

Statement of

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on

Leveraging the Financial Instrument of National Power to Counter Illicit Networks

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Thank you Chairman Fitzpatrick, Vice Chairman Pittenger, Ranking Member Lynch, and members of the Task Force to Investigate Terrorist Financing for the opportunity to appear before this committee today to testify on the dangerous nexus of terrorism, crime and corruption that threatens U.S. national security interests at home and abroad. Globalization has positively transformed our lives in an increasingly interconnected and thriving world, with the free flow of goods, services, capital, ideas and technology; at the same time however, these drivers of globalization have allowed illicit networks of terrorists, criminals, proliferators and their facilitators to empower themselves and threaten the security, prosperity and integrity of the global community. These illicit actors actively capitalize on weak governance, socioeconomic vulnerabilities and corruption to conduct their illegal activities and expand their nefarious power and influence throughout the world. After examining the critical enablers of illicit networks, in particular financing, and illustrating the case for the convergence of illicit networks in examples like ISIL, I will propose some domestic and international measures to further leverage the financial instrument of national power to combat terrorism, crime and corruption.

Illicit networks jeopardize the four key missions of the nation-state to its citizens: (1) to guarantee the nation's security and sovereignty, (2) to promote economic prosperity, (3) to safeguard society and the rule of law and (4) to ensure that the government represents the political will of the people. Illicit networks include criminals, terrorists, proliferators and their facilitators, and they leverage the global marketplace with their illegal activities to promote their respective interests around the world; such activities threaten the national security of the United States and its allies. The transnational trafficking of drugs, arms, people, and counterfeit goods and the money laundering that accompanies these illicit activities compromise the safety of consumers, rob inventors of their intellectual property, deny governments significant tax revenues, and undermine our economies. While nation-states and terrorist groups are motivated by ideological aspirations, transnational criminal organizations (TCOs) are driven primarily by greed. What we are witnessing today is the dangerous convergence of terrorism and

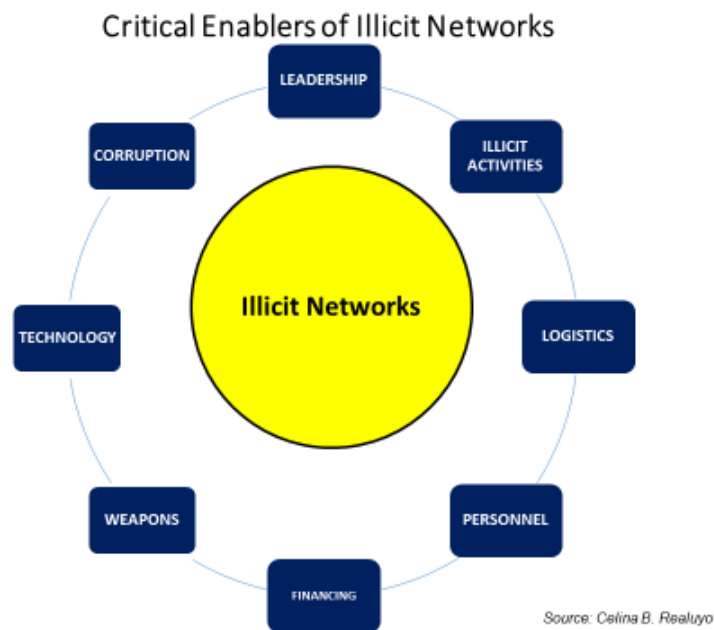
crime that threatens our national security and must be confronted through interagency and international cooperation that draws on all the instruments of national power to promote peace and prosperity in the 21st century.

The Critical Enablers of Illicit Networks

Illicit networks (terrorists, criminals and their facilitators) require the following critical enablers to sustain their activities and realize their political or revenue objectives:

- *Leadership.* Illicit networks need leadership that directs and manages resources to achieve their mission of political objectives or maximizing profits. Their leadership can be organized as hierarchies or, more likely, as loose networks of affiliates that diversify the “key man risk” associated with relying on a sole leader for command and control.
- *Personnel.* Illicit networks must recruit and maintain personnel to support all aspects of their activities.
- *Illicit activities.* Illicit networks can engage in a broad spectrum of illicit revenue-generating activities including trafficking in narcotics, arms, humans, exotic wildlife, and contraband, as well as money laundering, cybercrime, extortion, and kidnapping for ransom.
- *Logistics and supply chains.* Illicit networks rely on global supply chains, commercial transportation, resources and other logistical support to move materiel, personnel, services and funding from supply to demand points of their enterprises.
- *Weapons.* Illicit networks use force or the threat of force to dominate their operating areas; therefore, access to weapons, the ability to deploy them, and a lack of concern for collateral damage make illicit networks so violent and lethal.
- *Technology and communications.* Illicit networks diligently adopt new technology and communications methods to avoid detection by security forces and monitor and adapt to changes in their areas of operation.

