

## **“Terrorism Finance: Options for Moving Toward a Whole-of-Government Solution”**

Prepared testimony of Scott Modell,  
Managing Director, The Rapidan Group  
Before the House of Representatives Committee on Financial Services

September 9, 2015

Chairman Hensarling, Ranking Member Waters, Members of the Committee, good morning and thank you for this opportunity to testify on “Could America Do More: An Examination of U.S. Efforts to Stop the Financing of Terror.” Terrorism finance has become one of our most pressing national security challenges, yet the plans, programs, and practitioners are falling far short of where they need to be. My contention is simple: Almost everyone in the US government “knows just enough to be dangerous” about finance, but the time for going well beyond that is long overdue.

For the past decade or so, the US government has attempted to develop a professional cadre of law enforcement agents, civilian and military intelligence officers, analysts, and others to pursue a new field of operations that came to be known as “Counter Threat Finance” (CTF) operations. Their purpose was to effectively counter the financial and logistical depth and sustainment capacity of adversaries engaged in irregular or traditional warfare. Hitting the finances, financiers, and illicit networks, it was thought, would become an important means of warfare. Progress has been limited.

Looking ahead, it would serve us well to take an agency-by-agency account of what we collectively know about terrorism finance, an audit of each agency’s CTF track record and current trajectory, and ways to add or pare down their respective roles and missions as part of a whole-of-government approach. This should not seek to bring all agencies together all the time. Threat Mitigation Working Groups, Interagency Task Forces, and the like are usually stood up with the best of intentions and may last for a while, but often end with poor results.

### **Where to Start: Roadmaps and End States**

An overarching financial order of battle should be developed and used as the basis for working with our closest liaison partners to develop operational plans by country, region, industry, etc. It should serve as the basis for conclusions on desired end states and pathways for getting there. In doing so, it is critical to know how resources will be arrayed, what successful whole-of-government CTF campaigns might look like (including the role of our foreign partners), envisioned impacts, and the CTF apparatus that should remain in place.

Leveraging the strategic clarity that will come with a clear vision how to disrupt terrorist finance cells and infrastructure should consist of several steps, including the following:

- Identifying and prioritizing target sets;
- Taking account of existing sources, ongoing operations, and a series of plans to acquire new sources and capabilities to build new operational initiatives;
- Building cases with law enforcement agencies;
- Building new intelligence collection priorities that raise the importance level of CTF-related collection, recruitments, and support to CTF operations;
- Utilizing all available inter-agency data sets to identify assets, shell/fronts, property, liquid assets, and so on; and

- Coordinating with Country Offices/Embassies to build out an expanded base of foreign liaison CTF operations.

## **Strategic and Tactical Recommendations**

Key military, law enforcement, and intelligence bureaucracies must be properly oriented, educated, trained, and integrated into a government-wide effort that consists of coordinated CTF actions against critical financial infrastructure and personnel around the world. Some of the fundamental recommendations for beginning this process include the following:

1. Build a CTF order of battle that maps key networks on a global scale, along with a plan on how to attack high value targets transnationally. This should draw assiduously on partner country liaison services, which are indispensable for sustaining a meaningful campaign of investigations, indictments, and arrests. The emphasis here is on greater international cooperation as part of a coalition of like-minded states that are part of an open-ended strategic intelligence and law enforcement campaign – not just a series of strikes.
2. To truly prepare individual government agencies to work more seriously and collaboratively on CTF operations, bureaucratic cultures have to change. The intelligence community can undoubtedly do more to enable law enforcement to identify, target, and take down illicit businesses and revenue streams. Intelligence assets should be used in support of strategically planned law enforcement operations to expose illicit networks, arrest their perpetrators, freeze assets and attack crime-terror pipelines through the international trade and banking system. Once bureaucratic cultures are reformed and left with greater openness on interagency collaboration on CTF operations, we will be better equipped to work transnationally against an elusive and irregular target set.
3. Intelligence collection, law enforcement actions, and even a flexible range of covert action must take place inside some of the worst financial safe havens and terrorism enablers, such as Qatar, Kuwait and Lebanon. Too many US missions around the world maintain an ultra-cautious posture when it comes to operational activities against host country financial targets. A good example is Hezbollah: CTF operations cannot be taken seriously if we continue to avoid operations against Hezbollah's illicit financial apparatus inside Lebanon because we don't want to destabilize the Lebanese banking system.
4. A new Covert Action (CA) finding is necessary to broaden the authorities extended to US agencies operating globally against CTF targets. A new CA finding should come with White House backing for a more aggressive operational posture, with (and sometimes without) properly motivated third-country liaison services.
5. Build the operational capacity of our Treasury attaches. Before adding more Treasury attaches to work alongside willing and able foreign liaison services, Treasury should conduct a comprehensive study on OFAC designations. Such a study would assess the current state of designated banks, investment companies, exchange houses, and other financial nodes of terrorist networks, the impact of USG pressure over time, how designated entities and individuals have countered, and the degree to which they have been disrupted, dismantled, or destroyed. Treasury should rely less on the power of designations and more on up close and personal investigations of banks, exchange houses, hawaladars who will continue to operate with or without designations. See #6 below.

