NIP. But my impression is that this has gotten much better in part because it is an area where we have seen tremendous success. Unfortunately there is not a lot of open-source examples that we can give to show that success, and so the declassified examples are

what we are left with, and I give plenty in my written testimony. I think when you go into your closed session there will be plenty of things to talk about to highlight the successes that we have had.

Mr. SMITH. Thank you very much. I have a little bit of time left. Does Mr. Marshall wish to have the rest of his time here?

Mr. MARSHALL. I will take the rest of my time. You caught me by surprise. We are all interested in having your opinion. Admittedly, it may be a little stale, but I suspect not, because you have been writing about this, you study this, and you talk to people about this. The ways in which we need to improve, things that the United States internally should do in order to improve, and then more broadly the free world, all of our allies, those who are interested in cutting off funding for these terrorists generally, how do we all improve?

Dr. LEVITT. There are lots of ways we can improve. Even though it is going well, we are never quite there. And in our study here, there is a whole section on policy recommendations. Some examples are: better empowering parts of the multilateral system to be as effective as they could be; the Counterterrorism Executive Director at the U.N. and 1267 Committee; increasing the power of the nonpolitical monitoring team at the U.N. to nominate entities and individuals for addition to the lists and removal from the lists; leveraging the Financial Action Task Force and even Wolfsberg Group and others in this effort.

There is a lot that we can do in our bilateral and multilateral diplomacy to get more countries on board not only publicly, but, I would argue, even more importantly in terms of the intelligence angle of this to get them involved as well.

Mr. MARSHALL. This is partially informational for all of us, but in addition we are in the process of drafting this year's authorization bill for armed services. So do you have suggestions for us concerning things that need to be in our bill, or things that need to be changed in existing law, within our jurisdiction?

Dr. LEVITT. I would have to get back to you to things specific to the military because that hasn't been the focus of our study, although there are a few things in there.

I would say that the military has played an important component of this, both here in Washington, the Office of the Secretary of Defense (OSD) and the combatant commands. When I was at Treasury, we saw firsthand the utility of sending some of our people Temporary Duty (TDY) to the combatant commands and taking people from the combatant commands TDY to us to create that synergy and interagency cooperation, and there was great success there. I would have to get back to you on specific recommendation for the military.

Mr. MARSHALL. We, where drugs are concerned, often seize assets, and those assets wind up being used in order to fund police forces around the country. Is there anything similar to that that goes on with regard to these kinds of inquiries as we discover entities, individuals, who have been conduits or actually financing directly? Do we have any seizure process that we can go through to help us fund continued activities?

Dr. LEVITT. Well, there is an interagency process, and I don't know how that would work in terms of funding the military's—in

terms of the military's cooperation with DEA in particular. But it is an important point to note that we do see an increase in terrorist use of crime of all kinds, and in particular of the drug trade. In part that is because the drug trade is just so productive an industry. According to the U.N., the international drug trade generates $322 billion a year in revenue, which everything else pales by comparison in the criminal world. But both in terms of the groups like the Revolutionary Armed Forces of Colombia (FARC) in Colombia, Lebanese Hezbollah and others, there is a tremendous amount of activity involving drugs. And I happen to think that there is opportunities there, especially if you consider that the European Union, for example, doesn't consider Hezbollah a terrorist group. They may not be as eager to work with us on Hezbollah issues as a terrorist target, but they are very concerned about the flow of drugs, and working with them on targets that are related to Hezbollah that are also involved with drugs is an opportunity.

Mr. MARSHALL. Thank you.

Mr. SMITH. Mr. Kline.

Mr. KLINE. Thank you, Mr. Chairman, and I thank the witness for being here, for testifying, for the policy focus. And for his recommendation that it might be in our interest to move as quickly as we can to the classified portion, I will yield back.

Mr. SMITH. Thank you. Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman. Dr. Levitt, thanks for your service to our country and the Treasury and your continued service. We appreciate it.

Your testimony about getting everyone to sit around the table, obviously there is concern after 9/11 of the failure of the Intelligence Community to really connect the dots. The Central Intelligence Agency (CIA) had pieces of information, the National Security Agency (NSA) had pieces of information, the FBI did, but they weren't working together to share information for the big picture.

Is there a concern that the same situation is happening again in our efforts to combat the terrorist financial networks? Have analysts across the agencies been able to format the data in a common manner that allows them to identify patterns of unusual activity, kind of like allowing them to sit around table and share within the same systems? If not, is there a need to potentially create an interagency financial intelligence unit to manage the data sourcing fusion analysis and information?

Dr. LEVITT. Thank you. When I was Deputy Assistant Secretary at the Treasury, that was two hats; one was within the Department, and the second was as Deputy Chief of Treasury's Office of Intelligence and Analysis that made me Deputy Chief of one of the 16 U.S. intelligence agencies.

It was my experience then, and, again, this is two years old already, so I imagine it is even better now, that a tremendous amount of progress had been made since the failures of 9/11. In particular I saw it on the terror finance front. I take great pride in the fact that Treasury Office of Intelligence and Analysis (OIA) plays a big role in that and was created by Congress to be the center of excellence on the analysis of illicit finance and has done a great job. I take even greater pride in the fact they have successfully become an integrated part of the Intelligence Community, and

that Treasury's Terrorism and Financial Intelligence (TFI), more largely has become an integrated part of the interagency policy entity.

I don't want to go any more detailed than that because I am not Treasury anymore, and I don't feel comfortable speaking for them, but I can say this: In other areas that are of critical importance for us today, for example counterradicalization, one area of extremely successful interagency cooperation has been not only large groups, but small groups that get together in a classified setting and go across the full spectrum of white, gray, black activity, completely open and completely classified. I would like to see—and I don't know that it isn't frankly, I am out—but it would be good if we had that type of small-group synergy in other critical areas, including terror finance. That may be happening, you guys can go into that in the closed session, but that, to me, is critical.

Mr. MURPHY. I got that. I guess the focus of my question, though, is I want to make sure that the CIA isn't basically generating data which are oranges, and, say, the FBI is getting information in the form of apples.

Dr. LEVITT. No.

Mr. MURPHY. So I want to make sure that they are speaking the same language in the format. Because you were there, say, two years ago, do you feel that that has been addressed or that still needs to be addressed?

Dr. LEVITT. I do, I do.

Mr. MURPHY. Thank you. I yield back to the Chairman.

Mr. SMITH. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. In your testimony you talk about the reverting back to older technologies or techniques. Clearly if they are using wires in the normal banking system, we have got access in certain ways there. But talk to us a little bit about how well or not well we are doing in interdicting hawala and other nontraditional ways of moving money around. Is there a role to play or improvements to be made in trying to go at those systems, or are they so inefficient or ineffective that it is really just at the edge?

Dr. LEVITT. Whenever we take an action, adversaries will take action to evade our actions. They will go more sophisticated and less sophisticated. When we rely on technology in particular, we have a handicap when our adversaries go to less sophisticated means of moving money. That doesn't mean that there is nothing we can do. We can use traditional human sources; there are regulatory efforts we can do.

There has been a lot of success in dealing with the hawala issue in theaters like Iraq, for example, which you can talk about later. There has been a lot of effort to leverage the United Nations, for example, to do training for governments like the emirates on regulation of hawaladars. And so I think there are a lot of good things happening.

This is an area where we constantly have to assess and reassess what are our vulnerabilities, and I have argued that we cannot simply say, well, is there evidence that the terrorists or adversaries are using this means yet? We have to see where the vulnerability is and try and close that gap before they use it. For example, the

M-payments on cell phones are a great example of this at the higher end.

Mr. CONAWAY. Thank you, Mr. Chairman. I yield back.

Mr. SMITH. Thank you. Do any other Members have further questions? Mr. Murphy.

Mr. MURPHY. I just want to follow up on a question that Representative Conaway kind of alluded to. In your earlier testimony you said EU doesn't see Hezbollah as a terrorist group. Obviously that is not helpful with our efforts. But how about cooperation from Arab and Muslim countries, particularly Saudi Arabia? I understand we are not in a classified setting, so could you describe to the extent possible Saudi Arabia's help? Granted you have been gone for two years from Treasury, but from your approach now, could you give us a feel for how cooperative Saudi Arabia has been?

Dr. LEVITT. My understanding, and this is really from the field research that Mike Jacobson and I did for the study, there have been a lot of improvements throughout the gulf, including Saudi Arabia, and there is still a lot more that has to be done. The Saudi Arabian Monetary Agency, SAMA, was described to us by a variety of officials in the gulf, in the United States and elsewhere as the best agency of its kind in the region, which is significant. But there is still a lot of evidence that abuse of charity and other problems persist.

Some of the rules that the Saudis have passed to deal with charities apply to some charities and not others, because apparently, as it was explained to us by a Saudi official, the Muslim World League and some of the other large entities based in Saudi Arabia are considered by the Saudi Government to be multinational organizations and are therefore not subject to law.

But there has been a lot of improvement, we understand, in terms of anti-money-laundering efforts not only in Saudi, but elsewhere in the gulf. And it is important to note that our concern is not only with the one country, Saudi Arabia, which constantly is raised, but with others as well, and one country that we found is in need of a good look right now in this regard is Kuwait.

