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HELPING THE DEVELOPING WORLD FIGHT TERROR FINANCE

HEARING

BEFORE THE

TASK FORCE TO INVESTIGATE TERRORISM FINANCING

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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HELPING THE DEVELOPING WORLD FIGHT TERROR FINANCE

Tuesday, March 1, 2016

U.S. HOUSE OF REPRESENTATIVES,
TASK FORCE TO INVESTIGATE
TERRORISM FINANCING,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The task force met, pursuant to notice, at 2:39 p.m., in room 2128, Rayburn House Office Building, Hon. Michael G. Fitzpatrick [chairman of the task force] presiding.

Members present: Representatives Fitzpatrick, Pittenger, Ross, Wagner, Barr, Rothfus, Schweikert, Williams, Poliquin; Lynch, Sherman, Ellison, Himes, and Sinema.

Ex officio present: Representative Waters.

Chairman FITZPATRICK. The Task Force to Investigate Terrorism Financing will come to order. The title of today's task force hearing is, "Helping the Developing World Fight Terror Finance."

Without objection, the Chair is authorized to declare a recess of the task force at any time.

Also, without objection, members of the full Financial Services Committee who are not members of the task force may participate in today's hearing for the purposes of making an opening statement and questioning the witnesses.

The Chair now recognizes himself for 4 minutes for an opening statement.

Thank you, everyone, for joining us today for the seventh hearing in the House Financial Services Committee's Task Force to Investigate Terrorism Financing. Today's hearing is entitled, "Helping the Developing World Fight Terror Finance."

I would like to again thank Chairman Hensarling and Ranking Member Waters, as well as my colleagues here, for their unwavering support as we continue to investigate the threat of terror finance.

Our last hearing focused on trade-based money laundering and the international cooperation which is required to effectively combat it. The testimony from that hearing revealed that the developing world is often a target for trade-based money laundering and other illicit forms of value transfers due to the lack of effective government institutions.

Throughout the lifetime of this task force, one fact has remained consistent: Combating terror finance is and must continue to be an international effort. The countries of today's world are more inter-

connected than they have ever been before, especially when focusing on the financial system and the global trade system.

With this much integration, the weakest link in the system becomes the target for exploitation by criminal organizations and terrorist groups. Many nations in the developing world simply do not have the financial means or the technical knowledge to establish institutions to combat these threats. This puts them in a situation where they are reliant on help from the international community.

However, there is no central coordinating body mandated to facilitate anti-money laundering and combating the financing of terrorism capacity-building efforts on a global level through training and technical assistance. With no plan to guide the international community, many countries and NGOs act on their own.

Within the United States there are several agencies and offices charged with providing bilateral AML and combating the financing of terrorism technical assistance. According to the United States Department of State in a 2015 report to Congress on money laundering and financial crimes, the United States provided this type of support to more than 100 countries in 2014. These countries received technical assistance to improve the quality of their financial intelligence units, customs enforcement, and law enforcement and prosecutorial capabilities.

I believe that today's hearing, with this expert panel of witnesses before us, will help illustrate how the international community is addressing this issue, how efficient the United States is when delivering technical assistance, and how coordination between United States agencies and our international partners can be improved.

At this time, I would like to recognize this task force's ranking member, my colleague Mr. Lynch from Massachusetts. He has been a valuable asset and trusted bipartisan partner from the start of this investigation.

I now recognize the ranking member of the task force, Mr. Lynch from Massachusetts, for an opening statement.

Mr. LYNCH. Thank you, Mr. Chairman. Thanks for your kind words.

I want to thank Ranking Member Waters and Chairman Hensarling, as well as Vice Chairman Pittenger, for holding today's hearing.

I also want to thank our witnesses for your willingness to help this task force with its important work.

Today's hearing will focus on how the United States can strengthen our institutional capacity to combat terrorist financing in developing nations. It is a special problem, a unique challenge, I think, for the developing world.

Weak financial institutions in the developing world are breeding grounds for corruption that can be exploited by terrorists looking for innovative ways to move funds and to finance terror. A lack of strong leadership, and ineffective institutions in developing countries, have fueled the rise of ISIS and Boko Haram and other terrorist groups.

I am pleased that we are holding this timely hearing to examine what can be done to combat terrorist financing in the developing world.

Just last week, the Wall Street Journal reported that cash is traveling in and out of ISIS-controlled territories on various routes that run through Turkey and Jordan, among others. One of these routes starts near Istanbul's Grand Bazaar and ends in the ISIS-controlled city of Mosul, Iraq. Another route connects Amman, Jordan, with ISIS-controlled areas in Iraq's Anbar Province. Yet another route connects southern Turkey near Gaziantep and Kilis with Raqqah, Syria, ISIS' administrative capital.

We have to work with Turkey and Jordan to cut off these funding routes within their borders. We must also be willing to provide technical assistance to help them shut down the many companies that recently founded within their borders solely to move money for ISIS.

In Iraq and Syria, poor leadership, a week economy, and inadequate infrastructure helped create the political and social environment that fostered the growth of ISIS. We need a holistic, long-term approach when determining what an effective regime to combat terrorism financing will look like in that region.

According to the United States Department of State, the support provided to combat money laundering and terrorist financing to over 100 countries in 2014, both bilaterally and with other donor nations and international organizations, has been extremely helpful.

I am pleased with the U.S. leadership in this field, but it is important for us to consider how to prioritize where this technical assistance is placed and how to effectively implement our efforts. If we are providing assistance to countries that do not want to make real progress to combat terrorist financing within their borders, our efforts will ultimately be futile.

I look forward to hearing the testimony from our witnesses so we can examine the most effective models to help the developing world, and I would like to yield my remaining minute-and-a-half to the ranking member of the full Financial Services Committee, Ms. Waters from California.

Ms. WATERS. Thank you very much.

I would like to thank our witnesses for joining us here today, as well as Chairman Fitzpatrick and Ranking Member Lynch for holding this hearing that recognizes the need for strong U.S. engagement in the world if we are to solve some of the most difficult problems we face in a world that is increasingly interconnected.

Active U.S. global engagement is critical to our own national security and economic interests. We must remain vigilant in understanding the depth and dimension of the threats we face and the challenges we must meet in order to uncover the identities and intentions of fanatics who are plotting violence against innocent people.

In a global system, everyone's institutions and practices are relevant, which is why U.S. efforts to curtail the financing of terrorism are impeded in many ways by a lack of institutional capacity in many developing countries. Effective international efforts will require strong U.S. leadership over the long term as well as, I believe, an international body with the mandate and the expertise to coordinate efforts to combat a problem that, by its very nature, requires a global response.

I thank you, and I yield back the balance of my time.

Chairman FITZPATRICK. I now recognize the vice chairman of the task force, Mr. Pittenger of North Carolina, for 1 minute.

Mr. PITTENGER. Thank you, Mr. Chairman, and Ranking Member Lynch.

And I certainly thank Chairman Hensarling and Ranking Member Waters for their leadership, as well.

Thank you for your continued dedication on this important assignment to track terrorism financing.

Technical assistance is an important concept that attempts to integrate developing countries into the legitimate network of global financial institutions. When implemented properly, in theory technical assistance can open markets in developing countries, offering new investment opportunities and generating economic growth.

This hearing is an important step for this task force to determine the effectiveness of technical assistance in developing countries, especially with regard to staving off terrorism financing. It is essential that this task force learn what works, what doesn't work, and what Congress can do to improve this initiative.

For example, I am interested in exploring whether or not technical assistance for economic crimes could be expanded or merged with resources, including asset forfeitures and other foreign aid we have provided to so many countries around the world.

In Turkey, the United States has provided an average $10 million a year for the past decade in foreign aid. This is in addition to the vast amount of foreign military sales we provide to Turkey. What if some of these dollars and programs came tied to combating economic crimes in Turkey and creating additional accountability regarding terror financing?

Thank you, and I yield back.

Chairman FITZPATRICK. For the time remaining, we recognize the gentlelady from Arizona, Ms. Sinema, for 1 minute.

Ms. SINEMA. Thank you, Chairman Fitzpatrick and Ranking Member Lynch, Ranking Member Waters, and Mr. Pittenger.

As we continue to work to build our global capacity to combat terror financing and money laundering, we should consider and evaluate U.S. policy responses to determine whether our counter-terrorist financing tools are capable of diminishing terrorists' ever-evolving source of funds. We must ensure that our efforts to extend technical assistance and capacity-building are effective and sufficiently resourced and that Congress is proactive in providing any new legislative authorities required.

What are we doing here and internationally to develop and hone our ability to quickly identify and eliminate key revenue sources for terrorists? What changes do we need to make in U.S. policy and law to ensure that we are leading this effort and have a standardized process, not an ad hoc response to terrorists as they become a threat?

I look forward to hearing more from our witnesses today about how we can improve our efforts to prevent the financing of terrorism in developing countries and around the world.

Thank you, and I yield back.

Chairman FITZPATRICK. We now welcome our witnesses.

Ambassador Robert Kimmitt currently serves as senior international counsel at WilmerHale. Ambassador Kimmitt has 40 years of experience working at senior levels of the Federal Government. Most notably, he served as Deputy Secretary of the United States Treasury from 2005 until 2009.

Prior to joining WilmerHale in 1997, Mr. Kimmitt was also our ambassador to Germany. He has held several other distinct titles, including Under Secretary of State for Political Affairs, General Counsel to the Treasury Department, and Executive Secretary and General Counsel of the National Security Council at the White House.

Ambassador Kimmitt received his law degree from Georgetown University.

Mr. Clay Lowery is vice president at Rock Creek Global Advisors and is also a visiting follow at the Center for Global Development. Mr. Lowery brings more than 15 years of experience to the United States Government, primarily at the United States Treasury, where he served as Assistant Secretary for International Affairs. Mr. Lowery was also one of the original staff of the Millennium Challenge Corporation in 2004, and he helped drive its formation while serving at the National Security Council.

Mr. Lowery is a graduate of the University of Virginia and received a Master's of Science degree from the London School of Economics and Political Science.

Mr. James Adams is a former vice president for the East Asia and Pacific Region at the World Bank. Mr. Adams first joined the World Bank in 1974 and he has held a variety of positions there, including vice president and head of network, operations policy, and country services. Before joining the World Bank, Mr. Adams worked as a loan officer for Merchants Bank in Syracuse, New York, and with General Agreement on Tariffs and Trade in Geneva, Switzerland.

Mr. Adams studied at Colgate University and holds an MBA from Princeton University.

Mr. William Wechsler is a senior fellow at the Center for American Progress. His most recent position in government was Deputy Assistant Secretary for Defense for Special Operations in Combatting Terrorism. Mr. Wechsler previously served as Deputy Assistant Secretary of Defense for Counternarcotics and Global Threats, Special Advisor to the Treasury Secretary, Director for Transnational Threats on the staff of the National Security Council at the White House, and Special Assistant to the Chairman of the Joint Chiefs of Staff at the Pentagon.

Mr. Wechsler is a graduate of Cornell University and received a master's degree from Colombia University's School of International and Public Affairs.

The witnesses will each now be recognized for 5 minutes to give an oral presentation of their written testimony. And without objection, the witnesses' written statements will be made a part of the record.

Once the witnesses have finished presenting their testimony, each member of the task force will have 5 minutes to ask questions of the witnesses.

On your table are three lights: green; yellow; and read. Yellow means that you have 1 minute remaining. Red obviously means you are out of time.

With that, Ambassador Kimmitt, you are recognized for 5 minutes.

STATEMENT OF THE HONORABLE ROBERT M. KIMMITT, SENIOR INTERNATIONAL COUNSEL, WILMERHALE

Mr. KIMMITT. Thank you, Mr. Chairman, Mr. Vice Chairman, Ranking Member Lynch, and members of the task force. Thank you for this invitation to appear and, moreover, for your in-depth look at this important topic.

On a personal note, it is a particular pleasure to appear before Vice Chairman Pittenger, with whom I welcomed back our hostages from Iran when they arrived in Landstuhl, Germany, in January, and also Ranking Member Lynch, with whom I attended the Munich Security Conference last month.

You have heard from many experts in this field, and my fellow panelists today will contribute significantly to the depth of your efforts. I thought that I might make a few broader observations to start our discussion.

First, ISIS and other enemies who use illicit financial flows to support terrorism against the United States and its allies are smart, creative, and adaptable. The world's financial system, once entered, provides a borderless, near-seamless opportunity for our enemies to use the system to fund insidious operations designed to inflict near-and long-term harm on the United States. We must, therefore, be equally smart, creative, adaptable, and especially well-coordinated in protecting that system and defending it against abuses.

Second, in 40 years of working at senior levels of government, I have learned that the vast majority of high-level attention to an issue goes into the passage of legislation or the making of a policy decision. Far less attention is paid by principals to the crucial task of implementation of laws and policies, and that is why your bipartisan, detailed look at terrorism finance is so unusual and so important.

Third, we will succeed in our efforts to impede terrorism and other illicit financial flows only with a whole-of-governments approach. I stress "governments," plural.

Let me use the remainder of my brief statement to make some observations and recommendations on point three, a whole-of-governments approach.

First, host governments with whom we work to provide technical assistance and other support in the fight against illicit finance must be full partners in the effort. If they believe that the international community is simply and paternalistically imposing a program on them, that program will never have sustained success.

And one size does not fit all. Each country program will have a common core, but will also have unique local features. That is where technical assistance is so important.

U.S. leadership is vitally necessary but never entirely sufficient. In addition to working with host countries, we must also enlist

friends, allies, and even competitors like Russia and China, to join us in this fight.

Where possible, a U.N. Security Council resolution should be passed to lay the most effective international foundation for common efforts, since both countries and international organizations like the World Bank more quickly allocate priority and resources to U.N.-mandated missions.

Where a U.N. resolution cannot be agreed to, we should look to negotiate international compacts, as we did in Afghanistan and Iraq, whereby post-conflict and other fragile countries receive assistance but only in return for meaningful commitments on their part including, crucially, assigning priority to safeguarding their financial systems from abuse.

Third, for the United States to be the leader it must be, we need to ensure that we work as one government in this existential fight against terrorists and their financiers.

Our national security today is as much about commerce and finance as it is about diplomatic and military capabilities, and each of the critical agencies—State, Treasury, Defense, Justice, and DHS—must work closely together on an interagency basis under the direction of the National Security Council and with the support of the intelligence community.

The interagency meetings at which counterterrorism efforts are coordinated and effected are not just in the White House Situation Room and elsewhere in Washington; they also take place at embassies and military commands around the world.

We need to ensure, then, that not only agencies in Washington but also their overseas posts have individuals identified to ensure counterterrorism efforts are a priority both at home and abroad.

When Clay Lowery and I were colleagues in government, we increased from 3 to 24 the number of U.S. embassies that had been assigned Treasury attaches. We also moved Treasury officers to military commands and brought military officers into Treasury to support the counter-terrorism finance effort.

One question you should ask as your effort continues is whether, in developing countries of particular concern, Treasury has representation at the U.S. embassy in that country. If not, who in the embassy has the lead on countering terrorism finance and how often does she or he meet with the ambassador and country team to ensure both priority attention and interagency coordination?

One last point: It is very important to have a close partnership with the private sector in seeking to make this whole-of-governments approach effective. As we work with U.S. and overseas financial institutions, let us not forget the law of unintended consequences. If we so harshly regulate banks that they withdraw services from post-conflict and other developing countries that are ideal breeding grounds for terrorists and their financiers, we will drive the work of these financiers into the shadows—unregulated and informal financing networks that are difficult to both track and disrupt.

We must expect banks to be held to high standards in this area, but not set the bar so impossibly high that the only rational business decision is to withdraw. In addition to feeding the parlous economic conditions that give rise to terrorists, withdrawal of financial

services, sometimes called de-risking, will make it even harder to succeed in the effort you are so diligently pursuing to fight terror finance.

