AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

A SURVEY OF GLOBAL TERRORISM AND TERRORIST FINANCING

HEARING

BEFORE THE

TASK FORCE TO INVESTIGATE TERRORISM FINANCING

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

APRIL 22, 2015

Printed for the use of the Committee on Financial Services

Serial No. 114–15

U.S. GOVERNMENT PUBLISHING OFFICE

95–059 PDF WASHINGTON : 2015

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

HOUSE COMMITTEE ON FINANCIAL SERVICES

JEB HENSARLING, Texas, *Chairman*

PATRICK T. MCHENRY, North Carolina, *Vice Chairman*
PETER T. KING, New York
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
SCOTT GARRETT, New Jersey
RANDY NEUGEBAUER, Texas
STEVAN PEARCE, New Mexico
BILL POSEY, Florida
MICHAEL G. FITZPATRICK, Pennsylvania
LYNN A. WESTMORELAND, Georgia
BLAINE LUETKEMEYER, Missouri
BILL HUIZENGA, Michigan
SEAN P. DUFFY, Wisconsin
ROBERT HURT, Virginia
STEVE STIVERS, Ohio
STEPHEN LEE FINCHER, Tennessee
MARLIN A. STUTZMAN, Indiana
MICK MULVANEY, South Carolina
RANDY HULTGREN, Illinois
DENNIS A. ROSS, Florida
ROBERT PITTENGER, North Carolina
ANN WAGNER, Missouri
ANDY BARR, Kentucky
KEITH J. ROTHFUS, Pennsylvania
LUKE MESSER, Indiana
DAVID SCHWEIKERT, Arizona
ROBERT DOLD, Illinois
FRANK GUINTA, New Hampshire
SCOTT TIPTON, Colorado
ROGER WILLIAMS, Texas
BRUCE POLIQUIN, Maine
MIA LOVE, Utah
FRENCH HILL, Arkansas

MAXINE WATERS, California, *Ranking Member*
CAROLYN B. MALONEY, New York
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
MICHAEL E. CAPUANO, Massachusetts
RUBÉN HINOJOSA, Texas
WM. LACY CLAY, Missouri
STEPHEN F. LYNCH, Massachusetts
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
GWEN MOORE, Wisconsin
KEITH ELLISON, Minnesota
ED PERLMUTTER, Colorado
JAMES A. HIMES, Connecticut
JOHN C. CARNEY, JR., Delaware
TERRI A. SEWELL, Alabama
BILL FOSTER, Illinois
DANIEL T. KILDEE, Michigan
PATRICK MURPHY, Florida
JOHN K. DELANEY, Maryland
KYRSTEN SINEMA, Arizona
JOYCE BEATTY, Ohio
DENNY HECK, Washington
JUAN VARGAS, California

SHANNON MCGAHN, *Staff Director*
JAMES H. CLINGER, *Chief Counsel*

TASK FORCE TO INVESTIGATE TERRORISM FINANCING

MICHAEL G. FITZPATRICK, Pennsylvania, *Chairman*

ROBERT PITTENGER, North Carolina, *Vice Chairman*
PETER T. KING, New York
STEVE STIVERS, Ohio
DENNIS A. ROSS, Florida
ANN WAGNER, Missouri
ANDY BARR, Kentucky
KEITH J. ROTHFUS, Pennsylvania
DAVID SCHWEIKERT, Arizona
ROBERT DOLD, Illinois
BRUCE POLIQUIN, Maine
FRENCH HILL, Arkansas

STEPHEN F. LYNCH, Massachusetts, *Ranking Member*
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
AL GREEN, Texas
KEITH ELLISON, Minnesota
JAMES A. HIMES, Connecticut
BILL FOSTER, Illinois
DANIEL T. KILDEE, Michigan
KYRSTEN SINEMA, Arizona

CONTENTS

	Page
Hearing held on:	
April 22, 2015	1
Appendix:	
April 22, 2015	45

WITNESSES

WEDNESDAY, APRIL 22, 2015

Jones, Seth G., Director, International Security and Defense Policy Center, RAND Corporation	12
Schanzer, Jonathan, Vice President for Research, Foundation for Defense of Democracies	10
Zarate, Hon. Juan C., Senior Advisor, Center for Strategic and International Studies (CSIS), and Chairman and Senior Counselor, Center on Sanctions and Illicit Finance, Foundation for Defense of Democracies	8

APPENDIX

Prepared statements:	
Waters, Hon. Maxine	46
Jones, Seth G.	47
Schanzer, Jonathan	58
Zarate, Hon. Juan C.	76

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Jones, Seth G.:	
Written responses to questions for the record submitted by Representatives Wagner and Ellison	91

A SURVEY OF GLOBAL TERRORISM AND TERRORIST FINANCING

Wednesday, April 22, 2015

U.S. HOUSE OF REPRESENTATIVES,
TASK FORCE TO INVESTIGATE
TERRORISM FINANCING,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The task force met, pursuant to notice, at 10:03 a.m., in room HVC–210, the Capitol Visitor Center, Hon. Michael Fitzpatrick [chairman of the task force) presiding.

Members present: Representatives Fitzpatrick, Pittenger, King, Stivers, Ross, Wagner, Rothfus, Schweikert, Dold, Hill; Lynch, Sherman, Meeks, Green, Ellison, Foster, Kildee, and Sinema.

Ex officio present: Representative Hensarling.

Chairman FITZPATRICK. The Task Force to Investigate Terrorism Financing will come to order. The title of today's task force hearing is, "A Survey of Global Terrorism and Terrorist Financing."

Without objection, the Chair is authorized to declare a recess of the task force at any time.

The Chair now recognizes himself for 3 minutes for an opening statement.

Thank you, everyone, for joining us today for the first hearing of the House Financial Services Committee's Task Force to Investigate Terrorism Financing. I would like to begin by first thanking Chairman Hensarling and Ranking Member Waters for working to establish this important task force and reaffirming this committee's commitment to using its role to address the threat of terrorism.

It is estimated that the terrorist attacks of September 11, 2001, cost al Qaeda just $500,000 to plan and execute. Today, in 2015, the United States once again faces the specter of terrorism, this time from groups such as the Islamic State, which has a reported net worth of over $2 billion, the product of self-funding methods such as illicit oil sales, human trafficking, regional taxation, and antiquity dealing.

Today's terror organizations are more evolved, thanks in no small part to better methods of funding and financing their dangerous brands of hate, extremism, and violence. The threats to freedom and democracy posed by the Islamic State and groups like it circle the globe, and the United States can ill afford to combat these enemies on the battlefield alone. Any global strategy against terror groups worldwide must attack at their funding source. Organizations, no matter how ideologically fanatical, can't effectively function without requisite resources.

To address this vital piece of our Nation's anti-terrorism strategy, this bipartisan task force has been established and charged with ensuring the Federal Government is using every tool at its disposal to deprive groups like the Islamic State, Boko Haram, and other terrorist organizations of the funds they rely on to advance their warped ideology.

Over the course of the next 6 months, the task force will investigate financing and will work to determine if the rules and regulations the United States Government has in place are effective.

As legislators entrusted with protecting the American people, we cannot sit back and wait for terror to come to us. While our military engages with terrorists on the battlefield, and law enforcement works to protect our homeland, Congress needs to make sure that we understand the nature of the threat and how we can strike our enemy by every means. By working together, Congress will find substantive, bipartisan solutions to expand and strengthen Federal policies as well as set an example internationally, ensuring that America leads at every level of the global response to terror, from the Islamic State to drug cartels.

So it is my hope that today's dialogue between our diverse bipartisan group of Members and the expert panel of witnesses joining us leads us to a better understanding of the challenges facing us, and shapes our discussion of long-term solutions moving forward.

At this time, I would like to recognize the task force's ranking member and my colleague, Mr. Lynch from Massachusetts. He has been a valuable asset and trusted bipartisan partner as we begin this important investigation. Mr. Lynch?

Mr. LYNCH. Thank you, Mr. Chairman. I appreciate your kind remarks.

Mr. Chairman, this new iteration of the Task Force to Investigate Terrorism Financing is sort of a continuation of an effort that has been under way for some years. I want to just thank Chairman Hensarling and Ranking Member Waters really for the insight. We have been doing this work, but not under the auspices of this committee, sort of out as a separate task force, and I am just very thankful and delighted that Chairman Hensarling and Ranking Member Waters have seen the importance of this and have really resourced it and taken a very serious approach to the work that we were doing basically as volunteers, myself and Mr. King of New York and others who preceded us.

But we all understand, I think, that detecting and disrupting the flow of funding to terrorist groups is a crucial part of our fight against terrorism. And while it has proven to be challenging work, it is also vital and worthwhile, and I am honored to serve as the ranking member. And I want to thank Ms. Waters especially for allowing me to head this up for the Democratic side, and I look forward to working with Chairman Fitzpatrick, Vice Chair Pittenger, and the rest of my colleagues on the task force to improve our efforts to halt terrorist financing.

Now, we are all very much aware of the threats presented by terrorist organizations, including ISIL and al Qaeda in the Middle East, and Boko Haram and Al Shabaab in Africa. Without the financial resources, these organizations will not be able to effectively

carry out their attacks, pay their fighters, and otherwise support their operations.

Thus, one way to disrupt and to stop these groups, we believe, is to cut off their funding. In particular, we must support the important work of the Financial Action Task Force, an intergovernmental body consisting of over 30 member jurisdictions, which is dedicated to strengthening our worldwide anti-terrorism financing and anti-money-laundering policies. And also financial intelligence units (FIUs), the national centers that receive, investigate, and share financial intelligence with law enforcement agencies and international financial intelligence counterparts across the globe.

This, of course, includes our own Financial Crimes Enforcement Network (FinCEN) which is our FIU responsible for safeguarding our financial system from illicit use by collecting, analyzing, and sharing financial intelligence with U.S. law enforcement agencies and others around the world. And they have been terrific. I have worked with them in Jordan, in Afghanistan, and recently in Nigeria, Morocco, and Tunisia. They have been doing wonderful, wonderful work and they, as well as the Treasury Department, have been an outstanding presence on our behalf around the globe.

According to the U.S. State Department's 2014 International Narcotics Control Strategy Report, many of the terrorist hot spots around the world, including Kenya and Somalia, do not have adequate systems in place to track and stop the flow of funds to terrorist groups. This makes them increasingly vulnerable to money laundering and financial fraud.

Last month, members of our committee had a chance to travel to Nigeria as part of a congressional delegation through the House Committee on Oversight and Government Reform, and while there, we had an opportunity to examine the progress of regional counterterrorism efforts to combat the terrorist group Boko Haram. We arrived in Nigeria amidst media reports that Boko Haram had officially pledged its allegiance to ISIL, and in the immediate aftermath of a series of terrorist bombings perpetrated on March 7, 2015, in Maiduguri, the capital of Borno State in northeastern Nigeria, which killed over 50 people and left about 140 people wounded.

While in Nigeria, I met with the Nigerian Financial Intelligence Unit's acting director, Francis Usani. During our meeting, it became apparent that the effectiveness of the government of Nigeria's counterterrorism efforts against Boko Haram will greatly depend on its ability to address regional terrorist financing and money laundering activities.

So we in the United States can play a significant role by supporting the Nigerian FIU in further developing its anti-terrorist financing and anti-money-laundering capabilities through advanced legal and operational training and technological assistance.

Witnessing the important work of Nigeria's FIU during this recent congressional delegation demonstrated the need for the United States to continue to support international government efforts to develop robust legal, regulatory, and operational frameworks to combat terrorist financing and money laundering. This should be done in accordance with the landmark recommendations issued by the Financial Action Task Force on Money Laundering (FATF).

While the United States Government is highly committed to its counterterrorism efforts, we must ensure that our government is also doing all it can to curb the flow of funding to terrorist groups, and evolve as these organizations constantly shift their funding methods.

So in closing, I look forward to hearing the testimony from our witnesses so we can examine the issues further. I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman FITZPATRICK. I now recognize for an opening statement the vice chairman of the task force, the gentleman from North Carolina, Mr. Pittenger, for 1 minute.

Mr. PITTENGER. Thank you, Mr. Fitzpatrick. Thank you for your leadership as chairman here. And I want to pay particular thanks to Chairman Hensarling for the role that he has played and the leadership, as he understands the role of the Financial Services Committee and what we can do to help intercept the funding, the terrorist funding and, as a result, not enable our adversaries to bring about their objectives. I would like to thank Ranking Member Lynch for his continued dedication to these issues, and also thank all of the Members who have committed their time and their efforts to this important task force.

As Members of Congress, our first constitutional duty is to provide for the safety and the defense of our country. It is a duty to which we all are wholly committed. The threats around the world are growing, whether it is ISIL, Iran-backed terrorists in the Middle East, China, North Korea and Asia, Russian aggression, or Al Shabaab and Boko Haram in Africa, not to mention the drug lords right here in the Americas.

I believe one of the most effective tools we have to counter these groups is through undermining the funding for those who seek to harm America and our way of life. Now is the time for great vigilance on the part of our counterterrorist financing system, and our successes in intercepting these funds will save countless lives. Whether it is through international organizations such as the U.N., or FATF, NATO, or through bilateral partnerships, but through efforts of our own government and private sector, we need to look at these issues carefully.

I look forward to working together with each of you on this task force, and as such, creating solutions to the many problems we are facing. Thank you, and I yield back.

Chairman FITZPATRICK. I now recognize the ranking member of our Oversight and Investigations Subcommittee, the gentleman from Texas, Mr. Green, for 1 minute.

Mr. GREEN. Thank you, Chairman Fitzpatrick. And I thank Mr. Lynch, the ranking member, as well. I also would like to become one of the many who will thank the honorable chairman and the ranking member of the full Financial Services Committee, Chairman Hensarling and Ranking Members Waters. I think this is a most appropriate opportunity for us to do a good many things that will reap good benefits.

Let me ask, Mr. Chairman, unanimous consent to include in the record an opening statement from the Honorable Maxine Waters if there are no objections.

Chairman FITZPATRICK. Without objection, it is so ordered.

