

**Testimony of Gerald M. Feierstein
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before the
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Subcommittee on Oversight and Investigations
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“Counter-Terrorism Financing Foreign Training and Assistance: Progress Since 9/11”

Chairwoman Kelly, Congressman Gutierrez, members of the Committee, thank you for the opportunity to speak to you today about progress made since 9/11 on counterterrorism financing foreign training and assistance. In this testimony, I will first discuss the evolution of CT finance efforts since September 11, 2001, followed by a detailed description of the Terrorist Finance Working Group and its successes, and a discussion of interagency efforts to respond to new threats. Finally, I will conclude with a description of efforts underway since the Government Accountability Office’s (GAO) October 2005 report to improve the effectiveness and efficiency of interagency CT finance activities.

Evolution of CT Finance Efforts Since 9/11

The tragedy of September 11, 2001 changed the way we approach terrorist financing. Over the past four and a half years, we have made solid progress in making it more difficult for terrorists to finance their activities, forcing them into more risky and more costly means of moving money, including the use of cash couriers to transport funds across borders. The U.S. Government has worked to create and implement programs that develop or enhance the capacity of key partner nations to detect, disrupt, and dismantle global terrorist financing networks. These programs deny financial safe-havens to terrorist organizations and their supporters by developing or reinforcing the capacity of key partner nations to monitor and police financial transactions within their borders and share information internationally. Our objective is to build sustainable, dynamic anti-money laundering and counterterrorist financing regimes that adhere to international standards and implement effective programs in the legal, financial-regulatory, financial intelligence, law enforcement, prosecutorial, judicial and international cooperation fields. Equally important, improving the capability of our partner nations to combat terrorist financing significantly enhances our own ability to detect and isolate terrorist financiers and to “follow the money” right to where it links global terrorists to their support networks. This is why your hearing today is especially important.

The creation of the Terrorist Finance Working Group in October 2001 was a direct result of 9/11. This interagency working group was established to leverage existing anti-money laundering expertise across the U.S. Government and develop specific CT finance capacity-building programs. Members of the interagency working group coordinate, develop, and provide CT training and technical assistance to foreign partners that we have identified as the most vulnerable to terrorist financing. Co-chaired by the State Department’s Office of the Coordinator for Counterterrorism and the Bureau for International Narcotics and Law Enforcement Affairs,

this interagency process has also included the Departments of Treasury, Justice, and Homeland Security, independent financial regulatory agencies, and the law enforcement and intelligence communities. While the current interagency structures are the subject of ongoing reform discussions, they have been useful and effective for the purposes of receiving intelligence briefings, scheduling assessment trips, reviewing country reports, and discussing the development and implementation of technical assistance and training programs. Since January of 2006, I have been active in the process and am pleased to report that all members of the working group have shown that they are committed to providing well-coordinated, high-quality CT financing assistance to our international partners, strengthening our partnership and furthering our common effort to disrupt the financing of terrorist organizations.

The interagency process is part of our national, integrated counterterrorist finance efforts. These efforts include interagency structures that are tasked to identify, track, and pursue terrorist financing targets, and other interagency bodies which work with the international community to take measures to thwart the ability of terrorist to raise and channel the funds they need to survive and carry out their heinous acts. The process maximizes U.S. Government training, resources and expertise, and deploys them against the most critical terrorist financing threats and in the countries and regions where we can make the biggest impact. The State Department's role in the interagency process has been to steer the process to ensure that we develop and sustain the international relationships, and set priorities among strategies and activities to win vital international support for and cooperation with our efforts. These efforts include the provision of training and technical assistance in close coordination with the Departments of Justice, Treasury, Homeland Security and the financial regulatory agencies.

Within the interagency process, the State Department has two primary roles: (1) to build the political will and the capacity of foreign partners to combat the financing of terrorism, and (2) to ensure that all agencies set the most effective priorities for use of our limited resources. Stemming from the State Department's overall responsibility for managing foreign assistance programs, we lead the interagency effort to coordinate, facilitate, prioritize, and deconflict the delivery of technical assistance and training by a variety of executive branch agencies to the governments of priority countries around the world. We seek to improve their ability to investigate, identify, and interdict the flow of money to terrorist groups. My colleagues from the Departments of Justice and Treasury will speak to their respective roles.