- *Corruption.* Illicit networks enjoy operating in ungoverned or weakly governed spaces where state control and oversight are lacking or can be compromised. While they may not necessarily aspire to topple and replace governments, they seek out officials vulnerable to corruption who can facilitate illicit activities in certain geographic areas.
- *Financing.* Illicit networks consider revenue as both a key objective in case of crime and an essential enabler for terrorism. Financing serves as the lifeblood for these networks and their illicit endeavors; they derive power from their wealth and use it to corrupt and co-opt rivals, facilitators, and/or government and security officials.¹



Financing as the Most Critical Enabler of Illicit Networks

Financing is perhaps the most vital enabler of illicit networks, as all the other critical enablers require funding. Consequently, financial intelligence and investigative

¹ Celina B. Realuyo, “The Future Evolution of Transnational Criminal Organizations and the Threat to U.S. National Security,” *The Shifting Human Environment: How Trends in Human Geography Will Shape Future Military Operations*, Paul T. Bartone & Mitchell Armbruster, Editors, Defense and Technology Paper 107, National Defense University Press, May 2015, <http://ctnsp.dodlive.mil/2015/05/06/dtp-107-shifting-human-environment-how-trends-in-human-geography-will-shape-future-military-operations/>

tools like “following the money trail” are instrumental to better understand, detect, disrupt and dismantle these illicit networks of terrorism, crime and corruption. Tracking how terrorists and criminals raise, move, store and use money has been instrumental in degrading and defeating groups such as Al Qaeda Core, the Tamil Tigers (LTTE) in Sri Lanka and the FARC in Colombia.²

Money serves as the oxygen for any activity, licit or illicit. In a globalized world, we have grown to appreciate how “following the money trail” can enhance our efforts to counter terrorism, crime, and corruption around the world. Since the tragic attacks of September 11, 2001, the U.S. and other governments have incorporated the financial instrument of national power in efforts to combat terrorism and crime. The financial instrument of national power in the counter-threat finance arena has been manifested three-fold through:

1. Intelligence and law enforcement operations like the Iraq and Afghan threat finance cells to pursue terrorist financiers and money launderers
2. Public designations, sanctions and asset freezes and seizures
3. Domestic and international capacity building in the counter-threat finance discipline in the public and private sectors.

Enhanced anti-money laundering and counterterrorism finance measures have significantly damaged the illicit networks. Over the past decade, Al Qaeda operatives and affiliates from Iraq to Afghanistan complained about increased difficulty in funding terrorist operations and supporting their networks. Similarly, transnational criminal organizations in the Western Hemisphere, like the Mexican cartels, realized that greater oversight of international bank transactions and offshore accounts post-September 11 complicated their ability to launder profits through the formal banking sector. Following the money trail and the surveillance of facilitators, like the bankers and lawyers moving and sheltering money for terrorist and criminal groups, produced critical financial

² Celina B. Realuyo, “Following the Money Trail to Combat Terrorism, Crime and Corruption,” U.S. Institute of Peace, International Network for Economics and Conflict, April 15, 2013, <http://inec.usip.org/blog/2013/apr/15/following-money-trail-fight-terrorism-crime-and-corruption>

intelligence that has led to the weakening of illicit actors such as Al Qaeda and the drug cartels.³

Once the tighter measures to fight money laundering and terrorist financing were put into practice, they had an unexpected but constructive side effect – rooting out corruption. Mexico strengthened its anti-money laundering regime to track and combat the Mexican drug cartels. Some of these “follow the money” measures, including tracking suspicious bank transactions, resulted in the February 26, 2013 arrest of the most prominent teacher union leader in Mexico, Edna Esther Gordillo, on corruption and embezzlement charges. According to Mexican Attorney General Jesus Murillo Karam, investigators from Mexico's treasury found that more than \$200 million had been diverted from union funds into private bank accounts abroad (including some managed by Gordillo) between 2008 and 2012.⁴ Mexico's Financial Intelligence Unit determined union funds were used to pay for \$3 million of Neiman Marcus charges on Gordillo's account and more than \$17,000 for bills to plastic surgery clinics and hospitals in California. It was discovered that Gordillo was living large with significant real estate holdings in Mexico City as well as two luxury properties in Coronado, California.⁵ The Gordillo case is an illustrative example of how financial forensics, intended to pursue terrorists and drug traffickers, are yielding promising corollary results in the fight against corruption.

