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**FINANCING OF INSURGENCY OPERATIONS IN IRAQ
HEARING**



STATEMENT FOR THE RECORD

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

And

**HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS**

28 JULY 2005

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Defense Intelligence Testimony

Mr. Chairman and Distinguished Members of the Subcommittees:

Thank you for the opportunity to discuss current issues regarding the funding of Iraqi terrorists and insurgents. The Department of Defense views the ongoing financing of Iraq-based terrorists and insurgents as an important issue for Operation Iraqi Freedom. The main theme you'll hear today is that identifying and defeating Iraq terrorist and insurgent funding is a tough but critical challenge. We've enhanced our capabilities and have had measurable success. The enemy and those who financially support the enemy, however, are adaptive and it is a relatively inexpensive fight to conduct. Overall countering terrorist and insurgent finances is one reinforcing line of operation in our overall strategy to defeat terrorists and insurgents in Iraq.

My goal today is to sketch for you what we know, what we don't know, and what we think about Iraq-related funding activity. I'd also like to present to you what Defense Intelligence has done to understand and attack the Iraq funding problem—on our own and in coordination with other U.S. instruments of power. Attending with me today are intelligence officers from U.S. Central Command and the Defense Intelligence Agency; several have deployed to Iraq and Afghanistan to implement counter-finance strategies. All are responsible for developing intelligence and assessing opportunities to diminish terrorist and insurgent finance activities.

Our success in disrupting Iraq-related terrorist and insurgency funding relies on collaborative interagency efforts. The Department of Defense is part of a National Security Council Policy Coordination Committee on Terrorism Finance. Through this effort, and others I will describe to you, we work with experts at Treasury, State, FBI, and the Intelligence Community. We coordinate on Treasury-led E.O. 13224 ("Blocking Terrorist's Property and Financial Transactions") designations and State-initiated designations of Foreign Terrorist Organizations (FTOs). In addition, part of our role in this effort is to ensure that financial information we collect is made available to these partners, and to translate our partners' expertise into actionable information that U.S. Central Command (CENTCOM) and the Multi-National Force-Iraq (MNF-I) can move on.

The financing challenge related to Iraq terrorism and insurgency is a complex, formal and informal multi-dimensional phenomenon involving external money flows and internal revenue generation and distribution networks. These numerous revenue generation and distribution structures are mostly decentralized, with different funding sources and streams overlapping and mutually reinforcing each other. Some networks that finance terrorists and insurgents are self-regenerating, especially networks and revenues sources that are internal to Iraq. Finally, terrorists and insurgents are adaptive. In the past, as we've affected one stream of

financing, we've observed terrorists and insurgents transition to other areas in response.

The diversity of terrorist and insurgent financial activities—a variety of high tech, low tech and no tech tactics, techniques, and procedures—challenges our intelligence collection capabilities in different ways. The intelligence instruments required for identifying and collecting on sophisticated international bank transactions are far different than the instruments required to identify and collect on a courier on a bike delivering a bag full of cash to the insurgency. Both intelligence targets may be equally important to identify, penetrate and neutralize terrorist and insurgent financing activities.

Some terrorist and insurgent groups in Iraq have enough sources of money to sustain the current level of anti-Coalition violence indefinitely, and groups linked to the former regime elements (FREs) control enough assets to support increased fighting.

We believe terrorist and insurgent expenses are moderate and pose little significant restraints to armed groups in Iraq. In particular, arms and munitions costs are minimal--leaving us to judge that the bulk of the money likely goes toward international and local travel, food and lodging of fighters and families of dead fighters; bribery and pay-offs of government officials, families and clans; and possibly into the personal coffers of critical middle-men and prominent terrorist or insurgent leaders.

To facilitate a more detailed discussion I've divided terrorist and insurgent finance activities into two broad categories--financial activities external to but flowing into or supporting Iraq-based anti-Coalition fighters; and financial activities internal to Iraq that support these fighters.