As in any interagency process, there are inevitable challenges and occasional disagreements. To minimize possible friction resulting from poor communications, we have gathered bi-weekly to share joint briefings and analysis to ensure that each agency has the same information and the background for each country and project. The working group mechanism makes it possible for members to receive detailed reviews of programs in individual countries, ensuring that each member agency is aware of what the others are doing. Each agency brings a different set of skills – and occasionally different priorities – to the table, but we share the common objective to deprive terrorists of their money. In my personal experience, the occasional friction is part of a healthy interagency process, normally followed by a robust interagency discussion process that resolves most disagreements. However, the process is part of a larger structure that provides, in the event of genuine disagreements, a path for resolution. As it stands now, the Terrorist Finance Working Group reports to the National Security Council's

Counterterrorism Security Group's Training and Assistance Subgroup, which in turn reports to the National Security Council's Counterterrorism Security Group. I will discuss this organizational relationship later in my testimony.

CT Finance Activities

To maximize resources and focus on the greatest terrorist financing threats, the interagency team developed a priority list of countries for the provision of assistance. Based on intelligence and law enforcement information, the original priority list identified those states most vulnerable to terrorist financing by al Qaida, Hamas, and Hizballah. The interagency team periodically reviews and updates this list in response to emerging threats. Approximately two dozen countries are on this list.

Once a country is identified as a priority, the working group employs the following systematic five-step process to build specialized, comprehensive anti-money laundering and counterterrorist finance regimes through training and technical assistance:

- (1) **Determine specific assistance needs to combat money laundering and terrorist financing** with Financial Systems Assessment Team onsite visits or Washington tabletop exercises. The State-led teams include 6-8 technical experts from the Departments of Justice, State and Treasury, financial regulators, and law enforcement agencies. The onsite visits take about one week and include in-depth meetings with host government financial regulatory and legal officials, law enforcement agencies, the private financial services sector, and non-governmental organizations, as well as with U.S. officials at post. Tabletop reviews of international financial institution assessments are also accepted
- (2) Prepare formal assessment reports on terrorist finance vulnerabilities and **make recommendations for CT finance training and technical assistance** to address these weaknesses. The formal report is shared with the host government to gauge its receptivity to U.S. offers of assistance.
- (3) **Develop CT finance training implementation plans** based on the recommendations in that report that may include legal drafting assistance to ensure that a country's legislation meets international standards; financial regulatory training to detect and report suspicious transactions; financial intelligence unit development; financial investigative training for law enforcement agents; and, judicial and prosecutorial training to more effectively address financial crime cases and enhance international cooperation.
- (4) **Provide sequenced training and technical assistance** to these countries either in-country, through regional programs, or in the United States.
- (5) Encourage other donors and providers of technical assistance to deliver complementary training. This **burden-sharing** is done with our allies via the European Union and/or directly with member governments; with international financial institutions such as the International Monetary Fund, World Bank, Asian Development Bank and other regional development banks; and, through international organizations such as the

United Nations, Financial Action Task Force, and the G-8 to capitalize on and maximize international efforts to strengthen CT finance regimes around the world.

Tenets of CT Finance Assistance

Through the working group process, U.S. agencies working in countering terrorist financing have determined that vulnerable countries must address certain core issues if they are to respond adequately to the threat. The process is designed to ensure that as we review each country's program, all of the issues are addressed either directly through U.S. foreign assistance or by other donors.

Legal Framework. To comply with the international standards established by the Financial Action Task Force and United Nations, each state is required to criminalize terrorist financing and money laundering. Legislation should establish effective measures to block and seize assets of terrorist financiers and their supporters. Each country should provide its law enforcement agents, prosecutors and judges with ample legal authority and tools to pursue and successfully prosecute terrorist financing cases. Every nation should ratify the UN instruments related to terrorism at the earliest opportunity. Robust counterterrorist financing and anti-money laundering legislation provides a country with the requisite legal foundation to combat these crimes. The U.S. Department of Justice is the lead agency providing technical assistance with draft legislation that criminalizes terrorism, terrorist financing and money laundering to countries that request such assistance. In certain cases, the Department of Justice has placed Department of Justice Resident Legal Advisors to provide long-term assistance in-country to those drafting or amending counterterrorism legislation, and to advise on the effective enforcement of a new or revised CT finance and anti-money laundering regime.