Mr. GREEN. Thank you.

Mr. Chairman, I think this gives us a unique opportunity to follow the money. And I think following the money can give us an opportunity to understand who our friends are, which is exceedingly important, who our frenemies are, and who our enemies are. We have a duty, as has been indicated, to protect the American people. This committee will work, my belief is, in a bipartisan fashion. And I think we have to do this, because, to be very candid, those who want to terrorize and take lives, they don't do it in a partisan way. This is an opportunity for us to show the kind of unity that can benefit the American people.

I thank you so much for the time, and I yield back.

Chairman FITZPATRICK. I now recognize for an opening statement the gentleman from Illinois, Mr. Dold, for 1 minute.

Mr. DOLD. Thank you, Mr. Chairman. And I want to echo my colleagues' thanks to our chairman, Chairman Hensarling, for his leadership and vision to create this task force, and the ranking member as well.

This is a really important topic. The United States and our allies are currently facing threats from a constantly evolving array of terrorist organizations operating around the world. Many of the terrorist organizations depend on a common source of funding, mainly from the Islamic Republic of Iran. Some may mistakenly be under the impression that a nuclear deal is the only thing standing in the way of Iran's acceptance as a good, legitimate actor on the international stage. Such an interpretation would be horribly incorrect. The fact remains that the government of Iran continues to be the world's leading state sponsor of terrorism, providing funding to Hezbollah in Lebanon, Hamas, al Qaeda in Somalia, Bashir Assad's regime in Syria, the Houthi rebels in Yemen, Iran's own Islamic Revolutionary Guard Corps and more, including funding for attacks in the western hemisphere.

We must prevent Iran from having the resources to create instability and terror activity around the world. I am greatly concerned by the recent reports that Iran would receive what amounts to a signing bonus of up to $50 billion upon completion of a nuclear deal.

I am interested in hearing today from our witnesses to underscore how Iran would use those billions to finance increased terror activity around the globe and more specifically in the western hemisphere. Thank you.

Chairman FITZPATRICK. I now recognize the gentleman from New York, Mr. Meeks, for an opening statement of 1 minute.

Mr. MEEKS. Thank you, Mr. Chairman, and Mr. Ranking Member.

It has now been a little over a decade ago since we witnessed one of the most devastating attacks on our homeland, and it happened to be in the City that I love, New York City. Since then, we have enhanced our ability to choke off terrorist financing around the globe. However, global threats continue to emerge, and we need to continue to respond in an aggressive and vigorous way. These issues are very important to my City and to us as a Nation, especially having witnessed firsthand the atrocities of terrorism, while also being the financial capital of the world, New York, with a

large concentration of international financial institutions that are also facing enormous challenges dealing with this evolving and complicated risk.

Terrorism financing is clearly an emerging threat, and as ranking member on the House Foreign Affairs Committee's Subcommittee on Europe, Eurasia, and Emerging Threats, it is a topic on which I spend a lot of time. Therefore, Mr. Chairman, I look forward to working with you and all of my colleagues on the task force in seeking more effective approaches that do not overly restrict financial institutions, but ensures that we have the proper protection and safeguards in place for all of our citizens. I yield back.

Chairman FITZPATRICK. I now recognize for an opening statement the gentleman from New York, Mr. King, for 1 minute.

Mr. KING. Thank you, Mr. Chairman. And at the outset, let me also thank Chairman Hensarling for establishing this task force. And I thank the ranking member, Ms. Waters, and also Steve Lynch for the interest and effort that he has shown in this vital issue over the years.

Like Mr. Meeks, coming from New York we saw firsthand the horrors of an al Qaeda attack. I lost over 150 friends, neighbors, and constituents. None of us ever wants to go through anything like that again. So this is absolutely essential, because financing is an integral part of the terrorist network. I think it is especially true now in ISIL, because while al Qaeda may have been able to carry out attacks with limited financing, the fact is that ISIL does require large amounts of funding because of the extent of its power right now, because of the land mass it controls, and because of the large numbers of personnel for whom it has to provide funding.

So with that, I look forward to the work of this task force, I thank the chairman for establishing it, and I look forward, as I know we all do, to working in a very bipartisan way. I yield back the balance of my time.

Chairman FITZPATRICK. I now recognize the gentlelady from Arizona, Ms. Sinema, for 1 minute.

Ms. SINEMA. Thank you, Mr. Chairman, and Ranking Member Lynch for forming and leading this important task force.

The Islamic State has become one of the world's most violent, dangerous, and well-financed terrorist groups. In 2014, the Islamic State generated approximately $1 million per day. These funds were raised predominantly through the sale of smuggled oil, but other funding streams include taxation, extortion, and kidnapping for ransom. Over the past year, this group raked in $45 million in ransom payments, and the terrorist kidnapping operation only continues to grow.

Kayla Mueller, from my home State of Arizona, was one of these captives. She was kidnapped while leaving a Doctors Without Borders hospital in Aleppo, Syria. The Islamic State demanded $6.6 million and the release of U.S. prisoners in exchange for Kayla's life. After spending 18 months in captivity, Kayla died in the custody of the Islamic State.

I met Kayla when she was a student at Northern Arizona University, working to stop genocide in Darfur. She was mature, thoughtful, dedicated, humble, and above all, caring. Her work on

behalf of humanitarian causes will never be forgotten and her legacy of love and generosity, even in the face of terror, will be forever remembered.

Terrorist groups such as the Islamic State constantly develop new ways to finance their deadly operations and threaten America. To keep our country safe, we must be one step ahead of them. I am committed to working with my colleagues to keep money out of the hands of terrorists and find solutions that protect America's safety and security. I yield back.

Chairman FITZPATRICK. And I now recognize for an opening statement the chairman of our full Financial Services Committee, the gentleman from Texas, Mr. Hensarling, for 1 minute.

Chairman HENSARLING. Thank you, Mr. Chairman. First, I don't recall a hearing where I have ever been thanked so often by so many Members on the other side of the aisle. I am very glad this is on the record. But on a serious note, I think what it shows is that when it comes to protecting our homeland, when it comes to protecting our citizens, we, again, are Americans first. I want to thank the ranking member for working to put together this bipartisan task force.

I want to thank you, Mr. Chairman, for your commitment to the issue, and I want to thank you in advance for your leadership. I want to thank the ranking member, Mr. Lynch, as well, and the vice chairman, Mr. Pittenger of North Carolina, and all the Members. You are charged with an incredible responsibility here. We know that the terrorist threat is constantly evolving, morphing, metastasizing, and so are their finances, and so you are each charged to ensure this task force thoroughly examines and evaluates any need to upgrade and improve our Nation's ability to starve the terrorists of the financial resources they need to carry out their evil attacks. I can think of no more somber responsibility than you have. I thank you for undertaking it, I look forward to the task force getting on with its work, and I look forward to hearing the witnesses in this hearing. Thank you, Mr. Chairman.

Chairman FITZPATRICK. We now welcome our witnesses. Mr. Juan Zarate is currently senior advisor at the Center for Strategic and International Studies. He is also chairman and senior counselor for the Foundation for Defense of Democracies. Mr. Zarate served as the Deputy Assistant to the President, and the Deputy National Security Advisor for Combating Terrorism from 2005 until 2009. Prior to joining the National Security Council, Mr. Zarate was the first Assistant Secretary of the Treasury for Terrorist Financing and Financial Crimes. He also served as a prosecutor in the Department of Justice's terrorism and violent crimes section. Mr. Zarate received his undergraduate degree from Harvard College and his law degree from Harvard Law School.

Dr. Jonathan Schanzer is vice president of research for the Foundation for Defense of Democracies. Prior to this assignment, Dr. Schanzer worked as a Terrorism Finance Analyst at the United States Department of the Treasury. He is also a former research fellow at the Washington Institute for Near East Policy. Dr. Schanzer has an undergraduate degree from Emory University, a master's degree from the University of Jerusalem, and a Ph.D.

from King's College, London. He also studied Arabic at the American University in Cairo.

Mr. Seth Jones is director of the International Security and Defense Policy Center at the RAND Corporation. Mr. Jones served as the representative for the commander, U.S. Special Operations Command to the Assistant Secretary of Defense for Special Operations. Prior to that, he served as a plans officer and advisor to the commanding general, United States Special Operations Forces in Afghanistan. Mr. Jones holds a bachelor's degree from Bowdoin College, and a Ph.D. and a master's degree from the University of Chicago.

The witnesses will now be recognized for 5 minutes to give an oral presentation of their testimony. Without objection, the witnesses' written statements will be made a part of the record. Once the witnesses have finished presenting their testimony, each member of the task force will have 5 minutes within which to ask questions.

On your table, there are three lights. Green means go, yellow means you are running out of time, and red means you are out of time. The microphone is very sensitive, so please make sure that you are speaking directly into it.

And with that, Mr. Zarate, you are now recognized for 5 minutes. Thank you.

STATEMENT OF THE HONORABLE JUAN C. ZARATE, SENIOR ADVISOR, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (CSIS), AND CHAIRMAN AND SENIOR COUNSELOR, CENTER ON SANCTIONS AND ILLICIT FINANCE, FOUNDATION FOR DEFENSE OF DEMOCRACIES

Mr. ZARATE. Chairman Fitzpatrick, thank you very much for the kind introduction and the invitation, and Ranking Member Lynch, Vice Chair Pittenger, and distinguished members of the Task Force to Investigate Terrorist Financing, I am honored to be testifying before you today and I thank you for the invitation.

I am very pleased to be sharing the panel, and will certainly defer hard questions to my colleagues to my right, Jonathan Schanzer and Seth Jones. I count them both as friends, but these are two of the Nation's best experts on the continued evolution and threat from terrorism, and I know they will be a great resource to you and to the Congress.

I have been privileged to work on the fight against terrorism since before 9/11, first as a Federal prosecutor, then as a Treasury official, and later as the Deputy National Security Advisor for these issues. Now, I sit on the outside with others studying, analyzing, and writing problems of terrorism and the evolution of terrorist financing.

I will tell you that the threat of terrorism is growing more diverse and dangerous, and the work of this new task force and of the committee in focusing on terrorist financing is more important now than ever before. The global threat of terrorism is adapting quickly, with the ideology spawned by al Qaeda taking hold in crisis regions and ungoverned spaces around the world. The so-called Islamic State has taken territory and erased borders in the heart of the Middle East, and runs a diversified war economy, earning

hundreds of millions of dollars as it attempts to govern and expand its reach.

At the same time, terrorist organizations have adapted to the pressure placed on their global financial networks since 9/11 and have learned to raise and manage their own budgets by becoming for-profit organizations that take advantage of the economic resources and opportunities where they operate.

Just as the problem of terrorism is more global and diversified today than ever before, the means and resources that networks and groups have to raise and move money have become more varied and localized. To contain the global reach of terrorist groups and to thwart the manifestation of their ambitions, we must disrupt their financing and force them to make operational and strategic choices.

After 9/11, we all understood that defending the country and undermining terrorism required deterring, disrupting, and dismantling terrorist funding sources and networks. Whether it is al Qaeda, the Islamic State, or Hezbollah, the reality is terrorist groups need money to operate their networks, implement logistics, maintain territory or influence, and to plan strategically against the United States.

Any terrorist group, illicit network, or even a rogue state seeking significant global reach and impact, needs access to the financial and commercial system. Financial flows and budgets become even more important as groups like the Islamic State, Boko Haram, and Al Shabaab attempt to govern and operate local economies, often baking bread and mending wounds while fighting. Money is their enabler, but it is also their Achilles heel. If you can cut off funding flows to rogue groups of states, you can restrict their ability to operate and govern, and force them to make choices, not only budget decisions, but also strategic choices.

No doubt one terrorist operation can cost as little as a thousand dollars to execute, but if that organization cannot pay for all the sophisticated training it would like, cannot adequately maintain its international and local alliances, cannot maintain and develop all the programs and operations it imagines, then its ultimate impact will be limited.

In maximalist terms, we can alter the enemy's behavior and constrain its reach by affecting its bottom line. We have had much success in the past doing this, but the economy and ecosystem in which the enemy operates is constantly adapting, and our playbook must not remain static. We know that terrorist groups have devised new ways to run local economies and take advantage of the territory they control. The Islamic State runs a diversified war economy, from oil to the antiquities trade. al Qaeda and the Islamic Maghreb has mastered the kidnap-for-ransom business. The al Qaeda affiliate in Somalia, Al Shabaab, runs a very creative charcoal-trade-based money laundering scheme to raise millions of dollars. Dangerously, the conflict in Syria and the growing Sunni-Shia divide is resurrecting old, established networks and means by which terrorists have justified support for their cause.

All the while, new technologies and innovations in the storage and movement of money and value are reshaping the international financial landscape.

There are also systemic concerns. The European system remains under stress, and inherent and dynamic tension has emerged between the isolation of suspect behavior and the need for financial inclusion. In addition, the U.S. economy and its power and its reach and the role of the dollar remains central to the ability to use these authorities. But there are real opportunities to continue to be effective in our campaign. The playbook designed over the past 13 years is still sharp and can be wielded with effect against targeted actors and networks of concerns.

The blending of terror and criminality exposes networks and terrorist groups to law enforcement and other pressure. We can operationalize the type of financial and strategic suasion that has made the campaign against terrorist financing effective, finding new allies around the world. For example, to combat the looting of antiquities for profit by the Islamic State, the United States should help empower and enlist a whole set of actors and networks already committed to the preservation of people, texts and cultures.

And finally, Mr. Chairman, a new coalition should be galvanized to stop the funding in terror and conflict from the illicit wildlife trade, especially the decimation of elephants and rhinos in Africa for their valuable ivory, which is going to fund groups like Al Shabaab and the Lord's Resistance Army.

The campaign against terrorist financing cannot be treated as a static venture, but it is an ongoing and critical part of the changing landscape and the fight against terrorism. We must constantly do everything possible to make it harder, costlier, and riskier for terrorist groups around the world to raise and move money.

And with that, I thank you for your time and attention, and I look forward to your questions.

[The prepared statement of Mr. Zarate can be found on page 76 of the appendix.]

