

**Testimony of Treasury Deputy Assistant Secretary for Technical Assistance and
Afghanistan, Larry McDonald
United States House of Representatives Committee on Financial Services
Task Force to Investigate Terrorism Financing
“Stopping Terror Finance: A Coordinated Government Effort”
May 24, 2016**

Chairman Fitzpatrick, Ranking Member Lynch, and Members of the Committee, thank you for the invitation to testify today. I appreciate the opportunity to discuss the role of Treasury’s technical assistance program in the overall U.S. Government effort to combat terrorist financing and financial crimes. Following a brief description of Treasury’s Office of Technical Assistance (OTA), I will highlight the important work of OTA’s Economic Crimes Team.

Overview of OTA

The mission of the Department of the Treasury’s Office of Technical Assistance (OTA) is to help developing and transitional countries strengthen their ability to manage public finances effectively and safeguard their financial sectors. OTA is comprised of five teams – Economic Crimes; Banking and Financial Services; Revenue; Budget; and Debt Management. OTA’s work supports the Treasury Department’s strategic goals to promote international financial stability and more balanced global growth, to safeguard the U.S. financial system, and to use financial measures to counter national security threats.

OTA is a relatively small program. Currently, OTA implements approximately 100 projects in 50 countries. Most projects are located in Latin America, Africa and Asia. OTA has a relatively smaller footprint in the Middle East and Central and Eastern Europe. Total OTA funding is approximately \$50 million, of which \$23.5 million is from direct appropriation and roughly \$25 million is from transfers from other U.S. government agencies. OTA is often referred to as a small, cost-effective program that punches well above its weight. As Secretary Lew put it during this Committee’s March hearing on the international financial system, Treasury gets “more bang for the buck out of OTA than anything else.”

OTA’s proven effectiveness is a result of a disciplined approach to technical assistance – one that emphasizes: (i) providing assistance in areas where Treasury has real expertise and an institutional kinship with foreign counterparts; (ii) a commitment to building capacity in partner countries, with the goal of achieving self-reliance; (iii) working side-by-side with recipient country counterparts to provide sustained, on-the-job mentoring and training; and (iv) selectivity, by identifying governments that need help and are committed to using our assistance productively.

Financial sector weaknesses are typically systemic in nature. Accordingly, OTA encourages partner governments to take a systemic approach in strengthening public financial management and safeguarding the financial sector. To the extent possible, OTA country engagements are comprised of several inter-related projects. Paraguay is an example of particularly robust OTA engagement, with mutually reinforcing projects in the areas of economic crimes, financial sector supervision, tax administration, budget execution, debt management, and infrastructure finance.