Financial Activities External to Iraq

We remain concerned that wealthy private donors in the Middle East and elsewhere continue to be an important part of a steady flow of funds into Iraq. Wealthy extremist patrons in the Arabian Gulf region are of particular concern and appear to be continuing to support terrorist volunteers traveling to, and inside, Iraq.

We also believe former regime Elements (FREs) are a source of insurgent funding. Many FREs fled Iraq to Syria, Jordan, Iran, Saudi Arabia, the United Arab Emirates and surrounding countries following the U.S. liberation of Iraq and established financial bases to support the insurgency.

Corrupt members of transnational charities and non governmental organizations around the region and inside Iraq continue to siphon and embezzle money for terrorists and insurgents. The majority of Islamic charities supporting terrorists effectively conceal terrorist connections and

launder funds by commingling them with money destined for legitimate humanitarian projects.

Unregulated informal value-transfer systems—hawalas--are prevalent throughout the Middle East and South Asia. In and around Iraq, where the formal banking sector has not developed extensive retail services, hawalas are a significant means that terrorists use to move money. Tracking this money is challenging. There is limited information about funds' recipients, who are often known to payout agents simply by their aliases. There is rarely detailed information about funds' originators. The majority of hawala transactions consist of well-intentioned personal or commercial funds transfers, with few clues to differentiate them from the relatively few terrorist transfers.

Financial Activities Internal to Iraq

While significant finances continue to flow into Iraq from outside its borders, terrorists and insurgents are also tapping revenues inside Iraq.

A number of mosques in Iraq, both Shi'a and Sunni, play an important role in supporting insurgent groups through financial donations. Mosques act as a conduit for insurgent funding from both internal and external sources. Money is gathered through various means, including alms-giving. Religious leaders of these mosques, such as Imams, are sometimes openly sympathetic to the insurgency and openly espouse support for the anti-government cause. In some cases, the Imam and Mullah are financially supported by the insurgent group using the mosque, indicating a quid pro quo relationship between insurgents and religious officials.

Terrorists have access to a potentially large revenue base by conducting criminal activities ranging from low level crime and extortion, to involvement in smuggling and drug trafficking.

For example, terrorists and insurgents continue to employ kidnapping as a means to raise money. Kidnapping in Iraq is primarily conducted by anti-government groups of Iraqis targeting fellow citizens for money or intimidation. Drug transactions and similar smuggling or black-market activities inside Iraq, and around the region, are also a source of terrorist and insurgent income. Organized criminal activities, which became the default suppliers to the Iraqi economy during the years of sanctions, are deeply rooted in some sectors of Iraqi society and are difficult to identify and stamp out.

Defense Intelligence Efforts to Attack Iraq-Related Terrorist and Insurgency Financing

Defense Intelligence has developed and is executing combating-terrorist and insurgent financial all-source operations across the Combatant Commands

and Military Services. These diverse activities form the core of our efforts, and come together in support of the warfighters serving in Iraq and in the region. I'd like to take this opportunity to touch briefly on two specific organizations' counter-finance efforts.

U.S. Special Operations Command

U.S. Special Operations Command (USSOCOM) has been designated by the Office of the Secretary of Defense to synchronize the Department of Defense's counterterrorism efforts. In December of 2004, USSOCOM held the first Terrorism Finance Joint Planning Group meeting to begin to outline a way-ahead for Combatant Command planning for terrorism finance network disruption efforts. That meeting was followed by a joint USSOCOM and U.S. Central Command (USCENTCOM) hosted terrorism finance conference in February 2005. Face-to-face collaboration between terrorism finance analysts from multiple government agencies was accomplished. Organizations represented included U.S. Department of Treasury, U.S. Department of State, the Federal Bureau of Investigation, the Internal Revenue Service, other intelligence community members, representatives from the Combatant Commands and the Defense Intelligence Agency. Beginning in April 2005 and through July 2005 a joint USSOCOM, ASD/Special Operations/Low Intensity Conflict, DIA delegation visited each of the Combatant Commands to share lessons learned and solicit input on synchronizing DoD efforts.