Chairman FITZPATRICK. The gentleman's time has expired.

Dr. Schanzer, you are now recognized for 5 minutes.

STATEMENT OF JONATHAN SCHANZER, VICE PRESIDENT FOR RESEARCH, FOUNDATION FOR DEFENSE OF DEMOCRACIES

Mr. SCHANZER. Chairman Fitzpatrick, Ranking Member Lynch, Vice Chair Pittenger, and members of the task force, on behalf of the Foundation for Defense of Democracies (FDD) and its Center on Sanctions and Illicit Finance, thank you for the opportunity to testify today. I am honored to appear here alongside Juan and Seth.

For the brief time that I have allotted today, I would like to talk about two areas of concern: Iran and Turkey. Mr. Chairman, as you know, Iran is the world's leading state sponsor of terrorism. Following the nuclear framework announced on April 2nd and with the final deal expected by June 30th, the White House appears poised to provide Iran with billions of dollars in sanctions relief. This includes an estimated $100 billion that has been held in semi-restricted accounts in China, India, Japan, South Korea, and Turkey. Plus, after sanctions are suspended, Iran will be able to sell an extra $18 billion in oil. In total, Iran is set to receive up to $120 billion from this deal.

Mr. Chairman, a lot has been said about the nuclear deal, but one thing is worth noting for today's hearing: The sanctions relief could amount to the largest infusion of cash to a state sponsor of terrorism in modern history. Iran will now have more cash to bankroll terrorist groups like Hezbollah, Palestinian Islamic Jihad, the Houthis in Yemen, Shiite militias in Iraq, and more. And, actually, in today's Wall Street Journal there was a note about tens of millions of dollars from Iran flowing to the terrorist group Hamas.

Mr. Chairman, congressional oversight on the Iran deal will therefore be crucial, and so will oversight over the remaining sanctions architecture if a deal is reached. The enforcement of existing Executive Orders, and the creation of new ones when appropriate, will be vital to curbing Iranian support to terrorism.

Mr. Chairman, Congress must also do more to halt the flow of terrorism finance in Turkey. This NATO ally of ours has quietly become a real problem. Turkey's southeastern frontier, the territory along its 565-mile border with Syria, is now akin to Peshawar, Pakistan, in the 1990s. It is the primary gateway for today's jihadists, including the Islamic State and the Nusra Front.

Turkish authorities have not only turned a blind eye to the border traffic, they have also been accused of actively assisting fighters to cross the border and shipping weapons as well. Multiple reports further suggest that extremist financiers, mainly from Persian Gulf countries, have been camped out in hotels along the southeastern Turkish frontier.

The Islamic State also continues to profit from the sale of oil and antiquities through Turkish territory. At its peak, between $1 million and $2 million worth of oil was reportedly smuggled daily to Turkey's border area to be sold through middlemen. It is difficult to calculate the exact amount the Islamic State receives from the antiquities trade, but The Guardian reports that the group made an estimated $36 million by selling artifacts from one area alone.

Meanwhile, Turkey has become the top external headquarters for Hamas. Living there is Saleh Arouri, the founder of the Qassam Brigades from the West Bank. Arouri is suspected of raising funds for Hamas and of leading the group's West Bank operations. There is also Imad al-Alami, about a dozen other Hamas figures, and two well-known Hamas financiers.

There are further indications that Turkey has been assisting jihadists in Libya since 2013. Greek and Egyptian authorities have snared some weapons shipments, while Libyan authorities have stopped others. In February, Libya's internationally recognized prime minister accused Turkey of arming the Fajr coalition, and a recent U.N. Report found that Turkish firms are violating the arms embargo and shipping weapons to anti-government factions.

Turkey, it should also be noted, facilitated a massive Iran sanctions busing operation between 2012 and 2013. This "gas-for-gold" scheme was shut down by Congress, but not before Iran hauled in some $13 billion in gold.

Based on a leaked prosecutor's report last year, Iran may have also benefited from another roughly $100 billion in illicit Turkish transfers. This scheme included gold traders from Istanbul, UAE money traders, Iranian and Chinese banks, and an astounding list of senior Turkish government officials.

Looking ahead, Washington must challenge Turkey on its wide-ranging support for illicit actors. Economic pressure, a review of military cooperation, or even a review of its NATO status could be used to alter Turkey's behavior.

Mr. Chairman, my written testimony covers a range of other issues, including the intersection of crime and terrorism, challenges associated with Gulf Arab states, and Egypt's successful attempts to combat Hamas finance. I am happy to discuss if these are of interest. On behalf of FDD, I thank you for inviting me to testify.

[The prepared statement of Dr. Schanzer can be found on page 58 of the appendix.]

Chairman FITZPATRICK. Thank you, Dr. Schanzer.

Mr. Jones, you are now recognized for 5 minutes.

STATEMENT OF SETH G. JONES, DIRECTOR, INTERNATIONAL SECURITY AND DEFENSE POLICY CENTER, RAND CORPORATION

Mr. JONES. Thank you, Mr. Chairman, Ranking Member Lynch, Vice Chair Pittenger, and other members of the task force. Thank you for arranging and organizing this task force, and thank you for its bipartisan nature. I think those outside of government right now support the way in which you are doing this and the subject as well.

I am going to divide my comments into two sections: the first provides an overview of the evolving landscape, including the financial components; and the second offers some preliminary conclusions. Let me say before I begin, as I look around the world and see attacks over the past several months in Sydney, Australia, in Paris, in Ottawa, Canada, just north of us, and even the arrests within the last couple of days in Minnesota and San Diego of the ISIL-inspired individuals who were planning to go there to conduct jihad in the Levant, do demonstrate the important nature of the work that the task force is doing and the threats that continue against the United States.

Let me begin by focusing first on the nature of the threat and the financing component, and I am going to focus on really three sets of groups which I consider most important: the first is al Qaeda and its affiliates; the second is ISIL and its affiliates, which are growing; and then the third is the Hezbollah component.

What is interesting, as I look at these groups, these sets of groups, is how diverse the funding is, how challenging the anti-financing, the counter-financing efforts have to be, and the redundancy which these groups have had in trying to protect themselves from our and our allies' efforts.

On the al Qaeda front, there still is a threat. We tend to focus predominantly, including in the media, on the ISIL threat, but there is a threat that emanates from Somalia, from Yemen, from North Africa, from Syria, and now with al Qaeda's newest affiliate, the one in the Indian subcontinent from this organization. It continues to receive financing and funding from a range of different sources. I think Juan mentioned earlier that kidnapping is one source from which they have brought in hundreds of millions of dollars over the last several years.

I will note interestingly on the al Qaeda in the Arabian Peninsula front, which I still consider the most dangerous threat to the United States, based on its consistent plotting against the homeland, again, diverse set of funding from zakat, from mosque collections, from a range of licit and illicit activities, including from territory that they control and increasingly control with the collapse of governance in the country that is running farms, that is kidnapping in the country, that is taxing locals. But it is also very important—they have raided a number of banks over the past several months, including in Al Mukalla along the Gulf of Aden that has brought in hundreds of millions of dollars, by one account, about $325 million over the last several months from bank raiding.

Second would be Da'ish, or ISIL, and its affiliates. As one of my colleagues, Patrick Johnston, testified several months ago, they have really done an important different step from other al Qaeda groups in limiting their financing from Gulf donors and focusing mostly on financing from within the Levant itself, smuggling oil, as several people have noted here, selling stolen goods, kidnapping and extortion, seizing bank accounts, and then as Juan noted earlier, smuggling antiquities. There is considerable diversity among a number of affiliates, including Boko Haram.

And then finally, the Hezbollah dimension should not be forgotten. Hezbollah continues to have a notable presence in Latin America and an important role in the drug financing as well.

In terms of next steps, let me just conclude by highlighting three sets of issues which I would stress are worth considering. One is that there are more jihadist and terrorist groups than we have seen since I began focusing on this in 1988. That means being very careful on the groups that we are focusing on. And I would say I would put into this category of high-threat groups a small subset that is focusing on strikes in the U.S. homeland and strikes against the United States overseas. That is al Qaeda in the Arabian Peninsula; that is core al Qaeda, including Khorasan group in Syria; that is Da'ish, or the Islamic State; some of the inspired individuals; and Hezbollah, depending on how the Iran deal goes and Hezbollah continues to operate; the focusing on a subset of groups as being the most dangerous to U.S. security.

Second, using a range of the tools, including sanctions of individuals, attacking money laundering and charitable organizations continue to be important.

My final comment really is the third area, which I think we are the weakest at, which is targeting local sources of revenue, and that is identifying and targeting where they are keeping money. It is not just in banks anymore. We know in Yemen that they are targeting it in warehouses. So I would just focus, again, and in the question-and-answer period on the local sources of funding in addition to the formal banking and other apparatuses as a key element. Thank you very much for your time.

[The prepared statement of Mr. Jones can be found on page 47 of the appendix.]

Chairman FITZPATRICK. The Chair thanks the witnesses for their opening statements, and now recognizes himself for 5 minutes.

I want to say just sort of at the outset that I believe we all appreciate not just the time that you have spent here with us today,

but the significant amount of time with our committee and each of us leading up to today's hearing as each of the witnesses has really dedicated yourselves to public service, service for our Nation in one of the most important and sensitive and significant areas that I can think of. So we want to start out by thanking you for everything you have done for our country.

Mr. Zarate, in your opening statement, you talked about the complement of the different organizations, from al Qaeda to Al Shabaab, from 2001 to 2015, from operations that cost as little as $1,000 to multi-million-dollar operations. So a lot has changed over the last 15 years; some has not changed, some has stayed the same.

I was wondering, if you could, just a sort of deeper discussion on this question of terror financing, how it has changed, has it increased, has it diminished as a global threat, say, during the last 10 to 15 years?

Mr. ZARATE. Mr. Chairman, thank you. And, again, it is an honor to be here, so any help we can provide, I am absolutely willing to do so.

I would categorize this in three different ways. I would say that there remains the networks that have long been the historic sources of funding for violent jihadi groups around the world as well as state sponsors, and so those sources are there. What we did post-9/11 was to disrupt, dismantle them, deter them, suppress them, but with the rise of the Sunni-Shia fight, with the festering conflict in Syria, with, again, the need for humanitarian and charitable giving, some of those same networks, deep pocket donors, charities, again, are important and come to the fore.

You saw just the other day the U.S. Treasury in concert with the Kingdom of Saudi Arabia jointly designated the Al Furqan Foundation, a renamed charity from the past that continued to operate and continues to raise funds in Pakistan for purposes of al Qaeda. And so that is a demonstration that these networks, including networks, by the way, al Qaeda networks in Iran, which the Treasury has exposed, continue to operate to raise and move money. So that is there.

Secondly, to Seth's point, and this is embedded in the testimony, these groups have grown more local in raising funds, and much of that revolves around their control of territory.

The reality of terrorist financing in 2015 is that in order to disrupt terrorist financing of the type that we are describing, you have to dislodge these groups from territory. And so there is an even more important complement between our counterterrorism and our military campaigns and our counterterrorist financing campaigns than ever before, because to dislodge ISIL from its sources of resources, you have to dislodge them from Mosul; you have to take away the oil resources they have; you have to cut off the channels that they use to get money and antiquities to brokers in Turkey and Kurdistan. So there is a physical dimension to the problem that you didn't necessarily see in the 2002–2005 period.

Finally, I think you have a blending of these groups. There is a quickening of the terrorist threat and the adaptation, where not just terrorist groups are beginning to operate. General Carter Ham talked about the coordination between al Qaeda and the Islamic

Maghreb, Boko Haram, and Al Shabaab, for example, sharing money and weapons. But you also have groups like Hezbollah deeply embedded and working with organized crime and drug trafficking groups. And so what you have in this fluid global environment are groups and networks, terrorists and criminals, beginning to operate for profit with each other. And that, in addition, I think, creates not just challenges, but also opportunities.

So that is a way I would frame this. I would say you have the old networks that are still of concern and are being resurrected, the local dimension, which revolves around control of territory, and then the blending of these networks and threats that raise and move money.

Chairman FITZPATRICK. Dr. Schanzer, any follow-up?

Mr. SCHANZER. Yes. I would agree with just about everything that Juan has just stated, but I think I would note two things. One thing that has not changed at all is the challenge of deep pocket donors in the Gulf states. We knew that this was a problem in the immediate aftermath of 9/11, and when you look at the statements that have come out of the Treasury Department, we continue to see challenges out of Saudi Arabia, Kuwait, Qatar, et cetera. This is an issue that we have not fully tackled yet. There has been better cooperation in some cases, but in some cases we continue to see these intransigent countries where they are not cracking down enough. I am thinking of Qatar in particular. It is an incredibly problematic jurisdiction.

One other note, and that is that we have, to a certain extent, become victims of our own success. The Treasury has done an excellent job of driving all these actors out of the formal financial sector. It is a lot harder for them to move money in our banking system, so what they have done, as Juan has just noted, is they are now working more underground, with local sources of funding. It makes it that much harder. And we heard from Mr. Lynch earlier about the cooperation that is needed, for example in Africa and other areas of weak central authority. This becomes incredibly crucial once the formal financial sector has been shut down.

Chairman FITZPATRICK. My time has expired. I now recognize the ranking member of the task force, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you. And, again, thanks for your work on behalf of our country. I appreciate it.

The way ISIL, or Da'ish, is configured is qualitatively different than what we have been dealing with in the past with al Qaeda and Hezbollah. They actually control a huge swath of territory in Iraq and Syria. They also control some of those oil fields up around Mosul. So we have had a really hard time with their cross-border transfers. And we have been out to Al Qaim on the Iraq-Syrian border, and it is a very porous area in terms of security. Those smuggling routes have been in operation for 1,200 years, and they are still going strong.

Mr. Schanzer, your comments on Turkey are spot on. We went up—myself and Mr. Ellison went up to the Syrian border, a couple of the refugee camps there, and we were able to look at some of our aerial and satellite imagery where you have trucks going across from Da'ish-controlled areas going into Turkey selling that oil, and yet when we confronted the senior members of the Turkish govern-

ment, they were in complete denial even though we pointed out the evidence.