Mr. MURPHY. Let me focus on the loophole of charities. With Saudi Arabia specifically, are there any other efforts beside closing up that loophole with charities in Saudi Arabia that you could share with us?

Dr. LEVITT. That, to me, I think, is the biggest issue right now. Maybe the other one has been the long-standing and simmering issue of whether or not there is an oversight committee for charities. But I don't want to harp on this, because it is my understanding that there has been a lot of improvement on intelligence sharing and cooperation. And some of the things that we can talk about in a negative light in an open session can't be countered by things that maybe you guys can discuss later. I think it is in the Saudis' interest, and I think they understand that, to deal with this problem. They are maybe not where we want them to be yet, but I think there is a lot of improvement.

Mr. MURPHY. How about as far as with Kuwait, you talk about a need to focus our efforts on Kuwait. Can you elaborate that a little bit?

Dr. LEVITT. Several people that we interviewed for our study told us that Kuwait today is like Saudi Arabia pre-2003, meaning before the bombings, and that is a pretty significant statement. One diplomat who is in the region explained to us, you know, be aware of what you wish for. The Kuwaiti Parliament is perhaps the most robust democratic Parliament in the region, but it is dominated by people who see things differently than we do. And there is a counterterror finance piece of legislation pending that I understand the government is wary of putting forward to the Parliament for fear that it will not only be instantly rejected, but used by as a two-by-four with which to hit the Amiri Diwan over the head.

If you follow the news in Kuwait, there is a lot of political upheaval there right now. I think there are some people in Kuwait who are trying to do the right thing. We met with them in the context of our research. They are frustrated with some of the problems they have right now, but this is something that needs a good look.

Mr. SMITH. Thank you very much. I think we have two who are also going to testify here, and then we don't have the SCIF until 4:30, so we do have a little time here. So I will get General Fridovich and Mr. Frothingham up to the podium to testify. And we thank you very much, Dr. Levitt, and the committee will want to keep in touch with you as we move forward on this issue. We really appreciate your written statement. In particular it was very detailed and, I think, very helpful to us. I appreciate it.

Dr. LEVITT. I appreciate the opportunity, thank you.

Mr. SMITH. Thank you, gentlemen, for testifying for us today. We appreciate your help on this issue.

We have General Fridovich, who is the Director of Center for Special Operations Command—sorry, Center for Special Operations, United States Special Operations Command; and Mr. Edward Frothingham, who is the Principal Director—your title is a mouthful, but I will say it all—Principal Director for Transnational Threats, Office of the Deputy Assistant Secretary of Defense for Counternarcotics, Counterproliferation, and Global Threats.

General Fridovich, would you like to lead off or—it's up to you guys, really.

Mr. FROTHINGHAM. If you will.

Mr. SMITH. Mr. Frothingham, you need to just pull it closer there.

STATEMENT OF EDWARD FROTHINGHAM, III, PRINCIPAL DIRECTOR FOR TRANSNATIONAL THREATS, OFFICE OF THE DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR COUNTERNARCOTICS, COUNTERPROLIFERATION, AND GLOBAL THREATS

Mr. FROTHINGHAM. Good afternoon, Chairman Smith, Ranking Member Miller and members of the committee. On behalf of General Fridovich and myself, I want to thank you for the invitation to appear and testify before you. We greatly appreciate the opportunity to discuss tracking and disrupting terrorist financial networks as a possible model for interagency cooperation. We think we have a pretty good story to tell.

If you will, sir, I would like to offer my written testimony for the record and then perhaps make a few brief comments instead.

Mr. SMITH. Sure.

Mr. FROTHINGHAM. Sir, it has taken an indirect route to get to where we are today. This process for the Department of Defense started in 1998 when the Congress passed the Drug King Pin Designation Act, which set up a scheme of having the interagency nominate king pins for designation, and the President then designating them, and then blocking property and interests in property subject to the jurisdiction in the United States.

In the time that that law has been in effect, the President has designated 68 drug king pins and seven organizations. At the time it was considered to be a very important matter, and Congress acted appropriately, and we put together an interagency cooperative process which has served as a base for other things that we do in that field.

As time goes on, we were attacked by terrorists in 2001, and the focus naturally turned to terrorism. In the process of that, it also naturally turned to terrorist financing as one of the things we needed to focus on. The government put together a strategy for combating terrorism, and then a subsequent strategy for dealing with terrorist finance, and also an action plan for dealing with that.

And subsequently the Department of Defense, working through this process with the creation of our office, decided that we needed to add some coherence to the way we were doing threat finance, terrorist finance, drug finance, proliferation finance, and try and put it all into one hopper and deal with it as a policy. So in December of 2008, the Deputy Secretary of Defense created a policy that called for the Department to work with U.S. Government departments and agencies with partner nations to disrupt and degrade adversaries' ability to negatively affect U.S. interest.

To carry out that direction, the Department focused on three goals. The first was to validate that counterterrorist finance or counterthreat finance was a DOD mission; two, to educate both DOD and interagency on how DOD can support broad U.S. Government efforts to attack illicit financial systems that negatively affect U.S. interests; and three, to identify and propagate new counterthreat finance methodologies for the interagency.

With regard to the first, I think we have demonstrated to ourselves and to many others that there is a causal relationship between attacking or focusing on threat finance and dealing with terrorist threats and other illicit activities. With regard to the second goal, we learned that when military commanders hear the term "counterthreat finance," many automatically assume a connection with Treasury and State Department administrative sanctions. While these are certainly the most public actions taken by the U.S. Government, they constitute only one broad set of tools. Publicly blocking bank accounts of individuals and organizations puts a spotlight on them and increases the risk to any company or government doing business with them, regardless of whether or not the assets were actually frozen.

However, financial sanctions also legitimize additional actions which can include both financial, nonfinancial measures, and, in some limited cases, kinetic measures taken by DOD. This is where the financial warfare and military strategies converge. Most people

think of financial warfare as a substitute for military action, as a nonkinetic way to cure bad behaviors. The better view is that financial warfare can be a complement rather than a substitute for kinetic military operations.

Sometimes the act of designation itself can motivate financial institutions to conduct a thorough search of accounts to determine if newly designated individual entities do not or do have an asset that can be frozen. This may add to our knowledge of specific accounts and provide insights and information to which the U.S. Government and its partners would not otherwise have access.

With regard to our third goal, given all the disparate elements in the world of unconventional threats, narcotics networks, transnational criminal organizations, terrorist groups, et cetera, there should be a greater focus on putting these pieces together in a more comprehensive picture that would give the U.S. Government much-needed insights into their vulnerabilities.

DOD has an opportunity to play a significant role in this new strategic environment to work closely with other departments or agencies to collaborate on identifying and, when appropriate, disrupting illicit networks. In order to be successful, however, DOD needs to fully embrace the "whole of government" approach. Other departments and agencies possess expertise and, more importantly, authorities to conduct counterthreat finance activities. We need to be able to leverage those authorities. These departments and agencies have collaborated in the years subsequent to 2001 and have developed a robust community for collaboration and coordination. DOD should look for ways to plug into ongoing efforts to accomplish these goals and help shape the new developing methodologies to combat these threats.

Thank you for your interest, and, when you deem it appropriate, I look forward to answering your questions.

Mr. SMITH. Thank you.

[The prepared statement of Mr. Frothingham can be found in the Appendix on page 38.]

Mr. SMITH. General Fridovich.

STATEMENT OF LT. GEN. DAVID P. FRIDOVICH, USA, COMMANDER, CENTER FOR SPECIAL OPERATIONS, UNITED STATES SPECIAL OPERATIONS COMMAND

General FRIDOVICH. Chairman Smith, Ranking Member Miller and distinguished members of the House Armed Services subcommittee, I have got a relatively lengthy document here I would like to submit for the record, and just highlight just a few things without using it, if that is all right with the Chair, so we can get on with what you all would really like to discuss. It is a very comprehensive piece. They worked hard on it. I know the guys behind me would love for me to read it to you all.

Mr. SMITH. We have it in our books, and we all promise to read it.

General FRIDOVICH. What I would like to highlight is USSOCOM clearly understands what authorities we have to do and what we are not to do. We lead this effort on behalf of DOD, and that authority is founded out of a plan called "7500, The War on Terror." It clearly spells that the Secretary of Defense has asked SOCOM

to synchronize the behavior. We have got no compelling means and no empowerment to have the interagency do anything at all with us; however, semiannually, in April and in October, we hold global synchronization conferences that bring together communities of interest a lot like what Dr. Levitt referred to, and these are subject matter experts; they are invited. If they come, they come.

We have had a very, very good, close relationship with Treasury, with Justice, DEA. We have partners that work and live with us all the time down in Tampa, and they reach back into their organizations here and bring the right people to really populate these groups. And we get after cross-functional and now for the first time cross-functional deradicalization, countering safe havens, countering terror finance, with the right amount of people with the right brain power coming and talking directly about problems that they can say, I have got pieces of that that I can fix, with the notion that at the end we outbrief to a senior executive committee at the three-, four-star and director level, and that they hear there is action and movement in the Concept Plan (CONPLAN) 7500 not just from DOD, but from the interagency.