The Convergence of Terrorism and Crime

Terrorism, crime and corruption have existed since the beginning of human civilization and had been traditionally addressed as local security issues. In an age of globalization, the magnitude and velocity of terrorism and crime, driven by

³ Celina B. Realuyo, “Following the Money Trail to Combat Terrorism, Crime and Corruption,” U.S. Institute of Peace, International Network for Economics and Conflict, April 15, 2013, <http://inec.usip.org/blog/2013/apr/15/following-money-trail-fight-terrorism-crime-and-corruption>

⁴ Catherine E. Shoichet, “Mexican union leader accused of embezzling millions,” CNN.com, February 26, 2013, <http://www.cnn.com/2013/02/26/world/americas/mexico-union-leader-arrested/index.html>

⁵ Sandra Dibble & Lily Leung, “Suspicious Home Purchase Went Unnoticed Suspicious Real Estate Sales Tough to Track,” UT San Diego, March 24, 2013, <http://www.utsandiego.com/news/2013/mar/24/tp-suspicious-home-purchase-went-unnoticed/>

interconnected economies and advances in communications and technology, have resulted in record levels of violence and have transformed illicit networks into a global security threat. In many cases, terrorist groups, international drug cartels, mafias, and gangs are better armed, funded, and trained than the government security forces charged with confronting them.

In recent years, terrorist groups have become increasingly reliant on criminal activities in order to sustain themselves as state sponsorships and donor support have evaporated. The insurgent movements, like the FARC in Colombia and Shining Path in Peru, are examples of this evolution in Latin America, as these terrorists have become increasingly involved in and dependent on the cocaine and other illicit trade. Meanwhile, some criminal organizations have adopted ideological agendas and act more like terrorists, using violence against innocents; this is the case of the Haqqani Network in Afghanistan and Pakistan once considered a criminal mafia controlling supply routes. In 2012, it was designated as a Foreign Terrorist Organization by the U.S. due to several high-profile insurgent attacks on U.S. and other foreign personnel in Afghanistan, including the assault on the U.S. Embassy in Kabul in 2011.⁶

We are witnessing a disturbing trend – the dangerous convergence of terrorism and crime that is becoming a formidable threat to nation-states. Convergence is defined as “the process of coming together and having one interest, purpose, or goal.” In the case of terrorists that purpose is a political end state and in the case of criminals, it is maximizing profits. What terrorists and criminals have in common and how they converge is in the threat they pose to national security and sovereignty. Such is the case with the Haqqani Network in Afghanistan, the FARC in Colombia, al Qaeda in the Islamic Maghreb, Hezbollah’s global networks and now ISIL, leveraging illicit activities to realize their terrorist agendas.⁷

⁶ Karen DeYoung, “Haqqani Network to be Designated a Terrorist Group,” *The Washington Post*, September 7, 2012, http://www.washingtonpost.com/world/national-security/haqqani-network-to-be-designated-a-terrorist-group-obama-officials-say/2012/09/07/e6576ac0-f8f6-11e1-a073-78d05495927c_story.html

⁷ Celina B. Realuyo, Hezbollah’s Global Facilitators in Latin America. *Terrorist Groups in Latin America: The Changing Landscape*: testimony before the Subcommittee on Terrorism, Non-Proliferation, and Trade, House Committee on Foreign Affairs, U.S. House of Representatives. February 4, 2014. <http://docs.house.gov/meetings/FA/FA18/20140204/101702/HHRG-113-FA18-Wstate-RealuyoC-20140204.pdf>.