So we have some real trust issues there, and I am glad you spoke to that issue. But it appears that, as you said in your recent remarks, we are a victim of our own success in a way by driving out through this regulatory deployment of disincentivizing banks because of the reputational damage and the risk for them to engage in terrorist financing.

We have done very well on that part, but FinCEN and Treasury and the way we have deployed against this threat doesn't seem to address this new iteration, which is cross-border transfer of resources, whether it is oil or cash or whatever it is, we don't seem to be really configured in a way to address that.

Do you have a sense of how we could better post up against what they are doing now?

Mr. SCHANZER. Thank you for the question. And look, it is a challenge. Part of the structures right now entail FATF working with countries to establish norms to which they will be able to better, for example, handle cross-border trafficking in both cash smuggling and weapons transfers and the like, but at the end of the day, speaking to Turkey in particular, the issue is about cooperation. And as you note, if the Turks, for example, are not willing to work with us, are not willing to acknowledge the problem, we are going to have some challenges.

And so my assessment is that we need to work with the Turks to perhaps address some of their concerns about Syria. We know that a lot of the reason why they have opened this border is because they seek the downfall of Bashar al Assad, and they are very frustrated with us because we have reneged on our promises with regard to the red line, et cetera, from a couple of years ago.

Mr. LYNCH. Yes.

Mr. SCHANZER. That said, as legitimate as those grievances may be, we are going to have to get tougher with the Turks about that border. It is 565 miles long. It is manageable, but we are going to need better cooperation; they are going to have to stop the flow of weapons, the flow of fighters.

Mr. LYNCH. Thank you. I have one more minute. And Mr. Jones and Mr. Zarate, thank you as well.

One of the other things that we have been having a hard time getting at is the resource flow through hawalas. Have there been any—and I know, Mr. Jones, you mentioned zakat in terms of revenue source as well, and I think there is straight-out taxation going on in parts of the territory that Da'ish controls right now, but have we been able to get at this informal value transfer system, the hawalas and hawaladars that operate in these areas, because a lot of it is based on trust, I know it is tied closely to the mosque, and I know there is some reluctance of even our friends in that region to get involved or disrupt that. Have we had any measurable success in that regard?

Mr. JONES. Mr. Lynch, that is a great question. The hawalas have been clearly identified by multiple U.S. agencies as being a source of serious concern, and they have been for some time. There has been some success in interdicting some of the money that has flown through hawalas if they are putting it in the financial sys-

tem, so if they are putting it in bank accounts that have been disrupted. The challenge, though, is almost an intelligence one if they are using second, third, and fourth parties to hide that money in whether it is bank accounts or, in some cases, we have seen it in Yemen in warehouses, storing it in warehouses, is identifying the location of it.

So that is one issue. And, frankly, it is more of an intelligence challenge than it is necessarily of at least immediately disrupting.

Mr. LYNCH. Yes, Mr. Zarate?

Mr. ZARATE. Mr. Lynch, it is a great question. The U.S. Government has been focused on this for quite some time. I was in Abu Dhabi for the issuance of the first declaration on the need to regulate hawalas. And since then, the FATF, the U.S. Government, and others have focused on this in a regulatory perspective, and so countries like the UAE have tried to register hawalas as money service businesses, tried to impose anti-money-laundering regulations to try to bring transparency and accountability.

But Seth is right, much of this is getting into the networks. And the United States has done that relatively well, I think. If you look at the Afghan Threat Finance Cell, which was established by the DEA and the military, they have actually raided and gotten into some suspect hawaladars. Treasury has designated some of them. And at the end of the day, hawaladars, which basically rely on trusted brokers to transfer value across borders, really do provide an ability to follow the money. They keep meticulous records, they often know their customers better than bank tellers know their customers, and it is a matter of ensuring that those hawalas and hawaladars are not doing anything illegal and not dealing with terrorists. And I think that is a regulatory challenge, it is an enforcement challenge, and it is also an intelligence challenge.

Chairman FITZPATRICK. The gentleman's time has expired.

Mr. LYNCH. Thank you.

Chairman FITZPATRICK. I now recognize the vice chairman of the task force, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman. And thanks to each of you again for the extraordinary availability and access that we have had to you for briefings on these issues.

Dr. Schanzer, with the influx of likely hundreds of billion dollars, $50 billion at the signing of an agreement, as described, what capabilities do we have in terms of intelligence and manpower to intercept the transfer of these funds and the use of these funds that would clearly be diverted to Hamas or Hezbollah, the Houthis, or even a growing interest in Latin America? Can you address that?

Mr. SCHANZER. Thank you, Congressman, it is a good question. And the way that I would answer it is this: that we already have a number of Executive Orders that could help us enforce counterterror finance. I am talking about Executive Order 13224, for example, which is our primary counterterrorism Executive Order. And so, we have those things in place.

The question is, can Treasury, in relatively short order, begin to identify the people who will be responsible for moving that money and to block them from the formal financial sector, to name and shame them? And we are talking about—we already have a lot of these people identified, but there are many, many more, and so if

we are going to start to remove some of this sanction's architecture that has kept Iran out of our formal financial sector, I believe we are going to need to backfill right now and really place a lot of effort on trying to identify the ways that they may try to swarm the system with terror finance.

It is a question, I think, of Treasury's priorities, Treasury's staffing, and the overall will of the international community. My concern is that we are going to try to placate the Iranians right now and to give them as much leeway as possible under this new framework, with the idea that it is very delicate diplomacy and that we don't want to disrupt it, but if we are going to be going about our counterterrorism finance taskings, we really should be looking at ways to designate more and more right now with those few months we have remaining.

Mr. PITTENGER. Just very quickly, if you could as a follow-up, how realistic are we on these snap-back sanctions on Iran?

Mr. SCHANZER. Snap-back sanctions, I think, are a fallacy, from my perspective. The idea that we are going to start to allow a number of multi-national corporations to go in and start to invest hundreds of millions of dollars into Iranian infrastructure, and then 3 months later tell them that they are no longer able to be there because of a violation, you are going to see a lag time, you are going to see negotiations and bartering, you are going to see—the countries involved who are going to stand to lose a lot of money, they are going to try to negotiate an extension, they are going to probably try to define down the definition of what cheating looks like.

And to be clear, we expect Iran to be engaged in incremental cheating, smaller cheating, not large-scale, because they know that if they go too large-scale, it could trigger something like this. So there is going to be a very delicate dance here with the reimposition of sanctions. I do not have a lot of confidence that we will be able to snap them back as the Administration says we might.

Mr. PITTENGER. Thank you.

Mr. Zarate, give me some idea in terms of information-sharing among agencies within our own government, and also with the financial private sector. Can we do a better job of improving that to track the data?

Mr. ZARATE. Congressman, there is no doubt you can always improve how the system is operating, but I think in the context of counterterrorism and then in particular, counterterrorist financing, information-sharing is about as good as you get in government. That is not just the Treasury agencies, but the other agencies in government that have a role to play, the FBI, DHS, the intelligence community. So it works incredibly well.

And I think one thing that I saw develop over time was not just the pipes and transoms that allow information to be shared between organizations, but also communities of interest who actually know and like working with each other around the issue of terrorist financing. And so you have a counterpart, I think, within the executive, within the interagency that knows how to work these issues.

Now with the private sector, that is a bit more delicate, of course. They are obligated to share information under the Bank Secrecy Act, suspicious activity reports, currency transaction reports, that

happens by obligation, more pressure on banks to do that properly, of course. And banks now have gotten the picture that they are on the front lines, they are the gatekeepers to the financial system and have a role to play. Like it or not, that is their role. And they are now devising internally better systems to understand their own exposure and to share that information with government.

The problem I see, Congressman, is that is done in stovepipes still, that is done institution to government agency, as opposed to thinking about where is the exposure in the banking sector writ large, or in other non-bank financial sectors in the United States, and that is where you see the seams in the system that terrorists exploit, Russian organized crime exploits, and others that are trying to use and access the U.S. financial system for illicit purposes. So I see that as really the main challenge moving forward.

Mr. PITTENGER. Thank you. I yield back.

Chairman FITZPATRICK. The Chair now recognizes the gentleman from New York, Mr. Meeks, for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman.

Let me just pick up, because that is where some of my concern, Mr. Zarate, is also where we are not looking. I listened, and most of you have said that we have done a pretty good job dealing with our financial institutions, are doing all that we can in that area, but it seems as though that—and I think, Mr. Zarate, you talked about it a little bit in your testimony about social media and this new technology, and then the dark web to raise funds and cover tracks. Can you talk to me a little bit, how is that—do you see a lot of this terrorism funding now, are people trying to hide their money through these—the webs, different webs, dark web and social media and things of that nature?

Mr. ZARATE. That is a great question, Congressman. I think you have two dimensions to this. One is the reality that you have sophisticated actors using the formal financial system in creative ways, layering their activities more and more over time, and using those seams in the system that I described to their advantage. For example, you have seen FinCEN put out recently a Section 311 designation of an Andorran bank. As part of that designation, they laid out three individuals and schemes where individuals were providing money laundering advice and schemes for the customers of that bank and others involved in that network, in Venezuela, in China, and elsewhere. And so there are formal mechanisms and sophisticated actors that take advantage of the blind spots we have in our system.

In one respect, Congressman, we have not done well in understanding where there is beneficial ownership held by criminal actors or illicit actors in our system. We still don't have a regulation out that lays out what the requirements are consistently across-the-board for the financial community as to what beneficial ownership and control actually means and what the requirements are for those institutions. Believe it or not, in 2015 we are still not there. So that is an example in that first dimension.

Mr. MEEKS. Is that something that this committee should be targeting?

Mr. ZARATE. I think you should be asking hard questions of the Treasury and the Administration, my former friends and col-

leagues. This is something they have been working on for a long time, but you need to ask that question, and things like, where are investments going in the United States, how are bank accounts being used, who is opening corporations in the United States, and using those corporations as fronts? These are critical questions.

Secondly, the dark web dimension of what you described, the digital currency space, I see sort of two elements emerging. One, those in the digital currency space that actually want digital currency to be part of the formal financial system, or at least a helpful part of financial payment systems, and they are trying to finds ways of complying, they are trying to create their technological design in ways that allows that to happen.

The other side of it are sort of the more anarchist types, the folks who started things like Darkwallet, that are actually intended to not only hide movement of money, but to actually break the system. The designer of that program, somebody I have debated on the radio, who has literally said, "I want to create this as a money laundering vehicle."

And so, yes, there are those out there who are trying to use new technologies to actually evade scrutiny and counter the very notion of an open and transparent financial system.

Mr. MEEKS. And listening to your testimony—and anyone could answer this—because I am really concerned, and I have heard and know and understand the threat with Iran and what they are doing to help finance. And then on the other side with al Qaeda, you mentioned Saudi Arabia and Qatar, et cetera, and we need cooperation some kind of way between the countries in the region and others, Turkey, in order to be successful to try to wipe this thing out.

What are we missing? What can this committee look at and dig deep and ask other questions in that regard so that we could make sure that this crossing of financing is not taking place and more cooperation with the various countries in the region?

Mr. SCHANZER. I will take just a quick shot at this.

In short, we need to learn how to walk and chew gum at the same time. We need to figure out how to go after the Sunni networks. We need to figure out how to go after the Iranian networks. And in some cases it has gotten very complicated because, of course, the Iranians are working with us on some level to combat ISIL, and then we are working with the Sunnis to combat the Iranian proxies in Yemen, for example, against the Houthis. And so it has gotten incredibly complicated.

The long and short of it is that we need to hold the same standards for both sides. We need to continue to go after the Sunni actors and the Shiite actors and to try to just keep our eye on the ball.

I don't think we have done a good job at that. I think we continue to make deals with one side or the other. We are afraid to go after some of these Turkish actors because the Turks are training up a force right now that is supposed to fight Da'ish. It is a Gordian knot that we are going to need to untangle at some point.

Chairman FITZPATRICK. The gentleman's time has expired.

The Chair now recognizes the gentleman from New York, Mr. King, for 5 minutes.

Mr. KING. Thank you, Mr. Chairman.

Let me thank all the witnesses for their testimony today and also for the service they have rendered. I know Mr. Jones has testified before the Homeland Security Committee a number of times. Mr. Zarate and I have been on panels. And, Dr. Schanzer, I have certainly admired your work over the years. So thank you for what you are doing.

And I am going to try not to repeat the same questions that have been asked. Certainly follow up on Mr. Lynch or Mr. Meeks. It seems that because of the work done by people like Mr. Zarate and others, the financial institutions—let me just go back.

I would like to focus on ISIL. And it would appear that much of the work that you did and Treasury did in the early 2000s would prevent ISIL from using financial institutions to obtain funding. So let me ask you, how can this committee and how can the Treasury Department, just focusing on ISIL, what powers do we have to prevent ISIL from raising funding since so much of it seems to come from within the areas that they occupy?

Mr. Jones, you can go first.

Mr. JONES. Yes, Mr. King, that is a very good question.

One area that I would strongly suggest, and having been involved in some of this myself, is encouraging our—I think, as Juan noted earlier, there has been pretty good cooperation, especially on the terrorism financing realm. And I would say that is probably most true back in Washington. But where I think there is room for improvement is on the ground.

I will take the special operations community, which does a pretty good job of putting target packages together and going after individuals or networks. I think the financial side has been a secondary or a tertiary concern, including in places like Iraq, so the focus ends up being people who are building bombs and IEDs.

And so I would strongly suggest that we elevate the importance of targeting the financial nodes in places like Iraq. That means our military forces on the ground, including our SOF, our intel community folks on the ground, working with the Treasury and the intel community to identify the key financial nodes, including the ones that Jonathan mentioned earlier, the ones that are going across the border into Turkey. And this will be using and working with our Iraqi, our local partners, including in northern parts, our Sunni allies along the border, and targeting those financial nodes.

The air strikes and other aspects of operations are focusing on the security components, in my view, not the financial components. I think that should be a very, very important part of this at the tactical and operational level. I think that is probably our biggest weakness.