It is very compelling that people sign up for things without ever being asked, just because it is within their purview, the right thing to do, and we are actually making headway in this area.

I think the thing that has changed from when the last testimony was, July 2005, about this and what has grown is that this group, this community of interest that has been led by this Lieutenant Colonel Jim Bischoff, this big mass of a man behind me here, has really taken the leadership for this group, has brought it around. Very, very personality driven. Interagencies shouldn't be like that, but we all know it is. The more you hang around government, the more you understand that relationships and personalities have a lot to do with how successful you are. I would give a lot of the great credit to Colonel Bischoff and Ed Jelks behind me, who has also taken the counterdrug kind of narcoterrorism and brought those kind of assets into this and personalities into it as well.

There are actually due-outs from the Department of Defense perspective as to what we owe DOD, and a lot of that has to do with being able to leverage technology, and being able to leverage and keep current tactics, techniques and procedures before what would be a global network to match a global network. That is what we are looking at.

So as we expand, we are looking at a model and institutionalizing a model that I would say is relatively nascent. We have got people out. We are putting them out in geographic combatant commands. They are trained. They are specifically selected. We have great people populating our node of this down in Tampa. Again, the right people; we are selecting guys who got a very good law enforcement background, contracting with them for a while and seeing if it is a good fit, and looking for a longer-term bridging mechanism by which we have them in our institution, and then taking them and making sure we get them out to the field with, again, the right idea, the right concepts, cross-culture, and being able to go ahead and start leverage what their geographic combatant commander wants them to do, country by country, understanding that it is where we aren't. The global terror finance network, obviously

path of least resistance, if you go after one place, as we say, it will morph, come up some other place. We have to have this network that can overmatch globally, and we are working towards that.

I will stop right there and go ahead and look forward to your questions, gentlemen.

Mr. SMITH. Thank you.

[The prepared statement of General Fridovich can be found in the Appendix on page 46.]

Mr. SMITH. Two broad areas. I will get as much as I can here. One, I am trying to get a greater grasp on the personnel brought to bear on this problem. There is the interagency piece as you understand it, and you also contract out some of the work that is done. So I guess, take an example, we have got a cell that we are worried about that we learned about somewhere in the world. I won't get specific about where. You are tracking their financing. Who at SOCOM, who at DOD, and then what agencies do you coordinate with? Who sends up the flag and says, these are the people who need to get involved in making this work? And if you could also specifically talk to us about what contracting is done in that, if there is private contractors that you bring into the loop on some of this work as well.

General FRIDOVICH. Do you want to start? Go ahead.

Mr. FROTHINGHAM. The way we start setting these things up is we identify the requirement for a specific node to come together; for example, Afghanistan. We already deal with the people in the community, threat finance community, and we get a consensus from the interagency that this is where we want to go, and this is what we want to set up.

Mr. SMITH. But who starts that conversation? Is that DOD or someone at Treasury saying, hey, we see this problem here? Is the Department of Justice—or who starts that conversation you just described?

Mr. FROTHINGHAM. I think we will get into the specific bodies, interagency threat finance organization, in the classified section, but suffice it to say it comes from the interagency that they identified a requirement to go to a new area and develop another node. And then we come together and determine how we are going to man that, and then we try and figure out how we are going to resource that. We can get into specifics in particular countries, and concrete examples might help you a little bit more, but it is a community agreement.

Mr. SMITH. General Fridovich.

General FRIDOVICH. Thank you.

We have the ability through two different mechanisms down at USSOCOM. We have got an interagency task force that is manned and led by a Director, one-star Brigadier General, Air Force, Bob Holmes, and they have a mission to look at the gaps and seams of the world, because you all know that every geographic combatant commander looks up into just about where his boundary is and then no further, when, in fact, you have to have a mechanism that looks global.

The unique aspect of USSOCOM is we have global responsibilities, but no land that we own. We have got no battle space, yet we are held somehow responsible and accountable to making sure

that things on the gaps and seams—I think Pakistan and India is a great example, India in United States Pacific Command (PACOM), Pakistan in United States Central Command (CENTCOM). And where do things happen? There. And that is the opportunity that terrorist networks look for, and it is no different.

We have been given this mission, kind of an implied task, to looks at the gaps and seams globally. So we do that. So it starts down from a tactical-operational-strategic perspective militarily. It starts down at USSOCOM through the interagency task force, and also in our J–3 Operational Division where this node, really a terror finance cell, works. And they work through their partners in Treasury and Justice and the FBI and DEA sharing information as best they can down there to see where we might leverage the critical—somebody else's authorities and opportunity, and then work the intel community to start feeding that beast on a couple of levels, both down there tactically and operationally, and then back up to the National Capital region as well looking for the hybrid.

Mr. SMITH. Thank you. I will yield back and go to Mr. Miller, and with the committee's permission, after Mr. Miller we will go down to the classified setting. Mr. Miller.

Mr. MILLER. Let us go ahead to the classified setting, Mr. Chairman.

Mr. SMITH. We have about two minutes to kill before we run Abercrombie out of the room.

Mr. MILLER. If I could follow up with the Chairman's comments in regards to contractors and the makeup, if you can. What is the makeup of the personnel percentagewise, if you will, of contractor and Reserve personnel and Active Duty? Can you comment on that in open?

General FRIDOVICH. I am going to defer to somebody who has a good right answer instead of—there are about 12 people that we have. It is a very, very good mix of intel. There are contractors. The contractors we look to get have a law enforcement—most case law enforcement skill set background so they will know what they are looking at. And they bring that culture to the military culture for us, which is very, very different.

But I will stop right there and ask Colonel Bischoff to give a better answer.

Mr. SMITH. Colonel Bischoff, and identify yourself for the record.

Colonel BISCHOFF. I work for the general. I am his Threat Finance Chief. We do have about 12 folks right now, 10 contractors. One is retired DEA, one is retired CIA. We just hired a retired FBI agent. So the skill set we are looking for are the guys who have had a successful career in government, primarily in law enforcement, because that is where we are weak, in speaking back and forth and exchanging information with law enforcement. A spate of them are also career DOD intel types, but the guys we really look for, because that is our weak spot, is the former law enforcement.

We have three full-time government employees we were able to bring on last year, GS–12, 13, 14—I guess those categorizations have changed to some pay band—and myself. And then we have had a couple other Reserve majors who have rotated through from time to time on six-month rotations.

Mr. SMITH. Are those multiyear contracts that you enter into with these retired folks?

Colonel BISCHOFF. Sir, no.

General FRIDOVICH. No, sir, not for the first year. Again, this is a nascent program we are looking at one year to see if it is a good fit for everybody. And then after that we have the option to go ahead and grow and write the contract multiyear. But no, sir, not to start with. It didn't seem prudent to us whether the marriage was going to work.

Mr. SMITH. Right. And of course one of the questions that occurred to me is that we have FBI agents, and we have Justice Department people, and we are hiring retired ones, sending them down to SOCOM instead of working with the ones who we have on the job who presumably know what they are doing. I understand there is probably a reason for that. I am sorry, Mr. Miller, go ahead.

Mr. MILLER. I couldn't have said it better, Mr. Chairman. I think I have used my two minutes.

Mr. SMITH. We will go downstairs and reconvene in B–337—sorry, 2337. Go upstairs, my apologies, up to 2337.

[Whereupon at 4:33 p.m., the subcommittee proceeded in Closed Session.]

A P P E N D I X

March 11, 2009

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MARCH 11, 2009

Statement of Terrorism, Unconventional Threats and Capabilities Subcommittee Chairman Adam Smith

Hearing on Challenges in Disrupting Terrorist Financing

March 11, 2009

"Today, the Terrorism, Unconventional Threats and Capabilities Subcommittee will meet to discuss the challenges we face in disrupting terrorist financing. I want to thank our witnesses for attending and lending their expertise to this important discussion. We welcome you and your thoughts.

"Extremist organizations need funds to recruit, train, plan and carry out attacks. So, disrupting their financial networks is essential to reducing their capabilities and must continue to be a priority in our efforts to combat violent extremist organizations. We have had some success in doing this, but more must be done.

"The 9/11 Commission's follow-up report in 2006 said that the U.S. has had modest success in securing international support to disrupt terrorist financing, but that the full cooperation of key states – including in the Mideast and South Asia – was still elusive.

"Today's hearing provides an opportunity for us to underscore the importance of combating the financing of terrorists, explore additional tactics and gauge the commitment within the interagency community.

"The responsibility of combating the financing of terrorist organizations must not rest solely with the DOD. We need interagency cooperation between the DOD, State Department and Treasury.

"Again, I thank the witnesses for being with us today and look forward to discussing this important issue and moving forward on how we can most effectively disrupt the financing of extremist organizations."

Talking Points of Ranking Member Jeff Miller
Subcommittee on Terrorism, Unconventional Threats and Capabilities

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Subcommittee Hearing on Tracking and Disrupting Terrorist Financial Networks: A Potential Model for Inter-Agency Success

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March 11, 2009

I would like to thank the Chairman for holding today's hearing on terrorist financing. The public's interest is often drawn too quickly and too easily to the kinetic side of countering the threat of terrorism, but the subcommittee has continued to aggressively examine the breadth of our military's efforts to ensure our nation's security. Unlike an easily identifiable opponent armed with tanks and planes, the threat we face today is insidious, multi-faceted, and very often subtle and indirect in its approach, and we must ensure that all of the tools of government are brought together into an effective, coordinated effort.