Thank you for this opportunity. I look forward to our conversation.

[The prepared statement of Ambassador Kimmitt can be found on page 47 of the appendix.]

Chairman FITZPATRICK. Mr. Lowery, you are now recognized for 5 minutes.

STATEMENT OF THE HONORABLE CLAY LOWERY, VICE PRESIDENT, ROCK CREEK GLOBAL ADVISORS; AND VISITING FELLOW, CENTER FOR GLOBAL DEVELOPMENT

Mr. LOWERY. Chairman Fitzpatrick, Ranking Member Lynch, and members of the task force, thank you very much for this opportunity.

Just to the last point that Ambassador Kimmitt just mentioned, in 2015 I chaired an international working group for the Center for Global Development to analyze whether the implementation and enforcement of anti-money laundering and countering the financing of terrorism policies was impacting poor countries. Our conclusion was a clear "yes," and in ways that unfortunately could undermine the very objectives that these policies were put in place to prevent in the first place.

A very important policy goal of the United States is to prevent finance from getting into the hands of bad actors, as we all know. A different but also very important policy goal of the United States is to allow finance to flow in the most efficient and competitive manner possible.

These two legitimate policy objectives have come into conflict, particularly in poorer countries around the world. Those most affected are likely to include the families of migrant workers; small businesses that need access to working capital or trade finance; and recipients of lifesaving aid in active-conflict, post-conflict, or post-disaster situations.

Under the current AML/CFT approach, banks are asked to prevent sanctions violations and assess and mitigate money laundering and terrorist financing risks, or face penalties. However, regulators sometimes send mixed signals about how banks and other entities should manage these types of risks, and the penalties that we have seen have increased to the point that maybe taking zero risk may be the best option for these institutions.

For instance, in the 5-year period from 2010 to 2014, the number of AML/CFT fines more than doubled while the amount of these fines went from less than $1 billion in total fines to over $15 billion.

The imposition of heavy fines on some large banks for egregious contraventions of AML/CFT and sanctions laws may very well be legitimate, but it is also clear that both the number and amount of fines could be chilling on many financial institutions that are doing their very best to adhere to the law.

In essence, financial institutions are, as the Ambassador said, de-risking by ceasing, in a wholesale fashion, to engage in activities that are seen to be higher-risk, rather than judging the risks of a

client on a case-by-case basis, creating yet another obstacle for poverty alleviation and economic growth, especially in poor countries.

While this is not systemic, it is having an effect on things like remittance flows and correspondent banking relationships.

Let's just take remittances. On a global basis, remittance flows to developing countries have risen from being roughly the same as official development assistance back in 2000 to now today being 4 times the amount of official development assistance. Obviously, they are very important.

Yet, despite a high level of commitment by G20 leaders in 2009 as well as substantial developments in payments technology, remittance costs have barely moved down over the past 5 years. Why is this?

While data does not allow us to isolate the cause of the failure as being AML/CFT policies per se, the results from both surveys and anecdotal evidence suggest that they are definitely playing a role.

A recent survey by the World Bank has indicated that money transfer companies—remittance providers—across a large number of countries are reporting trouble obtaining or retaining bank account access, largely because they were considered to be high-risk clients.

The potential consequences of making remittance flows more difficult and expensive are worthy of our concern. Either people who depend on these financial flows for their everyday livelihood will suffer, or we will see more and more of these funds chased into the shadows of the financial system—in other words, undermining the very goals that we set for AML/CFT policy in the first place.

There is no silver bullet to solving this dilemma, but there are areas where we can improve the situation. Our group came up with five.

First, as you have mentioned, is to work in poor countries to assist them with supervision, improving compliance, and meeting best practice standards. Second, to assess much more rigorously the impact of AML/CFT and sanctions enforcement on poor countries.

Third, to generate and distribute much better data; the data is very bad right now.

Fourth, to clarify and strengthen the risk-based approach in some of the international standard—best standards.

And fifth, to facilitate the know-your-customer issues and lower compliance costs.

On a positive development, in just the last few weeks we have seen international financial officials from the G20, the Financial Stability Board, the Financial Action Task Force, and the IMF all taking steps to make progress in these areas.

The United States is a leading player in all of these groups and is a leading player on the AML/CFT issues, and so I commend this committee for addressing this issue front-on. And so I put forward a few suggestions for Congress you can follow up in my testimony.

In order to help developing countries fight terror finance, technical assistance is critical. But we also need to understand the problem better; we need to clarify terms and rules; and we need to try to lower the cost of compliance.

In these ways, I think we will truly be making—working with developing countries to help us all meet the different policy goals and not be in conflict with each other.

Thank you very much.

[The prepared statement of Mr. Lowery can be found on page 52 of the appendix.]

Chairman FITZPATRICK. Thank you.

Mr. Adams, you are recognized for 5 minutes.

STATEMENT OF JAMES W. ADAMS, FORMER VICE PRESIDENT, EAST ASIA AND PACIFIC REGION, WORLD BANK

Mr. ADAMS. Chairman Fitzpatrick, Ranking Member Lynch, and members of the task force, the issue of addressing illicit financial flows is understandably receiving increased attention in today's world. The rapid and accelerating growth of international trade has involved dramatic increases in financial flows, particularly in developing countries.

As the chairman noted, it is perhaps inevitable that over time, the global financial system would increasingly become a target for the full range of criminal and terrorist actors. Moreover, given their weaker institutional capacities and systems, it is perhaps inevitable that developing countries, particularly lower-income developing countries, would become preferred targets for criminal and terrorist actors.

Gaps in banking supervision capacities and weak technical skills make these countries attractive targets. Moreover, governance and corruption issues within government bureaucracies can often undermine even the efforts of honest governments in these areas.

From a development standpoint, the standard response to this situation has been to provide technical assistance—the provision of technical experts to fill capacity gaps and providing funds to help developing countries strengthen their financial systems and address underlying capacity issues. Indeed, over time technical assistance has typically involved approximately 15 percent of total donor commitments.

Given the substantial amount of funding involved, I wish I could argue that the development record of technical assistance has been sterling; unfortunately, I cannot. While there are many success stories, the fact is, overall, technical assistance has not been an area of great success for the development community.

There are many problems underlying this performance, but a quick summary of common issues might be helpful. Often, the recipient government does not provide an appropriate environment for either expert staff or the long-term capacity development programs.

Common problems involve resentment of higher salaries of expert staff, the failure to assign local staff to work with experts, the absence of comprehensive ministry plans to ensure that local staff training programs are put in place, and sometimes the simple refusal to hire the needed expertise.

Donor behavior presents problems as well. Coordination is problematic. Experts from different countries will compete for attention of senior officials and give conflicting advice; project-based funding will frequently end before adequate capacity is established; key

government staff are poached by donors offering better terms than the government does; and often donors push for experts that recipient governments do not feel are required.

Therefore, while I fully agree that a concerted effort on building expertise and institutional capacity to address the challenges of illicit financial flows is a priority, I would at the same time argue that approaching this in a business-as-usual mode is unlikely to have effective impact.

In a recent presentation I made on technical assistance, I made an initial attempt to outline some steps that can be taken to effectively meet this challenge. I began with developing a number of specific steps that need to be taken by recipient governments. This effort basically revolves on the need to ensure that governments are not simply giving lip service to the issue but instead are firmly committed to achieving real capacity improvement.

A number of suggestions: an explicit long-range plan that would set out levels of expertise required and detail the needed training to ensure local staff would be an important step that recipient governments could take; an explicit commitment of the local staff required to both work—to work with international experts and to eventually replace those experts; and a budgetary commitment of the local counterpart resources needed to support all of the activities that are being done to put in place effective capacity.

At the same time, donors, including the United States, need to get their acts together. I see a number of important changes that could be made.

First, a commitment to fully fund recipients' proposed long-term programs of export support and local training. I would note that this will often take longer than the typical 5 years of project support that most donors provide.

Second, an agreement among donors on funding a single T.A. program with the assurance that all donor support would be subject to the discipline of an agreed program. The historical practice of each donor developing individual programs should cease, and ongoing programs could be folded into a unified program. It is unfortunate that Paris agreements on better aid coordination have not been a focus of T.A. programs, and the lack of coordination remains a constraint that could be addressed through a unified approach.

I think a single donor should be given leadership for this effort in individual countries. That donor could change across countries.

I think as scholarship programs and training programs will be a key resource, these should be consolidated and treated as a single resource.

I am a believer in the increased use of twinning. The reference was made to the very good program that Treasury put in place that I saw in some African countries, and I think having people who are involved in these issues from developed countries can be an asset.

And finally, I think some consortium of a limited number of donor and recipient governments could be established to oversee this program and make sure it remains effective and has the impact intended.

In conclusion, I would note that none of these actions are that hard, but unless a changed approach is taken, I remain skeptical that an important impact can be had on this issue.

I think that the issue of building capacity to deal with terrorist financing, in fact, will offer a unique opportunity to attempt a different approach to technical assistance. It has the advantage that it is important to both donor and recipient governments. No country can afford to be locked out of the global financial system.

In addition, considerable capacity exists in developing country governments and banks to help deal with this issue, and the costs of addressing this issue pales in comparison with the risks of not addressing it.

Thank you.

[The prepared statement of Mr. Adams can be found on page 44 of the appendix.]

Chairman FITZPATRICK. Thank you, Mr. Adams.

Mr. Wechsler, you are now recognized for 5 minutes.

STATEMENT OF WILLIAM F. WECHSLER, SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS

Mr. WECHSLER. Thank you very much, Chairman Fitzpatrick, Vice Chairman Pittenger, and Ranking Member Lynch. Thank you for holding this hearing and for inviting me.

Very quickly, I have looked at these issues for multiple agencies across multiple Administrations and I wanted to offer four lessons that I have learned about building partnership capacity, both in terms of dealing with terrorist financing and more widely in combating terrorism. Then, I wanted to conclude with just two recommendations, one tactical and one strategic, for you.

First of all, repeating what some of my colleagues have said, virtually nothing can be achieved unless the host country itself is fully committed to reform and fully committed to working with the United States to achieve that reform. If that doesn't happen, it is a recipe for wasting taxpayer resources at best, and strategic failure at worst.

Second, specific programs to build partnership capacity to combat terrorist financing should be integrated into a wider strategy to build associated capabilities. It does relatively little good to draft model anti-money laundering laws and regulations if the host country has little ability to enforce those laws.

Helping to build another country's police force isn't as useful if there is no effective judiciary. And even if there are judges willing to convict terrorists and their financiers, then there needs to be prisons to keep them.

All of these discrete but interrelated and interdependent elements seem to be woven together. But unfortunately, while there is no shortage of other donor countries that are willing to send a few lawyers over for a few trips to write model legislation or model regulations, there are much fewer that are willing to help a country build prisons, and that is a systematic problem.

Third, foreign assistance is most effective when it is targeted narrowly but executed broadly. Let me explain what I mean by that.

"Targeted narrowly" means focusing on building small, elite teams, whether it is military or law enforcement or regulators, that you can really trust. "Executed broadly" means that when you have those teams, you are helping them from soup to nuts. You are

training them; you are equipping them; you are advising them; you are assisting them; and you are even accompanying them in their work that they are doing on a daily basis.

I have found that if you are doing a full range of those types of assistance, then your partners most rapidly build up their own learning curves. When you instead try to do things at a very shallow level but with an ambitious scale, that is when we end up wasting a lot of money.

Fourth and perhaps most importantly, the entire process of building partnership capacity holistically works best in the American system when it is led by an especially capable ambassador in the field with a good country team. The country team needs to be made up of all the different agencies and departments, as Secretary Kimmitt was mentioning before.

In the military, we always insisted upon the unity of command. A good, strong ambassador brings that unity of command to the civilian side of the work that is being done. People in Washington can then focus on supporting that strategy with the necessary resources, including coordinating international donor conferences.

But unfortunately, we don't always have the benefit of such strong ambassadors. And when that happens, the task of developing the assistance strategy falls back to inside the beltway, which is rarely, in my experience, a recipe for success.

Let me then talk about the two recommendations I have based on those findings.

First and foremost, the Congress—you have already provided, I believe, virtually all of the fundamental legal authorities required for the Executive Branch to provide technical assistance and other capacity-building to combat terrorist financing. Budgets for such assistance, however, both at the State Department and other operational agencies, should be increased.

And equally if not more important, the personnel in key agencies, such as Treasury, needs to be expanded, particularly, as Secretary Kimmitt said, in the field in the embassies. That is where the work needs to get done, and we don't have enough people out forward.

The last recommendation I want to say is that there is one additional way in which our coordination of terrorist financing efforts might be improved. In the George H.W. Bush Administration, the United States led the way by creating FinCEN; and then during the Clinton Administration, we led the way through FATF to export that idea of FinCEN to other countries by encouraging them to create financial intelligence units and creating an international organization, or the Egmont Group, to coordinate amongst those units. That was a wonderful success of exporting a good idea from the United States abroad.

The last two Administrations have had another good idea, and that was to create the Office of Intelligence and Analysis inside the Treasury Department to help all of our sanctions work. That was done under George W. Bush, and under the Obama Administration that the assistant Secretary has also become the national intelligence manager for the director for national intelligence.

We still, to my knowledge, are the only country in the world that has an element of the intelligence community inside its financial ministry. I know from my experience in the United States how in-

credibly important that is to the warfighter in the field, and to our entire sanctions process.

If we could use a similar process as we did during the 1990s to export this good idea from the United States and encourage at least our G7 partners to develop similar if not exactly identical organizations within and coordinated with their financial ministries, I think we would all be better off.

Thank you very much.

[The prepared statement of Mr. Wechsler can be found on page 59 of the appendix.]

Chairman FITZPATRICK. Thank you, Mr. Wechsler.

I now recognize myself for 5 minutes for the purpose of asking questions.

Ambassador Kimmitt, who determines whether an embassy is assigned, from the Department of Treasury, an attache? How is that decision made?

Mr. KIMMITT. It originates in the Treasury, Mr. Chairman, and becomes part of the internal personnel process, the internal budget process. It eventually has to be approved through the Office of Management and Budget.

But then to put any non-State Department officer into any embassy in the world, it has to go through a process where acceptance of that representative is cleared by the State Department. And then if there is a difference, say between Treasury and State, which is rare but it has happened, it is resolved by the National Security Council.

Chairman FITZPATRICK. So would there be certain situations or conditions where a Treasury attache or a counter finance terror expert from the Department of Treasury would actually be required for an embassy, or is it a case-by-case basis and a subjective matter?

Mr. KIMMITT. It is really a case-by-case basis. When I first worked at the Treasury back in the second Reagan Administration, we had 36 attaches around the world. By the time I came back in the summer of 2005, that had gone down to three embassies: Tokyo; Baghdad; and Kabul.

With Clay's help, and the help of Stuart Levey and his team, we built that back up to 24 nations. In some nations, they needed more fiscal and monetary assistance; in others, it was counterterrorism. Clay and Stuart had to split the budget depending on which persons went out.

But it was an initiative we took, strongly supported by OMB, the President, and the State Department. I think, again, as I said, I would look at the countries of concern and ask who is making sure that the issues of concern to you are well-represented around that interagency table that is the ambassador's conference table.

It could be a full-time Treasury attache; it could be a Treasury attache with regional responsibilities; it could be a technical assistance person; it could also be people from other departments or agencies. I just want to make sure the function is covered, that someone is going in on a daily basis to talk to the principal AML people in that government, but also talk to them about fiscal and the range of other issues that are quite important.

I would note one thing: We are an exception in the United States in that our Treasury Secretary used to be, but for almost 100 years has not been, responsible for the U.S. budget. Almost every other finance minister around the world is also his or her country's budget director.

So if you want these people to support programs, whether it is education spending, defense spending, or AML spending, it is good to be in touch with that finance ministry on an ongoing basis. I find that works best when a Treasury person is doing that.