Mr. KING. Dr. Schanzer?

Mr. SCHANZER. Look, for me, it is somewhat simple. In actually trying to implement it, it is not simple, but you can break it down into its components parts. You have to stop the oil smuggling. And for that, you have to work to shut down the border areas where it is being done. It is primarily Turkey, although Kurdistan and to a certain extent Iran. And we need to work on those borders. We need to make sure that the oil can't get across.

That is going to represent some, let's say, 30 percent of the—obviously, we don't know the exact numbers, but let's just say it is 30 percent right now of the income for the Islamic State.

Then you have to shut down the donor networks. That means you need to start working with these Gulf countries that continue to supply money to the Islamic State. It means doing it in their own jurisdictions.

It also means doing it in these border towns that we have seen across southern Turkey where they are camped out in hotel rooms, and they are literally doling out cash to the jihadists when they come back. And they will show them, they will hold up their phone and they will show them the videos of the attacks that they carried out in exchange for more payment from these donor financiers. That has to stop, and we have to start to work with these Gulf countries.

You have to shut down the antiquity sales. We have to figure out who these people are who are paying for the antiquities after these cities are being looted by the Islamic State.

Mr. KING. I am running out of time. If I could go to Mr. Zarate on that, as a follow-up on that.

If you were in Treasury today, what could you do to address the issues Mr. Jones and Dr. Schanzer mentioned?

Mr. ZARATE. The first thing I would do, sir, is reinstate the Iraq Threat Finance Cell, which we had created in 2006, to look at how al Qaeda in Iraq and the insurgents were funding themselves. They are engaged in bank robbery, oil smuggling, kidnap for ransom. All the things we are talking about now, they were doing on a microscale then. And you need the intelligence and analysis to map it, Congressman.

Second, they do touch the formal financial system. Keep in mind, there are approximately 90 banks in Iraq that fall under ISIL' territory. They control some banks, we think, in Syria. And so at some dimension, they are still touching the formal financial system.

And then to Jonathan's point, these markets are very important. I think I would have a mapping project around the particular markets, oil, antiquities, look at the brokers, the money service businesses, all that at some point begin to touch the formal financial system.

And then I would bring in the law enforcement community more aggressively to say, look, we have trade transparency units at customs. We have agents at DEA who know how to get into these networks. We have to get to the customs and port authorities to cut this off.

And so I would have an all-out effort that isn't just about Treasury authorities, but it is about the complement of authorities on the ground with the intelligence community, the military, and law enforcement.

Mr. KING. Thank you.

Let me apologize to Dr. Schanzer. The clock was running out, that is why I had to go to Mr. Zarate.

Thank you very much for your testimony.

And thank you, Mr. Chairman.

Chairman FITZPATRICK. Thank you.

The Chair recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

Permit me to ask about the U.N. We have talked about the necessity for cooperation. And I would like to know to what extent is that achievable through the U.N., and are there obstacles to achieving success in the U.N.? And just be brief, because I have a couple of other areas that I would like to explore, so I will trust that you will move forward quickly.

Mr. ZARATE. Congressman Green, good question.

The U.N. is incredibly important in this regard. The sanctions regimes that are established under the Chapter 7 obligation, making it mandatory for all countries to put in place the provisions, has been a very important parallel and complement to all of the targeted sanctions programs that the United States has put in place.

And so Executive Order 13224, which is our terrorist financing Executive Order that has been implemented, is complemented by U.N. Security Council Resolution 1267, and more broadly, 1373. There is, from February of this year, a new U.N. sanctions resolution on ISIL funding.

And that is important because it obligates countries then to do what the U.N. demands. And in some countries there isn't really independent authority other than what is demanded by the U.N. And so that in many ways enables the global community to try to shut down financing in other markets for these terrorist groups.

Mr. GREEN. I am going to accept that answer, and I will come back to you if there are others who would like to give an additional answer, because I want to talk for a moment about Hezbollah in Latin America. I understand that they are there for a reason. They seem to be in the drug business, according to what I have been told.

Can you give me some indication as to whether or not they are spending some of this capital in Latin America to produce a certain outcome, and if so, what do you think that outcome is?

Mr. JONES. That is a very good question. I think there is a lot on Hezbollah's activities that we are not entirely clear about, but I think that what we are clear about is that they are raising substantial funds, and they do have relationships with a number of drug cartels in Latin America.

As for their broader goals, one goal, in addition to financing, does appear to be their interest in spreading what I would call this broader Shia network operating not just in South America, but also in Central America. That means developing a relationship with IRGC Quds Force, Iran's paramilitary arm, and then spreading that relationship into places like Venezuela, Ecuador, and Peru. There are informal Shia community centers across Latin America where we know Hezbollah individuals have gone in and established relationships.

I think there is also a potential concern down the road that if they were to need to strike at some point, as they have in the past, including in Argentina, they have cells in place that they could use to conduct terrorist strikes.

Mr. GREEN. Anyone else care to add anything more?

Mr. SCHANZER. I would just add one thing to what Seth said. We have been watching Argentina very closely lately after the apparent murder of Alberto Nisman. This is the investigator who was looking into an alleged, very deep relationship between the current government in Argentina and the Iranians. We are still trying to get a sense of what was happening, but he was prepared to provide very significant testimony about this relationship and ended up being shot in the head and killed.

And so, we are watching this very closely. There is a lot of concern that Iran may be looking at Argentina as an area of influence that they would like to expand upon. And that could include nuclear cooperation, include financial cooperation, looking to set some kind of a perch in Latin America.

I would also just maybe add one more thing about the U.N.: It has been crucial in terms of international cooperation against al Qaeda and the Taliban. One thing that I would note is that it is lacking in that it will not designate Hezbollah, it will not designate Hamas. There is really a constrained group of actors that the U.N. is willing to designate, and so it allows for countries to say, well, we don't need to go after Hezbollah or Hamas because they are not part of the U.N. system.

Mr. GREEN. Thank you.

With the time left, I am very concerned about young people in this country who travel to these distant places at some amount of expense. To travel from the United States to Turkey for a teenager requires some amount of money, and I am curious as to whether or not these organizations are sending money to them or finding some way to fund this travel, or are they doing it with their own resources?

Mr. JONES. I think, Mr. Green, the answer depends on which cases we are looking at. I think with the recent case of the six individuals from Minnesota, two of whom were arrested in San Diego, they used that money themselves. They were going to be paid once they landed in either Turkey or Syria. And so, the networks would have picked up their funding once they got into territory controlled by ISIL.

But my understanding is they used their own money to buy the plane tickets, and they cleared out their accounts before they left. It doesn't cost a lot to fly over there, but it does cost a lot for them to stay once they are there.

Mr. GREEN. Thank you.

And thank you for being generous with the time, Mr. Chairman.

Chairman FITZPATRICK. The Chair recognizes the gentleman from Florida, Mr. Ross, for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman.

Mr. Zarate, to follow up on what one of my colleagues, Mr. Pittenger, was talking about, prior to 9/11 there was this almost independent activity amongst the investigative agencies of the United States. Since 9/11, have you seen greater cooperation, including in information technology, so that there is a greater sharing of resources and intelligence?

Mr. ZARATE. I think the answer is yes, absolutely. Part of that is the necessity of the threat. Of course, part of it is the institutions that have been created to do that precisely as their mission, the

National Counterterrorism Center, for example, some of the intelligence offices. Keep in mind that in 2004 the Treasury created the first-ever Office of Intelligence and Analysis that Jonathan was a key part of, the only finance ministry in the world, by the way, that has an Office of Intelligence embedded in it.

Mr. ROSS. And is there still room to grow, or do we have the safety net in place?

Mr. ZARATE. No, there is room to grow, in two respects. One, there is need in the government, despite the post-Snowden criticism, for better technology to consolidate information. I think the reality is we do not correlate data as well as most citizens think we do, the government.

Mr. ROSS. Right.

Mr. ZARATE. And I think that technology needs to improve.

I think there also needs to be, as I alluded to before, a better sort of dynamic of sharing information with the private sector to understand where the real vulnerabilities lie in the system. Not the one-off cases, not the one-off suspicions, but where are the real systemic weaknesses in key sectors? That is still to be done.

Mr. ROSS. And those vulnerabilities are even significantly domestic, are they not? In other words, is there not a significant threat of terrorist dollars being invested domestically here and that we are having problems following?

Mr. ZARATE. Terrorist, criminal, illicit, and they often blend, and I think that is a real danger. You saw, for example, with the Hezbollah case tied to the Lebanese Canadian bank, the use of 20 used car lots in the United States, and financial mechanisms in North America to funnel money from South America into West Africa, back into Lebanon, into the coffers of Hezbollah to the tune of hundreds of millions of dollars.

And so there is no question that in a global financial commercial system, the United States remains central, and we have vulnerabilities just like other parts of the system.

Mr. ROSS. Any particular regulations or anything that you would recommend at this point domestically that we would use that aren't already in place to try to track the investment of these terrorist funds?

Mr. ZARATE. I would go back to Treasury and the U.S. Government and ask, where are we on the beneficial ownership rules that are required of the system? This is part of the customer due diligence that is required of financial institutions by regulation. And the reality is we don't have a common set of expectations put out by regulation as to what that really means and what that means in terms of State cooperation formation and in terms of how we monitor beneficial ownership in our banking system.

Mr. ROSS. One other question. With regard to, Dr. Schanzer, when you talked about the $50 billion that may be a signing bonus for Iran in the nuclear deal, is there any way to follow that? Do we have anything in place that would allow us to follow that?

Mr. SCHANZER. Technically, if they move this money through the formal financial sector and you could watch electronic transfers—

Mr. ROSS. But that is unlikely, isn't it?

Mr. SCHANZER. That is exactly right. You are looking at a country that has gotten very good at working through cutouts and

through front companies. In some cases, we have been hearing about pallets of cash arriving in Hezbollah-controlled territory in Lebanon or in Yemen. And so that is, of course, incredibly difficult to follow. You just have to have great intelligence of the fact that it is on its way.

Mr. ROSS. Right. And, in fact, would you say that there is a great deal of cooperation between the various terrorist groups, between Hezbollah, Hamas, Al Shabaab? Would one ever draw the conclusion that there is a terrorist central bank?

Mr. SCHANZER. I would say that Iran is probably the terrorist central bank in terms of the connections that it has across all these various terrorist groups. And there is this notion out there that Sunnis and Shiites don't work together, but as Juan mentioned earlier, there is a significant cell of al Qaeda operatives and financiers who are based in Iran.

Mr. ROSS. And I will give you my last minute here to follow up on what Mr. Zarate talked about with regard to, what would you do if you were in charge? I know we want to work with Turkey, but if they are not going to work with us, how do we enforce? We have the U.N. that does resolutions but won't enforce resolutions in non-U.N. countries. What would you do? What would you suggest, what action should we take in order to make sure that there is an enforcement provision to stop the flow of these dollars?

Mr. SCHANZER. I think there are a couple of options available, and all of them will make people a little bit uncomfortable because we have this very deep relationship with the Turks, a longstanding friendship, a NATO alliance. But I think that we could, for example, start to designate individuals that we understand are part of this trade.

You could look at financial institutions as well that are part of these networks. Now, this could induce a certain amount of shock to the Turkish system, and, of course, President Erdogan has been—

Mr. ROSS. But it might get their attention.

Mr. SCHANZER. Yes, it will get their attention. I am not saying to do it all at once and sort of drop napalm.

Mr. ROSS. Right, an incremental way to do it.

Mr. SCHANZER. But really targeted financial sanctions that could start to spook them a little bit.

Mr. ROSS. Thank you. I yield back.

Chairman FITZPATRICK. The gentleman from Minnesota, Mr. Ellison, is recognized for 5 minutes.

Mr. ELLISON. I would like to thank the chairman and the ranking member.

Gentlemen, thanks for all the good work you are doing to protect our country. It is really important. And I just want to echo the sentiments of my colleagues who have asked good questions and praised you for the hard work you do.

But I want to get your views on the other side of the problem, which is doing such a good job that good people earning money in, say, my district in Minnesota, have a tough time getting it to their good family members in Somalia. It is not just a problem that my constituents come to me about, there is also a national security angle here too, because it is not good for Somalia, which relies on

40 percent of its gross domestic product for foreign remittances, to lose that and then be subject to the truly bad people.

I think it is important for me to point out that the people who recruit my constituents, or try to, or send money to Al Shabaab with money that they try to raise, are the true enemies of the Somali people and my constituents. And I thank you for trying to stop them.

But how do we thread the needle such that we stop the bad money, which you guys are really good at doing, but allow the people who are legitimately just trying to make sure school fees and meals and all that, that money is getting through, which I think you would agree is the overwhelming majority. Could you all speak to this?

Mr. ZARATE. Congressman, this is a critical point. It is something I mentioned in my testimony, and I mentioned in my book, that the strategies of financial exclusion, which is really what we have been perfecting over the last 13 years, could reach a tipping point where you begin to harm the very important policies of financial inclusion.

And to your point, that begins to do several things. One, it is denying access to the financial system to those who need it and who we want to have access to it. That is everything from charities to money remitters to those in the financial system trying to get money abroad.

And that has been an effect of the de-risking that the financial community has been engaged in. Banks are saying: Look, it is not worth our time or the risk to engage in Somali remittances, for example. We don't know if Al Shabaab, pirates, or some other criminals are going to be on the back end of that receiving money.

And so I think there is a range of things that need to be done, first and foremost, I think with the industries involved, both the banks and the money remitters, organizations like Dahab-shil, which is the big Somali remitter, which is dealing with this issue not just in the United States, as you know, Congressman, but also in the U.K. acutely with the Somali British community.

They need to come up with ways of understanding who their customers are on the back end, because without that last mile of assurance, there aren't going to be many legitimate financial institutions that are willing to stick their neck out to say: We want to do business with these folks without knowing who we are doing business with. And so I think that is first and foremost.

Second, we need to be creative with what governments can do in terms of safe harbors or safe corridors.