The dispersal of personnel and functions into a cellular and networked organization makes identifying, targeting, and disrupting terrorist activities all the more difficult. To date, we have removed layers of leadership, prevented the acquisition of weapons of mass destruction, disrupted communications, dissuaded recruitment, and, through physical and psychological pressure, kept their operations off balance. And while we should not discount the significant strides we have made against this enemy, we must not fail to energetically seek to exploit any vulnerability or advantage that presents itself.

One line of operation that deserves increased consideration is targeting the finances that make terrorist operations possible. Just as Al Capone was eventually brought to justice through the adept application of a financial tool, we need to be as creative and industrious as possible when countering the terrorist threat.

I am encouraged that the Department of Defense is increasing its support to government-wide efforts to disrupt terrorist financing. The December memorandum establishing Department policy and assigning responsibilities for countering the financing arm of these networks is an important step in this interagency effort. Special Operations Command, one of the key organizations within the subcommittee's oversight responsibility, will play a significant role in the Department's support to counter terrorist financing as the lead agent for synchronizing activities across the military, and, from my travels, I know that counter terrorist financing cells are already actively exploiting intelligence gathered by conventional and special operations troops from on-going combat operations.

Terrorist financing certainly presents significant challenges. Federal agencies are very capable at monitoring, freezing or seizing funds transiting electronically. The terrorist threat, however, in large part relies on the hawala system to transfer funds and conduct many banking functions. Because hawala is an informal system that allows funds to be transferred through the honor system and not through an actual electronic funds transfer, monitoring, infiltration and disruption of the system are all the more difficult. Counter terrorist financing efforts are likewise a nascent capability

for many agencies, but, as we continue to expand interagency efforts to combat organized crime, narco-trafficking organizations, and other illicit and illegal activities, we will see our capability to disrupt terrorist financing improve.

I look forward to hearing from the witnesses on what the Department has done to support counter terrorist financing efforts, what initiatives are being implemented to better align military capability with interagency needs, and what we can do to assist in the important area. Thank you for joining us today and for providing us your valuable insights.

Testimony of

Dr. Matthew Levitt
Senior Fellow and Director of the Stein Program on
Counterterrorism and Intelligence
The Washington Institute for Near East Policy

Before the

House Armed Services Committee
Subcommittee on Terrorism, Unconventional Threats
and Capabilities

March 11, 2009

Chairman Smith, Ranking member Miller, committee members, thank you for the opportunity to appear before you today to discuss the imperative of interagency synergy to successfully track and disrupt terrorist financial networks.

I am honored to testify today along with senior leadership from the Office of Secretary of Defense (OSD) and U.S. Special Operations Command (USSOCOM) whose offices play a critical role in combating the finances of transnational threats. I have long enjoyed, both in an out of government, a valued working relationship with the DoD elements focused on threat finance, including the OSD and combatant commands. In particular, USSOCOM's Transnational Threats Division, and within that division with the Counter-Threat Finance Branch, is uniquely positioned to leverage its special talents against the transnational threats we face today. Under OSD's strategic and policy guidance, USSOCOM's analytical and operational contributions to combating threat finance have been and will continue to be critical to the continued success of our government-wide efforts to combat the financing of transnational threats.

My comments today are drawn from "The Money Trail: Finding, Following, and Freezing Terrorist Finances," a Washington Institute study I recently co-authored with my colleague Michael Jacobson, who is here with us today. The full study is available on The Washington Institute's website.[1]

U.S. and international efforts to combat terrorist financing are a little-understood—and often unappreciated — aspect of the global counterterrorism campaign.

For example, while unilateral or U.N. terrorist designations are public actions, they constitute only one of a broad set of tools available to governments, international bodies and their private- and public-sector partners around the world. Pundits and the press alike show insufficient appreciation for the extent to which public designations are related to other equally productive ways of combating terrorist financing, such as diplomacy, law enforcement, and intelligence collection. Indeed, overt actions like designations and prosecutions are not the sum total of international efforts to combat terrorist financing -- they are only the most visible.

One consequence of this misunderstanding is that the metrics most often used to assess efforts against terrorist financing—the total amount of money seized and the overall number of designations — are both inadequate and misleading. The Achilles heel of terrorism financiers is not at the fundraising end, but rather at the choke points critical to laundering and transferring funds. It is impossible to "dry the swamp" of funds available for illicit purposes, but by targeting key nodes in the financing network, we can constrict the operating environment to the point that terrorists will not be able to get funds where and when they need them. It is not uncommon for a potential designation target to remain unnamed due to diplomatic or intelligence issues, policy considerations, or ongoing investigations. Designation may not be the most appropriate tool for every case of terror financing.

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[1] See "The Money Trail" for citations for information cited in this testimony. The full report is available online at http://www.washingtoninstitute.org/templateC04.php?CID=302

In a nutshell, that explains why an integrated, coordinated, inter-agency approach to countering the financing of transnational threats is so critical. Treasury Department, where I served as Deputy Assistant Secretary for Intelligence and Analysis, brings to the table a powerful set of tools to protect the U.S. financial system from abuse, deny illicit actors easy access to the U.S. and international financial systems, and follow the money as a means of identifying terrorist financiers and operators up and down the financial pipeline. But these are only some of the tools available in the CFT toolkit, and they cannot be fully leveraged without the full participation of interagency partners. A successful strategy to combat the financing of transnational threats must leverage all elements of national power – including designations, prosecutions, intelligence and law enforcement operations, diplomacy, technical assistance and capacity building, and military power.

Terrorists Need Money

Efforts to combat terror financing may be little understood, but they are both necessary and important. Terrorist groups need money. Although mounting an individual terrorist attack is relatively inexpensive, the cost of maintaining the infrastructure to support terrorist activities is high. Terrorist networks need cash to train, equip, and pay operatives, to secure materials, and to promote their cause. To eliminate or reduce a cell's means of raising and transferring funds is to significantly degrade that cell's capabilities. Additionally, by forcing them to abandon formal financial channels in favor of informal transfers in smaller denominations, the use of targeted measures has the cumulative effect of making the funds-transfer process slower, more cumbersome, and less reliable.

Our adversaries incur significant costs, such that targeting their financial pipelines is an effective means of disrupting their ability to go about business as usual. Seized al-Qaeda in Iraq (AQI) records, for example, indicate the facilitation network operating in the Sinjar area of western Iraq incurred significant costs related to salaries and family support. Recruiting, training, traveling, planning operations, bribing corrupt officials, and other such activities also cost money. All of these expenses can add up quickly. For example, prior to September 11, al-Qaeda's annual budget was approximately $30 million, according to the findings of the 9/11 Commission. One of AQI's branches recorded expenditures of approximately $175,000 over a four month period in 2007—with about half of this funding going to purchase weapons. Eliminating or reducing an organization's means of raising and transferring funds is to significantly degrade its capabilities.

Illustrating the importance that al-Qaeda attached to funding-related issues prior to September 11, the organization had a finance committee and Osama bin Laden himself reportedly paid close attention to financial matters. Sheikh Mustafa Abu al-Yazid (a.k.a. "Sheikh Said"), head of the committee, took his responsibilities very seriously and was "notoriously tightfisted" with al-Qaeda's money. For example, he vetoed an expense for an al-Qaeda member to travel from Afghanistan to Saudi Arabia to obtain a U.S. visa, which the operative was seeking in preparation for the September 11 plot. Bin Laden

himself was forced to step in and overrule Sheikh Said (although it is not clear that Said knew about the September 11 plot when he rejected the expense).

Documents seized later by the United States demonstrate AQI managers' concern when they were unable to account for every dollar in their control. Given this context, the highly detailed nature of the group's financial records hardly come as a surprise. For example, the Sinjar documents show that the AQI's border emirate spent $727 on food during a two-month period, in addition to tracking a number of other different subcategories for expenditures, including salaries, weapons, document forgeries, and smuggling costs. Given the operational and security risks associated with maintaining such an extensive paper trail, these details help illustrate the importance that AQI's senior leaders have attached to the organization's financial state.

Disrupting financial flows have other benefits as well, such as exacerbating fissures within adversary networks. For example, some terrorists have interpreted inadequate compensation as a sign that they are being treated unfairly. Jamal al-Fadl, one of al-Qaeda's first operatives, began embezzling funds from the group during its years in Sudan, because of his displeasure with his salary—stealing approximately $100,000 in all. When bin Laden learned of al-Fadl's actions, he ordered him to repay the money. Al-Fadl repaid about $30,000 before fleeing, fearing retribution if he did not refund the full amount.

Al-Qaeda's L'Houssaine Kertchou, for another example, became bitter after one of bin Laden's aides turned down his request for $500 to cover the costs of his wife's cesarean section. His anger level increased when al-Qaeda covered the expenses for a group of Egyptians who were sent to Yemen to renew their passports. "If I had a gun," Kertchou later testified, "I would [have shot bin Laden] at that time."