Chairman FITZPATRICK. When you were Ambassador to Germany, you did have a Treasury attache or did not?

Mr. KIMMITT. I did. The embassy was in Bonn at the time. We had our Treasury attache in Frankfurt because that is where both the Bundesbank was and also the heart of the financial community. That is true elsewhere in the world.

If I recall, Clay, we didn't have the Treasury attache in Brasilia. In Brazil, we had that person in Sao Paolo.

So you try to follow the money, but you want that person to be in touch with the government and also the private sector.

Chairman FITZPATRICK. Could you rattle off a couple of countries that do not currently have a Treasury representative at the embassy that should have one?

Mr. KIMMITT. Mr. Chairman, I talked to Treasury before this hearing; I did not ask that specific question. My understanding is that it is still roughly the same number of countries that we had. I think there have been some changes.

Clay, I don't know if you know it, but I don't have that list, sir.

Chairman FITZPATRICK. Perhaps Representative Wagner might want to weigh in on this at some point in time, given her personal experience at the Department of State. But could you suggest why such an important department such as the Treasury is not universally represented at every embassy?

Mr. KIMMITT. I would say that Treasury is an agency that only over the past 10 to 15 years has become integrally involved in the work of the National Security Council. My own view is the Treasury should be made a statutory member of the National Security Council, along with State and Defense. Right now, it is an invited member of NSC meetings.

We had not really developed the interagency culture at the Treasury Department. It was rare to find people like Clay Lowery, who had served at Treasury, then the NSC, then came back to Treasury. So I would say that Treasury itself was not that engaged and really didn't have a cadre who could have played as effective a role overseas as they do now.

I think we have moved into an era where sovereign interest rates are as important as nuclear throw-weights. And because of that, we need at that interagency table, whether it be in Washington, a military command, or in key embassies, people who represent that economic and financial component.

The State Department does it well, but I think that most of the relationships that they have at embassies would be with the economic and financial team working in foreign ministries and some other institutions. I think to be in persistently the finance min-

istries, central banks, and elsewhere, it is important to have someone who understands the way the Treasury operates.

Chairman FITZPATRICK. Thank you for that.

I now recognize Ranking Member Lynch for 5 minutes.

Mr. LYNCH. Thank you.

Why don't we just stay right on that?

I know that initially I was elected, basically the Democratic primary on September 11, 2001, the day of the attacks, I came onboard as the Democratic nominee, and we didn't have much of a race after that. But the first thing we started to do with the anti-terrorist financing was travel to the Middle East.

And at that time we had a gentleman by the name of Joe Parker, who was with Treasury, and he was helping us at the ground level. We would actually have to go in—I will use Jordan and Afghanistan were good examples. They didn't have anti-money laundering legislation as part of their legal framework.

So we had to work with King Abdullah and also with their central bank, and they did an extraordinary session of the legislature, which they called, and they adopted AML standards. And then from there we established an FIU, and then from there we started working on some of their issues.

They were very welcoming, however. They were exceptional. I think that is a good example of how—and they are a big banking center.

That model worked very well where you had a reasonably reliable institution there, in terms of finance.

In some of these countries we are dealing with in Africa, however, it is a whole different ballgame. And by the way, Joe Parker was our man in Jordan; he was our man in Afghanistan; he was our man in Morocco. So they were doing that North Africa, was is it, MENAFATF, I think—Middle East-North Africa Financial Task Force. So he was jumping around. I guess they did a regional response there.

And we were sorely short of people. Treasury has tried very hard to make sure there is coverage there, but I just think the personnel and the demands on them from a budgetary standpoint are a strain on them, and maybe we need to provide them with more resources so they can actually step up and do this in every single country.

But even 2 weeks ago when we went to the Syrian border we did Jordan, Lebanon, and Turkey. They were sharing Treasury personnel, in some cases. And in some cases, I believe it was in Beirut, they had nobody there. When we asked for a Treasury representative for looking at this problem, because we have terrorist financing going across the border there as well, they had nobody assigned to the embassy at that moment.

So it is something we really do need to look at.

But one of the things we are trying to look at here is the developing world, and Africa in particular, where there is no reliable government there. There aren't really laws on the books that would allow us to prohibit this and, secondly, to enforce laws against money laundering and also terrorist financing. So we have to really start from a basic, basic level of responsibility there.

One of the examples I think that is a stark example is Somalia, where—the usual formula that we use is we explain to countries

that, "If you want to be part of the legitimate financial system, you have to step up. You have to adopt these laws. You have to act like a legitimate government." And a lot of them respond to that incentive.

They are not responding in Somalia. So as a result, all the legitimate banks are afraid of reputational risk, so they have bailed out. Everybody is gone. Even the few rudimentary money transfer organizations that used to be there are no longer in Somalia.

And our limitation, we have to fly in and we stay at the airport. Recently, we are able to travel around a little bit, but it is a lawless failed state. So there are some hawalas and things like that in there, but we have no control over that.

So what do we do in that case? I know it is a long question, but what do we do in the Somalia instance? How do we respond to that?

Mr. LOWERY. So, there is a lot in there. A few thoughts.

One is we have to also figure out how do you multi-lateralize the technical assistance aspects. It cannot just be the United States. We can't do it all.

And so there are other countries that can offer assistance along the lines you were saying that Joe—I don't know Joe, but—

Mr. LYNCH. Parker.

Mr. LOWERY. —was offering. The IMF is starting to look at these issues a little more carefully. They work a lot with central banks. The World Bank and the African Development Bank, they could also be of assistance, as well as some of the bilateral donors.

In a place like Somalia, Somalia is a problem for some of the reasons that I was saying in my testimony. You make a very good point: In post-conflict environments like Somalia, where you have very, very, very weak governments, it kind of goes to Mr. Wechsler's point, which is you don't—it is hard to find a government that is able to build up the type of supervisory efforts that you need in order to look at how remittance flows are coming across the border and so that there are know-your-customer rules being done not just at the supervisory level but by the individual institutions themselves.

I think that the international financial institutions, at the urging of the United States, can assist, but it is much harder, and you are very right, on—in post-conflict environments.

Mr. KIMMITT. I would add just one thing, if I may, because it goes to Will's point: At least from the U.S. Government perspective, it starts with a really good ambassador and a really good country team. And the tougher the environment, the more important it is that that ambassador has an interagency focus in her or his discharge of duties.

I would look, for example, at the letter that each ambassador gets from the President of the United States laying out what his or her responsibilities are at post, because that person is the President's representative. Does it mention these kinds of issues? If not, then does it have the right priority in our government?

When our ambassadors have their 2-week preparatory course, sometimes called a charm course, does anybody from Treasury go over and present to them or are the ambassadors expected to ride the circuit and talk to people? By the way, do we do the same thing

in our Capstone program, which is where we train our general officers? I really don't think we do.

And so the earlier we can get people into the interagency environment and the more that we recognize that the role of an ambassador today is more analogous to that of the national security advisor—that is, coordinating this interagency group—the more likely it is, then, that he or she will designate someone on the staff to say, "We have to keep up with this." And maybe it is an OTA person, like Congressman Pittenger said, who works first and foremost to see if we can get a decent economy that takes away opportunity for terrorists. But until we get that far, let's at least stop the flow of bad funding.

But it really, I think, has to start with a terrific country team backed up by the appropriate priorities here.

Chairman FITZPATRICK. The gentleman's time has expired.

Mr. Pittenger is recognized for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman.

I would just like to ask, do you believe that these special assistance efforts should be tied to foreign aid that we give these countries?

Mr. ADAMS. Speaking from the multilateral side, I think on a technical assistance issue like this tie-in would not be very productive. But I think the point that has been made consistently about ensuring that the governments are committed to doing something about it is the key determining variable.

I would also say, to build on Mr. Lowery's point, that there is broad interest in this across the donor community. So in terms of mobilizing resources, one would not only, in most countries, be looking simply at the United States, but looking across the donor community to put in place and to support a program.

If I could, just to come back to Mr. Lynch's point, I think if you look at Africa and central banks in Africa, it is true there are weaknesses, but there is a world of difference from when I started working on Africa 40 years ago. And I think the capacity and the commitment of governments to commit to a better financial system, to commit to central banks that are independent and work across Africa, is beginning to make progress.

In a case like Somalia, where there isn't basic security but—I think the fact is we are still struggling with mechanisms. And in fact, this week in the bank, this fragile state we—where people working on fragile state are gathering together to try to figure out mechanisms to provide support in situations where basic security doesn't exist. And I think those are challenges which really still complicate and make very difficult the donor community activities.

Mr. PITTENGER. Should we be targeting our resources toward countries that maintain poor FATF ratings? Countries that have poor FATF ratings, should we be targeting our resources toward these countries?

Mr. KIMMITT. Well, I think we should. And again, I think I would make raising that FATF rating obviously the responsibility of the host government, but I would hope that every ambassador and every country desk officer here in the States has that on their to-do list as something that is a priority for us.

Right now, I am not sure that it would be quite as high as some of the other political or security objectives, even though I think it is a classic security objective.

Mr. PITTENGER. Does Treasury have FATF ratings on their radar screen when they are implementing this technical assistance?

Mr. KIMMITT. I don't know that. Again, I have been gone now 7 years. I was kept, as Deputy Secretary, very closely briefed by Stuart Levey, Danny Glaser, and their team on the FATF process, the FATF ratings. When I would meet with visiting people, largely from finance ministries and central banks, we would talk about that.

I am sure it is current in the TFI Office, Terrorism and Financial Intelligence Office. As to Treasury more broadly, I don't know, Mr. Pittenger.

Mr. PITTENGER. There is always a "pay for" in these efforts. As we look at a means to pay, are asset forfeitures a means that we could go to? Are there any restrictions or reasons why that could not be a resource for paying for implementing this?

Mr. KIMMITT. I am sorry, I just don't know. I know that there has been a lot of legislation considered, some passed recently, that have allowed certain classes of people to get at certain asset forfeitures. Mostly, they were people who are prisoners or families of people who are killed in terrorist attacks.

For this specific purpose, I just don't know what the authority would be. I think it is certainly something that would bear exploring because, frankly, I think sometimes we are better at seizing assets and penalizing banks than we are at getting to the root cause of what the problem is, as Mr. Lowery also said in his testimony.

Mr. PITTENGER. In my discussions with President el-Sisi, for example, I found that he was very eager to be in compliant with our efforts in tracking the money, but he certainly lacked the resources to facilitate what would need to get done. He has extraordinary concerns throughout his country.

How do you believe that we should be assessing and targeting how we fund and support these efforts for countries like Egypt? How much of a priority should that be for us?

Mr. WECHSLER. I think it should be a very high priority. I think the key question is not only, as you suggested, where are the gaps between what the requirements are under the FATF rules and where their actual regime is, but going back to a comment that many of us have made, what is their willingness, their commitment to true reform? And where you have those two things meeting, then we should be very much involved in helping them get where they need to get.

The challenge often is is when there is a gap and when the host country is not very committed, then we are in a challenge. And sometimes we want it more than they do, and that is a recipe for failure.

Mr. PITTENGER. In this instance, what I sense was somebody who wanted to be fully engaged but we were not there on their behalf.

Thank you. I yield back.

Chairman FITZPATRICK. The gentleman's time has expired.

The gentleman from Florida, Mr. Ross, is recognized for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman.

And thank you, gentlemen, for being here.

I think it is important that as this task force continues its discovery, that we not only learn what is the best multilateral way to engage in cooperation with the countries that we are seeking cooperation and to provide technical assistance; I am reminded that in our joint combined efforts in the military to fight terrorism we perform a lot of intelligence, a lot of surveillance, and a lot of reconnaissance, and we share this.

But it also comes down to when it is time to take action, nothing is done. In fact, many of our sorties that fly over in the Middle East come back without executing their ordinances.

Ambassador, I was over in Qatar last month and I met with Ambassador Dana Smith, whom I think is doing a wonderful job over there, by the way. She was bragging about how there was a Treasury attache who was there with her specifically for counter-terrorism financing.

My question is, what do these attaches do? Do they just do strictly technical assistance?

Mr. KIMMITT. If they are a Treasury attache, they represent the Treasury Department broadly, as would a Defense attache. We also have attaches from other departments and agencies, including Agriculture and elsewhere.

A technical assistance person would have a narrower focus.

Mr. ROSS. Okay.

Mr. KIMMITT. They are sometimes called an attache.

When Clay and I were together in government, the person that we had in the Persian Gulf, I think was in Abu Dhabi, so if they have moved someone to Qatar now, I think that is great. Qatar is very important.

Mr. ROSS. Yes, it is.

Mr. KIMMITT. And if they are an attache, they would be doing everything from the AML work that you asked about, but also some of the economic work that Congressman Pittenger mentioned.

Mr. ROSS. Are they empowered only when asked—when only asked upon by the host country, or do they volunteer to provide certain assistance and guidance and advice, or—

Mr. KIMMITT. Yes. That is a great question because I think we want our forward deployed diplomats to be as proactive as our forward deployed forces, right?

Mr. ROSS. As aggressive as we possibly can.

And I agree with you, Ambassador, and I think what you and Mr. Wechsler have said, that it really flows from the nature of the ambassador how aggressive they can be and how aggressive their team can be.

And, Mr. Wechsler, you hit on something that I think is so very important, and I think we are kind of skirting around it here, and I think the ranking member talked about this, which is how do we incentivize these host countries to enforce? You talk about in your testimony maybe we have more judges, maybe we have more prisons. But what is their incentive to want to enforce once we put them on notice of anti-money laundering or trying to combat terrorism funding?

Mr. WECHSLER. There are two ways: from the top down and from the bottom up. From the top down it is all the normal diplomatic ways that we try to encourage changes in policy. But the other way that I was encouraging you also to think about that gets less attention is from the bottom up. And what I have found across multiple agencies, whether it is military, law enforcement, or other civilian agencies, is when we work on building a very small team of that host country—

Mr. ROSS. So they buy in.

Mr. WECHSLER. So they buy in. And we are working on a day-to-day basis. The person doesn't have regional responsibility so that they are flying in every other week and trying to check up on them, but they are there sitting with them in their offices every single day to really build up the common goals of the organization.

And you find out that organization can be a better way to achieve U.S. counterterrorism objectives than—

Mr. ROSS. Do you think we could do that in Somalia?

Mr. WECHSLER. Yes. We do that on the military side in Somalia quite effectively. And as difficult as Somalia has been, let's all remember where we thought it was going to be in 2006. We thought it was going to be where Syria is now, with lots of external threats.

In Somalia, we have tens of thousands of African Union troops being supported by Americans. We have spent scores of millions of dollars to get to where we are now. One of the questions is, perhaps, can a very small proportion of that money be spent to help fix the remittance issue as well?

Mr. ROSS. And that is the incentive, I think, that we are skirting around, is it is going to take some foreign aid to incentivize them to cooperate with us.

How do we—yes, sir. Go ahead, Mr. Lowery.

Mr. LOWERY. And I was just going to say there is a different—there is one other incentive besides the ones the two of you were just discussing, which is almost like a market incentive, which is that if you have good policies in place for AML/CFT, for knowing your customer, for supervision in those areas, that could at least have—not—maybe it won't be the biggest banks in the world, but it will be the Western Unions of this world will start actually—

Mr. ROSS. Right. We want to make sure that, yes, we are not overburdening—

Mr. LOWERY. And then that will be a good thing for the people of that country, and so that is—

Mr. ROSS. At least economic development.

Mr. LOWERY. —incentive for politicians.

Mr. ROSS. Thank you. I see my time has expired. I will yield back.

Chairman FITZPATRICK. The gentlelady from Missouri, Mrs. Wagner, is recognized for 5 minutes.

Mrs. WAGNER. Thank you very much, Mr. Chairman.