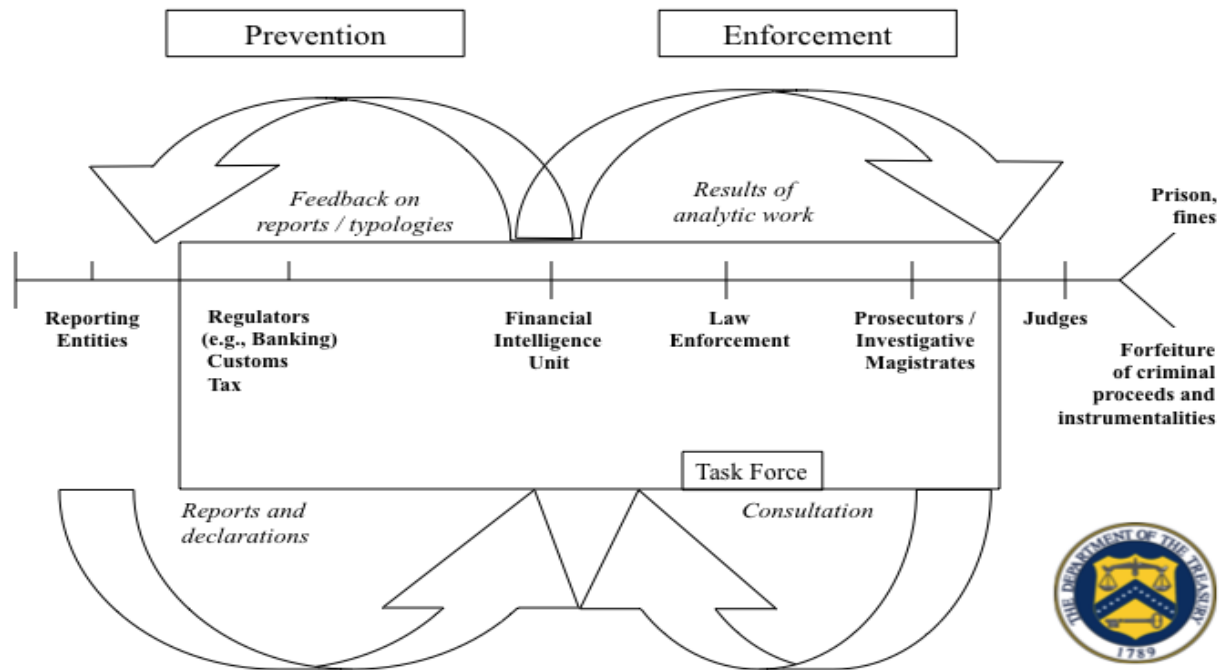
Economic Crimes Team and AML/CFT Technical Assistance

OTA's Economic Crimes Team (ECT) plays a vital role in the Treasury Department's and the U.S. Government's effort to combat terrorist financing and financial crimes. ECT promotes compliance with international standards and best practices – in particular the Financial Action Task Force (FATF) Recommendations -- aimed at the development of effective Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regimes. ECT partners with foreign counterpart regulatory, analytical, law enforcement and judicial authorities tasked in their country with: ensuring a safe, sound and transparent financial system; targeting transnational criminal organizations and networks, including their illicit proceeds; and upholding the rule of law.

At present, the ECT footprint includes 15 programs operating in Asia (Afghanistan, Burma), Sub-Saharan Africa (Cabo Verde, Liberia), Latin America and the Caribbean (Cost Rica, Dominica, El Salvador, Grenada, Guatemala, Jamaica, Panama, Paraguay and Peru) and the Middle East (Iraq and Saudi Arabia). ECT programs for 2016 are funded both from Treasury's direct appropriation (\$2.8+ million), State Department and USAID funding (\$4.5+ million), as well as limited self-funding by counterparts.

As depicted below, AML/CFT regime development entails strengthening and integrating the work of the entire spectrum of AML/CFT stakeholders. They include reporting entities, regulators, financial intelligence units, law enforcement agencies, investigators, prosecutors and judges. The goal is a system in which both prevention and enforcement measures are robust and mutually reinforcing. ECT assistance tends to be anchored in the counterpart's financial intelligence unit, though ECT works proactively with both downstream and upstream stakeholders.

AML / CFT REGIME DEVELOPMENT



While AML/CFT regime improvement is a never-ending process, OTA can point to many engagements where assistance has made a difference. Here are three examples:

Ghana. With OTA support, the Bank of Ghana sanctioned five banks in 2015 for non-compliance with legal and regulatory obligations, including involvement in international transactions. OTA helped the Bank of Ghana strengthen its bank examination manuals and practices, adopting a risk-based approach, to incorporate international standards for non-compliance with AML/CFT obligations.

Guatemala. In October 2014, OTA’s multi-year collaboration with Guatemala’s financial intelligence unit (FIU) contributed to a ruling that a criminal organization operating through a shell import/export company had laundered more than \$48 million. The ringleader and seven currency exchange operators were sentenced to six to 10 years in prison. OTA helped to strengthen the FIU’s financial intelligence, analytic, and investigative capabilities, and worked closely with prosecutors in the Public Ministry to better understand and present in the court this complex case.