A Moving Target

As the terrorist threat has evolved, the means by which terrorist groups raise, store, and move funds has changed as well—often in ways that have hindered government efforts to thwart their progress. Studies have long shown that terrorist groups learn from one another, exchange information on new technologies, and share innovations. Little attention, however, has been given to innovations and evolutionary change as related to terrorist financing. Consider just a few examples:

- As the Director of National Intelligence highlighted in testimony before this committee earlier this week, the international financial crisis is already having far reaching consequences for a variety of key U.S. foreign policy and security concerns. While the financial crisis may dry up some sources of funds for terrorists, proliferators and insurgents, it will also impact governments' ability to finance efforts to counter illicit finance. It is my sincere hope that successful efforts like the Iraq and Afghanistan Threat Finance Cells continue to receive the necessary funding to fulfill their critical missions in those respective theatres.

- Both globalization and technological improvements have had major impacts on terrorist financing. Consider the sharp increase in the volume of funds flowing internationally. In

2000, foreign workers sent $113 billion back to their home countries. By 2006, the figure had more than doubled to $255 billion, giving a sense of the scale of the international flows. Mirroring the broader shift toward the use of technology in global commerce, shifts have occurred in how funds are actually transferred, using new technology. M-payments, where cell phones are utilized to transfer money electronically, are growing in importance, as is the transfer and storage of funds via online entities such as cashU or e-gold. In countries where the formal financial sector is less than robust—such as in many African countries—using cell phones is a far more attractive option for transferring funds.

- In several cases, terrorists are suspected of using the internet to obtain logistical and financial support for their operations. Overall, the internet has had a major impact on terrorist financing. It provides a cheap, fast, efficient, and relatively secure means of communication, effectively creating a conveyor belt for self-radicalized foot soldiers who connect and communicate with like-minded jihadists through chat rooms and online message boards. For example, a 2006 U.S. government report assessed that "groups of all stripes will increasingly use the Internet to obtain logistical and financial support." The report noted, more generally, that technology and globalization have also enabled small groups of alienated people not only to connect but to raise resources for attacks without need for an established terrorist organization.

- Terrorist groups are increasingly resorting to acts of crime to finance their activities. In some cases, acts of petty crime, such as welfare fraud and credit card bust-out schemes, raise limited amounts of money for small operations. In others, aspiring terrorists raise significant sums through brazen crimes. One cell in France netted about 1 million Euros when a member whose job was to restock ATMs enacted robberies on several.

- The nexus of drugs and terrorism is particularly strong for a variety of reasons. According to the Drug Enforcement Administration (DEA), nineteen of the forty-three designated foreign terrorist organizations (FTOs) are linked definitively to the global drug trade, and up to 60 percent of terrorist organizations are connected in some fashion with the illegal narcotics trade.

- According to the Financial Action Task Force (FATF), "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." British officials concur. According to a British government report, a "significant proportion" of terror finance investigations in Britain in 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."

- Trade-based money laundering is a particularly effective method of hiding illicit transactions under the cover of legitimate business. Instead of actually transferring funds, one simply purchases and transfers commodities, such as food or other goods. Such goods can be sent even to internationally sanctioned countries under the guise of humanitarian support. Once they have entered the country, the goods can either be sold directly for cash or transported to a third country for sale.

- Illicit actors have not only taken advantage of technology to finance their activities; they have also reverted to older, less sophisticated methods to avoid official banking systems. This includes the growing use of cash couriers, bulk cash smuggling, and *hawala* brokers (an informal remittance system for transferring money) to transfer funds, along with the use of alternative commodities. Reacting to counterterrorism efforts, terrorists have begun transferring funds through their members' personal accounts and those of their families, sometimes directly, sometimes through charities, in an effort to evade the scrutiny given to organizational accounts.

Keeping pace with the evolutionary nature of the transnational threats we face today, and the means of financing these threats in particular, demands close interagency cooperation and timely and actionable intelligence.

What CFT is Intended to Achieve

It is important to recognize, however, that combating the financing of transnational threats will not, in and of itself, defeat these threats—nor is it intended to do so. Freezing funds will constrict the operating environment for illicit actors and disrupt their activities, and following the money trail will expose donors and operators up and down the financial pipelines of terrorists and insurgents alike. But these tools must be part of a broader strategy that leverages all elements of national power to successfully confront and eliminate the international security threats facing us today.

As intelligence agencies improve their capacity to collect and exploit financial intelligence for preemptive action, they are sure to rely on the experience of law enforcement agencies, which have long employed financial tools to solve crimes and build cases for prosecution. With nearly every recent terrorist attack, the post-blast utility of financial investigative tools has been reaffirmed. Financial data provided investigators with critical and early leads immediately following the attacks on September 11, as they did following the March 11, 2004, attacks in Madrid and the July 7, 2005, attacks in London, among others. Focusing on the financing of transnational threats has other benefits as well:

- **Deterrent effect.** As difficult as it may be to deter a suicide bomber, terrorist designations can deter non-designated parties, who might otherwise be willing to finance terrorist activity. Major donors inclined to finance extremist causes—who may be heavily involved in business activity throughout the world— may think twice before putting their personal fortunes and their reputations at risk.

- **Preventive intelligence.** Unlike information derived from human spies or satellite intercepts, which require vetting to determine their authenticity, a financial transfer is a matter of fact. Raising, storing, and transferring money leaves a financial trail investigators can follow. Definitively linking people with numbered accounts or specific money changers is a powerful preemptive tool, often leading authorities to conduits between terrorist organizations and individual cells.

- **Disruptive tool.** According to terrorists themselves, while following the money will not stop all plots, it will likely frustrate some of these activities. Back in

> 1995, captured World Trade Center bomber Ramzi Yousef was flown over the twin towers on his way to a New York jail. When an FBI agent pointed out that the towers were still standing, Yousef replied, "They wouldn't be if I had enough money and explosives."

At a minimum, tracking terrorists' financial transactions will make it harder for them to travel, procure materials, provide for their own families, and radicalize others. Denying terrorists—as well as insurgents and proliferators—easy access to financial tools forces them to use more costly, less efficient, and often less reliable means of financing. Keeping financiers on the defensive and denying them the luxury of time and space puts them under stress, deters donors, restricts the flow of funds, and helps constrict their operating environment.

With more activities out of the public eye than in it, counterterrorism efforts are, by their very nature, difficult to assess and easy to criticize. But financial measures in particular have proven quite successful, and those who follow the money are increasingly being called on to use their skills and tools against the hardest targets.

Beyond its tactical advantages, combating the financing of terrorist threats presents opportunities in the broader, and no less important, battle of ideas regarding the ideology of radical extremism. Although targeted financial measures are commonly presumed to have negative diplomatic consequences, they also provide an opportunity to clearly relay international intentions. For example, the information made public by the United States and United Nations in the course of designations of individuals, groups and charities found to have funded Lashkar-e-Taibeh, the group responsible for the Mumbai attacks, laid the groundwork not only for effective counterterrorism measures following the attacks in Mumbai but also for a strategic communication strategy that exposed some of Lashkar-e-Taibah's terrorist facilitation and financing networks.

Following up on terrorist designations with robust public diplomacy initiatives offers a salient opportunity to support international counterterrorism and counter-radicalization objectives and offer a counter-narrative to the radical global narrative proffered by ideological radicalizers and terrorist recruiters.[2]

While the international community faces some difficult challenges in its efforts to combat terrorist financing, an examination of the record to date indicates positive results.

Some of the challenges are products of globalization and technological improvements. Globalization, for example, has led to a dramatic increase in the volume of funds flowing internationally. In 2000, foreign workers sent $113 billion back to their home countries. By 2006, the figure had more than doubled to $255 billion, giving a sense of the scale of the international flows.

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[2] For more on counterradicalization, see "Rewriting the Narrative: An Integrated Strategy for Counterradicalization," The Washington Institute for Near East Policy, March 2009, available online http://www.washingtoninstitute.org/templateC04.php?CID=311

Mirroring the broader shift toward the use of technology in global commerce, shifts have occurred in how funds are actually transferred, using new technology. M-payments, where cell phones are utilized to transfer money electronically, are growing in importance, as is the transfer and storage of funds via online entities such as cash-U or e-gold. Stored Value Cards, which are not subject to any regulation, are another key vulnerability.

In countries where the formal financial sector is less than robust—such as in many African countries—using cell phones is a far more attractive option for transferring funds. In some cases, terrorists are suspected of using the internet to obtain logistical and financial support for their operations.

Overall, the internet has had a major impact on terrorist financing. It provides a cheap, fast, efficient, and relatively secure means of communication, effectively creating a conveyor belt for self-radicalized foot soldiers who connect and communicate with like-minded radicals through chat rooms and online message boards. For example, a 2006 U.S. government report assessed that "groups of all stripes will increasingly use the Internet to obtain logistical and financial support." The report noted, more generally, that technology and globalization have also enabled small groups of alienated people not only to connect but to raise resources for attacks without need for an established terrorist organization.

Despite these challenges, there are clear signs of success in our collective efforts both to deny terrorists access to funds and to follow the money for intelligence purposes.