And I would like to thank the panel for coming today and appearing to discuss the important issue of stopping terrorist financing in the developing world.

I also had the great privilege of serving my country as a United States Ambassador in the more developed world of Western Europe. But a place like Luxembourg has such incredible financial in-

stitutions and banking, I can tell you we stopped a good deal of terrorist financing from working its way through the banks and institutions of Luxembourg.

And Ambassador Kimmitt is quite right, as is Mr. Wechsler, from the standpoint of the outcome of your work is only as good as your ambassador and the team that you have moving forward.

I felt, Mr. Chairman, because you asked the question, that I did not have a Treasury attache at post but I did call upon them on a case-by-case basis. They would come out if it was something that needed an extra boost.

But really, at the end of the day, it is like everything in life: It is about building relationships.

If I, as a United States Ambassador, could go to that finance minister—there may be certain intelligence that I was aware of, but without compromising any of that intelligence, after a number of months I was able to build up such a rapport and relationship with the government, with the prime minister, and in particular the finance ministry, and to say: I need—the world, our country, needs these actual assets or bank—these things closed or shut down, these institutions, these particular accounts, these folks. And they would do it 99 percent of the time really based upon the relationship that we had built and our bond that we had through NATO and other experiences.

So if you would like to comment, Mr. Kimmitt, please do. I have some other questions about the developing world.

Mr. KIMMITT. I would just say one thing. Like you, I was a political ambassador. I spent most of my time in government. I had been in the Army. But I went out as a political appointee of President George H.W. Bush, and we have had this real debate about, is it good to send political appointees out?

We are the only country that does it. One-third of our ambassadors are political; two-thirds are career foreign service officers.

I think that is a tremendous strength for the United States because when you get into countries like Luxembourg, Sweden, Singapore, and Switzerland, who punch disproportionately above their weight in the financial services community, to have people from the private sector who have just sort of an ease of relationship with the finance ministers, central bank governance, and so forth, is very important.

That is tough to train late in life for a career foreign service officer no matter how good he or she is. Our political appointees do a much better job of covering Treasury's interests.

Mrs. WAGNER. I think you are absolutely right.

Now, as we have seen with ISIS, terrorist groups are thriving in the developing countries and failed nation-states. In fact, according to the IMF, larger GDP levels and higher quality of domestic, economic, and legal institutions are associated with greater compliance with anti-money laundering efforts and combating the financing of terrorism.

That is why I think the technical assistance that is offered by the United States and other developed countries is so essential to help identify and stop terrorist financing in these what I would call priority countries, and why it is important that we fully coordinate those efforts in order to maximize the effect.

In my little time that I have left, Ambassador Kimmitt, or perhaps Mr. Lowery, whomever, I wanted to ask about the U.S. Terrorist Financing Working Group, which has played a primary role in this interagency coordination of providing counter-terrorism financing technical assistance internationally.

According to reports by the GAO, the working group has not convened recently. And in the absence of this working group, how is U.S. counter-terrorist financing technical assistance to foreign countries being coordinated, if at all?

Mr. Kimmitt?

Mr. Lowery?

Mr. KIMMITT. I will have to defer to the government to answer the question of why it has not met. My impression, though, is that there is still a very active dialogue and interagency process in Washington around terrorist finance. I don't think it translates as well to the field, as I said, but on this working group, I do not have that statistic.

Mr. LOWERY. I don't have the statistic either, but I can say this: The technical assistance in this area, coordination among the different—is not great, and—within the U.S. Government. And that is something that can be improved upon, and I think that people in the U.S. Government, Treasury and State, it would be good to reach out and talk with them about it: How do you improve upon this process?

Mrs. WAGNER. Thank you, Mr. Lowery.

If I can just reclaim—and with a little bit of the Chair's indulgence, they have been suspended since July 2015, and that is a great concern to me. And I am wondering if it doesn't have to do with a little bit of a power struggle between Treasury and State. And I am wondering who would serve as a better leadership role in the future, in coordinating these bodies and groups and on this particular working group? Would it be the State Department or would it be Treasury?

Mr. Lowery, in your experience?

Mr. LOWERY. I think that it is probably a combination of the two, and if it is not working well enough, especially if people in Congress are unhappy, then that is where sometimes the National Security Council can start taking more of a leadership role, as well.

Mrs. WAGNER. Any other quick thoughts on that before I yield back what zero time I have?

Mr. ADAMS. And my experience is that the expertise at Treasury is absolutely essential to have a constructive technical dialogue.

Mrs. WAGNER. I believe it is also.

Thank you. I yield back. I thank you for your indulgence, Mr. Chairman.

Chairman FITZPATRICK. The gentlewoman yields back the balance of her time.

The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Thank you.

How much money has been seized through the legal process since 9/11 by our government and by other governments because it is terrorist financing? Does anybody here know?

Is there a program in—if assets are seized do they become part of—do they go to the general fund, or do they support continued anti-terrorist financing activities? Does anyone—Mr—

Mr. KIMMITT. I had focused, as Clay Lowery had, more on the fines that have been issued, Mr. Sherman, I—

Mr. SHERMAN. Okay.

Mr. KIMMITT. And those do go in the general fund so they can be put into other specific purposes. On asset forfeiture or seizures, I am sorry I don't know the answer to that.

Mr. SHERMAN. Okay. What is the total financing available to those entities in State and in Treasury that are primarily focused on stopping terrorist financing?

Mr. KIMMITT. Again, I think somebody from government would have to answer that. I will be candid with you: When I talked to a few people in government to let them know that I was coming up, and just try to refresh myself, I think they were a bit surprised that they had not yet been called up, and maybe that is going to be later in your process. But I think questions like that, with, again, particularly budget detail, I think are best left to the departments.

Mr. WECHSLER. I believe that a significant proportion of the funds that are used for technical assistance flow through the State Department's international narcotics and law enforcement account. There is also a little bit through the State Department counterterrorism account, I believe.

I don't have the exact number, but I would be surprised to a great degree if it was over $20 million to $30 million a year for the whole world. In fact, I am pretty sure that there are only four people in the State Department INL Bureau who work full-time on managing those resources throughout the world.

Mr. SHERMAN. With that, I yield back.

Chairman FITZPATRICK. I now recognize the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman, and thank you for your leadership in this important task force.

And to the witnesses, thanks for your testimony here today.

A recurring theme from many of you has been the need for these host countries to buy in, to be fully willing participants in combating the financing of terrorism activities. And without that buy-in, you are not going to have an effective means of limiting access to financing and curb access to the financial system.

My question is, is the United States Government doing a good job assessing which countries are fully engaged and committed to countering financing of terrorism, versus those that are not fully committed?

I will start with Ambassador Kimmitt.

Mr. KIMMITT. I think we are doing a good job of that assessment. I am not sure that we do as good a job following up on an assessment that said someone needs help.

I think the way that we talked about it before, what are the incentives for them to get right in this area—I think you have heard some interesting things today, including foreign assistance, but importantly, bringing private sector investment, because at the end of

the day that will never happen if someone thinks they are coming into a money laundering cesspool.

Mr. BARR. And I would love to hear from the others, but the reason why I asked the question is because a recurring theme back home in Kentucky among my constituents is, why are we engaged in the practice of appropriating funds for foreign aid to countries that hate us? And this kind of falls in that category.

Are we not adequately assessing our foreign aid budget and whether or not we are effectively deploying those resources to countries that are truly committed to helping us combat terrorism, versus countries that, frankly, are the beneficiaries of our foreign aid and are not truly helping us?

Mr. WECHSLER. If I could suggest, I generally think we do an okay job of that assessment. I think that there are two challenges for that, though, which may explain why sometimes we may fail.

Sometimes the country in question the overall U.S. policy has made a great commitment to, whether it is Afghanistan and Iraq, in so many different ways. And then there is a lot of pressure to, "Let's see if we can work with them on this way."

The other thing is—and this is what I would suggest before—is you can be working with a small unit of people inside the country who are actually very cooperative with the United States even while the wider policy and the wider population does hate us or isn't very cooperative. That doesn't mean that you stop working with that group if you are really achieving counterterrorism objectives with that group. And that is what I would suggest you focus on.

Mr. BARR. Fair point. And is the U.S. embassy in that country in the best position to make that assessment for us?

Mr. WECHSLER. Yes. If you have a good ambassador who is really running the country team that is fully staffed, you should be deferring to that ambassador about really understanding where you can find those partners. And sometimes you have people who are on the ground for a long period of time before they are able to find that partner in the right agency, that one unit, that right element that you can work with.

Mr. ADAMS. Yes. Just to broaden it, I am obviously coming at it from a more global perspective from the bank side, but one of the special assets you have in this area is access to the global banking system is absolutely critical in today's world. And to the extent the issue is linked to that, you will have in countries, regardless of where they stand politically or regardless of what economic system they are pursuing more broadly, certainly recognize the importance of keeping clean with respect to the banking system and trying to put in place the improvements to make sure that their banking system doesn't become a target of the United States, the G7, or more broadly.

So in one sense you do have, not only at the smaller technical level, which I certainly agree with, but even at the broader political level there is certainly a recognition today of the importance of maintaining and improving banking systems.

Mr. BARR. In my remaining time, when I was over in Jordan back in October and with our embassy personnel, one of the points that was made, and from the government in Jordan, was that as

important as it is in combating terrorism, killing and capturing terrorists, we have to counter the narrative of radicalization. The testimony is interesting to me about how overzealous enforcement of AML and CFT policies could have the counterproductive effective of facilitating or impeding economic development, which could facilitate radicalization among the population.

Any amplification of that testimony?

Mr. LOWERY. Yes, that was, I think, largely my testimony. The worry is that we are in countries—maybe not Jordan, maybe Jordan, but I have seen in other countries in Africa, in the Caribbean, and other places, where some of the policies that we are following have in some respects chased some of our more formal financial institutions out of those countries because of the fear that they are going to incur some fine or they are going to incur reputational risk.

And so I think that in and of itself could actually lead to the very problem, one, that that finance is going to go towards very opaque sources where we will not be able to see what is going on; and two, that this—kind of more as you were getting towards—this radicalization where they are like, "The United States is just cutting us off." It is something that we have to think about and be very careful about.

And I think that people are starting to get it, but it has taken a while before we acknowledge that we actually have created our—a little bit of our own problem.

Mr. WECHSLER. Sir, if I could just add very quickly, in the 1990s, as Al Qaeda was growing, their center of gravity—a military term for the element that allows them to achieve their strategic aims—was their financing. That is what turned them from a small group of people who were whistling in the darkness to people who could commit 9/11—their financing capabilities.

The center of gravity for the Islamic State is its narrative, is its ideological narrative that it gives throughout the world. And we as a government, we as an international community, have done a very poor job of combating that narrative.

Chairman FITZPATRICK. The gentleman's time has expired.

Mr. BARR. Thank you.

Chairman FITZPATRICK. The gentleman from Pennsylvania, Mr. Rothfus, is recognized for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

And I thank our panel for being here today.

I just want to get a little more education about assets that we have out in the field.

Ambassador Kimmitt, I believe you testified that we now have 24 Treasury attaches at various embassies around the world, up from 3 since 2005?

Mr. KIMMITT. It had gone from 3 to 24 from 2005 to 2009. I understand that it is about that number today, but I don't have that exact number, sir.

Mr. ROTHFUS. Any idea how many more embassies should have that kind of staffing that do not?

Mr. KIMMITT. Again, when I look back to my first tour at Treasury, which was 20 years before that, we had people out in 36 countries at a time when we didn't have the concerns about money

laundering, terrorist finance, and so forth. So my guess is we probably need to increase by about 50 percent the number of attaches we have.

But I will also tell you, Treasury is a very small agency with a very small budget, except for the IRS. You look at the Treasury budget and think it is big, but 80 percent of it is the IRS.

And we also, again, do not have people who have been on that career track to go out to post and then come back to the United States. I think this needs to be just part of Treasury becoming more a part of the interagency and national security community.

But my guess is—and again, I don't have that list, and would defer to the government on that—that they could probably find another 10 to 12 pretty quickly.

Mr. ROTHFUS. Would you have ideas of what countries we might want to staff up in?

Mr. KIMMITT. Yes. I would certainly have the ideas if I saw the current list. And again, when I think of the countries that Clay and I and Stuart Levey worked on, one of the ones we came up to immediately was Pakistan. I was going to NSC meetings every week on Pakistan where we talked about the tough security situation, tough political situation.

This all came from the fact that there was no economic opportunity, that illicit funds were flowing all over, that there were parts of the country in the upper northwest that were off-limits. So we put an attache into Islamabad. A tough post, but I couldn't see how Treasury could not have its interests represented there.

I would have to, again, look at the list today and come—

Mr. ROTHFUS. Do you know if there are any attaches currently staffed in countries that have no real interest in stopping illegal money flows?

Anybody?

Mr. KIMMITT. Not to my knowledge.

Mr. ROTHFUS. Have we ever abandoned efforts in any countries after coming to the conclusion that a country had no interest in stopping illegal money flows? Are there countries out there that just—we attempted to get in there and educate them about the importance of this and they just did not show an interest in cooperating?

Mr. LOWERY. Part of it is whether—if it is a technical assistance effort specifically, the attaches can help on that area, but the technical assistance is kind of much more focused on that exact issue.

I can't think of any off the top of my head, but I do remember that there were countries where we were thinking, "Boy, we should probably do some technical assistance there," and when we talked to the country, they were like, "Yes, we need help in other areas, but this is not an area that we really would like to prioritize."

And so we did focus on kind of some of the points that others have made about the areas where we thought we were really going to make a difference.

To remember those countries, it was close to 10 years ago, so it is a little hard.

Mr. ROTHFUS. Is anybody aware of any countries today that we really need to be in there providing technical assistance?

Mr. Wechsler?

Mr. WECHSLER. Yes. I would suggest you start by looking at the list of the countries where the greatest number of foreign fighters towards the Islamic State originate from, and then ask yourself, "Are there Treasury attaches who are working with those countries?"

If people are moving, money is also moving; other types of facilitation networks are at place there, and we need to bring the full range of U.S. Government capabilities, from the military to the intelligence to law enforcement to financial efforts, to combat those facilitation networks.

Mr. ROTHFUS. Mr. Lowery, the Financial Action Task Force has issued guidance to help public authorities and the private sector apply a risk-based approach to implementing CFT measures. Critics argue that instead of managing these risks, many financial institutions are seeking to avoid risk entirely by eliminating business lines.

Some say this has led to the closing of correspondent banking relationship and the exclusion of many low- and middle-income countries from the formal financial sector. Do you agree with that?

Mr. LOWERY. Absolutely. It is a big problem. And I know that the Financial Action Task Force is trying to clarify some of the terms, but that is exactly one of the big problems out there.

Mr. ROTHFUS. Any suggestions on how regulatory authorities and financial institutions can balance robust CFT measures and financial inclusion efforts?

Mr. LOWERY. Yes. A few thoughts. First, a lot of the information that we have right now is on survey data and anecdotal information. I think that there is a lot better data that can be had, and so therefore we can look at the impacts much more carefully using data and not just stories.

Second, I think clarifying the rules so that financial institutions have a better idea of what is going to be expected of them, where are the lines to be crossed or not to be crossed, will be very helpful.

And then third, working in the countries themselves, on some of the technical assistance efforts that we have been discussing before. I think a robust, comprehensive effort in those areas could make some improvements, but it is going to be a long slog.

Mr. ROTHFUS. I thank the panel.

Thank you, Mr. Chairman. I yield back.

Chairman FITZPATRICK. The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman.

And thanks to all of you for your service, and thank you for being here today. I appreciate it.

I wanted to briefly key on some remarks that I think are important to revisit.

Mr. Wechsler, you stated in your testimony that virtually nothing can be achieved unless the host country itself is truly committed to reform and sincerely interested in working with the United States to reform themselves. Now I would say, like most of us in this room, certainly none of us want to waste taxpayer money on ventures that won't and often don't yield meaningful results.