Financial Regulatory Supervision. Each country should determine which regulatory agency or agencies that will be responsible for ensuring that the financial sector comply with measures to combat terrorist financing. Governments should develop strict regulatory and compliance measures regarding terrorist financing and money laundering and create a formal system for financial institutions to report suspicious activities to the regulatory agencies. Each country should establish penalties to ensure the effectiveness of the compliance regime. Banking, securities and other financial regulators need to educate the public and private sectors as to possible abuse by terrorists. The U.S. may provide assistance to strengthen the financial regulatory regimes of countries that request such assistance through our regulators including the Federal Reserve, FDIC, and Treasury's Office of the Comptroller of the Currency and its Office of Technical Assistance. Training includes courses for bank examiners on reporting suspicious activity and detecting indicators of terrorist financing and money laundering schemes, such as structuring.

Financial Intelligence Unit. Each country should establish a Financial Intelligence Unit, or FIU, to collect, analyze, and disseminate financial intelligence once it has the requisite legislation that criminalizes money laundering and terrorist financing. The FIU should develop an efficient system for the relevant financial sectors to report suspicious activities related to terrorist financing and money laundering. The FIU should be responsible for analyzing these suspicious activities reports and either investigating or referring the cases to law enforcement

agencies for investigation. The FIU should establish appropriate channels to share financial intelligence with its foreign counterparts to assist with financial crime investigations. The U.S., through the Department of Treasury's Office of Technical Assistance and FinCEN, provides training and technical assistance to foreign FIUs. Such assistance includes the provision of equipment, information technology assessments, and specialized analytical software and analyst training for fledgling FIUs.

Law Enforcement Investigations. Law enforcement agencies must be granted adequate legal authority to pursue financial crimes including terrorist financing cases. Such powers should include the legal basis necessary to access financial records to investigate financial crimes. Governments should establish specialized units and interagency task forces to pursue terrorist financing cases. Law enforcement agencies should coordinate investigations of terrorist financing cases with the prosecutor's office. The U.S. provides assistance programs in the form of financial investigative training to foreign law enforcement agents who request such assistance. The FBI, State Department, Department of Treasury and Department of Homeland Security's Immigration and Customs Enforcement and Bureau of Customs and Border Protection conduct training courses for their foreign counterparts to develop the skill set necessary to investigate financial crimes including terrorist financing.

Prosecutorial and Judicial Processes. The complex technical nature of terrorist financing cases requires specialized training for prosecutors and judges to enhance their ability to effectively handle these priority crimes. In addition, prosecutors and investigators must work together and, in certain circumstances, be assembled in specialized units to facilitate their work on terrorist financing cases. The Department of Justice has the expertise to furnish technical assistance in creating joint task forces and specialized units, in addition to providing technical assistance to prosecutors and judges in the field.

Success Stories

The working group has experienced real success. Since 9/11, the coordinated efforts of State, Treasury, DOJ, and out other partners in the interagency counterterrorist financing community have provided CT finance and anti-money laundering assistance for over 1850 foreign counterparts in over 18 priority countries. Numerous countries have either adopted new legislation to fight terrorist financing or are in the process of doing so and they have reinforced their bank regulatory regimes to better supervise their private banks. The assistance we have provided has led to the arrest and conviction of terrorists in South East Asia and the Middle East, as well as the conviction and subsequent designation of a terrorist fundraiser in the Middle East by "following the money trail". More specifically, the Financial Investigative Training, conducted jointly by the FBI Terrorist Finance Operations Section and the IRS Criminal Investigations Unit, continues to be extremely successful. In the Middle East, for example, this training has enabled a partner nation's law enforcement officials to identify and take action against several al Qaida cell members.

Perhaps the most remarkable example of the impact of our comprehensive counterterrorism finance and anti-money laundering assistance is the case of Indonesia in the wake of the Bali bombings. Following the October 2002 attack in Bali, the Government of

Indonesia requested significant counterterrorism assistance from the U.S. and Australia to manage the post-bomb blast investigation of the attacks and to enhance their CT capabilities. CT finance training and technical assistance was part of this request. To address the financial aspects of the investigation, in September 2003 a Financial Systems Assessment Team was deployed to Indonesia to evaluate the country's needs. The U.S., working through the interagency process, crafted a comprehensive foreign assistance program to address those needs.