Speaking before Congress in February 2008, Director of National Intelligence (DNI) Michael McConnell commented that over the previous twelve to eighteen months the U.S. intelligence community noticed that "al-Qaeda has had difficulty in raising funds and sustaining themselves."

In early April, Undersecretary of the Treasury Stuart Levey echoed the DNI's assessment, adding that the government's efforts to combat terrorist financing "are more integrated than ever before" and have enabled the government to disrupt or deter some sources of al-Qaeda finance and make "significant progress mapping terrorist networks."

Additionally, while there is evidence that the al-Qaeda core is resurgent, funding difficulties may be preventing the organization from growing even stronger. In his July 2005 letter to Abu Musab al-Zarqawi, Ayman al-Zawahiri humbly asked the leader of al-Qaeda in Iraq (AQI) if he could spare "a payment of approximately one hundred thousand" because "many of the lines have been cut off." Similarly, in May 2007 al-Qaeda leader in Afghanistan Sheikh Mustafa Abu al-Yazid (Sheikh Said) highlighted the group's desperate needs for funds:

> "As for the needs of the Jihad in Afghanistan, the first of them is financial. The Mujahideen of the Taliban number in the thousands, but they lack funds. And

> there are hundreds wishing to carry out martyrdom-seeking operations, but they can't find the funds to equip themselves. So funding is the mainstay of Jihad."

Other recent cases suggest al-Qaeda's senior leadership is indeed lacking funds. Consider a recent case here in Bahrain. According to Bahraini investigators, members of an al-Qaeda affiliated cell tried and convicted in Bahraini courts twice delivered funds to al-Qaeda operatives in Afghanistan. The funds appear to have been self-generated, totaled only a few thousand dollars, and were sent not from al-Qaeda leadership to a terrorist cell abroad but from a budding terrorist cell to al-Qaeda leaders in Afghanistan.

In a recent case in Saudi Arabia, a taped message from Ayman al-Zawahiri distributed via cell phones asked for "donations for hundreds of the families of captives and martyrs in Pakistan and Afghanistan." Saudi authorities subsequently arrested some fifty-six individuals suspected of belonging to al-Qaeda and using the recording to raise funds.

Investigations in Europe and Asia offer other examples of local cells raising funds for themselves as well as sending funds to Pakistan. In Spain, for example, authorities have seen Pakistani terrorists involved in petty crime through which they not only finance their activities in Spain but also send millions of dollars back home, some of which, it is suspected, finances extremist groups there.

In Singapore, a "self-radicalized" cell leader collected contributions from fellow cell members with the intent of sending the money as a donation to support violent causes abroad.

A lack of funds has frustrated terrorists' intentions elsewhere as well. Philippine police reported that plans by Abu Sayyaf Group to set off bombs in Manila and target a chemical plant in 2006 were never executed due to a lack of funds. Following the international financial embargo of the Hamas-led government in Gaza, the group acknowledged being broke and lacking funds to pay employees.

Jemaah Islamiyah (JI), al-Qaeda's Southeast Asian affiliate, has also suffered from major financial setbacks due to the international efforts to combat terrorist financing. According to one study, JI has not received significant external funding since 2003. Not surprisingly, then, the group is facing financial shortfalls. As evidence, in late 2007, JI told members planning to participate in one of the organization's projects that they would have to cover their own expenses.

Several other cases highlight how the international community has been able to use financial intelligence to disrupt plots and prevent attacks.

- According to the U.S. Treasury Department, financial intelligence played an important role in individual operations, such as the investigation that led to the capture of Hambali (Riduan Isamuddin), the JI operations chief who masterminded the Bali bombings in 2002.

- British authorities foiled the summer 2006 liquid explosive aviation plot thanks in large part to critical financial intelligence.

- Four different terrorist attacks abroad have been disrupted, according to the FBI, based in part on their investigations of the financial activities of terrorist supporters in the United States.

- The U.S. Treasury Department reported that a financial intelligence collection program supplied a key piece of evidence confirming the identity of a major Iraqi terrorist facilitator and financier.

The transnational threats facing the United States and its allies today in terrorism, proliferation, insurgencies and more are not static threats, they are constantly evolving in response to events on the ground – including our efforts to combat them. Our response to these threats will be as successful as it is coordinated internally across our own inter-agency and more broadly among the U.S. and its allies.

The Iraq Threat Finance Cell (ITFC), based in Baghdad, is perfect example of one such interagency effort that works. Co-led the DoD and Treasury, it was established in 2005 with the purpose of enhancing the collection, analysis and dissemination of timely financial intelligence on the Iraqi insurgency. It has become a key component of interagency and MNF-I efforts to detect, identify, and disrupt financial networks supporting insurgent and terrorist elements operating in Iraq. The new Afgahn Threat Finance Cell builds on the demonstrated success of the ITFC.

We have undoubtedly made great strides in our counterterrorism efforts in general, as well as in counterinsurgency efforts in Iraq, and our measures to combat the financing of such threats in particular, even as we have far to go. Interagency efforts like threat finance cells in Iraq and Afghanistan are one reason for these successes.

Still, when it comes to financing transnational threats like al-Qaeda, its affiliated franchises and homegrown cells, much has changed even as much has stayed the same. Consider a recently declassified August 1993 intelligence report written by the U.S. State Department's Bureau of Intelligence and Research. The report describes several trends that remain issues of serious concern today, including some of the same streams of financial support that fund today's terrorist groups. To the present-day reader, who will digest this 1993 report with an eye toward the conflict in Iraq, perhaps the most disturbing analytical judgment (which could have been pulled out of a current intelligence assessment) is this:

> The war-era network of state sponsors and private patrons which continues to support the mujahidin has no rigid structure and no clearly defined command center, but receives guidance from several popular Islamic leaders and financial support from charitable Islamic organizations and wealthy individuals. Key figures who have emerged as the mentors of the mujahidin provide one another

with the contacts and conduits needed to keep the militant groups they support in business.

The network *circa* 1993 is not an exact parallel to today's combination of al-Qaeda operatives and like-minded followers of a virtually networked, leaderless network of terrorists and their supporters. But the 1993 warning about an unstructured network of terrorists moving from their current area of operations to other battlefronts could have been written today. What remains to be seen is if al-Qaeda's senior leadership's lack of funds degrades the core group's power to control activities and direct operations. Without the power of the purse, would local terrorist cells still need the al-Qaeda core as much as that core would need these cells? According to some experts, part of what drew the GSPC in Algeria into the al-Qaeda fold was the financial dividend offered by such a relationship. Should the current trend continue, it could lead to the further degeneration of the al-Qaeda core and the devolution of al-Qaeda's organized global insurgency into a more localized—and controllable—terrorist threat. Toward that end, and in light of recent interagency and international successes disrupting and deterring al-Qaeda's financial activity, constricting the terrorist operating environment—with an eye toward al-Qaeda's financial streams in particular—should remain a strategic interagency priority.

Thank you.

House Armed Services Subcommittee on Terrorism, Unconventional Threats and Capabilities

Tracking and Disrupting Terrorist Financial Networks:
A potential model for Inter-agency success?

Statement of Principal Director, Transnational Threats
Edward Frothingham III

Good afternoon and thank you for your invitation. On December 2, 2008, the Deputy Secretary of Defense signed the DoD's interim Counterthreat Finance Policy. This policy states, "the Department of Defense shall work with other U.S. Government departments and agencies, and with partner nations to disrupt and degrade adversaries' ability to negatively affect U.S. interests."[1]

To help improve DoD's efficacy and ability to work with the broader interagency counterthreat finance community, we are focused on the following goals and objectives:

First, we are working to validate counterthreat finance as a DoD mission. The final, Directive version of the above stated interim policy is still in process, and will be finalized by the beginning of June. Second, we are focused on educating both DoD and the interagency as to how DoD capabilities can be leveraged to support broad U.S. government efforts to attack illicit finances that "negatively affect U.S. interests." Third and perhaps most importantly, we are working to identify and propagate new methodologies within the broader USG counterthreat finance community.

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[1] *U.S. Department of Defense (DoD) Directive Type Memorandum 08-034*. 2 Dec. 2008. U.S. Department of Defense. <http://dtic.mil/whs/directives/corres/pdf/DTM-08-034.pdf>

Our active participation in national-level working groups, contribution to national strategies and frameworks, and strong partnerships with the Departments of State and Treasury and the Department of Justice, through the Drug Enforcement Administration, as well as several others, are a testament to the hard work of many dedicated professionals and could serve as a template for interagency cooperation in pursuit of a common goal.

Argument for Counterthreat Finance as a Valid DoD Mission

In his essay "A Failure of Generalship," LTC Paul Yingling points out that "armies do not fight wars; nations fight wars. War is not a military activity conducted by soldiers, but rather a social activity that involves entire nations." [2] As we have learned, the DoD should not and indeed cannot and should not bear the sole burden of this national activity.

With regard to counterthreat finance, DoD is clearly in support even though these efforts directly support the war fighter. We do not possess the expertise or the authorities to effectively undertake counterthreat finance on our own. Over time, we in the policy arena, as well as my senior uniformed military colleagues such as Lieutenant General Fridovich, the Director of Special Operations Command's Center for Special Operations, have recognized the utility of attacking our enemies' finances as one of many simultaneous actions focusing on constricting the environment in which these enemies

[2] Yingling, Paul LTC. "A Failure of Generalship." Armed Forces Journal 27 Apr. 2007

operate. General Fridovich will speak shortly to SOCOM's efforts towards integrating DoD counterthreat finance capabilities across the department.