Mr. ELLISON. I agree.

Mr. ZARATE. The U.K. government is experimenting. I know you have been working with the Treasury and the White House on this. And I think that is important. I think we need to be creative.

Third, we need to be better with our intelligence. To Seth's point, we actually need to understand where these money flows are going because, as you say, much of it is going for good causes, to feed families.

Some of these charities are doing good things, and we don't want to shut that out of the system, in part because that provides information and intelligence, in part because it is good for the global

economy, and in part because you do want compliance and legitimate actors in these spaces. You don't want these spaces absented and filled by nefarious actors or those who aren't really going to care about what the U.S. Congress or what the U.S. Treasury says.

And so we are really at an interesting moment because it is not just what your constituents are dealing with, sir, but it is really what the financial community is dealing with in terms of derisking, because the banks feel at risk and other sectors need to do their—

Mr. ELLISON. Let me dive back in with my minute here. I just want to point out that as I talk to OCC, Treasury, FinCEN, the whole gang, I think that we had one Member of Congress who asked them all—we had a meeting with all of them and the question was asked, "Who is in charge?" And they all said, "We all have a piece of it."

I think that for the financial services sector it would help a lot if we could say, "You can do this, you cannot do this," and try to get on the same page with that too.

Look, the United States spends a lot of money on AMISOM, which is the international security force in Somalia. What if we spent some money to help stand up a Somali central bank that met international AML standards?

I don't have any time left, but I wonder if you could try to respond to that. It seems like a dollar well-spent to me.

Mr. ZARATE. I think a central bank in Somalia would still have to deal with some of those last-mile risks that we are talking about. And I agree with you, there needs to be creativity, there needs to be more clarity. I think the real challenge when you talk about terrorist financing writ large and conflict zones is there is always going to be ambiguity, and the question then is how do you manage the risk around money flows in that ambiguous space.

And I think you see it in spades in Somalia, you see it obviously in Syria, you see it around the world, where you actually do want funds to go in for proper and good purposes, but you have to figure out a way that those dollars or pounds aren't getting into the wrong hands.

Mr. ELLISON. Thank you.

Chairman FITZPATRICK. The gentleman from Pennsylvania, Mr. Rothfus, is recognized for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

And thank you, gentlemen, for being here today, and for your long service to the country and the work you have been doing.

Dr. Schanzer, I wanted to ask you a question. In your testimony you detailed the actions of Iran, Turkey, Saudi Arabia, Kuwait, Qatar, and Egypt to fund terrorism around the world. And you all mentioned, the entire panel mentioned that apart from Iran, all these countries are widely regarded as allies of the United States.

Dr. Schanzer, out of these allies that you mentioned, which country is the worst offender in terms of terrorism financing, and what are we doing to address it?

Mr. SCHANZER. Thank you, Congressman. I should just note as a caveat that I wanted to note that Egypt is doing a particularly good job right now. I don't want to include them in the hit list that I provided you.

But look, when we look around right now, the Treasury Under Secretary, David Cohen, who is now at the CIA, noted last year that Kuwait was the worst. Although I think we have less insight into all of the different actors, and we have identified one minister, for example, who was ultimately forced out of his job because he himself was involved in fundraising for ISIL and other extremist groups.

But, again, we don't have a lot of insight there. The Qataris are another major problem. We know that Hamas is based there. We know that a number of individuals who have been designated by the U.S. Government, in fact designated by the U.N., have returned home to Qatar and they are there with impunity. They are not in jail. They are able to travel. So the Qataris have done a rather horrible job of enforcing our designations, and they don't seem terribly concerned.

Mr. ROTHFUS. I want to follow up on that point, because you mentioned "deep-pocket donors" in Gulf states. Do we know the identities of these donors?

Mr. SCHANZER. In many cases, we do.

Mr. ROTHFUS. And where are their deep pockets? Where are they keeping assets that they can then draw on to fund terror?

Mr. SCHANZER. This is the ultimate question that we are trying to answer. And this is where cooperation with the United States Government, I think both carrot and stick, is going to be incredibly important. The fact that we know these people are there, we know the fact that they are involved in this illicit financial activity—

Mr. ROTHFUS. Are they holding assets in Kuwaiti banks or Qatari banks?

Mr. SCHANZER. We believe so.

Mr. ROTHFUS. Mr. Jones and Mr. Zarate, same question with respect to identifying donors. And we had some discussion here about individuals who set up at hotels in Turkey and fund terror. Do we know the identities of some of these people?

Mr. JONES. Yes, in many cases we do.

If I can just add one caveat: The challenge that we have with groups like ISIL, though, is that they are increasingly not relying on state donors for their assistance. That is what makes this group different from some of the other ones we have identified. They are specifically trying to get away from this vulnerability and not rely on Gulf donors.

Virtually every piece of declassified intelligence documents that have come out from the Counterterrorism Center have strongly suggested they are getting away—something like 1 or 2 percent comes from outside donors. So some groups—and this is why I think it becomes important to differentiate—are really trying to get away from that.

Mr. ZARATE. Seth is right, but that may be increasing over time as their control of oil resources, for example, is diminished and their brand continues to expand. And so what you have seen I think in recent months has been more not only momentum internationally with more groups flying the banner of ISIL, but more micropayments in.

So you have seen cases, for example, from Australia, from North America, from around the world where it is not so much that ISIL

is sending funds out, but they are demanding micropayments in. And so you have the problem of deep-pocket donors potentially, but also micro-investors in the Islamic States venture, and so that is a real challenge.

In terms of deep-pocket donors, this has always been the golden fleece of the counterterrorist financing mission. Who are these individuals? And I am a little less optimistic that we know exactly who they are.

Mr. ROTHFUS. But we know some of them.

Mr. ZARATE. We know some of them. And we also aren't always sure we know what their motivations are. In the context of Syria, this is what makes it so complicated. Are these individuals raising funds for humanitarian needs for refugees or are they intending their funds to go to Jabhat al-Nusra and the Islamic State to buy bombs and bullets?

It is very hard to figure that out. And so, who is a deep-pocket donor or not becomes a very difficult question and an intelligence challenge.

Mr. ROTHFUS. I wanted to just talk to, really quickly, Dr. Schanzer, about Iran. I agree with you that Iran continues to be the worst actor and presents the greatest threat to the United States and our allies in the Middle East. So assuming there is a deal agreed to by June 30th, how much of a sanctions architecture will remain at all, and will it be effective in preventing Iran from sponsoring terrorism, whether Hezbollah, Hamas, the Houthi rebels, militants in Afghanistan, or the Islamic Revolutionary Guard?

Mr. SCHANZER. As we understand it, we are going to see the erosion of the U.N. sanctions architecture, the erosion of the European sanctions architecture. It is likely that they will be put back on—

Mr. ROTHFUS. But just really quick, given their sponsoring of terror, wouldn't sanctions be justified independent of a nuclear program?

Mr. SCHANZER. This is where I think congressional oversight should be crucial.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Chairman FITZPATRICK. The gentleman's time has expired.

The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Thank you.

One of the things we ought to be worried about is the financing of ISIL intentionally by our friends. You have the Iraqi government making payments to civil servants in Mosul. That money is taken, in part or in full, by ISIL. I have asked numerous Administration witnesses, and they haven't answered it one way or the other, but it is my understanding that the Iraqi government provides electricity to Mosul and ISIL collects the electric bill.

So the government of Iraq does not seem to be all that serious. Yes, the people of Mosul are citizens of Iraq, but General de Gaulle, during World War II, never sent free coal, oil, or food to the people of occupied France, for a very good reason. He was serious about dislodging the Nazi occupiers.

One question I have for whichever witness feels best or most interested in answering is, what can we set up so that Americans

with families in Somalia can send money to their family members knowing that it is getting to the right person and not going to Al Shabaab?

Mr. ZARATE. Congressman, good question. We addressed this a bit with Congressman Ellison earlier.

I think the challenge here is there is no easy solution because the question, regardless of the mechanism, whether it is something from a U.S. Government facility, a safe harbor through the private sector, some new central bank function in Somalia, all ideas have been out there.

The question is, how do we assure ourselves and those sending money and the regulators and enforcers that the last mile of transaction is understood? That is to say, we understand where the money is actually going and who is receiving it.

Mr. SHERMAN. Yes. Even if it gets to the right person, that person could be robbed by Al Shabaab the next day.

Mr. ZARATE. Right.

Mr. SHERMAN. But could we certify certain financial operators that this is a company that will get the money to your relative and is not associated with terrorists?

Mr. ZARATE. I think there is a way of thinking about that, sort of a consumer best practice that is part of it. But there is not going to be, I think, from the U.S. Government, at least based on what I know—I am not in government anymore—a white list provided or a safe harbor that will give a get-out-of-jail-free card.

Mr. SHERMAN. The easiest thing for our government to do is to do nothing and then decry the problem and say there is nothing that can be done, because if they were issued such a white list they would solve maybe 90 percent of the problem, but there would be at least one mistake on that list and then we would skewer them for it.

Mr. ZARATE. Right.

Mr. SHERMAN. Let me go on to the next question.

Southeast Turkey has become a jurisdiction for terrorist financing, weapons smuggling, illegal oil sales, a flow of fighters into Syria. This, of course, serves Jabhat al-Nusra, as well as the Islamic State. Have any of our witnesses seen evidence that Ankara is deliberately turning a blind eye to those using its territory to aid Jabhat al-Nusra or the Islamic State?

Mr. SCHANZER. Congressman Sherman, I recently wrote an article with a colleague of mine at FDD where we tried to address this problem. We have seen several indications, unfortunately. One indication was, in fact, a conversation that took place with a senior government official who confronted the Turks about this issue specifically and was told that this was something that the Turks needed to do for now in order to bring down the regime of Bashar al-Assad, and that after Assad falls, then they would be able to take care of the problem in a way that only the Turks knew how.

Now, color me a little skeptical that this is something that you can roll back. I think that actually over time the fact that they have allowed extremists of various stripes to go in has actually created a security problem on the other side of the Turkish border. We now understand that there is infrastructure there representing the Nusrah Front, ISIL, other Salafi and jihadi groups. And so if the

Turks begin to crack down now, you could see blowback inside Turkey. And I think that has a lot to do with why the Turks have allowed this problem to get worse over time.

Mr. SHERMAN. I should point out, however, that the Iranian-led alliance of Assad, Iran, the Houthi, Hezbollah, has killed far more Americans and is far more dangerous in the future than even those who have made these gruesome videos or who attacked us on 9/11.

I believe my time has expired.

Chairman FITZPATRICK. The Chair recognizes the gentleman from Illinois, Mr. Dold, for 5 minutes.

Mr. DOLD. Thank you, Mr. Chairman.

And I want to thank our witnesses for your service to our country, and thank you for testifying today.

I wanted to start with Mr. Jones, if I could. Mr. Jones, your testimony highlights the expansion of Hezbollah and Iran into the Western Hemisphere, specifically in Latin America. I was wondering if you could walk us through the growth of Hezbollah and Iran's terror activities in Latin America.

Mr. JONES. Sure. The growth of Hezbollah in part is a function of Iran's growth over the past decade or two. Particularly the key node for a while, while Chavez was alive, was through Venezuela. And so Venezuela, Ecuador, and Bolivia became key nodes for Hezbollah activity in the country, the tri-border area in particular, but also Margarita Island, ended up being key nodes for Hezbollah activity. They have increasingly gained revenue, access to drugs that are flowing from places like Latin America into West Africa and then back into Lebanon.

I think there is also an interest in building, and we have seen some of that, including in Central America, an infrastructure that can conduct what we call in the military realm kinetic strikes, if that is viewed as important, generally against either Israel or Israeli Embassies or potentially U.S. ones in the future, if there was a decision to do that.

I can go into a lot more detail here or later, but I think that is a 30,000-foot—

Mr. DOLD. No, I appreciate that, and we certainly want you to go into more detail, at least I would, and we can do that offline but not here during questioning.

One of, obviously, the concerns we have is this growing footprint, not just as we are focusing right now in the Middle East, but this is growing and expanding as this role of terror throughout the world.

Dr. Schanzer, I wanted to talk for a second just on sanctions with Iran. You talked a little bit about it with Mr. Rothfus. And as we look at this Iran deal and the potential $50 billion coming in, Iran is notorious in terms of just being the greatest state sponsor of terror. Can you give us an idea in terms of the sanctions infrastructure that was in place, did that have an impact of stopping some of the terror financing?

Mr. SCHANZER. In short, the answer is yes. And I believe that sanctions infrastructure was ultimately what prompted the Iranians to come to the table to negotiate.

Let's just say I am disappointed at the way that we have already released a significant amount of those funds over time. There has

been $900 million at a time just to keep Iran at the table, and that has added up to almost $15 billion by the time we reach the deadline.

Then, on top of that, we are going to see perhaps that $50 billion signing bonus. And then there is going to be another $50 billion from the semi-accessible accounts that Iran has in places like China and Japan and Turkey and others. And so, that is all going to be released as well.

Mr. DOLD. So that is over $100 billion: $117 billion.

Mr. SCHANZER. We are talking about roughly $120 billion all in when this deal is made, that is what Iran stands to gain, not to mention the ongoing sale of oil, which they will continue to do.

But the most crucial aspect of the sanctions architecture is actually the SWIFT system, the banking software that Iran was kicked off of, save about a dozen banks. That is ultimately, I think, the thing that the Iranians are most eager to see reinstated.

And one of the things that I am curious about, and it could be something that this task force could look into, is what SWIFT plans to do in the event of a final deal with Iran. Will they allow all of these banks to get back on to the system? If they do, then you are really going to see a massive flood of Iranian cash going back and forth on the formal financial network.

Mr. DOLD. Your hearing today—talk to the American public, they don't think Congress works in a bipartisan fashion. Let me just emphasize to you all that this is an issue that is wildly bipartisan in terms of trying to protect the United States. We looked at each of you and others to try to help us. This isn't just us deciding to call you up before Congress and spend some time. We want to figure out what we can be doing to have a legitimate impact on trying to stem the tide of terror financing around the globe.