So how receptive are developing countries to recognizing terrorist financing as a priority concern and accepting assistance from the

United States and other G20 countries to identify and address issues in their nation?

Mr. WECHSLER. By and large, since 9/11 the vast majority of countries out there that I am aware of do recognize this as a problem and are interested in improving their efforts about this—not only because they want to help the international community, because they want to protect their own countries from these threats in the first place.

The second question is, do they want that assistance from the United States? That will differ country by country. But by and large, there is a pretty good international consensus that this is a problem that needs to be solved.

Mr. WILLIAMS. How well are internal efforts by agencies like Treasury and State coordinated within the United States and with other donors?

Mr. WECHSLER. What I believe is where we have a good ambassador who does this very—who can really lead this, it can be done very well. They can have a holistic plan for their country; they can understand where all the different pieces are in the different agencies; they can pull it all together, and then the job of Washington is resources that for them. They can also coordinate with other ambassadors in the field about their other donor programs.

The places where I have seen it not work are the places where that key position is either unfilled or is filled by somebody who is either unwilling or incapable of really playing that role. Then it tends to be—the risk goes up for lack of coordination.

Mr. WILLIAMS. Ambassador, in your testimony you talked about host governments to whom we provide technical assistance needing to be full partners in the effort and that programs should be—not be imposed on them but in an equal partnership that takes into account unique local features.

I personally believe that most of the time when a Federal program is one-size-fits-all, it usually is doomed from the beginning. So can you tell us why technical assistance is not one-size-fits-all?

Mr. KIMMITT. I think there are some elements, whether it is economic growth or counter-terrorist finance, that are some basic technical assistance skills. But you find, in the case of anti-money laundering efforts, in some countries it is the finance ministry that is in charge, in some, it is the central bank, and in some, it is the interior ministry. As you know, interior ministries in countries overseas don't take care of national parks; they are really like our Justice Department and FBI.

Some other places where you have the military in an important position, they sometimes will take it more seriously because they have to fight the effects.

So I think you have to have the core competency, but then you have to have the flexibility to adapt the program to who is the person in that foreign government most likely to help you carry that coordinated message. And I find as I look from country to country, it is a different person each time. A good ambassador, a good country team will figure that out and really devote the resources in that direction.

Mr. WILLIAMS. At the end of your testimony, you discuss the importance of having a close relationship with the private sector. I am a big private sector guy.

I agree that sometimes we don't always think about rules or policies that we have put in place and their direct impact on our own American businesses, so how do you suggest we partner with the private sector to safeguard the global financial system?

Mr. LOWERY. I think it is a great question. I think if you look at some of the private sector actors in these areas, particularly companies like Western Union and some of their competitors, there are more concerns about know-your-customer rules than almost any other entity on the face of the Earth because they don't want to get into a bad situation.

So if we can work with them, they can—they will actually do best practices. They actually do their own technical assistance in very poor countries because they want to make sure that the entities where they are transmitting their money also know their customers and do the types of work that we need done in AML/CFT.

So I think that there are areas where we could be working with the private sector, whether—it doesn't have to be Western Union, but with the formal financial institutions that are trying—that are sending money in large ways overseas. And I think that—because they are going to be very concerned about, how do we do technical assistance at the country level.

I think that is something where the private sector can be just as helpful as the public sector.

Mr. WILLIAMS. Thank you very much.

And, Mr. Chairman, I yield back.

Chairman FITZPATRICK. The gentleman from Maine, Mr. Poliquin, is now recognized.

Mr. POLIQUIN. Thank you very much, Mr. Chairman. I appreciate it.

And I thank you all very much for coming here today as we try to help figure out how to stop funding for terrorist organizations around the world.

Gentlemen, we all know that what families around the world want more than anything is opportunity for their kids, right—and safety and security. Now, I am sure this is just as powerful a force in developing countries as it is in our own developed country. I would argue with you probably more so.

Now, when countries develop and there are opportunities for the next generations, there of course is less of a propensity to gravitate toward illicit behavior, and in particular, it is more difficult for terrorist organizations to take hold.

You have a wealth of experience here at the table.

Mr. Kimmitt, I would like to start with you, if you don't mind, sir. Can you educate us on two or three common mistakes that developed countries like the United States have made in trying to assist developing countries that lend itself into difficult situations with respect to terrorism taking hold and maybe inadvertently causing those terrorist organizations to grow?

Mr. KIMMITT. First of all, I would say you are exactly right. The best way to stem the advance of terrorist activities is to foster economic growth.

Mr. POLIQUIN. Right.

Mr. KIMMITT. I think very often in the past we have given money just for the sake of giving money. I think we have been very paternalistic and just told people, "This is the way things have to go. We have an AID program. Follow our rules and all will be well."

I think we turned that around with the Millennium Challenge Corporation, where we really graded countries on their ability to use larger amounts of aid to the good effect for their people.

Mr. POLIQUIN. Mr. Kimmitt, can I interrupt you there for just a moment, because let's drill down a little bit deeper, if I may.

So you are talking about organizations like—I know you didn't mention them, but the World Bank, or the IMF, or ADB, or what have you—organizations that United States taxpayers fund to provide aid to countries that are developing so they can foster freedom, and better lives, and so forth and so on.

What I heard you say, I think, is that our country and others that fund these donor organizations have not always held developing countries accountable for behavior that would do everything it can to prevent terrorist activities from taking hold.

Could you be more specific, sir, on how we can encourage, incent, hold accountable these donor organizations that we fund, as taxpayers, to make sure that doesn't happen?

Mr. KIMMITT. Focused on terrorist financing—

Mr. POLIQUIN. Absolutely.

Mr. KIMMITT. —in particular?

Mr. POLIQUIN. Yes, sir.

Mr. KIMMITT. The question came up earlier, do we condition aid on how a country is doing on terrorist financing?

Mr. POLIQUIN. Why wouldn't we?

Mr. KIMMITT. I think that the important thing is whether that is a factor that was taken into account in making the allocation decision and for you to make your budget decisions. Conditionality, I—

Mr. POLIQUIN. The taxpayers are funding these organizations, so we have the appropriations authority, if you will, before they can extend any credit to these—why in the heck wouldn't we make it a function of receiving aid?

Mr. KIMMITT. I don't think it would be an irrational decision on our part—

Mr. POLIQUIN. Okay, then we are going to—

Mr. KIMMITT. —about providing aid to a country that is not going to take the employment of that aid seriously in counter-terrorist—

Mr. POLIQUIN. Okay. What benchmarks have you seen, Mr. Kimmitt, if I may—we only have a minute left—what benchmarks have you seen where this behavior has worked that we can use as a committee going forward to make sure we get this right?

Mr. KIMMITT. I don't know what the situation is today, but one of the toughest situations that Clay and I worked on in 2007 and 2008 was trying to find ways to get money into the West Bank. And that was something controlled by the Israelis, and one of the real hesitations the Israelis had was how serious the Palestinian Monetary Authority, the PMA, was about counter-terrorist finance. And they understood—the Palestinian Authority at the time—that

without getting serious on that subject, they were not going to be able to get the money they needed to keep that going.

That was probably as sensitive an area as possible, a trilateral discussion among Israel, the United States, and the PMA. I hope we are providing that kind of rigor any time we look at providing taxpayer dollars or encourage other friends and allies like Israel to take actions to move money in a certain direction.

Mr. POLIQUIN. Thank you, Mr. Chairman. I know I am out of time, but if I may, it seems to me it doesn't make a lot of sense for the taxpayers to be involved in the funding of organizations that inadvertently foster terrorism that comes back to bite us.

And so I think we are in agreement on that, Mr. Kimmitt. And I know there is a lot more we can learn on how to do this better and how to hold these donor organizations accountable for fostering peace and stability and opportunity without terrorism around the world.

Thank you, Mr. Chairman. I appreciate it.

Chairman FITZPATRICK. We will now have an additional round of questions, and I recognize Mr. Barr of Kentucky for 5 minutes.

Mr. BARR. Thank you.

Mr. Lowery or any panelist who might have any insight in this with experience in money laundering matters, are you aware or have you heard of any unlawful schemes where educational groups are funneling Federal dollars through their nonprofit organizations into so-called religious movements?

Mr. LOWERY. I have heard of it, but I don't know a lot about it. I have seen allegations that there are companies in the United States where they are doing educational services and they are receiving some grants, and some of the money is being siphoned off. Obviously, if anything like that is happening in a negative way, they should be looked into very carefully and investigated.

Mr. BARR. And you have a background at Treasury. Would Treasury have jurisdiction or have oversight over that? What Federal agency would be in a position to best monitor that or take a look at that issue?

Mr. LOWERY. I think that would be probably a combination of the Treasury Department and the Justice Department.

Mr. BARR. Okay. And to the point of the multitude of Federal agencies that have jurisdiction over CFT, and many of you have actually made the point that because we have multiple agencies claiming jurisdiction over matters pertaining to terrorist financing and a need to better coordinate—what is the best—what would be the best approach to enhancing that coordination? Which Federal agency do you believe would be best equipped to lead that coordination?

Mr. LOWERY. There are a couple of parts there. One is, I think, that it is a combination of the Treasury Department and the State Department working together to better coordinate it, and if it is not working very well, then I think the National Security Council would need to step in.

I think that going beyond that goes to some of Mr. Adams' point about the—it is difficult to do this huge international coordination, but that doesn't mean that it isn't an effort that should continue to be followed very carefully.

But I think within the domestic United States, it would be the Treasury Department and the State Department, playing in some respects a co-lead, because Treasury, to Mr. Adams' point, has the technical expertise a lot of times; the State Department has the reach around the world and obviously is the lead representative for the United States going abroad.

Mr. BARR. Is Treasury, and specifically the Office of Technical Assistance, doing a good job in terms of prioritizing terrorist financing concerns?

Mr. LOWERY. When we were in government, I think I would have said "yes" pretty clearly, and my guess is that the answer is probably still "yes" today. I just don't know all the prioritizations anymore.

Mr. ADAMS. Maybe if I could just make a comment as a consumer: When I was country director for Tanzania and Uganda in the bank for 7 years, the one regular visit I got was from the Treasury people working on anti-money laundering. It was the only developed country that focused on that, and they certainly gave me the best information, at the technical level, that I got.

This was important in these two countries because they were both countries that have liberalized their foreign exchange and banking systems, so they had created banking bureaus. There was a lot of foreign exchange flowing through these bureaus. They were private sector entities; they were not government-owned banks.

And the ability that Treasury brought to me to analyze, to explain where the problems were, and to explain what I had to know and what I had to follow up on the bank side—and I am sure they provided a similar service to the IMF—was invaluable for our focusing on some of the capacity-building issues and substantive policy issues we were working with Treasury and the Central Bank on.

Mr. BARR. Given the growing threats and the expansion of terrorism, I think the Office of Technical Assistance (OTA) has about a $15 million a year budget. Are they adequately funded relative to the challenge? And are there a sufficient number of Treasury attaches deployed internationally?

Mr. LOWERY. Almost assuredly not, but I would have to look at their budget and their prioritization. And obviously, they do technical assistance in areas that are not AML/CFT, as well, which are very important. But my guess is that they probably do not have a big enough budget.

Mr. BARR. Any other comments?

Mr. KIMMITT. I was just going to make a slightly related comment, and that is when we talk about funding of the international financial institutions (IFIs), and multilateral development banks (MDBs), I know that is a tough vote up here, and I think those organizations need to be held to the standard of what are they doing to advance U.S. interests for the taxpayer dollars we are putting in.

One thing I would note, though: Isn't it interesting that the most volatile part of the world, the Middle East, is the only region of the world that does not have a multilateral development bank? There is an Asian Development Bank, an African Development Bank, a Latin American, and even a European Bank for Reconstruction and

Development. There is not one in the Middle East. There is an Islamic Bank; there is an Arab Bank for Reconstruction and Development, but these banks are pretty idiosyncratic.

If you really want to get at the core of what the problem is, it is the lack of economic opportunity in the Middle East. It is a cesspool breeding ground that produces Al Qaeda, ISIS, and the rest of these horrific groups.

We have to go after them on counter-terrorist finance, but at the end of the day, if we do not get a growth strategy focused on the Middle East, we are going to be dealing with this generationally.

Mr. BARR. Thank you.

I yield back.

Chairman FITZPATRICK. The ranking member of the subcommittee, Mr. Lynch, is recognized for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

I know some of the Members were looking earlier in the hearing for a list of sort of bad actors and countries that were noncompliant or not helping in—we didn't have the buy-in from them. FinCEN does issue an advisory periodically, and I know they sent this to me in January, but it lists a number of countries that are noncompliant to certain degrees.

The most extreme noncompliance was listed for countermeasures. And these are advisories that are sent out to U.S. financial institutions, and they list Iran and the Democratic People's Republic of Korea (North Korea) as being countries that would require countermeasures on the parts of our financial institutions.

Myanmar is also listed as a country that requires enhanced due diligence, so it is sort of a warning to any U.S. financial institutions: If you are doing business in Myanmar, we advise you to be very careful and to apply enhanced due diligence in dealing with any financial transactions in that country.

As well, there are a number of other countries here listed for structural deficiencies in their anti-money laundering and terrorist financing regimes, and those countries are—it looks like alphabetical order—Afghanistan, Algeria, Angola, Bosnia and Herzegovina, Guyana, Iraq, Panama, Papua New Guinea, Syria—obviously—Uganda, and Yemen.

So Iraq, Syria, and Yemen you have—and Afghanistan—you have civil war, at least in some of those countries, and open conflict in others, so they pose a demonstrative—they do note that Algeria has made some progress in an action plan to remove those deficiencies. And Ecuador and Sudan, who had earlier been on that list, had also made significant progress in adopting technical changes and other measures to remove those deficiencies.

So those are some countries that—in our discussion we were talking about which countries would probably require or would call out for the assignment of a Treasury official to that embassy, and I think all of the countries on that list where we do have embassies would probably satisfy that condition, and that is probably something we should look at. And perhaps the task force could advise the White House on providing enhanced Treasury presence at those embassies to help us in this effort.

I don't have any more questions.

I want to thank you very much for your advice. You have all made significant contributions to the discussion here, and we really do appreciate your work and your willingness to appear before the task force. Thank you.

I yield back.

Chairman FITZPATRICK. I thank the ranking member.

Mr. Pittenger of North Carolina is now recognized.

Mr. PITTENGER. Thank you, Mr. Chairman.

And I thank each of you again for being here with us today. It means a lot to us, and your advice and counsel has been well-received.

In the broader sense, we clearly have conflicting issues with Russia and with China. However, both of those countries have vulnerabilities from terrorists. Can they be a reliable partner overall in their process of addressing terrorism financing?

Mr. KIMMITT. I actually find that countering terrorism and terrorist finance is one of the few areas where we do have a good dialogue with those two countries. And I would measure it by the U.N. Security Council resolutions that we were able to put into place precisely against the two countries mentioned by Mr. Lynch—that is Iran and North Korea—that had very strong financial sanctions elements in there, because both Russia, with its internal concerns, and China, with its concerns about terrorism and attacks, particularly in the western provinces, I have found take this pretty seriously.

I am not saying that they are gold star recipients on this, but I would say that particularly if you work within that Permanent Five of the Security Council structure against some of these worst actors—Iran and North Korea would be the two exemplars—I have actually found that you can have good discussions with those two countries—Russia and China— on that subject.

Mr. PITTENGER. Do you see them coming to the FATF level? Would they collaborate with us in terms of their own financial institutions inside their own country?

Mr. KIMMITT. I think they would probably be more hesitant about that, but as their financial institutions seek to both make acquisitions abroad, branch abroad, and so forth, they know they are going to be held to those standards. I think it would be in their interest, but you have have to make them see that it is in their interest.