In our work together, we have seen evidence that cracking down on terrorists' logistical and financial support networks in addition to their operational cells makes it increasingly difficult for terrorists to conduct operations, procure and transfer false documents and weapons, and move operatives. In order to efficiently and effectively undertake disruptive actions—in order to even begin to understand these complex financial networks and their vulnerabilities—departments and agencies that have not historically been well coordinated have begun working together much more closely.[3]

This cooperation is critically important when it comes to defining the problem—putting the pieces of intelligence together into a more comprehensive picture that tells us about these terrorist/criminal networks, how they operate, where they overlap, and where their potential vulnerabilities lie. In some respects terrorist organizations are similar to businesses anywhere in the world. They need to raise, store and move money. It can be difficult at times to distinguish between the financial activities of organized crime and terrorist groups. "When both are closely scrutinized, the only discernable difference is that most terrorists have political or religious motivations, rather than profit…," but even then, that is not always the case. A good example of this is the FARC in Colombia, which started out as a terrorist group with political goals, over time morphing into a transnational drug trafficking organization.

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[3] Bracken, Paul. "Financial Warfare." Foreign Policy Research Institute E-notes. September, 2007. <http://www.fpri.org/enotes/200709.bracken.financialwarfare.html>

In his essay "Financial Warfare," Yale University professor Paul Bracken notes "financial warfare blurs the military and civilian spheres of conflict. As such, it requires coordination between all relevant departments and agencies."[4] In this new strategic environment, increased ambiguity together with the fact that military operations are becoming increasingly multilateral as well as multiagency makes the need to focus effort more accurately even more urgent. This is no easy challenge.

Our enemies seek out our soft spots and weak seams. There is a growing alliance between criminal and terrorist networks and an increasing reliance on many of the same pipelines of informal, illicit architecture to move money, weapons, individuals and goods. [5] For example, Dr. Matthew Levitt who is here today, has written that "in South America, Hezbollah supporters engage in a wide range of criminal enterprises to raise, transfer and launder funds in support of their terrorist activities. These enterprises include, among others, mafia-style shakedowns of local Arab communities, sophisticated import-export scams involving traders from India and Hong Kong, and small-scale businesses that engage in a few thousand dollars worth of business but transfer tens of thousands of dollars around the globe. In one case, Paraguayan officials arrested an operative for

[4] Ibid.
[5] Douglas Farah. "The Criminal-Terrorist Nexus and its Pipelines." The NEFA Foundation Terror Watch.

selling millions of dollars in pirated software and funding Hezbollah with some of the profits."[6]

The formalization of U.S. Defense policy to support broader domestic and international efforts to detect and disrupt illicit finance streams is an opportunity for military leaders to gain an understanding of the larger aspects of war and provide leadership for military innovations to support interagency and international efforts already underway.

DoD Capabilities and the Broader U.S. Government Counterthreat Finance Effort

When military commanders hear the term "counterthreat finance," many automatically assume a connection to Treasury and State Department administrative sanctions. While these are certainly the most public actions taken by the U.S. government, they constitute only one broad set of tools drawing on the expertise of various U.S. government agencies and their private and public sector partners around the world. [7] Moreover, they overlook the capabilities of the Department of Justice, in particular the Drug Enforcement Administration and the Federal Bureau of Investigation, to seize and forfeit our adversaries' assets.

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[6] Matthew Levitt. "Hezbollah: Financing Terror through Criminal Enterprise." US Senate. Hearing of the Committee on Homeland Security and Governmental Affairs. May 25, 2005. <http://www.washingtoninstitute.org/html/pdf/hezbollah-testimony-0525.pdf>
[7] Matthew Levitt and Michael Jacobson. The Money Trail: Finding, Following and Freezing Terrorist Finances. *The Washington Institute for Near East Policy*. November 2008.

Recently, there have been increasing calls for metrics to measure the efficacy of the actions we have taken against threat financing. Are we, the U.S. Government, meeting our stated objectives in disrupting our enemies' financial networks? If the intelligence community cannot locate any known assets of a target prior to designation, is the action worthwhile?

Publicly blocking bank accounts of individuals and organization is one effective option and puts the spotlight on them. It increases the risks to any company or government doing business with them, regardless of whether or not assets are actually frozen. Financial sanctions legitimize additional actions which can involve both financial and non-financial measures. This is where financial warfare and military strategy converge. Most people think of financial warfare as a substitute for military action, as a non-kinetic way to change behaviors."[8] Over time it can become a complement rather than a substitute, when combined with kinetic military actions.

Further, it is the act of designation itself that can generate financial institutions to conduct a thorough search of accounts to determine if the newly designated individual/entity does in fact have assets that can be frozen. The expectation that the intelligence community has prior knowledge of specific accounts can be overly optimistic. This is yet another reason why designations can be a valuable tool—these actions and those they generate provide us insights and information to which the USG and its partners would not otherwise have had access.

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[8] Paul Bracken, "Financial Warfare." Foreign Policy Research Institute E-notes. <http://www.fpri.org/enotes/200709.bracken.financialwarfare.html>

"Financial warfare also has a deep connection with information operations and network warfare which are easily overlooked. These operations point to a new type of conflict against computing and network infrastructures in the financial sector. When these networks are cut off or compromised, money stops flowing and operations cease."[9] We will continue to integrate counterthreat finance into our efforts. New developments are creating increasingly favorable conditions for these activities.

New Methodologies: DoD Can Play Shaping Role

Given all of these disparate pieces—narcotics networks, transnational criminal organizations, terrorist groups, etc. there could be a greater focus on putting these pieces together in a more comprehensive picture that would give the U.S. Government much needed insights into their vulnerabilities. One could further argue that the current financial crisis is providing our enemies with increased opportunities. For example, a recent news article detailed how Italy's mafia gangs are profiting by expanding lending to small businesses and buying real estate.[10]

DoD has an opportunity to play a significant role in this new strategic environment, to work closely with other departments and agencies to collaborate on identifying and (when appropriate) disrupting illicit networks. In order to be successful however, the

[9] Ibid.
[10] Mark Heinrich "Ample Signs of Mafia Millions Buoying Banks," *Reuters*. February 9, 2009.

DoD needs to fully embrace the "whole of government" approach. Other departments and agencies possess the expertise and more importantly the authorities to conduct counterthreat finance activities. These departments and agencies have collaborated in the years subsequent to 2001 and have developed a robust community for collaboration and coordination. The DoD should look for ways to plug into ongoing efforts to accomplish these goals, and can help shape new, developing methodologies to combat these threats.

STATEMENT OF

LIEUTENANT GENERAL DAVID P. FRIDOVICH

DIRECTOR, SOCOM CENTER FOR SPECIAL OPERATIONS

BEFORE

THE HOUSE ARMED SERVICES SUBCOMMITTEE ON TERRORISM, UNCONVENTIONAL THREATS, AND CAPABILITIES

11 MARCH 2009

TRACKING AND DISRUPTING TERRORIST FINANCIAL NETWORKS: A POTENTIAL MODEL FOR INTER-AGENCY SUCCESS

STATEMENT OF LIEUTENANT GENERAL DAVID P. FRIDOVICH, DIRECTOR, SOCOM CENTER FOR SPECIAL OPERATIONS

BEFORE THE HOUSE ARMED SERVICES SUBCOMMITTEE ON TERRORISM, UNCONVENTIONAL THREATS, AND CAPABILITIES, 11 MARCH 2009

Chairman Skelton, Chairman Smith, Ranking Members McHugh and Miller, and distinguished members of the House Armed Services Subcommittee on Terrorism, Unconventional Threats, and Capabilities:

Thank you for the opportunity to speak today on tracking and disrupting terrorist financial networks as a potential model for Inter-Agency success. I am honored to follow Mr. Frothingham, and strongly concur with his comments. 'All a brother needs for successful Jihad is himself and money.' So states enemy propaganda. Ideology has its role, but the more we study our enemy, the more we learn what we have always known: money talks, and disrupting its flow, especially from outside the combat zones, is a salient part of counter-terrorism. From United States Special Operations Command's role as Department of Defense lead I would like to briefly describe our efforts to disrupt terrorist financial facilitation networks, and applaud the outstanding interagency cooperation which is a hallmark of this effort.

Counterthreat Finance activities include, but are not limited to countering: narcotics trafficking, proliferation activities, weapons of mass destruction funding, trafficking in persons, weapons trafficking, precursor chemical smuggling, petty and organized crime, in some cases, very well organized crime.

Indeed, our enemy shows an impressive moral flexibility, engaging in every conceivable method of acquiring funds from running legal businesses and collecting voluntary donations, across the spectrum to kidnap for ransom and murder for hire. This enemy also operates across the technological spectrum, moving money on the backs of plodding animals and couriers across centuries old smuggling routes, or transferring money in seconds via the very latest in cell phone and internet technologies, and they continually adapt to our strategies against them.