And so with my 16 seconds, Mr. Zarate, can you give us some more concrete examples of what we should be doing, either through Treasury or through oversight, and it obviously is not going to necessarily be legislation?

Mr. ZARATE. You are absolutely right, Congressman. I think this issue has always been bipartisan and it always should be.

Mr. DOLD. Absolutely.

Mr. ZARATE. And I commend you all for treating it as such.

Three key areas: First, I would say, what more can we do to sharpen the tools and the power that we have to reach beyond our borders to use the tools of financial exclusion?

Second, we need to look at what our defensive posture is, because we have taught the world how to use these tools. The Russians and the Chinese have begun to understand how to use resources and the economy as weapons in hybrid warfare and otherwise. So, what does that look like?

And third, to the discussion we were having earlier, what does a strategy of financial inclusion look like as a complement to the strategies of financial exclusion?

Those are three thematic areas I would look at, and I think you have lots of work to do within those categories.

Mr. DOLD. I look forward to working with you all.

Thank you, Mr. Chairman.

Chairman FITZPATRICK. The gentleman from Arkansas, Mr. Hill, is recognized for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman.

And I thank all of you for your testimony today and for your work to protect the homeland.

Of course, American banks are heavily regulated in the bank secrecy arena—CTRs and SARs have been referred to. Talk to me a little bit about the Middle East, North African arrangements and the international banks that are not Western European, Far East, or American, on what they do in the money laundering regime in that regard, the equivalent of a Bank Secrecy Act and reporting regime.

Mr. ZARATE. Part of the strength of this effort, and it is important to note, is that it is international in scope. And so it is not just what Congressman Green was talking about in terms of the U.N. system, but you do have these international norms and principles that are adopted by the Financial Action Task Force, and leveraged by the IMF, the World Bank, Interpol, and the U.N.

And so you do have these standards of anti-money-laundering, anti-terrorist-financing, anti-proliferation-financing, which are the heart of the international system. So everyone is supposed to be playing by those rules.

The challenge is, of course, you have different levels of capacity, but interestingly, the private sector, which has been at the forefront of this, has been pressured to put in place the kinds of anti-money-laundering systems and sanctions screening processes that adhere to law, are very sensitive not just to their own jurisdictions, but to what the U.S. Treasury and what Western banking capitals demand.

Why? Because they need the connectivity for correspondent banking purposes. They have to plug back into that system. And so not just their own governments, but these Western banks are now demanding to know and to be assured that their systems actually work, that they know their customers, that they can screen transactions, that they can implement the OFAC sanctions from Treasury, even in the heart of Africa.

That is really a good news story and it is part of the structure. The difficulty is not all jurisdictions and not all banks are in the same place, and we have to lift all boats to the same level of compliance. That is a hard thing to do.

Mr. HILL. Mr. Jones talked about targeting financial targets as a part of our espionage operation, and I would like to hear a little bit more about that. When you referenced that a trade was made with $13 billion of gold, by my quick calculations that is about 338 tons of gold. So I am curious how that was transported, assuming it is not just done through a customs receipt.

Mr. JONES. I think that comment came from Mr. Schanzer.

Mr. HILL. If you both maybe address it, talking about, do we set an expectation in special ops, for example, that they are given a mission of looking for opportunity on the financial side as opposed to a security threat? So maybe Dr. Schanzer, go first on the gold question, then I will go to Mr. Jones on that.

Mr. SCHANZER. Sure. Congressman Hill, the $13 billion that I mentioned was actually over 2 years there were transactions that

were taking place between Turkey and Iran where the Iranians were selling oil and the Turks were sending back gold. They have found a loophole in the sanction system that enabled them to do this as long as the gold was not destined to the government of Iran, but rather to individuals.

And so what they were doing is literally taking gold that was coming out of the bazaar in Istanbul, melting it down into bricks, and sending them back one shipment at a time, and doing that over the course of 2 years. Now, as it happens, Congress caught wind of that and shut down what we are now calling the "golden loophole."

What was remarkable to me about that was that we actually gave it a 6-month burn before it was actually put in place. So for an additional 6 months—and this is still inexplicable to me—this trade was allowed to continue and the Iranians and the Turks were allowed to continue to settle up.

And so in total, it ended up being $13 billion. But those, whatever it was, 338 tons that you mentioned, that took place over many airplane shipments over the course of 2 years.

Mr. JONES. On the targeting, here is my general sense, and I was in the Yemen region recently. My strong sense, the focus of our efforts, just to use the Yemen example as one case in point, the focus of our efforts in Yemen right now are primarily targeting al Qaeda in the Arabian Peninsula operatives, that includes our strikes, that includes some of the limited training that we have done, not on the financial sides.

So if we take the Al Mukalla bank that was raided, about $325,000, $350,000, but we have seen hundreds of thousands of dollars raided by other bank accounts. Some of that was kept in warehouses. My sense is the focus of our efforts is not going to target finding these locations and raiding them. They are targeting individuals from the ideological committees, from the military committees of al Qaeda, and not the financial committees. And I would say that needs to be a major priority.

Let me just say on the other banking question that Juan answered, we have had very good cases of organizations and banks, like Kabul Bank, which have been used for terrorism financing, for money laundering. And I saw President Ghani when he was here recently. He has been willing to look a lot more carefully at banking efforts and the use of Kabul Bank for that.

So I think getting allies in place and leveraging their interest and willingness to do that is helpful. And I would highlight the Kabul Bank case as a positive news story.

Mr. HILL. Thank you for your generosity, Mr. Chairman.

Chairman FITZPATRICK. The gentlelady from Missouri, Mrs. Wagner, is recognized for 5 minutes.

Mrs. WAGNER. I thank you very much, Chairman Fitzpatrick and Ranking Member Lynch. Thank you for your support and your dedication.

I am grateful to Chairman Hensarling for establishing this task force, and to all of you, our panelists, for your service and for joining us today to go over the current landscape of terrorist financing, which is quickly changing and growing.

I had the privilege and the honor of serving for 4 years as a United States Ambassador in one of the financial hubs of Western Europe, which was Luxembourg. And, Mr. Zarate, we worked on a few things together. And I must tell you, stopping terrorist financing as a United States Ambassador during that time period was probably some of the most rewarding work that I have ever done, and I am thrilled to be a member of this task force.

Since arriving in Congress, I have taken on another top priority in addition to the work I do on Financial Services and on other committees, and that is to combat human trafficking both domestically here in the United States and abroad.

I am very glad to hear that the Senate has reached an agreement to move forward on important legislation addressing human trafficking here in the United States. However, it is an even greater problem abroad, and I saw this firsthand as a United States Ambassador. Reports indicate that terrorist groups are engaging in it, both to produce revenue for their organizations and to decimate communities that they occupy.

Groups such as ISIL and Boko Haram have been known to kidnap women and children and either sell them, as we have talked about a little bit here in terms of the kidnapping, or keep them as slaves.

To what extent, and I will open this up to all of our panelists, is human trafficking occurring among terrorist groups, and how is this being used as a source of terrorist financing?

Mr. JONES. One perspective is that, certainly I think it is occurring with every major organization we are talking about, so it is a problem. It is not their only source of revenue. My sense is where the most significant components of revenue come from are in extortion and ransom paid as part of human trafficking efforts. And we have seen groups like Boko Haram do this, al Qaeda in the Islamic Maghreb do this—seize individuals as part of human trafficking networks and then sell them.

So I think this is one issue. I am not entirely convinced this has been a major effort of our intelligence community and our military in targeting them, certainly not as much as they could.

Mrs. WAGNER. I would agree, and that is why I would ask, are there any that you are aware of, any current policies or activities, both in the United States or internationally, that are being utilized to crack down on human trafficking by terrorist organizations in order to receive that revenue and that terrorist financing money?

Mr. ZARATE. Madam Ambassador, it is great seeing you again.

Mrs. WAGNER. It is good to see you.

Mr. ZARATE. And thank you for your work in Luxembourg. The key work done in banking centers around the world after 9/11 was critical. So thank you.

I think what you have seen with human trafficking is that it has been handled in three categories. The first is as sort of its known niche issue, and so it hasn't been seen as a broader dimension of the problem of terrorist financing or illicit financing writ large. Second, it is seen in the context of particular conflicts or crises, and so you get a lot of focus when it comes to Syria, for example, or particular crises. And then third, where it does touch terrorism and illicit conduct, it is largely in the ransom context, as Seth said.

And so you don't have an overarching sense of, okay, let's look at human trafficking from the perspective of a major source of illicit finance for not just terrorist groups, but transnational organized crime groups that are often aligned with or operating in parallel with these terrorist groups.

And when I talk in my testimony about needing to look for new allies in the international system, this is precisely what I am talking about. It may not be that we need an overarching sanctions regime around this issue, but we do need to coalesce around the issues that are providing sources of funding for terrorist groups: wildlife trafficking; human trafficking; and antiquities. These are issues where you do have communities of interest who have information, and have the ability to shut it down. And we need to empower them as part of a broader strategy.

Mrs. WAGNER. I appreciate that, and I would ask the chairman if this is something that we can certainly as a group and as a task force look into in terms of more that can be done to restrict specifically human trafficking and the money that is being realized by these groups.

Briefly, and I know it has been touched on, I just want to say, and you brought it up, about the sale of artifacts and antiquities, this is a growing, growing, area. And I would say it is the Islamic State's second source of terrorist financing.

I have been working with some key outside groups and stakeholders. They are going to be meeting with the committee and doing some briefings. And I look forward to following up on this. This is an untouched area. But in the art world, antiquities and artifacts are the second-leading source in terms of terrorist financing, and this is, again, something that I look forward to the committee being briefed on and delving into.

So I appreciate all of your time and service.

Thank you, Mr. Chairman. I yield back.

Chairman FITZPATRICK. I appreciate the gentlelady's work in this area.

The gentleman from Arizona, Mr. Schweikert, is recognized for 5 minutes.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

I have a couple of, sort of, scenario questions. The first one I would love to get my head around is, it is always follow the money, tainted money from around the world, whether it be drug trade or other rather evil or dodgy activities, how does it flow right now? How is it washed, how is it laundered, how is it moved so in many ways it is spendable? And are those mechanics now being used to move terrorist money?

So the scenario I am going to ask you to walk me through is, is there a nexus now of the cocaine trade washing money? Are those infrastructures now being used to move terrorist money?

Mr. ZARATE. I think it is a great question, Congressman, because there is in some ways different ways of raising money and moving money depending on the category of groups that you are talking about. But at the end of the day, there is a melding of methodologies among the types of networks that we are concerned about.

Mr. SCHWEIKERT. But methodologies are service providers, as we might call them.

Mr. ZARATE. Both.

Mr. SCHWEIKERT. Are there mercenaries out there saying, "Look, my job is I wash cash and move it."

Mr. ZARATE. Yes. And, again, the Section 311 action under the PATRIOT Act put out by FinCEN just recently that designated as a primary money-laundering concern this Andorran bank made very clear that they were doing this in part because that bank was being used to facilitate the funneling of tainted money from around the world through very particular money-laundering service providers. And so, that is exactly right.

You also have cases, and I alluded to this earlier, of Hezbollah, for example, engaging in drug trafficking, working with drug-trafficking organizations, and then figuring out ways to launder the money. And so you had a bank like the Lebanese Canadian Bank operating in Canada with a presence in Beirut, serving as the financial vehicle through which the funds for that drug trade and the sale in used cars was actually then funneled back to Beirut for purposes of Hezbollah. So that is an example of where you get the blending of the methodologies.

Mr. SCHWEIKERT. And for everyone, because I can work on a scenario in my head, and hopefully it is not too fanciful, of where you end up with a worldwide sort of consortium washing money, and in some ways it is almost like the mechanics of, okay, we have so much value here, credit our account there. And you start being able to move value around without actually even picking up the pallets of cash. Am I wrong?

Mr. SCHANZER. You are not wrong. And a great example of that was there was a corruption report that was leaked out of Istanbul last year and we saw this massive network of gold traders that were based in Istanbul, money traders that were based in the UAE, Chinese banks, Iranian banks. And there was an incredibly complex scheme where—I will give you a great example of a tactic known as over-invoicing, where a UAE company sold sugar to Turkey at $438 a pound. That is some good sugar. And it was ultimately then sent back into the coffers of the Iranians.

Mr. SCHWEIKERT. That is almost the perfect example of the scenarios, and yet they could use legitimate trade channels through that overpricing.

In the last 90 seconds we have, could you walk a scenario through with me. Just randomly, I am in Great Britain, I want to provide a large block of cash to terrorists or warfighters in Syria. How does that money make its way? Walk me through the path.

Mr. ZARATE. You could do it several ways. You could do it through aid organizations. You could establish a charity or use existing charities and use the licenses and exemptions and the sanctions regime to actually move money into charities that you know are being used or that are controlled by a terrorist organization. So that is a simple example through the terrorism context.

You could, if you wanted to grow more complicated, you could establish a front company, base it in any sort of offshore banking center, establish a bank account in a certain name, make sure you understand who the intermediary is in a particular bank, for example, in Turkey, and you establish the account. You have complicit bankers perhaps helping you do that. And the money gets shipped to

Turkey, the cash exported through ATM or otherwise, and then moved across the border into Syria.

Mr. SCHWEIKERT. All right. Thank you.

Mr. Chairman, at some point, I think it would be fascinating to build a handful of little charts so there is sort of the graphic representation of, here is how illicit money flows, and even start to take a look at it moving around the world, and then maybe also the weapons and products of human destruction that sort of move the other direction with the money.

And with that, I yield back.

Chairman FITZPATRICK. Comments are noted.

The gentleman from Maine, Mr. Poliquin, is recognized for 5 minutes.

Mr. POLIQUIN. Thank you, Mr. Chairman.

Gentlemen, all of us who are in public office take an oath to support and defend the Constitution, which, of course, extends to making sure that our families are protected here in the homeland and beyond. I want to thank all of you gentlemen for the great work that you are doing helping keep our Americans safe. This is a nonpartisan issue, which I am thrilled about. All of us in this room and all of our American families, I think, have been increasingly alarmed at the growth of terrorism and the level of savagery that has been displayed. So it is really critical that we stay as a country on offense; we must prevent this risk from coming to our homeland beyond the way it has already happened.