All Eyes on ISIL

ISIL has dominated the news since last summer with the brutal beheadings of Western hostages, remarkable military offensives in Iraq, persecution of Christian minorities and compelling foreign fighter recruitment campaign. ISIL is designated as a foreign terrorist organization by the United Nations and U.S., and represents a formidable example of the convergence of illicit networks, as ISIL combines the ideological aspirations of a terrorist group and the profit-seeking objectives of a criminal organization. ISIL is a militant movement that has conquered territory in western Iraq and eastern Syria that includes some six and a half million residents and has recruited over 20,000 foreign fighters. Though spawned by al-Qaeda's Iraq franchise, it split with Osama bin Laden's organization and evolved to not just employ terrorist and insurgent tactics, but the more conventional ones of an organized militia. In June 2014, after seizing territories in Iraq's Sunni heartland, including the cities of Mosul and Tikrit, the Islamic State proclaimed itself a "caliphate," claiming exclusive political and theological authority over the world's Muslims. Its state-building project, however, has been characterized more by extreme violence than institution building.⁸

The dramatic rise of ISIL with its ability to conduct terrorist atrocities, occupy territory in Iraq and Syria, attract ideological support, recruit foreign fighters, and harness economic resources has refocused counterterrorism efforts worldwide.⁹ At the United Nations General Assembly, the Security Council unanimously adopted Resolution 2178 (2014) on September 24, 2014 that it condemns violent extremism and underscores the need to prevent the "recruiting, organizing, transporting or equipping of individuals who travel for the purpose of the perpetration, planning of, or participation in terrorist acts,

⁸ Council on Foreign Relations The Islamic State Backgrounder, <http://www.cfr.org/iraq/islamic-state/p14811><http://www.cfr.org/iraq/islamic-state/p14811>

⁹ Celina B. Realuyo, "Combating Terrorist Financing in the Gulf: Significant Progress but Risks Remain," The Arab Gulf States Institute in Washington, January 2015, http://www.agsiw.org/wp-content/uploads/2015/01/AGSIW_Combating-Terrorist-Financing-in-the-Gulf.pdf

associated with the Islamic State in Iraq and the Levant (ISIL), Al-Nusra Front (ANL) and other affiliates or splinter groups of Al-Qaida.”¹⁰

ISIL’s Diversified Portfolio of Financing Activities

In addition to the world headlines reporting their vicious acts of violence against non-believers, ISIL is characterized as the “richest” terrorist group in the world. To conduct its ambitious military operations, recruit and support its fighters and maintain control of its occupied territories or “caliphate,” ISIL requires significant financing and is engaged in a broad spectrum of criminal activities. Accordingly, the financial front has once again become an indispensable aspect of combating terrorist groups like ISIL by attacking their financing abilities.

The principal source of ISIL finances is derived from its control and sale of oil, estimated at bringing in \$1 million a day, according to the U.S. Treasury Department as of fall 2014.¹¹ Additional funding comes from extortion networks, kidnap for ransom, criminal activities like stolen antiquities and human trafficking, and some donations from external individuals.¹²

Oil extraction comprises ISIL’s largest source of income. The group is estimated to produce forty-four thousand barrels a day from Syrian wells and four thousand barrels a day from Iraqi ones. The group then sells the crude to truckers and middlemen, netting an estimated \$1 to \$3 million a day. By selling well below market price, traders are incentivized to take on the risk of such black-market deals. The oil-starved Assad regime,

¹⁰ United Nations, “Security Council Unanimously Adopts Resolution Condemning Violent Extremism, Underscoring Need to Prevent Travel, Support for Foreign Terrorist Fighters,” September 24, 2014, <http://www.un.org/press/en/2014/sc11580.doc.htm>

¹¹ David S. Cohen, “Attacking ISIL’s Financial Foundation” Remarks of Under Secretary for Terrorism and Financial Intelligence, The Carnegie Endowment For International Peace, Washington, DC, October 23, 2014, <http://www.treasury.gov/press-center/press-releases/Pages/jl2672.aspx>

¹² Charles Lister, “Cutting off ISIS’ Cash Flow,” The Brookings Institution, October 24, 2014, <http://www.brookings.edu/blogs/markaz/posts/2014/10/24-lister-cutting-off-isis-jabhat-al-nusra-cash-flow>

Turks, and Iraqi Kurds—all putative enemies of ISIL—are rumored to be among its customers.¹³

ISIL is believed to extort businesses in Mosul, netting upwards of \$8 million a month. Christians who have not fled the city face an additional tax levied on religious minorities. Protection rackets bring in revenue while building the allegiance of some tribesmen. Exploitation of natural resources and trafficking in antiquities also contribute to the ISIL's coffers.¹⁴

Ransom payments have provided ISIL upwards of \$20 million in 2014, including large sums for kidnapped European journalists and other captives, according to the U.S. Treasury. The United States maintains a no-concessions policy, at odds with its European counterparts.