U.S. Central Command

USCENTCOM serves as the focal point for combating terrorist and insurgent finances in and around Iraq, and has aggressively focused on the challenge of terrorist and insurgent finances in Iraq. The Commander and Deputy Commander of USCENTCOM have stated that disruption of terrorist financing is a priority for the command.

USCENTCOM established the Threat Finance Exploitation Unit (TFEU) in August 2004. The TFEU has been working with US Interagency law enforcement and regulatory agencies on a weekly basis to share and deconflict information and focus on people and organizations that are providing financial support to terrorist and insurgent groups.

The TFEU has had several successes and a large impact on the problem set. Its services are in high demand across DoD and interagency communities. The TFEU maintains daily contact with Department of Defense and non-DOD intelligence, law enforcement and regulatory agencies that are responsible for taking actions against terrorist and insurgent financial support networks. There have been numerous analytical exchange visits between USCENTCOM and the various participating Interagency headquarters in Washington. USCENTCOM is providing valuable data on several terrorism/insurgency financiers currently in the pipeline for designation under Executive Order 13224—"Blocking Terrorist's Property and Financial Transactions;" Executive

Order 13315—"Blocks property of Former Iraqi regime Elements;" and, Executive Order 13338—"Blocking Property of Certain Persons and Prohibiting the Export of certain Goods to Syria." TEFU personnel are also educating, guiding and directing collectors in the field to ensure counter-finance intelligence requirements are being addressed and reported.

Planning is underway to deploy TFEU personnel to select Interagency Headquarters in Washington as liaison officers and to establish a forward presence in Southwest Asia. The TFEU is also currently planning and coordinating training for USCENTCOM personnel on terrorist and financial operations.

Multi-National Force-Iraq (MNF-I) is USCENTCOM's primary coalition operating element in Iraq. MNF-I leverages USCENTCOM and other all-source operations to fight terrorist and insurgent finance activities. MNF-I's Combined Intelligence Operations Center developed a Crime and Economic Terrorism Team to produce, tailor and apply all-source analysis in support of warfighters and decision makers in Iraq.

The Defense Intelligence Agency

DIA's role in countering finance stems from its all-source operations and analytic production responsibilities and its mission to conduct Defense human intelligence and measurement and signature (MASINT) technical intelligence collection. In 2004 and 2005 the Defense Intelligence Agency significantly sharpened its focus on analyzing and defeating terrorist and insurgent financial activities. DIA has developed and routinely updates a comprehensive functional defeat study on behalf of U.S. Special Operations Command and the Joint Staff that includes an in-depth analysis of terrorist finances and lays out strategic CT opportunities.

In 2005, DIA also expanded its analytic team that produces all-source national-level analysis regarding terrorist insurgent financing activities and challenges relating to Iraq.

DIA has deployed intelligence personnel to educate and ensure interviewers and document and media exploitation personnel are working to fill finance-related intelligence needs. Our Defense HUMINT personnel are working hard to ensure we acquire the information we need to understand and counter terrorist and insurgent finance activities.

Finally DIA has embedded analysts forward deployed to collaborate on intelligence judgments and develop potential actionable opportunities.

Counter Finance as a Component of an Integrated Strategy

Combating terrorist and insurgency finances has had an effect on the enemy in Iraq. Drying up money and stopping its movement degrades terrorist and

insurgent operations. It hinders recruitment and impedes couriers, disrupts procurement of bomb components, and creates uncertainty in the minds of suicide bombers regarding whether their families will receive promised compensation.

Defense counter-finance activities, however, are just one element among several that integrate to form the basis of our overall strategy to defeat terrorists and insurgents in Iraq and strengthen Iraqi institutions and society. Alone, counter-finance is not a silver bullet. Combined with our other efforts, it's an important and effective weapon.