As a result of counterterrorism finance and anti-money laundering assistance provided by the U.S., we have seen a number of successes in Indonesia. Anti-money laundering legislation there has been amended to meet international requirements, which subsequently led to the delisting of Indonesia from the Financial Action Task Force's list of Non-Cooperating Countries and Territories in the fight against money laundering. The Indonesian Central Bank has put in place rules and procedures to enhance anti-money laundering compliance for private sector banks. Indonesia's Financial Intelligence Unit has become fully operational, and is receiving and analyzing suspicious transaction reports; over 20 cases have been successfully prosecuted. The Indonesian National Police has established a specialized counterterrorism unit that includes financial investigators who have received CT finance and anti-money laundering training. Finally, the Indonesian Government is working with a U.S. Department of Justice, Office of Overseas Prosecutorial Development Assistance and Training (OPDAT) Resident Legal Advisor in Jakarta to implement its anti-money laundering legislation and to prepare cases to prosecute financial crimes. We have worked closely with foreign partners such as Australia and Japan to coordinate our assistance to Indonesia to reinforce its ability to combat financial crimes. We consider the case of Indonesia a model one in which the U.S. interagency process provided comprehensive capacity building programs in conjunction with our allies in the region to improve the country's ability to detect, disrupt, and deter terrorist financing and money laundering.

The U.S. Government, in partnership with several Middle Eastern governments, has provided specialized training in the financial regulatory, Financial Intelligence Unit, and law enforcement areas. As a result of this specialized training a number of governments have changed their legal regimes to enhance implementation of Financial Assistance Task Force Recommendations. Specialized financial investigative training to partner nations has resulted in the identification of al Qaida members operating in these Gulf countries and law enforcement actions being taken against those identified al Qaida members.

Response to New Threats of Terrorist Financing

Even with these successes in hand, we must continue to work to respond rapidly to newly-identified terrorist financing mechanisms and international requirements. To that end, we are developing new courses to address these challenges. Since the formal financial sector has adopted stricter measures to monitor bank transactions post-9/11, terrorists and criminals are increasingly using non-bank conduits such as charities, alternative remittance systems (hawalas), and cash couriers to raise and move funds. The international community has recognized these growing threats and the Financial Action Task Force's Special Recommendations are aimed specifically at these non-bank conduits.

As part of the U.S. Government's efforts to address the difficult challenges of terrorist use of Non-Governmental Organizations and cash couriers, this interagency working group has developed unique courses designed to assist countries in implementing new global standards to effectively confront these threats. Specifically, the working group has developed a charities seminar to educate government officials on the vulnerabilities of the charitable sector to terrorist financing and other financial crimes, and to share best practices and procedures designed to encourage charitable giving, while minimizing the risk of diversion of donation for terrorists and terrorist organizations. The first training seminar of this kind -- "Safeguarding Charities from Abuse" -- was conducted in Southeast Asia just weeks before the devastating December 2004 tsunami, and the best practices shared at the seminar were implemented to ensure the integrity of international donations channeled through NGO's for the relief effort.

The working group also has developed a course on combating illicit cash couriers. This comprehensive course is designed to enhance the ability of host nation customers and law enforcement officials to target cash couriers, seize funds, investigate the source and destination, and share this information both domestically and internationally. As a result of this cash courier training, some countries are already beginning to change their laws and procedures for dealing with illicit cash couriers. This course has been conducted in the Middle East and Southeast Asia and has received extremely positive feedback from our foreign counterparts.

Progress Since the GAO Report

The interagency will continue to work toward enhancing the effectiveness and efficiencies of the process. We have taken measures following the GAO's report to strengthen interagency coordination and enhance the development and delivery of CT finance foreign assistance programs. These measures have proven effective.

The elevation of the working group's leadership is one such example. The working group previously met as an ad-hoc interagency body, chaired by the State Department at the Office Director level. In January, the chairmanship was elevated to the Deputy Assistant Secretary-level. Another change was the resuscitation of the National Security Council's Counterterrorism Security Group's Training and Assistance Subgroup (TASG), led by the Coordinator for Counterterrorism at the Assistant Secretary-level. It coordinates all USG counterterrorism assistance, including CT finance. The Terrorist Finance Working Group now reports to this body. Should any issues arise that cannot be worked out by the members of the working group -- something that has not occurred since I assumed duties as co-chair in January -- it is referred to the TASG for resolution. If the TASG cannot resolve the issue, it is referred to the National Security Council's Counterterrorism Security Group, or CSG, which focuses on broad U.S. counterterrorism policy issues and is chaired at the Deputy-level. Interagency members of the working group agree on this mechanism for dispute resolution.