6. Treasury is not set up for financial and economic warfare or integration with other interagency partners who possess the needed level of financial operational authorities and capabilities. To be more effective, Treasury needs its own operational element to play a greater role in financial operations across the government, especially by law enforcement agencies.
7. Information Operations (IO) is a capability that has not been used very effectively or in a sustained manner in the CTF realm. To magnify the impact of CTF law enforcement operations, IO programs should use the media and other tools to educate publics that are unaware of how terrorists move money and corrupt financial systems and to warn them of the consequences of abetting them. IO can also be used to embarrass governments, companies, or even individual violators.
8. Rewards for Justice is the biggest incentive to sources, facilitators, and testers who assist US law enforcement investigations and operations. Rewards for Justice pay-outs should be used more creatively as a tool to motivate foreign liaison partners to conduct higher impact CTF operations. A coalition of well-intentioned states coalesced around a common aversion to terrorism is a good start, but insufficient to adapt quickly enough to adversaries who are innovative, resilient, and increasingly transnational.

Some of the driving principles that could make a difference over time include the following:

### **Boost Law Enforcement**

Put law enforcement in a position to succeed. Law enforcement action elements of the U.S. government must have the financial, intelligence and targeting support they need to build strategic legal cases against facilitators of crime and terrorism – from individuals such as professional arms brokers to corporate entities such as banks engaged in money laundering or facilitating terrorism financing – and treat them as criminal actors in their own right. If we cannot properly resource our own law enforcement agencies, the already tough task of managing foreign liaison relationships becomes much more challenging.

Counterterrorism efforts may be able to stop attacks, but law enforcement can attack entire networks, which is why more intel-related activity should support law enforcement operations. A good example is Hezbollah, which should be treated as a transnational criminal organization. In addition to being the world's most formidable terrorist and paramilitary organization, Hezbollah is also engaged in a global crime spree, including cocaine trafficking, money laundering and racketeering. Indicting Hezbollah as a criminal organization holds great promise, including the possibility of using RICO statutes to prosecute Hezbollah, but we are only beginning to find ways of how to do that.

### **Define Strategic Principles, Make Changes Permanent**

First, CTF operations cannot be an ad hoc add-on to more permanent operations. Their importance should be elevated in the panoply of US government actions against narco-terror organizations. Only then can we effectively integrate our international partners into CTF operations. Second, we are unprepared to take full advantage of the information collected and stored by Foreign Intelligence Units (FIUs). We should explore new ways of using FIUs in sustained lines of attack against cultural, business, and social bases of operations and lines of communication that make up “the business of irregular warfare.” Businesses seek to be self-supporting, self-financing, and cloaked in licit covers. Stopping illicit money flows will be easier once we incorporate several strategic principles, such as the following:

- Synchronize activities within distinct time and space to send a clear signal
- Aim to effect key people and organizations in the target countries

- Leverage law enforcement evidence to underline legitimacy of actions and create coalitions
- Channel activities and finances to locations where we have operational advantage
- Aim for lasting disruption, not just interruption
- Increase costs, reduce access to capital, and “squeeze” financial resources to limit freedom to operate
- Transnational threats require transnational nodes of financial support to facilitate non-state insurgent, terrorist and criminal organizations. Terrorists are increasingly turning to emerging means and methods for their finances (e.g., Mobile to Mobile banking, M-Commerce, Trade Based methods, BMPE, etc.) as well traditional methods that still work (e.g., Front/Shell companies, Hawala, etc.).
- Working in an asymmetric operational environment demands looking for and seizing on asymmetric financial opportunities
- Look to expose vulnerabilities in the long admin, financial, transportation supply lines

### **Metrics Matter**

To bring this all together, the Interagency Community should call for and ultimately support the creation of next-generation CTF performance metrics that are tied back into the overall counter-terrorism financial order of battle and the plan to attack it. However, accurate monitoring of progress in a whole-of-government campaign will be just as challenging as the execution of the campaign itself. Key determinants of success or failure will only result from a sustained flow of all-source intelligence collection and analysis on financial networks, as well as reasonable changes in bureaucratic culture over time to solidify interagency cooperation.