Mr. PITTENGER. Russia is seeking loans today that seem like it may be a good time.

From my experience, our government works government-to-government very well on issues related to intelligence collaboration. For example, with Germany they have worked very closely. However, when you get beyond the government and get down into the Bundestag, there has been very little awareness.

I have had a series of forums to bring these individuals together, and met again with a number of Germans this weekend. They seem to be a very important asset, these parliament members. We had about 100 from 25 countries who have come to 3 different forums we have had.

Do you believe that we should have a more engaged effort, not just with the governments, but to fully implement the issues that

we have, whether it is related to what we are talking about today or the broader context of terrorism financing, that we have to be more fully engaged beyond just the central figures of the government, but when they do have parliaments that we need to be full impact in terms of communication with them?

Mr. Wechsler, you seem to have—

Mr. WECHSLER. Yes. I completely agree. The relationship between the U.S. Congress and other parliaments around the world is a vitally important and, frankly, strategically underused tool of our—to advance U.S. national security interests, and it is something that I would greatly encourage any Member of Congress in the positions that you are in to actively pursue.

Quite frankly, there have been times—present company here, of course, not involved—when Members of Congress have gone to a given country and want to meet with the military leaders or other maybe not-so-democratically elected leaders, and the U.S. Government policy is to encourage the strength of the parliament. There would be nothing better than to have the U.S. Congress meet with those parliamentarians and to help encourage them to be seen as a center of power in those, and it doesn't happen as much as it should.

Mr. PITTENGER. Thank you very much. I deeply appreciate you being with us today.

I yield back.

Chairman FITZPATRICK. The gentleman yields back.

And I will now recognize myself for a couple of follow-up questions.

Mr. Wechsler, could you expand on your proposal to encourage other countries to establish counterparts to the Treasury Office's Intelligence and Analysis Agency within their finance ministries? Are you talking about other G7 and G20 countries?

Mr. WECHSLER. Yes, that is exactly where I would start. It is very important, of course, for other countries to collect intelligence and analyze intelligence and to—on financial matters focused on terrorist finance, to not just rely on information that, frankly, we give to the United Nations or to them bilaterally, but to themselves be creators of intelligence.

What we have found inside the United States is the innovation that, again, bipartisan across multiple Administrations and started under George W. Bush, was to have an office that is dedicated to doing this inside our finance ministry has really been beneficial. I have seen the benefits of it to the work that the Treasury Department does, but beyond the work that the Treasury Department does to the wider intelligence community and even extending to the military side.

The recent bombings that have taken place where the military has targeted cash holdings of the Islamic State is—those happen because of the integration of financial-related intelligence to our military targeting system. Frankly, I don't know if that would have happened as well as it has happened if not for the innovation of the creation of the Office of Intelligence and Analysis in the Treasury Department and the resulting higher priority of that kind of intelligence.

The fact of the matter is that many of the other countries that we cooperate with most closely who are wealthy and who can afford it have not made a similar commitment to that kind of financial intelligence, and then have certainly not made the decision, if they have done so, to house part of it in their financial ministry, thus giving it the kind of import that we have seen in the United States.

Chairman FITZPATRICK. Why do you think it has not happened?

Mr. WECHSLER. Frankly, I think sometimes the United States has good ideas first. And that is what we had with FinCEN, and over the next decade-plus, that model was adopted by members of FATF, starting with the G7.

I think that it costs money, there are turf battles, like in any level of bureaucracy. These are all the things that we had to confront when, undoubtedly, my colleagues in the Administration went about the creation of that office.

But again, it has been a very successful experiment. Not all of our experiments in the United States are successful, but this one was, and we should very strongly encourage our other partners to consider adopting it for themselves.

When we created FinCEN, we didn't say that every financial intelligence unit had to be exactly like ours, but we said you had to have something like it.

Chairman FITZPATRICK. The ranking member, Mr. Lynch, is recognized.

Mr. LYNCH. Thank you.

What I will do is—Mr. Ellison has just arrived, and I know he has been very active, especially on the Somalia issue, and I would like to yield 5 minutes to Mr. Ellison.

Mr. ELLISON. Well, let me thank the ranking member.

And also, let me thank our chairman today.

And let me thank all of our panelists today. I have been paying as close attention as I could being outside the room, but I have been watching and getting notes from my staff about today.

And I know some discussion has focused on Somalia. At the risk of a little bit of duplication, I hope you won't mind me just making a few notes.

One is that I have probably as many, if not more, people of Somali descent in my district as anyone, in Minneapolis, and we are very proud of this community. They do tremendously good things for our district.

And one of the things that came up recently that is really important is that the Somali parliament recently passed an anti-money laundering bill. I don't know if you are aware of that; you probably are.

But I am glad that I can share that with you because one of the things that has been holding things up in terms of making progress on remittances is Somalia kind of emerging from its civil war and sort of stepping into its own and taking on its own sovereignty as a nation and responsibility for its financial system. I hope that will help improve the situation for Somalia in receiving and remittances.

They have made substantial progress. They are no longer a failed state. They are a fragile state, but they are making progress every single day.

And I wonder if you would mind answering—sharing your thoughts on this question. The Treasury Department, the World Bank, and others are engaged with the Somali Central Bank, and together they have made significant progress in weakening Al Shabaab.

Mr. Wechsler, I wonder if you might offer your views: What should Treasury, FinCEN, and other banking regulators do to help Somalia stabilize its financial system and receive remittances?

Mr. WECHSLER. Yes, I think you have touched on a very important issue, because of course for countries that are very poor that are in the process of developing and coming out of very difficult circumstances, legitimate legal remittances can be a very significant proportion of their gross domestic product. And we want to make sure that the people inside the United States who make their money legally are able to send it to their grandmother or their cousin to help them out.

And as Secretary Lowery pointed out, the problem is from a commercial point of view, if you are a bank there is very little profit to be made by doing business with Somalia, but there is a very high reputational risk at stake because of the challenges of actually knowing your customer.

The response from the Treasury Department and wider U.S. policy has, I think, been halfway there. The good part about it is we are trying to provide technical assistance and get them to create the laws and regulatory structures, which will take time.

But even after doing it, U.S. banks are not going to be rolling into downtown Mogadishu any time soon.

So if U.S. Government policy is, as it should be, that we have a strategic national security interest in building the new legitimate government of Somalia—we have literally spent tens, scores, maybe even hundreds of millions of dollars over the last two Administrations on military activities, assistance activities, police—to help get ourselves into the position where we are now, which is when we are about to send an ambassador in there, hopefully soon.

Mr. ELLISON. Right.

Mr. WECHSLER. Perhaps we could think of an innovative way to take some of the risk onto the United States Government's shoulders that we have traditionally put on the banks' shoulders. We have told them, "It is your job to know your customer," which is by and large the right thing to do.

But in this case, we have a market gap. The market is not going to fill it any time, so I think it is worth exploring innovative ways for the United States to work more actively with the private sector to sort of de-risk their activities in dealing with Somalia.

Mr. ELLISON. Thanks for pointing that out.

Does anybody else have a comment on what the United States should be doing in Somalia to stabilize things? Mr. Lowery?

Mr. LOWERY. I think the World Bank is trying to figure out whether or not you could create some sort of a safe corridor for Somalia. I think those efforts need to be continued.

I think the IMF could actually be of assistance in that area, but it is a difficult problem and I know, Congressman, you have been very eloquent on raising this issue for a while now. It is a tough issue.

I do think that it is important that it is kept on the radar screen of both our Treasury Department as well as our Federal Reserve, because they should continue to push to see whether there are solutions that get towards what Mr. Wechsler is trying to get at.

Mr. ELLISON. It looks like I am like 17 seconds over.

I just want to just get your response to this question: It seems to me that it is absolutely in the U.S. national interest to stabilize Somalia. We know now that failed states are attractive nuisances for terrorists, so it is in our interest to have stable, strong states so that they can partner with us to ward off these people.

And yet, some of the policies that we have been pursuing, I think aren't helping, because the remittances are going to Grandma or Cousin Joe. They are paying school fees; they are buying food.

But are they going in suitcases? And if good money is going in suitcases, some bad money could also be getting in there by the same route.

So in my view, somebody will hand—somehow coming up with something innovative is in our interest to do because we want more transparency so we can have more accountability. What do you all think about—how do you react to that statement I just made?

Mr. LOWERY. I guess broadly, I agree. It is how innovative can one get, because in the end what will happen, of course, is that these are going to be private sector decisions as to whether or not I am going to do business in that country or send remittances.

Mr. Wechsler raises a point—look, I have talked to people about it and they said, "Yes, all right, if the Federal Government steps in and indemnifies me maybe I will do this." But that is a hard thing for the Federal Government to do.

Mr. ELLISON. Mr. Lowery, I have never had a bank tell me they don't want to do any business in Somalia. They say, "We would do it. We are trying to make it. We will do it. But the cost and the risk has to be commensurate with our business model."

And so that is really the nut to crack.

Mr. LOWERY. I completely agree that it is a tough nut to crack, and I know that there are people at Treasury who are very concerned about it. They also want to crack that nut, but it is a cost-benefit analysis just like you said, and I think that there are institutions that would like to do it but the costs right now—at least perceived costs—are too high. And so hopefully, if we could figure out a way to lower those costs, that would be helpful.

Mr. ELLISON. Thank you.

Chairman FITZPATRICK. The ranking member, Mr. Lynch, is recognized for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman, and thank you for your indulgence.

We just did a survey. We went to the refugee camps right on the Syrian border in Turkey and in Jordan and in Lebanon, and talking about the issue of Somalia, they did have a sort of an ATM system set up right on that border.

They are using IRS scans, but very small amounts of money, but they are allowing those refugees, and a lot of them are coming right out of an ISIS-controlled area so there is that terrorist concern. But they are able to conduct it in a way that at least small

amounts of money are getting to those people who desperately need it.

And I am not sure we need—we might want to look at that model. The U.N. is running a lot of that program; USCIS is well aware of it. But we might want to look at that, as well.

One of the things that worries me is we have a scorecard system that we use in different countries in conjunction with know-your-customer (KYC), and it is pretty low-tech.

For instance, in the West Bank and in Gaza, we asked the Palestinian banking organizations there to report suspicious transactions, large cash transactions, things like that. But when I asked, when we were in Ramallah—even though there are high-rises going up all over the place, a lot of construction there, a lot of cranes; I am a former construction worker—how many suspicious transaction reports do we get out of the Arab Bank in the West Bank, the answer was zero; in Ramallah, zero. It was a little bit better, oddly enough, in Gaza.

But how do we capitalize or, we use the carrot a lot, inducing people to do the right thing. But how do we diminish the ability of people from operating outside of the legitimate financial system with impunity at times? Is there a more effective way to induce compliance?

Mr. LOWERY. It is a great question. You are getting at a good point, which is some of the technology improvements over the last few years would suggest that we should be finding more efficient ways to deal with the compliance problem.

Some areas that are worth exploring are—there is something called the legal entity identifier, which is basically a way for institutions to know each other through kind of digits. And that is a way to try to start getting a better know-your-customer regime happening.

In the country of Mexico, the central bank is actually looking into trying to figure out how to do this themselves. They have the same problem. Obviously, they are not as poor a country as Somalia, for instance—

Mr. LYNCH. Right. Right. No, I understand.

Mr. LOWERY. —but they are trying to do exactly what you are looking at, which is how do I find a technological solution to dealing with the know-your-customer issues and getting to the point where we can't—there is going to be risk, and so it has to be how do you figure out the risks—it can't be a zero tolerance for risk because otherwise you would just stop doing business.

Mr. LYNCH. Right. Exactly. You can't use the death penalty all the time.

Mr. LOWERY. That is right.

Mr. LYNCH. You are just pushing these people outside the system. There has to be a way for us to use leverage to get compliance.

Mr. LOWERY. And then if you can find some solutions around that, I think your best leverage is the ones we kind of talked a little bit about earlier, which is the market leverage of, hey, I can reduce my costs if things are more competitive; and then some of the technical assistance type of leverage of carrots-and-sticks approach from our usual kind of tools that we have as a government, or

international financial tools like the ones that Mr. Adams was talking about.

Mr. LYNCH. Okay. Last question, and I only have 25 seconds: The Hawala problem that the Wall Street Journal article, and I think the New York Times actually had a good article as well on the same issue, how do we get at that? It is an informal transfer system. Any ideas?

Mr. KIMMITT. I thought you were moving toward the Hawala when you talked about how do we sort of watch the periphery and out, because Clay described what we try to do once people come inside, the digital system, and I think we are getting better at that. But I think externally, and particularly on the Hawala side, it comes down to good human intelligence and good intelligence relationships on the ground with that host country.

So we have to make sure annually when the intelligence community puts together its NIT, its national intelligence topics, that this has a high enough priority for the human collection side of this and the collaborative side of it that we are getting that kind of information.

Sometimes they can think that is pretty small-ball—

Mr. LYNCH. Yes.

Mr. KIMMITT. —but it doesn't cost a lot of money to conduct a terrorist operation.

Mr. LYNCH. Right.

Mr. KIMMITT. It costs a lot more money to run a proliferation network, and you have to have access to the global financial system and move money around quickly on that. But for terrorist finance, unfortunately the amounts of money are relatively small, particularly to keep them going.

I would ascribe a particularly high priority to that because by the time it comes to Treasury and their Office of Intelligence and Analysis, they are going to do a very good job with what they have, but Treasury is not going to have agents on the ground. I think for Hawalas and that informal network more broadly, it just comes down to human intelligence officers risking their lives to get information that helps save American lives.

Mr. LYNCH. Thank you.

I yield back.

Chairman FITZPATRICK. The second round of questions is concluded.

I would like to again thank our panel for their testimony here today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

Without objection, this hearing is adjourned.

[Whereupon, at 4:44 p.m., the hearing was adjourned.]

A P P E N D I X

March 1, 2016

James Adams
Presentation to the Task Force to Investigate Terrorism Financing

The issue of addressing illicit financial flows is understandably receiving increased attention in today's world. The rapid and accelerating growth of international trade in the post WW2 era has involved dramatic increases in financial flows, particularly in developing countries. It is perhaps unavoidable that over time the global financial system would increasingly become a target for the full range of criminal and terrorist actors; as the old saying about banks goes, "that's where the money is".

Moreover, given their weaker institutional capacities and systems, it is perhaps inevitable that developing countries, particularly lower-income developing countries, would become preferred targets for criminal and terrorist actors. Gaps in bank supervision capacities and weak technical skills make these countries attractive targets; moreover governance and corruption issues within government bureaucracies can often undermine even the efforts of honest governments in these areas.

From a development standpoint, the standard response to this situation has been to propose technical assistance (TA) – the provision of technical experts to fill capacity gaps and providing funds to help developing countries strengthen their financial systems and address underlying capacity issues. Indeed from the first days of development assistance, donors have funded experts and a full range of training (from short courses to graduate studies) for recipient government staff across all sectors of engagement: finance, agriculture, energy, education etc. Indeed technical assistance broadly defined has typically involved 15% or more of total donor commitments.

Given the substantial amount of funding involved, I wish I could argue that the development record of TA has been sterling; unfortunately, I cannot. While there have been real success stories (the so-called "Berkeley mafia" in Indonesia, the University of Chicago trained economists that have been central to the past 30 years of economic reform in Latin America, the capacity building success in Botswana, the impact of the Africa Economic Research Consortium(EARC) on macroeconomic capacity in Africa, and in a limited range of effective state owned enterprises), in my experience the more typical TA story is one of frustration and limited impact.

There are many problems underlying this performance, but a quick summary of common issues might be helpful. Often the recipient government does not provide an appropriate environment for either expert staff or the long-term capacity development programs funded by donors. Common problems involve resentment of the high salaries of expert staff, the failure to assign local staff to work with experts, the absence of comprehensive and time-bound ministry plans to ensure that local staff training programs are put in place which would allow replacement of outside experts over time, and sometimes the simple refusal to hire needed expertise.