ISIL pays its fighters monthly wages estimated to be upwards of \$350, more than rival rebel groups or the Iraqi government offer, and as much as five times what is earned by ordinary Syrians in territory controlled by the Islamic State.¹⁵ This diversified portfolio of income generation makes ISIL a challenging adversary to attack in terms of cutting off its financing.

Coalition Efforts to Counter-ISIL

As articulated by the White House, the U.S. has built a global coalition of willing partners with the goal of degrading and ultimately defeating ISIL. The President has set forward a comprehensive strategy featuring nine lines of effort to counter ISIL:

¹³ Financial Action Task Force, *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant*, February 2015, <http://www.fatf-gafi.org/documents/documents/financing-of-terrorist-organisation-isil.html>

¹⁴ Micah Zenko, "Preventing Cultural Destruction by ISIS," CFR.org, March 6, 2015, <http://blogs.cfr.org/zenko/2015/03/06/guest-post-preventing-cultural-destruction-by-isis/>

¹⁵ Council on Foreign Relations The Islamic State Backgrounder, <http://www.cfr.org/iraq/islamic-state/p14811><http://www.cfr.org/iraq/islamic-state/p14811>

- Supporting Effective Governance in Iraq: We are supporting the new Iraqi government on efforts to govern inclusively and effectively as well as to strengthen its cooperation with regional partners.
- Denying ISIL Safe-Haven: We are conducting a systematic campaign of airstrikes against ISIL in Iraq and Syria. Working with the Iraqi government, we are striking ISIL targets and supporting Iraqi forces on the ground. We will degrade ISIL's leadership, logistical and operational capability, and deny it sanctuary and resources to plan, prepare and execute attacks.
- Building Partner Capacity: We will build the capability and capacity of our partners in the region to sustain an effective long-term campaign against ISIL. Our advisors are working to advise Iraqi forces, including Kurdish forces, to improve their ability to plan, lead, and conduct operations against ISIL, and we will provide training to help the Iraqis reconstitute their security forces and establish a National Guard. Our train and equip program will strengthen the Syrian moderate opposition and help the defend territory from ISIL.
- Enhancing Intelligence Collection on ISIL: Continuing to gain more fidelity on ISIL's capabilities, plans, and intentions is central to our strategy to degrade and ultimately destroy the group, and we will continue to strengthen our ability to understand this threat, as well as to share vital information with our Iraqi and Coalition partners to enable them to effectively counter ISIL.
- Disrupting ISIL's Finances: ISIL's expansion over the past year has given it access to significant and diverse sources of funding. So, we are working aggressively with our partners on a coordinated approach to reduce ISIL's revenue from oil and assets it has plundered; limit ISIL's ability to extort local populations; stem ISIL's gains from kidnapping for ransom; and disrupt the flow of external donations to the group.
- Exposing ISIL's True Nature: Clerics around the world have spoken up in recent weeks to highlight ISIL's hypocrisy, condemning the group's savagery and criticizing its self-proclaimed "caliphate." We are working with our partners throughout the Muslim world to highlight ISIL's hypocrisy and counter its false

claims of acting in the name of religion.

- Disrupting the Flow of Foreign Fighters: Foreign terrorist fighters are ISIL’s lifeblood, and a global security threat—with citizens of nearly 80 countries filling its ranks. On September 24, the President convened an historic Summit-level meeting of the UN Security Council, focused on this issue and we will continue to lead an international effort to stem the flow of fighters into Syria and Iraq.
- Protecting the Homeland: We will continue to use the criminal justice system as a critical counterterrorism tool, work with air carriers to implement responsible threat-based security and screening requirements, and counter violent extremism here at home.
- Humanitarian Support: We and our partners will continue to provide humanitarian assistance to the displaced and vulnerable in Iraq and Syria.