In response to the GAO report, we have dedicated resources at the Department of Justice, Office of Overseas Prosecutorial Development Assistance and Training to measure the effectiveness of our counterterrorism finance and anti-money laundering programs. This system of measures includes performance measures that examine the basic tenets of an effective counterterrorism finance and anti-money laundering regime for each country that has received

U.S. foreign assistance in this area. This system includes reporting on how U.S. foreign assistance has been allocated, to which countries, for which courses, and for how many foreign counterparts. In addition, we analyze what type of practical impact our training programs have had on the ground. For example, regarding legal development and reform, we evaluate whether counterterrorism finance and anti-money laundering legislation has been drafted in compliance with international standards and adopted in a specific country. For the banking sector, we review whether the financial regulators have adopted new measures to improve “know your customer” compliance procedures. On the law enforcement front, we track how many money laundering and terrorist financing investigations are underway and have led to successful prosecutions. We determine whether a country recognizes the threat of terrorist financing through charities and cash couriers and what measures have been put in place to respond to those threats. With this system, we hope to determine how and where our capacity building programs have had the most impact and how we can improve and apply them in other countries.

Chairwoman Kelly, Congressman Gutierrez, members of the Committee, over the past few months I have experienced and participated in an interagency process that works well. It continues to operate in accordance with guidance received from Deputies. Specifically, Deputies of affected U.S. agencies and departments agreed on the working group’s integrated strategy, including the roles and responsibilities of members of the working group.

Members of the working group agree on each others’ respective roles. For example, we agree the State Department chairs the working group and coordinates training and technical assistance abroad for priority countries. Given its expertise in the area, we support the Justice Department’s lead role in prosecutorial and judicial assistance matters, including drafting anti-money laundering and CT finance legislation. We support the Treasury Department’s lead role in providing financial regulatory assistance and Financial Intelligence Unit development and implementation of targeted financial sanctions. We support the Department of Homeland Security’s lead role in providing training to combat illicit cash couriers.

Given our resources, we also agree on the use of contractors for training and technical assistance to priority countries when and where appropriate and as approved by the working group. There is no blanket prohibition against the use of contractors. As per Deputies, should the Department of Justice and the working group agree to use contractors to draft legislation, all parties should be kept fully informed of developments at all times. In this regard, we all now agree that contractors should not enter into confidentiality agreements with foreign governments as it complicates the U.S. Government’s ability to assess a situation and provide appropriate training. This issue has been resolved.

Each U.S. Government agency or department brings something unique to the table. Interagency participation in assessments is critical in producing comprehensive, accurate and effective training plans. The State Department works to ensure these assessment teams include the appropriate expertise. Sometimes security and ongoing diplomatic efforts/initiatives complicate our efforts, but we work through these issues with our interagency colleagues.

Conclusion

We have made substantial progress since September 11, 2001. We have developed a broad and strong international coalition against terrorist financing. We have supported changing national laws, regulations and regulatory institutions and training intelligence and law enforcement around the world to better combat terrorist finance and money laundering. We are opening, cultivating and strengthening dialogues and relationships with foreign counterparts in vulnerable regions as a means of strengthening their counterterrorism finance regimes. As a result, we have made it harder for terrorists and their supporters to use both formal and informal financial systems. Testament to our efforts is the A-minus grade we received for our overall CT finance efforts from the 9/11 Commission. While this is a good score, we continue to strive for improvements that would result in an A-plus grade.

Despite its importance in the overall counterterrorism effort, and all the discussions about it, relatively few dollars are devoted to training and technical assistance for anti-money laundering and CT finance. Congress could strengthen this tool by fully supporting the Administration's funding request for this crucial task.

Chairwoman Kelly, Congressman Gutierrez, members of the Committee, our work is far from done. As we continue to fight on this and other fronts in the War on Terror, we face a resilient, adaptable and ruthless foe and must constantly anticipate and help countries all over the world prepare for the next move before it happens. Terrorists and terrorist tactics are evolving and persisting – and so must our efforts. Fortunately, the State Department does not and should not take on this fight alone, nor should any other U.S. Government agency or department. Key to our continued success in tackling terrorism finance is strong, effective U.S. interagency coordination. Therefore, we must continue to pool our expertise and resources in order to continue to realize real success in the future. Thank you.