Donor behavior presents problems as well. Coordination is problematic – experts from different countries will compete for the attention of senior officials and give conflicting advice, project-based funding will frequently end before adequate capacity is established, key government staff are poached by donors offering better terms than the government does, and donors often push for experts that recipient governments do not feel are required.

Therefore, while I fully agree that a concerted effort on building expertise and institutional capacity to address the challenges of illicit financial flows is a priority, I would at the same time argue that approaching this in a "business as usual" mode is unlikely to have the intended impact. Instead I would suggest that in order to be successful, any TA efforts would need to be qualitatively different than past efforts.

In a recent presentation I gave in Papua New Guinea on technical assistance and capacity building, I made an initial attempt to outline steps that can be taken to effectively meet this challenge. I began with developing a number of specific steps that need to be taken by recipient governments; this effort basically revolves around the need to ensure that governments are not giving lip service to this issue but instead are firmly committed to achieving real capacity improvement. I would suggest a number of actions as necessary to indicate clear recipient government commitment:

* an explicit long range plan that would (i) set out levels of expertise required for what period and (ii) detail the needed training to ensure that local staff would be trained to replace all international experts;

*an explicit commitment of the local staff required to both work with international experts and eventually replace those experts;

*a budgetary commitment of the local counterpart resources needed to support any local benefits of international expert and salaries of local staff.

At the same time donors need to get their act together. I see the following changes in traditional practices as offering potential:

* a commitment to fully fund the recipient's proposed long term program of expert support and local training; in most cases this will require commitments beyond the typical 5 year project assumptions of most donors.

* an agreement among donors on funding a single TA program with the assurance that all donor support would be subject to the discipline of the agreed program. The historical practice of each donor developing individual programs would cease, ongoing programs could be folded into one program and program supervision would be done jointly. It is unfortunate that Paris agreements on better aid coordination have not been a focus of most TA programs – the resulting lack of coordination remains a constraint that could be addressed through this approach.

* a single donor should be given clear leadership of the donor effort; this would increase the likelihood of improved management of the program and reduce the burden of the program on typically limited recipient government capacity;

* as the scholarship and training programs of donors will be a key resource for training, these funds should also be consolidated into a single funding source in order to ensure efficient and effective support for the long term training program identified by government;

* the increased use of twinning recipient agencies with their counterparts from more developed countries; using general consulting firms for TA has numerous advantages but I feel that the longer-term programs suggested above can be better implemented by using the established capacity of government or banking staff that have real time responsibility for overseeing key financial flows;

* there would be a prohibition on the poaching of key staff by donors for the duration of the programs funded;

* finally, a consortium of a limited number of donor and recipient governments would be established to oversee the country programs; this would reflect the clear priority given this effort, and would ensure that standards are maintained, that the lessons of experience (good and bad) would be learned and that any funding issues could be more easily resolved.

In concluding I would note that none of these actions is particularly profound or difficult. The question of why this has not happened before this is therefore interesting. I would underline three factors. First, because TA is typically a modest part of most large project investments it has too often been an afterthought in investment development. Second, the myriad of different and complex donor requirements on aid administration generally and TA specifically makes working together impossible. Finally, the pressures across the donor community to deliver the level of aid promised has too often led to a willingness of donors to compromise on the time required to fully secure recipient government commitment and capacity to deliver on the necessary requirements for successful capacity building efforts.

Reflecting on this, I think that the issue of building increased capacity to deal with terrorist financing may offer a unique opportunity to attempt to build a more effective model of TA support. It has the advantage that it is important to both donor and recipient governments - no country can afford to be locked out of the global financing system. In addition, considerable capacity exists in developed country governments and banks to help deal with this issue, and the costs of addressing this issue pale in comparison to the risks of not addressing it. Thank you.

Written testimony of

Ambassador Robert M. Kimmitt
Senior International Counsel, WilmerHale

Before the U.S. House of Representatives Financial Services Committee
Task Force to Investigate Terrorism Financing

"Helping the Developing World Fight Terror Finance"

March 1, 2016

Mr. Chairman, Mr. Vice Chairman, Ranking Member Lynch, members of the Task Force,

Thank you for this invitation to appear and, moreover, for your in-depth look at this important topic. On a personal note, it is a particular pleasure to appear before Vice Chairman Pittenger and Mr. Kildee, with whom I welcomed back our hostages from Iran when they arrived in Landstuhl, Germany, in January, and also Ranking Member Lynch, with whom I attended the Munich Security Conference last month.

You have heard from many experts in this field, and my fellow panelists today will contribute significantly to the depth of your efforts. I thought, then, I might make a few broader observations to start our discussion:

- First, ISIS and other enemies who use illicit financial flows to support terrorism against the United States and its allies are smart, creative, and adaptable. The world's financial system, once entered, provides a borderless, near seamless opportunity for our enemies to use the system to fund insidious operations designed to inflict near- and long-term harm on the United States. We must, therefore, be equally smart, creative, adaptable, and especially well coordinated in protecting that system and defending it against abuses.
- Second, in forty years of working at senior levels of government, I have learned that the vast majority of high-level attention to an issue goes into the passage of legislation or the making of a policy decision. Far less attention is paid by principals to the crucial task of implementation of laws and policies, and that is why your bipartisan, detailed look at terrorism finance is so unusual and so important.
- Third, we will succeed in our efforts to impede terrorism and other illicit financial flows only with a "whole of governments" approach. I stress governments, plural.

Let me use the remainder of my brief statement to make some observations and recommendations on point 3 – a whole of governments approach:

1. The host governments with whom we work to provide technical assistance and other support in the fight against illicit finance must be full partners in the effort. If they believe that the international community is simply and paternalistically imposing a program on them, that program will never have sustained success. And one size does not fit all – each country program will

have a common core but also unique local features. That is where technical assistance is so important.

2. U.S. leadership is vitally necessary, but never entirely sufficient. In addition to working with host countries, we must also enlist friends, allies, and even competitors like Russia and China to join us in this fight. Where possible, a UN Security Council Resolution should be passed to lay the most effective international foundation for common efforts, since both countries and international organizations like the World Bank more quickly allocate priority and resources to UN-mandated missions. Where a UN Resolution cannot be agreed, we should look to negotiate International Compacts – as we did in Afghanistan and Iraq – whereby post-conflict and other fragile countries receive assistance but only in return for meaningful commitments on their part, including, crucially, assigning priority to safeguarding their financial systems from abuse.

3. For the United States to be the leader it must be, we need to ensure that we work as one government in this existential fight against terrorists and their financiers. Our national security today is as much about commerce and finance as it is about diplomatic and military capabilities, and each of the critical agencies – State, Treasury, Defense, Justice, and DHS – must work closely together on an interagency basis under the direction of the National Security Council and with the support of the Intelligence Community.

   The interagency meetings at which counterterrorism efforts are coordinated and effected are not just in the White House Situation Room and elsewhere in Washington; they also take place at embassies and military commands

around the world. We need to ensure, then, that not only agencies in Washington but also their overseas posts have individuals identified to ensure counterterrorism efforts are a priority both at home and abroad.

When Clay Lowery and I were colleagues in government, we increased from 3 to 24 the number of U.S. embassies that had assigned Treasury attachés. We also moved Treasury officers to military commands and brought military officers into Treasury to support the effort to counter terror finance. One question you should ask as your effort continues is whether, in developing countries of particular concern, Treasury – as the U.S. Government lead – has representation at the U.S. embassy in that country. If not, who in the embassy has the lead on countering terrorism finance and how often does she or he meet with the Ambassador and country team to ensure both priority attention and interagency coordination? Again, the best laid of Washington plans can founder in the absence of attention to implementation, both at home and especially abroad.

One last point: it is very important to have a close partnership with the private sector in seeking to make this whole of governments approach effective. As we work with U.S. and overseas financial institutions toward our common goal of safeguarding the global financial system, let us not forget the law of unintended consequences. If we so harshly regulate banks that they withdraw services from post-conflict and other developing countries that are ideal breeding grounds for terrorists and their financiers, we will drive the work of these financiers into the shadows – unregulated and informal financing networks that are difficult to both track and disrupt. We must expect banks to be held to high standards in this area,

but not set the bar so impossibly high that the only rational business decision is to withdraw. In addition to feeding the parlous economic conditions that give rise to terrorists, withdrawal of financial services, sometimes called de-risking, will make it even harder to succeed in the effort you are so diligently pursuing to fight terror finance.

Thank you again for this opportunity to appear, and I look forward to our discussion, both today and beyond.

Statement of the Honorable Clay Lowery
Vice President
Rock Creek Global Advisors LLC

Before the U.S. House Committee on Financial Services'
Task Force to Investigate Terrorism Finance
March 1, 2016

Chairman Fitzpatrick, Ranking Member Lynch, and Members of the Task Force, I thank you for the opportunity to testify on Helping the Developing World Fight Terror Finance.

My name is Clay Lowery and I am currently Vice President of Rock Creek Global Advisors, a consulting firm that advises its clients on international economic and financial policy matters. I also serve as a visiting fellow at the Center for Global Development (CGD), and in 2015 – I chaired CGD's working group on "The Unintended Consequences of Anti-Money Laundering Policies for Poor Countries." This report was funded through grants to CGD from the Omidyar Network, the Open Society Foundations and the William and Flora Hewlett Foundation. My testimony should be considered my own views and not the views of any of these organizations.

As further background, I served in the U.S. Government from 1994 to 2009, most of it with the Treasury Department but also with the National Security Council and with the Millennium Challenge Corporation. My last few years in government, from 2005 to 2009, I was the Assistant Secretary of International Affairs for the Treasury Department which exercises oversight of the executive branch of U.S. involvement in the IMF and the multilateral development banks.

I am pleased to be testifying alongside Jim Adams who has had a long, distinguished career in development as well as William Wechsler who is an expert on fighting terrorism. Most of all, it is an honor to be next to my former boss and someone I respect very much -- Bob Kimmitt.

In my testimony, I will describe (i) what I see as a conflict in policy goals in which countering terrorist finance policies appear to be having an unintended consequence on poor countries, (ii) some recommendations to improve the situation, and (iii) areas where Congress and this task force could follow up.

Conflict of policy goals

In 2015 – I chaired an international working group for the Center for Global Development consisting of policy, private sector, and academic experts with backgrounds in development, banking, and enforcement. The rationale for our working group was to analyze whether the

implementation and enforcement of anti-money laundering (AML) and countering the financing of terrorism (CFT) policies was impacting poor countries. Our conclusion was a clear yes, and in ways that could undermine the very objectives that these policies were put in place to prevent in the first place.

A very important policy goal of the United States is to prevent finance from getting into the hands of bad actors. The idea of such efforts is to increase the safety of the financial system and to improve our national security. A different, but also important policy goal of the United States is to allow finance to flow in the most efficient and competitive manner possible. The idea of such efforts is to assist with global economic growth and to include even more people in the financial system in a formal and transparent manner.

To me, it is pretty clear that these two legitimate policy objectives have come into conflict, particularly in poorer countries around the world. Those most affected are likely to include the families of migrant workers, small businesses that need to access working capital or trade finance, and recipients of life-saving aid in active-conflict, post-conflict or post-disaster situations.

From a national security perspective, current AML/CFT policies may be self-defeating to the extent that they catalyze finance moving from the formal financial system to the more opaque parts of the system.

Under the current AML/CFT approach, banks are asked to prevent sanctions violations and assess and mitigate money laundering (ML) and terrorist financing (TF) risks, or face penalties. However, regulators sometimes send mixed signals about whether and how banks and other entities should manage their ML/TF risk, which sometimes results in simplistic risk assessment methodologies being applied by these entities. While there may not be clarity in terms of defining the management of those risks, the penalties have increased to the point that taking zero risk may seem like the best option.

By the working group's calculations, in the five-year period from 2010 to 2014 – the number of AML/CFT fines more than doubled while the amount of those fines went from less than $1 billion in total fines to over $15 billion. Even putting aside a few headline cases, the fines have still increased over 400% in a very short period of time.

The imposition of heavy fines on some large banks for egregious contraventions of AML/CFT and sanctions laws may very well be legitimate, but it is also clear that both the number and amount of fines could be chilling on many financial institutions that are doing their very best to adhere to the law. While it is not the only factor, it is pretty clear that AML/CFT policies have led banks to adopt an understandably conservative position when working in risky developing countries in areas such as correspondent banking or facilitating remittances. The result includes

financial institutions exiting from providing services to firms, market segments and countries that are seen as higher risk, lower profitability and could become the source of costly future fines, monitorships or even prosecutions.

In essence, financial institutions are engaging in "de-risking" by ceasing in a wholesale fashion to engage in activities that are seen to be higher risk, rather than judging the risks of clients on a case-by-case basis. Individual banks may be acting rationally in not serving certain types of clients, due to a variety of factors. However, the implementation of AML/CFT appears to have created categories of clients whose business cannot justify the associated compliance costs. The financial exclusion of such clients creates yet another obstacle for poverty alleviation and economic growth, especially in poor countries.

The data for this analysis are too weak to make systemic judgments. However, we did observe a number of outcomes potentially driven by AML/CFT policies, such as the de-banking of (i) money transfer organizations (MTOs), (ii) correspondent banking, and (iii) non-profits trying to access banking services in difficult environments. Much of this is catalogued in the report, which is linked to this testimony.[1]

For the purposes of the testimony, however, let me focus on remittances. On a global basis, remittance flows to developing countries have risen from being roughly the same as official development assistance (ODA) in 2000 to being over four times that amount today. In other words, financial flows due to remittances are a key source of funds to poor people around the world.

In 2009, the G20 resolved to reduce the costs of remittances by five percentage points within five years. In addition, there have been significant developments in financial innovation, particularly in payments technology. Despite this high-level policy drive and technological developments, however, the G20 goal is not even close to being met – in fact data as of early 2015 would suggest the G20 is over 60% short of its goal, in other words, remittance costs have been reduced by one-to-two percentage points – not five. Why is this?

While data does not allow us to isolate the cause of this failure as being AML/CFT policies, the results from both surveys and anecdotal evidence suggest that they are definitely playing a role. A recent survey by the World Bank has indicated that money transfer companies across a large number of countries are reporting trouble obtaining or retaining bank account access, largely because they were considered to be high risk clients. In some respects, this isn't surprising – a lot of countries with a high dependence on remittance flows are countries considered to be high risk by regulators. In addition, the compliance regimes of many smaller MTOs are weak and don't

[1] http://www.cgdev.org/sites/default/files/CGD-WG-Report-Unintended-Consequences-AML-Policies-2015.pdf

follow best practices, although there has been a tendency by regulators to over-generalize in this area.

While we don't yet have firm evidence on impacts, the potential consequences of making remittance flows more difficult and expensive are worthy of our concern – either people who depend on these financial flows for their everyday livelihood will suffer or we will see more and more of these funds chased into the shadows, as desperate people will find less transparent means to move money overseas.

What can we do about it

Assuming the analysis in our report is correct, and other groups – official and non-official – seem to suggest it is, then we should take steps to address it. We still want to meet both policy goals: stop money going to bad actors and allowing finance to flow in a transparent and efficient manner. There is no silver bullet, but there are areas that could improve the situation going forward.

Many of the recommendations in my testimony are borrowed from the CGD report, but I have added my own personal thoughts. The recommendations include actions that can be taken by our government, other national governments, international organizations, international standard setters, and the private sector. In short, we should (1) work in poor countries to assist them with supervision and meeting best practices, (2) assess more rigorously the impact of AML/CFT and sanctions enforcement, (3) obtain and distribute much better data, (4) clarify and strengthen the risk-based approach, and (5) facilitate the lowering of compliance costs.