ECT work in Guatemala and elsewhere in Central America is part of a State/Treasury collaboration – the Central America Regional Security Initiative (CARSI) – involving joint planning and co-funding.

Cambodia. Reflecting broad based improvements in its AML/CFT regime, in 2015 Cambodia was removed from the Financial Action Task Force monitoring process and, separately, was invited to join the Egmont Group of Financial Intelligence Units. OTA played a major role by providing assistance over several years to develop the operational capabilities of Cambodia's FIU. In addition, the FIU and the Supervision Department at the National Bank of Cambodia signed an information sharing and cooperation memorandum of understanding to strengthen the allocation of supervisory responsibilities and coordination of examinations. OTA provided assistance in the drafting of the Memorandum of Understanding and worked with both parties to resolve ambiguities in Cambodia's Anti-Money Laundering Law.

Effectiveness and Lessons Learned

Effective AML/CFT technical assistance – indeed, all effective technical assistance -- depends on many factors, some of which are the responsibility of assistance providers and some the responsibility of recipients. In the first instance, providers must show restraint, allowing potential country partners to step forward of their own volition with clear expressions of interest. Once interest has been manifested, technical assistance providers must be good listeners and patient analysts in order to understand not only the underlying problems, but also the capacity of the requestor to absorb assistance. This is the essence of “demand driven” assistance.

Technical assistance providers must also demonstrate a commitment to coordination that goes beyond information-exchange. Coordination may entail doing a project differently, taking into account what other assistance providers are doing, or not doing the project at all. There are cases when ECT has declined a request to provide assistance when an assessment visit determined that another provider was already involved and our work would be duplicative. Effective coordination is also facilitated when assistance providers focus their work on areas where they have special expertise. The ECT has special expertise in building the human capacity of financial intelligence units and, working through the financial intelligence unit, to enhance the effectiveness of other AML/CFT regime stakeholders.

Recipients of technical assistance must be genuinely committed to implementing change, and willing to engage in a collaborative learning process and then to apply the lessons learned in day-to-day job functions. An additional critical component is a commitment at the policy and political levels to push for transparency and accountability in public finance when, inevitably, entrenched interests resist. Finally, governments that receive technical assistance must show a commitment to creating and retaining a corps of career professionals. It is disheartening when, with a change of government in our partner countries, OTA's technical level counterparts are replaced and capacity building efforts need to begin anew.

Within the U.S. government, Treasury works closely with the Departments of State, Justice, Homeland Security, and Defense, as well as USAID, on technical assistance related to AML/CFT regime development. Coordination takes place both in Washington, D.C., by staff at each agency's headquarters, and in the field, both during the project development phase and subsequently during implementation. In the field, the respective U.S. Embassies are the locus for coordination work. OTA, as a U.S. government assistance provider, comes under Chief of

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Mission authority and, as such, coordinates with U.S. government departments and agencies, such as the State Department, to support U.S. initiatives in host countries.

OTA also coordinates with multilateral and bilateral assistance providers. Regarding AML/CFT assistance, the ECT coordinates with the IMF, the World Bank, the United Nations Office on Drugs and Crime (UNODC), as well as bilateral providers such as the United Kingdom. Coordination of multilateral or bilateral assistance usually also occurs in the field during the project development phase and during implementation. OTA encourages the governments of recipient countries to play a proactive role in coordinating the assistance they receive.

Conclusion

Combating terrorist financing, money laundering and other financial crimes is a top priority for the Treasury Department and the U.S. Government. OTA's ECT is a, small but important, part of the broader U.S. Government and international effort to build the capacity of developing and transitional countries in monitoring and combating illicit financing through safe, sound, and transparent financial systems.

Thank you again for the opportunity to testify today regarding OTA's important work on AML/CFT and coordination efforts. I appreciate your support and interest, and welcome your questions.