Pursuing the nine lines of effort to advance the comprehensive strategy is a whole of government effort.¹⁶

Counter-ISIL Financing Measures

The U.S. counter-ISIL financing strategy is focused on disrupting ISIS revenue streams, restricting ISIS access to the international financial system, and targeting ISIS leaders, facilitators and supporters with sanctions. The U.S. is also collaborating with international partners on this issue and in March 2015, the U.S., Italy and Saudi Arabia established the Counter-ISIL Finance Group.¹⁷

The international coalition to counter ISIL has been conducting a military air campaign since August 2014. “Operation Inherent Resolve” conducts targeted airstrikes of Iraq and Syria as part of the comprehensive strategy to degrade and defeat the Islamic

¹⁶ The White House, FACT SHEET: The Administration’s Strategy to Counter the Islamic State of Iraq and the Levant (ISIL) and the Updated FY 2015 Overseas Contingency Operations Request, November 7, 2014, <https://www.whitehouse.gov/the-press-office/2014/11/07/fact-sheet-administration-s-strategy-counter-islamic-state-iraq-and-leva>

¹⁷ Carla E. Humud, Robert Pirog, Liana Rosen, *Islamic State Financing and U.S. Policy Approaches*, Congressional Research Service, April 10, 2015, <https://www.fas.org/sgp/crs/terror/R43980.pdf>

State of Iraq and the Levant. Some airstrikes have been directed at ISIL-linked oil infrastructure and supply networks in Syria and Iraq; as of May 8, 2015, 152 oil infrastructure targets have been damaged or destroyed.¹⁸ Mobile refineries have been specifically targeted to reduce the availability of refined oil products, and their successful destruction has impacted but not destroyed ISIL's illegal oil sales. Due to the diversified sources of income supporting ISIL, the campaign against ISIL's financing will require perseverance and a multi-pronged approach across agencies and jurisdictions.

Leveraging the Financial Instrument of National Power to Combat Terrorism, Crime and Corruption

On the financial front to counter illicit networks, the U.S. and other governments have increased their efforts to detect the financing of terrorism and crime, imposed economic sanctions, and raised awareness among the private and civic sectors about how terrorists and criminals can abuse the international financial system to fund their infrastructure, members, and deadly operations. These efforts to leverage the financial instrument of national power against terrorism, crime and corruption are commendable but could be further expanded at the national, regional and international levels with the following measures:

- Dedicate more financial, human, and technological resources to government agencies, like financial intelligence units, responsible for investigating and prosecuting terrorist financing, money laundering and other financial crimes.
- Enhance U.S. and international financial intelligence and information sharing to combat terrorism, crime and corruption.
- Retain the Afghan threat finance cell and consider establishing new threat finance cells to counter emerging threats such as ISIL to conduct more effective targeting.

¹⁸ U.S. Department of Defense Operation Inherent Resolve website, http://www.defense.gov/home/features/2014/0814_iraq/

- Maintain a vigorous designation and sanctions regime against state sponsors of terrorism, foreign terrorist organizations, transnational criminal organizations, foreign narcotics kingpins and specially designated nationals.
- Revive the Terrorist Finance Working Group, established in the wake of the tragic September 11, 2001 attacks, to coordinate U.S. government efforts to combat terrorist financing via designations, the enforcement of sanctions and technical assistance and capacity building programs.
- Dedicate a percentage of forfeited assets and/or fines levied on financial institutions for sanctions evasion, money laundering and compliance infractions to domestic and international capacity building programs.
- Promote public-private partnerships; raise awareness among bank and non-bank financial institutions of emerging trends in money laundering and terrorist financing to empower the private sector to serve as the eyes and ears of governments to detect financial crimes.
- Anticipate how new financial innovations, services, technology could possibly be used and abused by terrorists and criminals to finance their operations.

In summary, illicit networks comprised of terrorists, criminals, proliferators, and their facilitators are presenting unprecedented asymmetrical threats to U.S. national security interests at home and abroad. The dangerous convergence of illicit networks undermines the sovereignty of the nation state in the new global security environment and must be actively confronted. These illicit networks require critical enablers, most importantly financing, to realize their nefarious agendas of terrorism or crime. To attack these networks, we must understand their enablers and deny these groups access to those enablers. Stemming the flow of funding to groups like ISIL, Hezbollah, the Haqqani Network, FARC, and Shining Path can undermine their violent operations and negative impact on security and prosperity. As these illicit networks evolve, we must constantly update our methods of detecting, disrupting, dismantling and deterring our adversaries with the financial instruments of national power. Only through comprehensive and proactive interagency and international strategies can we effectively combat terrorism, crime and corruption around the world.

Thank you, Mr. Chairman and committee members for your time and attention.