1. Improve compliance, increase technical assistance and clarify indicators of lower risk

   Compliance procedures at many MTOs must be improved so as to be more effective. At the same time, more needs to be done to recognize those MTOs that do have effective systems in place, including better supervision of MTO sectors at the country level.

   - Many MTOs, especially smaller ones, should improve their compliance procedures to ensure money laundering and terrorist financing risks are mitigated effectively and efficiently.
   - FATF should provide greater clarity on the likely indicators of lower risk MTOs, and national governments and industry participants should collaborate to reflect this guidance with best practice documents.
   - The U.S. and international financial institutions should provide even more technical assistance in as coordinated a way as possible to financial supervisors in countries where the remittances and correspondent banking have been most clearly affected by AML/CFT policies.
2. Rigorously assess the unintended consequences of AML/CFT and sanctions enforcement at the national and the global level

- Groups such as the Financial Stability Board (FSB)[2] should conduct a rigorous assessment of the global AML/CFT and sanctions regulatory environment, including the guidance produced by Financial Action Task Force (FATF)[3], with a view to reducing unintended consequences.
- FATF should continue to enhance its mutual evaluation methodology to include:
  - A. Displacement of transactions from more into less transparent channels, which are sometimes informal or processed through lower-tier, less compliant institutions
  - B. Risks in the whole economy, rather than just in the formal financial sector
  - C. Risks posed to the important drive toward financial inclusion
  - D. Over-compliance at the national level and in particular sectors

3. Generate better data and share data

   In order to assess unintended consequences rigorously, more and better data should be generated through private and public sector efforts.

- The World Bank should make publicly available, both the results and if possible, the underlying anonymized data, from its de-risking survey of banks, MTOs and governments as soon as possible.
- The FSB should direct the World Bank to carry out representative, countrywide surveying of non-profits involved in the delivery of humanitarian assistance, banks and MTOs.
- Government agencies that keep detailed registries of regulated MTOs and non-profits should make available headline statistics about the numbers and nature of such organizations.
- National financial intelligence units, including but not limited to FinCEN, should query financial institutions for data regarding the volume, amounts and types of transactions associated with MTOs, non-profits and banking correspondents.
- On behalf of central banks and private financial institutions; SWIFT, CHIPS, CHAPS, BIS and other entities tasked with managing and collecting data on cross-border transactions and relationships should make available data on bilateral payment flows and the number of correspondent banking relationships between countries.
- National governments should make the data that they are using for risk analyses and regulatory impact assessments available to other jurisdictions and to parties conducting analyses that are demonstrably in the public interest.

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[2] The FSB consists of central banks, finance ministries, and financial regulators from around the world and attempts to coordinate and review the work of international financial regulatory standard setters. The United States is represented by the Federal Reserve, the Treasury Department and the SEC.
[3] FATF is the global standard setting body for AML/CFT policies.

4. Strengthen the risk-based approach
    - FATF should provide a definition of money laundering and terrorist financing risk for its purposes that is consistent with a standardized definition (as provided by the International Organization for Standardization) and existing private sector definitions of 'risk'.
    - FATF should clarify its thinking regarding transparency and the tradeoff of risk in the formal versus informal sector.
    - FATF should further encourage simplified due diligence where it is in the best interests of transparency.

5. Facilitate identification and lower the costs of compliance

    National governments, banks and the World Bank should accelerate the adoption of new and existing technology to facilitate lower cost customer identification, know your customer compliance, and due diligence.

    - National governments should provide citizens with the means to identify themselves in order to make reliably identifying clients possible for financial institutions and other organizations.
    - National governments should ensure that appropriate privacy frameworks and accountability measures support these identification efforts while ensuring the free flow of information related to identifying ML and TF.
    - Banks and other financial institutions should redouble their efforts, with encouragement from the FSB and national regulators, to develop and adopt better messaging standards and implement Know Your Customer documentation repositories.
    - Banks and other financial institutions should accelerate the global adoption of the Legal Entity Identifier scheme.
    - The World Bank should convene all relevant entities to review the possibility of donor-subsidized third party verification for unprofitable clients.

Suggestions for this task force and Congress

On a highly positive note and in just the last few weeks, various official sector entities appear to be moving in ways that are highly consistent with these recommendations. For instance, just this past weekend, the Chairman of the Financial Stability Board (FSB) in a letter to the G20 Finance Ministers and Central Bank Governors explained that the FSB has set up a task force with a number of work streams, including one that is supposed to assist developing countries with capacity building. A little more than a week ago, FATF published a report to begin the process of providing greater clarity for financial remitters. And in just the past few months, IMF staff –

thanks to the leadership of Managing Director Lagarde – have begun to ask about what more can they do to assist countries in gathering data and in improving their supervisory capabilities.

These efforts and hopefully some of the recommendations I noted are all helpful, but it will not reverse what has happened. Many banks that have exited jurisdictions many never return. I commend this Committee's task force for addressing these issues and have a few suggestions for its own work.

The U.S. is the leading player on AML/CFT issues in the world. In multilateral settings, we are represented at the FSB by the Federal Reserve, Treasury, and the SEC; we are a leader in FATF; and we are the leading funder to the IMF and the World Bank. In its oversight role, Congress should:

- Work with Treasury and State to understand the resources being provided to poor countries to assist them with AML/CFT. How well are those efforts coordinated within the U.S.? With other donors? And with the international financial institutions?

- Ask for an update on progress from Treasury and potentially the Federal Reserve on the work being done by the Financial Stability Board and by the Financial Action Task Force;

- Work with the Federal Reserve and the Office of the Controller of the Currency and the private sector to try to understand if there are differences between senior management and at the examiner level. Financial examiners at the micro level can be, understandably, quite risk adverse even if the officials in Washington are acknowledging that there needs to be a risk-based framework not "zero tolerance for risk"; and

- Receive a briefing on the efforts currently taking place at the IMF and the World Bank.

These are key issues that will require attention as the task force works to help developing countries fight terror finance. Technical assistance is critical, but we also need to understand the problem better, we need to clarify terms and the rules, and we need to try to lower the costs of compliance. In these ways, we will truly be working with developing countries to help all of us meet different policy goals that don't have to be in conflict.

Thank you and I'm happy to field any questions.

Written Testimony

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Task Force to Investigate Terrorism Financing
House Financial Services Committee

March 1, 2016

Good Afternoon. My name is William Wechsler and I am a Senior Fellow at the Center for American Progress. My work there, and previously in the executive branch, focuses on how to improve whole-of-government approaches to combatting terrorism. Efforts to combatting the financing of terrorism has proven to be a critical element in that whole of government approach.

I would like to begin by thanking the House Financial Services Committee and its Chairman Jeb Hensarling and Ranking Member Maxine Waters for having the foresight to establish this bipartisan Task Force to Investigate Terrorism Financing, and also by thanking the leadership of this task force – Chairman Michael Fitzpatrick, Vice Chairman Robert Pittenger, and Ranking Member Stephen Lynch – for inviting me to be here today.

The topic that you have chosen to investigate today is especially important, and all too often inappropriately deprioritized in our public discussions on the ways by which we combat terrorist financing. In the nearly fifteen years since 9/11 the U.S. ability to combat terrorist financing has been transformed, and our ability to provide technical assistance to others

seeking to improve their counter terrorist financing regimes has similarly improved. Providing technical assistance to help other countries improve their own ability to harden their own banking systems against misuse by terrorists and to disrupt terrorist finances once found, can be a cost-effective way to degrade terrorist groups abroad and protect the U.S. financial system from abuse. Such technical assistance can be an important element of a wider strategy to build partner counterterrorism capacity, which itself is a critical line of operation in any strategy that emphasizes indirect action.

For decades U.S. presidents from both parties have relied on a combination of both direct and indirect action to combat terrorists. U.S. direct actions – including air campaigns, targeted strikes, capture operations and precision raids – are both necessary but not at all sufficient in order to achieve our counterterrorism objectives against the Islamic State, Al Qaeda and other terrorist organizations. These actions can disrupt and even degrade a terrorist group, but rarely defeat and almost never destroy them. In military terms, direct action is often an important line of operation but is only rarely the decisive line of operation. The decisive line of operation is more often indirect action – working by, with and through local actors to achieve U.S. objectives. And working indirectly through others to go after terrorists' finances can be especially effective.

I have worked on these subjects throughout multiple presidential administrations and from a variety of difference agencies. Back in the Clinton Administration I served on the staff of the National Security Council and I chaired the first-ever working group to go after Osama bin

Ladin's finances. Later I became a senior advisor to the Secretary of the Treasury charged with improving Treasury's ability to combat dirty money. At the beginning of the Obama Administration I was asked to join the Department of Defense as Deputy Assistant Secretary for Counternarcotics and Global Threats, where I led the department's efforts to institutionalize counter threat finance objectives into military plans and doctrine. And later I became Deputy Assistant Secretary for Special Operations and Combatting Terrorism where I worked to integrate threat finance intelligence into our military targeting processes.

About a year ago I left government to return to the private sector and also joined the Center for American Progress. Late last year I contributed to two reports by CAP, which I recommend to the committee, the first on "Confronting the Terror Finance Challenge in Today's Middle East" and the second entitled "After the Paris Attacks: Defeating ISIS and Preserving American Values." We at CAP have been pleased to see that the administration has since adopted many of the recommendations we made.

The Administration's decision last year to expand the scope of U.S. military air strikes to include targeting "Daesh cash" has directly deprived the Islamic State of hundreds of millions of dollars and reportedly helped force the group to cut its fighters' pay by up to fifty percent. Since the Islamic State's finances largely rely on rent extraction, taxation and criminal enterprises from within the territory it controls, such military "sanctions from the sky" will in the short term be the most effective means by which to tactically disrupt the Islamic State's finances.

Over the longer term, however, U.S. and multilateral efforts to build the capacity of our counterterrorism partners to combat terrorist finances will be critically important to achieving our desired strategic effect. Therefore, it is important to understand how to maximize the effectiveness of those efforts.

To that end, here are four of the lessons that I have drawn from my own experience in building partner capacity, both to deal with terrorist financing and to combat terrorism more generally.

First of all, we have to appreciate that virtually nothing can be achieved unless the host country itself is truly committed to reform and sincerely interested in working with the U.S. to reform themselves. We can't want it more than they do – that's a recipe for wasting taxpayer resources at best and for strategic failure at worst. Thankfully, this is generally well understood by the people in the U.S. government who both fund and provide technical assistance, and Treasury's Office of Technical Assistance is known to insist on focusing its work only with governments that are committed to reform. However, sometimes our desire to meet our own counterterrorism objectives and to continue comfortable diplomatic relations can lead us to push technical assistance on a country when it is unwanted and thus likely to have limited impact.

Secondly, specific programs to build partner capacity to combat terrorist financing should be integrated into a wider strategy to build associated capacities. It does little good to draft model anti-money laundering laws and regulations if the host country has little ability to enforce those

laws. And helping to build another country's police forces isn't useful if there is no effective judiciary. And even if there are judges willing to convict terrorists and their financiers then there needs to be prisons to keep them. All of these discrete but interrelated and interdependent elements need to be woven together from many donor nations and multilateral organizations.

Unfortunately, in some cases donor countries have been eager to take part in only the elements that are relatively easy, inexpensive and carry little risk of future political scandal. So there is no shortage of wealthy countries who are willing to part with few lawyers to take a handful of trips abroad to help another country draft its model anti-money laundering regulations, but there are far fewer counties who have proven willing to allocate the necessary money and personnel for years to help build and train a serious correctional system, for instance. And even when multiple countries and multilateral organizations do come together provide assistance on varying subjects, the results are sometimes uncoordinated and thus fail to be mutually reinforcing.

Third, foreign assistance is most effective when it is targeted narrowly but executed broadly. "Targeted narrowly" means building small teams, vetted partners and discrete centers of excellence – rather than trying to build partner capacity in scale. I've found this to be the case whether we are considering building foreign militaries, law enforcement agencies, or financial regulators. "Executed broadly" means that when we do commit to building such targeted partners we should be inclined to offer the full range of potential U.S. support – training,

equipping, advising, assisting and even accompanying our partners as they apply our training in the field. I've found that when we provide all of these differing kinds of support our partners most rapidly improve their own capabilities.

Fourth – and perhaps most importantly – this entire process of building partner capacity holistically works best when it led by an especially capable U.S. ambassador in the field, leading a strong country team in our embassy made up of personnel from all of the agencies that contribute to these programs. The military insists on unity of command for those under arms; strong U.S. ambassadors impose a similar unity of command for all civilian personnel in their country. When we have such an ambassador then programs are adapted for local needs and circumstances, integrated into a wider U.S. strategy, and coordinated with the ambassadors from other donor countries. Officials in Washington can then focus on supporting that strategy with the necessary resources, including hosting international donor conferences that encourage support from other capitols. I recall working with such strong ambassadors throughout the years on comprehensive capacity building efforts in Colombia and in Afghanistan, among other places, and with equally strong ambassadors who focused specifically on terrorist finance issues in such places as Saudi Arabia and the United Arab Emirates.

But unfortunately we do not always have the benefit of such strong ambassadors. When that happens the tasks of developing the assistance strategy and integrating the various elements across the interagency is left to be dealt with inside the beltway – which is rarely a recipe for success. And even more often we do not provide enough personnel to our embassies,

particularly from agencies other than the State Department and especially in the less hospitable locations where our assistance is often the most needed. The reasons vary. Sometimes it is because the terrorist threat in a given embassy is seen to be too high; and in other instances it is because there is not enough physical space available. But sometimes agencies simply don't have the personnel available to send to all the relevant embassies – there are still far too few Treasury attaches around the world, for instance. And sometimes relatively weak ambassadors reject the offer of additional personnel from other agencies even when offered and space is available – typically because they are uncertain of their ability to exercise their own legal and managerial authority over those non-State personnel.

And here there is an important role to play for the U.S. Congress. The Congress has already provided the fundamental legal authorities to allow the executive branch to provide technical assistance and other capacity building to combat terrorist financing. Budgets for such assistance, both at the State Department and at the operational agencies, should be increased and – equally important – the number of personnel in key agencies such as Treasury should be similarly expanded. Congress in its oversight role can ensure that these personnel are stationed forward, in our embassies abroad, so they can work directly and continuously with our partners. And where internal and external coordination is lacking, Congress should insist on improvements from the executive branch.

Finally, there is one additional way in which our coordination of terrorist financing efforts might be improved. Under both Presidents George H.W. Bush and Bill Clinton the U.S. led the way in

combatting money laundering by establishing the Financial Crimes Enforcement Network, then insisting through the Financial Action Task Force that other countries establish similar domestic organizations, and then establishing the Egmont Group of Financial Intelligence Units to coordinate among these organizations. This process whereby a U.S. innovation is gradually spread around the world has significantly improved the global anti-money laundering regime.

It may now be useful to consider the next phase in this effort, one that could have equal benefits for global efforts to combat terrorist financing. Under President George W. Bush the Treasury Department created a new Office of Intelligence and Analysis, led by an Assistant Secretary. Under President Obama this Assistant Secretary also became the National Intelligence Manager for Threat Finance under the Director of National Intelligence. To date, the U.S. is the only nation I know of with an element of its intelligence community housed inside its finance ministry.

From my perspective, this bureaucratic innovation has been extraordinarily helpful to our wider efforts to combat terrorist financing – not the least of which is its support to the warfighter through the Iraq and Afghan Threat Finance Cells. However, it would be even more effective if it had specific counterparts in other finance ministries around the world. I recommend that this House Task Force consider whether the model that was used throughout the 1990s to encourage the proliferation of foreign counterparts to FinCEN might also be applied to encourage other countries -- the G7 nations at the very least – to establish true counterparts to Treasury's Office of Intelligence and Analysis within their own finance ministries.

Thank you again for inviting me to be here today. I look forward to answering any questions that you might have.