### **Information Operations Case Study: Iran**

An IO program against Iran should focus on the failure of state enablers to address the risks of terrorist financing and the threat that poses to the integrity of the international financial system. It should also include pressure by calling on Iran to criminalize terrorist financing, effectively implement and act on suspicious transaction reporting, and to create a genuine Financial Intelligence Unit (FIU personnel are not authorized by law to investigate financial transactions). While insurance companies, banks, credit institutions, and charities are required to report suspicious transactions, the largest state-run charitable foundations known as “bonyads” are not.

An IO campaign should also go further to expose the hypocrisy of untaxed, unregulated, and unaudited assets worth tens of billions of dollars controlled by the bonyads and the Executive Committee of the Imam Khomeini’s Order (EIKO). Some core recommendations for pursuing an IO campaign with or simply against Iran, include the following:

- Doing business in Iran: An IO campaign pointing out the dangers of business relationships and transactions with Iran, including Iranian companies and financial institutions, will dissuade foreign banks from entering into correspondent relationships, believing they are

being used to bypass international AML risk mitigation practices. This should point out the traditional shortcomings identified by the World Trade Organization and other international bodies, and include a campaign to undermine requests by Iranian financial institutions to open branches and subsidiaries in foreign jurisdictions. There should also be pressure for greater oversight of correspondent banking between Iranian financial institutions and foreign entities. A general lack of AML/CT controls and basic due diligence is lacking.

- Additionally, an IO campaign could point out that Iran's financial regulations related to the supervision of non-governmental organizations and charities, both Iranian and foreign, fall short of international standards. Iran's financial regulations are not part of a comprehensive counter-terrorism finance law, and Iran does not participate in the Financial Action Task Force (FATF) and is not a member of the Egmont Group. Iran has taken small steps, such as enacting weak anti-money laundering legislation that requires financial institutions to enforce customer identification and record keeping requirements. Iran should be pressed to join several UN conventions and protocols relating to counter terrorism, including the International Convention for the Suppression of the Financing of Terrorism.
- An IO campaign should make the link between the shortcomings of Iran's financial system and the inability of the international community to identify and disrupt the flow of Iranian money to terrorist proxies in the Middle East, South Asia, and beyond. Illicit money flows also reflect insufficient border control programs and a lack of effective multi-lateral counter terrorism initiatives with all the countries on Iran's borders.
- Restrictions on the freedom of expression, requirements of Internet service providers, web sites and blogs to register with the government and gain approval from the Ministry of Culture and Islamic Guidance; intrusive government monitoring and censorship of the Internet and the press; and even the presence of terrorist groups on Iranian territory and/or the use of Iran as a safe haven for Sunni extremist financiers should be better exploited.
- Terrorists from across the Islamic world travel to Iran to raise money, partly because there is no law in Iran that prohibits terrorist fundraising. The Iranian government provides money to the families of martyrs, free oil shipments that are sold to generate revenue (Afghanistan), and other forms of support, but don't recognize UN Security Council resolutions calling for the freezing of assets of designated companies, individuals, etc. Also, charitable and non-governmental organizations in Iran are not required to declare their sources of funding, which can include cash donations.
- Finally, a comprehensive IO campaign against the ITN must carry out sustained covert influence to shape how the world views threats emanating from Iran and its external revolutionary agenda. The objective would not be to win the war of words between Iran and the United States; most polls clearly show that Iran, its theocratic form of government and its expansionist tendencies are unpopular in most of the world, even in the Middle East. However, there are other ways of using covert influence against the ITN. A campaign against Iran's covert action programs in the Persian Gulf States should stress the destabilizing impact of Iranian subversion since 1979. In the past few years alone, Iranian officials have been expelled from numerous Gulf countries

Thank you for the opportunity to share these views.