Career terrorist facilitators are worthy adversaries, not to be underestimated. This is key, because to us at SOCOM it means very simply that DoD, no matter how we may adjust and organize, by ourselves, will fail to eliminate these networks. Likewise, the intelligence community, while adept at tracking, finds itself unequipped to disrupt, and law enforcement, operating independently, find convictions frustratingly hard to achieve. The enemy's flexibility, and great adaptability, compels us to take a whole-of-government, or interagency, approach to this challenge, looking well beyond traditional models, financial markets, and money movement methods. Likewise, we must work not only within our own interagency, but with the coalition, other partner nations, and the private sector. In this way, we can employ all available information, from the highest classification and most clandestine sources, to the latest public breaking stories. All geared towards disrupting the network, knowing it will reform rendered more vulnerable to further disruption in the future.

Within DoD, we are driven to take this effort beyond the combat zones, because the enemy has organized beyond the combat zones. Any tracking of money flows in support of the insurgents and terrorists operating in Iraq and Afghanistan links almost immediately to transregional and global facilitation networks that pose very real threats to the United States and our interests. Addressing this as a global problem, we at Special Operations Command have operationalized Department direction to synchronize Counterthreat Finance as the DoD lead, as part and parcel of our mission to synchronize overall DoD war plans and planning efforts.

USSOCOM is uniquely suited to this mission as we are a hybrid command, combining requirements to prepare train and equip special operations forces, with the synchronization mission, yet unlike the geographic combatant commands, we own no battlespace and thus are compelled to achieve results only

by, with, and through our DoD and interagency partners. Thus collaboration becomes essential to our way of doing business. Indeed, we pursue the Counterthreat Finance mission via four general methods, all of which are highly collaborative.

First, semi-annually, in April and October, we convene a Threat Finance Working Group as part of our Global Synchronization Conference. This brings together roughly 100 Counterthreat Finance analysts, investigators, and case agents from all the Geographic Combatant Commands, Functional Commands like Strategic Command and Joint Forces Command, the Combat Support Agencies, the InterAgency, most notably Treasury, State, FBI, DEA, and DHS/ICE, our British, Australian and Canadian colleagues, and various representatives of the private sector. This has become the premier forum for US Government Threat Finance exchange. Exchange with the coalition, and the private sector has been especially informative as we learn how better to deal with the rapidly developing cutting edge financial technologies like internet and cellphone money transfers.

I have studied testimony on this subject presented in 2005, and can see that this Threat Finance working group has become what was then envisioned by bringing community together and operationalizing each agency's unique knowledge, skills and authorities to maximize impact on financial facilitators.

Second, we hold semi-monthly Secure VideoTeleConferences to help develop DoD policy, procedures, and discuss specific networks and targets. These forums continue and sustain the focused energy of the Geographic Combatant Command Threat Finance units, now operating as part of their regional counterterrorism missions. These teams vary in size from twelve people at SOCOM to two in some commands, and mostly reside within each command wherever they can best connect to the interagency. Personnel are selected for prior interagency, law enforcement, or intelligence experience as the endeavor is very intelligence-intensive. We support Iraq and Afghanistan community specific videoteleconferences as well.

Third, we engage in robust continuous analyst exchange across the depth and breadth of the intelligence community, DoD, and the InterAgency. Information sharing is key. More on some of the mechanics of this in a moment. We are posting Threat Finance analysts, very carefully selected threat finance analysts, at several of the Combatant Commands, and we are working hard within the DoD community to develop Threat Finance analyst training. This highlights a simple key to fostering interagency success, which is to add value to other's efforts.

Fourth, we focus our analytical capabilities long term on carefully selected transregional targets which pose a clear threat to the US and our interests, and which are known to move and rely upon significant financial flows. We then share our expertise on these target sets with any and all InterAgency members, most especially Treasury and law enforcement, looking to operationalize results on targets DoD cannot currently reach via kinetic means. Right now these target sets include Al Qaida's External Facilitation Network, by which we mean those gentlemen operating in places like Kuwait and Pakistan, Europe and Asia to move money for IEDs, suicide-bombers and the like into Iraq and Afghanistan. We are also working against Al Shabaab, Lebanese Hezbollah and certain Iranian elements as they continue to develop a global financial facilitation infrastructure to rival that of Hezbollah and sometimes linked thereto.

While some in DoD, not so many years ago, saw this effort as well outside our lane, we have since seen the positive results. For example DoD is working to duplicate, outside of Iraq, the remarkable success of the Iraq Threat Finance Cell in thiw work, with which I believe you are now familiar. Such cells rely on fused efforts, taking intelligence to operators, who in the future, will be mostly law enforcement agents making arrests, rather than soldiers making captures or kills. Due to these successes, we are now eagerly participating in the establishment of the Afghanistan Threat Finance Cell.

While others exist, four particular interagency tools are the most effective, and thus most important. First, intelligence collection, which is done by all, for all, although signals intelligence is clearly one of the long poles in this tent. You are familiar with hawalas, the informal money transfer networks which circumvent formal financial institutions and traditional tracking methods. Widely used in the Middle East, and difficult to infiltrate, they pose a formidable financial collection challenge. However, as we study them, we find

many hawaladars employ varied levels of operational security. Most hawaladars, it must be said, run legitimate businesses, and serve a useful function for unbanked populations, but they seldom hesitate to move criminal or terrorist money, along with the legitimate. While threat finance is not an intelligence function, it is certainly intelligence-driven, and collection, careful, meticulous and often time-consuming collection, is critical.

Second, designations are one of the Treasury's best tools in the fight against terrorist financing. A tool we support. I defer to them for specifics of their programs but my people strongly support Treasury; we have a Liaison officer at Treasury, as does CENTCOM, and Treasury co-leads our aforementioned Global Synchronization Conference. Treasury co-leads the Iraq Threat Finance Cell, and is equally engaged in the formation of the Afghan Threat Finance Cell. A valuable point is that where the community once viewed designations as a final action, or mission accomplished, we now view them far more as an important bullet in a longer term volley. Let me explain.

A third tool is what DoD calls Information Operations, public affairs to some, or marketing. As a community, every time Treasury designates a terrorist facilitator, bad charity or company, we must leverage that action with volumes advertising why this was done to the target audience. Such efforts can enhance the impacts of Treasury and UN designations. This requires that underlying intelligence about criminal activity be declassified, a continual struggle.

And fourth, law enforcement actions, whether U. S. or partner nation arrests. Increasingly, we see Treasury designations as potentially enhancing and leading to such arrests. There are some exceptions to this and not all share this view, but these four tools offer far more as an ensemble than as individual actors.

Two key points about interagency collaboration. First, it is personality driven. We may wish it otherwise, but like the founders of this country, we must acknowledge the limits of human nature within which we work. Differing missions and approaches occasionally divide rather than unite, inhibiting information sharing. Thus, we choose personnel for interagency engagement with care and if previously productive organizational relationships turn sour, we investigate, and when necessary, make adjustments.

Downrange interagency relationships work very well, at Joint InterAgency Task Force-South in Key West, and in Iraq and Afghanistan, where the immediacy of the problems concentrates focus, focus that helps overcome the usual barriers to interagency cooperation and helps individuals bypass any other concerns towards achieving higher aims. Replicating that sort of mission focus, with a common view of the threat, is one of our keys to interagency or whole-of-government action and it is something DoD can, through robust intelligence collection and analytical support, wellcontribute to. We, the whole-of-government, focus on a given network, exactly what we know and don't know, how to fill those gaps, and then, which agency can address each node and in what way for maximum impact.

Second, information sharing drives this train. Not all issues here are solved, particularly the Intelligence community's continued penchant to overclassify, but we have made progress. For example, there is tear-lining of course, also law enforcement does not typically deal in the Secret and Top Secret realm, but rather, they speak of Law Enforcement Sensitive information. Within the Intelligence Community we have learned to call this Originator Controlled, or ORCON, thus we can share it within the community, but always with deference back to the originators of the information. This protects ongoing law enforcement investigations and sources. Likewise, when the IC shares Secret intelligence with law enforcement, for their possible subsequent use in judicial proceedings, law enforcement agents employ techniques of their own to render intelligence into usable evidence, while protecting sources. DEA and DoD from their years together in the drug war, are particularly good at these techniques.

The vital nature of information sharing goes beyond the US Government to include coalition and partner nations where, in some cases, counter-terrorism is of less interest, countering narcotics trafficking, human trafficking, or even prosecuting tax evasion however, are of great interest. In support of our law enforcement counterparts, we aid partner nations in making such charges, primarily through the exchange of intelligence and analytical expertise.

Dismantling an entire network is difficult, but the interagency has interdicted a number of individual facilitators. We can speak more specifically of these under other circumstances. Success in this arena is by its nature, not always conspicuous. These are investigations, often akin to organized crime investigations, which the law enforcement community can tell you, take years, not months. Sustaining the Counterthreat Finance effort is thus vital; likewise, if we are not to broaden our own authorities to take on facilitators wherever they may go, then we must work increasingly by, with and through our partner nations. This means the continued reinforcing of bilateral and multilateral relationships, aiding and training foreign governments in new ways to identify and report financial information, and to attack such networks.

I look forward to your questions.

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