Now, we probably also remember 9/11 beyond the horrific loss of life; it put us into a recession. And so the threat of terrorism around the world is also to disrupt our quality of life, our way of life, our prosperity, and our freedoms, because when you have an economy that goes into a recession as a result of a terrorist attack, of course, you don't have the tax revenues to educate your kids, to build your roads, or to defend yourself. So you are doing great work and I am thrilled to be a part of this.

Now, a couple of things I have heard today already as my colleague from Minnesota and my colleague from California, all mentioning the same issue that we have up in our Second District of Maine and throughout our State is how do we continue to make sure that our immigrant populations are able to help their families back home without that money falling in the hands of terrorists? We have about 5,000 Somali immigrants in the State of Maine, and a good portion of them live in Lewiston in my district. Many of them are shop owners, hardworking, and they send $100 or $200 a month back home to their relatives such that they can be clothed and fed and be educated.

And we all have a vested interest in this, because if those folks back home in Somalia have better lives, then they are less tempted to engage in terrorist activities, which keeps us safe here at home.

So we clearly have to fix this problem. You talked about the last mile from the point at which the funds are received in Somalia and to make sure they get in the right hands. Have you folks engaged with any of our regulators, the Federal Reserve, the FDIC, you have certainly done a lot of work in this regard, to make sure there are processes, there can be processes? How do we solve this problem to make sure that our Somali families in Lewiston who are

now unable, through the normal banking channels, to get this money back home to their relatives, don't start using other conduits that may, in fact, be shady and/or illegal and be an increasing threat to our homeland? Sir?

Mr. ZARATE. I certainly talk to my former colleagues at Treasury about this, and they are seized with the problem. I think the challenge for the U.S. Government is, as we talked about before, government is very wary of providing full-blown assurances or guarantees of any sort that would allow the private sector sort of the assurance to be able to do this kind of business.

That said, I do think there is a need for creativity here. This is a new kind of problem and one where we need to balance the need of financial exclusion, make sure Al Shabaab, for example, isn't getting remittances, but realizing exactly what you described, which is these remittances are essential for the economy in Somalia and important for our Diaspora communities, and so what does that look like. I think there have been some creative ideas, but I haven't seen movement around what those ideas actually would become.

Mr. POLIQUIN. Would that jurisdiction, in your opinion, sir, be relative to this committee? What would be the process you would suggest that we go through to make sure we solve this problem for our families throughout this country?

Mr. ZARATE. From my experience as the Assistant Secretary of the Treasury for these issues, any time Congress sent a letter to the Secretary of the Treasury, it got the Treasury Department's attention.

Mr. POLIQUIN. Got it. Thank you very much. I would like to move on to another question, if I may. I think I have time, Mr. Chairman, for one more.

There has been a little bit of discussion today about if the sanctions are lifted on Iran, it would result in a cash infusion to their economy of $120 billion to $170 billion, depending on some of the numbers with which we all are comfortable. Could you give me an idea, Mr. Schanzer, of what that represents to the Iranian GDP on an annual basis, and also, what would that money buy them and how would that possibly affect a risk to our U.S. security?

Mr. SCHANZER. Thank you for the question. I don't have all the economic numbers handy, but I am happy to send you those. We can have our office send them over to you later today if you would like.

The thing that I think is worth noting, though, is that what we have is roughly $100 billion that has been held in these offshore accounts. That $100 billion has only been able to be tapped by the Iranians for approved goods. So in other words, it has only allowed them to buy medicine, food, all the things that would make sure that there is no dual-use items and those sorts of things. So now what you are going to have is the opening up of these floodgates where there will be no restrictions whatsoever.

So it is not really—from my perspective, it is not about the GDP or what percentage is—what kind of increase we are getting, it is the fact that you are going to have the restrictions lifted entirely on where they can send their money and how they can do it. Of course, there will be regulations that remain in place, the Execu-

tive Orders that we discussed and the like, but the Iranians are going to have a much freer hand with that cash.

Mr. POLIQUIN. Thank you very much, gentlemen. Keep up the good work.

Chairman FITZPATRICK. The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman, and thank you for your leadership on this task force. As we are approaching the end of this hearing, I want to just express my appreciation for being included on the task force. This is perhaps the most important responsibility that we have as Members of Congress, to make sure that the American people are safe, that our allies are not threatened by terrorism, and in our capacity as members of the Financial Services Committee, obviously stemming the tide of funding for these terrorist organizations is a critical part of that objective. Thank you to our panelists for your expertise and your contributions in this area.

And if I could just follow up on my colleague from Maine and his very good line of questioning with respect to Iran, Dr. Schanzer, if you could just elaborate a little bit not just about what it would mean to have an additional $120 billion-plus in sanctions relief for the GDP of Iran, but specifically, if you could elaborate on your testimony, your written testimony about how—what can we predict or what might we foresee in the way of scenarios of channeling of these additional dollars that Iran would accumulate as a result of additional oil sales and banking activities, international banking activities in the way of prior conduct, specifically Hamas, Hezbollah, and the rebels in Yemen.

Mr. SCHANZER. Thank you, Congressman. So what we have is a pretty prolific country here in terms of terrorism finance. Hundreds of millions of dollars have flowed from Iran to Hamas. We have seen missiles being sent from Bandar Abbas over to Sudan, from Sudan smuggled up into Egypt, and then from there across the Sinai Peninsula into the Gaza Strip, and we are talking about thousands and thousands of those rockets. Of those 3,500 rockets that were fired into Israel last year, many, many of them came from Iran. Iran has also been taking people out of the Gaza Strip, and training them on how to manufacture these rockets themselves. So a lot of this is investing in human capital as well. We can expect this to continue.

We believe also that some of the tunnel-digging equipment that has been used by Hamas has been provided by Iran. So there is a broad range of activity here; the direct financing; and the rocket-making and the training.

Hezbollah, also hundreds of millions of dollars. They right now are currently believed to be in possession of 90,000 rockets, many of them Iran-supplied, facing south at Israel right now, and they, of course, maintain a vast infrastructure across the globe.

Mr. BARR. So to the direct question is—if I could just interject—if this proposed agreement is finalized, can we anticipate, given the sanctions relief that would be made available to the government in Tehran, a rapid acceleration of this type of financing of these terrorist organizations?

Mr. SCHANZER. Absolutely, across-the-board. Houthis, the Assad regime, Hezbollah, Palestinian Islamic Jihad, Hamas, every one of these groups stands to benefit. They are all salivating right now at this idea of a cash infusion.

Mr. BARR. And I know the other witnesses would like to weigh in. As you weigh in, could you just comment on the earlier testimony that Congress would need to work to backfill the sanctions? What do you mean by that, and how is that even possible, given the level of sanctions relief that is contemplated under this agreement?

Mr. ZARATE. Congressman, I think one core question for the U.S. Government is how do we treat the Revolutionary Guard of Iran? They are designated under the U.N. Sanctions for nuclear purposes. They are not designated for purposes of terrorism. The Quds Force is, which is a part of the Revolutionary Guard. And so one dimension that you could consider is, what does the U.S. Government and Congress consider in terms of the Revolutionary Guard. Why is that important? Because in addition to what Jonathan has laid out with such great articulation, you have the Revolutionary Guard engaged in infrastructure projects.

Cyber activities against U.S. banks: Keep in mind that the distributed denial of service attacks that affected U.S. banks, some of them have come from Iran.

And you have major corruption in the context of the mullahs and the ayatollahs running bone yards around the world. And so it is not just all of the very nefarious things that Jonathan has laid out, it is these other systemic things that the Revolutionary Guard and the regime itself can now finance and fund and continue to do. And I think Congress has a responsibility to ensure that those kinds of activities aren't allowed to continue in the wake of a nuclear deal where we may be hamstringing ourselves to use the sanctions regimes that apply to those other activities.

Mr. BARR. One final question for Mr. Jones: Da'ish and ISIL, how effective have American efforts been so far at stopping the flow of financing to ISIL?

Mr. JONES. I think the evidence is pretty straightforward. They are well-funded. There have been some successful efforts to limit their money from oil smuggling and the money that is coming from refineries, but they are well-funded. They are getting that money centrally and pushing it out to a range of places, including in Anbar province. But I would say across-the-board, they have sufficient amounts of funding to continue to operate not just in Iraq and Syria, but to continue to make and establish networks in Afghanistan and in Pakistan, where we have seen them, in Libya, in Somalia, and in Yemen and a range of other locations. So it has not dented their ability to try to expand.

Mr. BARR. Thank you. My time has expired, and I thank you for your testimony. And it just goes to show we have a lot of work ahead of us. Thank you. I yield back.

Chairman FITZPATRICK. The gentleman yields back.

On behalf of the task force, I want to, again, thank the witnesses for your testimony and your time here today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing.

Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

Without objection, this hearing is adjourned.

[Whereupon, at 12:14 p.m., the hearing was adjourned.]

A P P E N D I X

April 22, 2015

Congresswoman Maxine Waters
Opening Statement
Task Force to Investigate Terrorism Financing, hearing entitled "A Survey of Global Terrorism and Terrorist Financing"
Wednesday, April 22, 2015 10:00 a.m., in HVC-210 Capitol Visitor Center

Thank you, Mr. Chairman, and I'd like to thank the witnesses for taking the time to be here today.

This hearing marks the first of the Financial Services Committee's "Task Force to Investigate Terrorism Financing," and I am pleased to note the bipartisan spirit in which this effort has begun.

This approach to the critical issues at hand will serve us well in better understanding the threats and the adequacy of our current counter-terrorism financing efforts.

Just last week, we marked the one-year anniversary of the kidnapping of 276 innocent Nigerian girls by the terrorist group Boko Haram. Today, more than 200 of these girls remain missing.

In the Middle East, the Islamic State has emerged as the most violent and richest terrorist group in the world; showing callous disregard for human life, committing horrific acts against the people of Syria and Iraq, while kidnapping and decapitating two American journalists, among others.

Some of these groups have risen to such a level of nihilism that one wonders if they even know their own aims anymore, other than as henchmen of destruction and death.

When al Shabab militants burst into a college in Kenya earlier this month and massacred 142 students, they also destroyed the lives of many of those who lived as well -- the families, the friends, and all those in the country for whom the unthinkable is no longer remote.

How we respond to these heinous acts of terror is as serious an issue that this committee will face. I hope that with continued attention and focus, we will take the most effective actions possible to help stop these terrorists for whom human life has no meaning.

Testimony

Breaking the Bank

Undermining Terrorist Financing

Seth G. Jones

RAND Office of External Affairs

CT-430

April 2015

Testimony presented before the House Financial Services Committee, Task Force to Investigate Terrorist Financing on April 22, 2015

This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND®** is a registered trademark.

Published 2015 by the RAND Corporation
1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138
1200 South Hayes Street, Arlington, VA 22202-5050
4570 Fifth Avenue, Suite 600, Pittsburgh, PA 15213-2665
RAND URL: http://www.rand.org/
To order RAND documents or to obtain additional information, contact
Distribution Services: Telephone: (310) 451-7002;
Email: order@rand.org

Seth G. Jones[1]
The RAND Corporation

Breaking the Bank
Undermining Terrorist Financing[2]

Before the Committee on Financial Services
Task Force to Investigate Terrorism Financing
United States House of Representatives

April 22, 2015

Chairman Fitzpatrick, Ranking Member Lynch, and members of the Task Force to Investigate Terrorism Financing, thank you for inviting me to testify at this hearing, "A Survey of Global Terrorism and Terrorist Financing." I commend the bipartisan nature of the task force and its focus on U.S. efforts to undermine terrorist financing. I have divided my comments into three sections. The first provides an overview of the evolving terrorist landscape, the second briefly examines terrorist financing, and the third offers preliminary recommendations.

I. The Terrorist Threat

While there are a substantial number of terrorist groups today, I will focus on three sets: al Qa'ida and its affiliates, Da'ish and its affiliates, and Hezbollah. These sets include the groups most threatening to the United States.

First, al Qa'ida is led by Ayman al-Zawahiri, the fiery Egyptian who took over when Osama bin Laden was killed in 2011. Al Qa'ida's goal continues to be the establishment of an Islamic caliphate that extends from Africa through the Middle East, South Asia, and parts of the Pacific. From its base in Pakistan, al Qa'ida's primary strategy is to work with its affiliates—such as al Shabaab in Somalia, al Qa'ida in the Arabian Peninsula in Yemen, al Qa'ida in the Islamic Maghreb in North Africa, Jabhat al-Nusrah in Syria, and al Qaeda in the Indian Subcontinent in South Asia—to overthrow local regimes. Zawahiri and his colleagues seek to replace these governments with ones that implement an extreme interpretation of Islamic law, or sharia.

---

[1] The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of RAND or any of the sponsors of its research. This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.
[2] This testimony is available for free download at http://www.rand.org/pubs/testimonies/CT430.html.

Second, Da'ish—also referred to as the Islamic State of Iraq and the Levant, Islamic State of Iraq and Syria, Islamic State of Iraq and al-Sham, or simply Islamic State—has emerged as al Qa'ida's premier pan-Islamic Sunni competitor.[3] Formerly al Qa'ida in Iraq and then the Islamic State of Iraq, Da'ish broke away from al Qa'ida in early 2014 after a series of personality, ideological, organizational, and tactical disputes. Its leader, Abu Bakr al-Baghdadi, could not bear to remain under the control of al Qa'ida any more. And Da'ish's anti-Shi'a attacks and brutal executions, including beheadings and burnings, were too extreme even for al Qa'ida. Similar to al Qa'ida, the goal of Da'ish is to establish a radical Islamic caliphate. "Rush O Muslims to your state. Yes, it is your state," said Baghdadi in a recent announcement, asking for volunteers to emigrate to Iraq and Syria to fill key positions.[4]

Da'ish leaders have focused most of their operations in Iraq and Syria. But they have also attempted to expand their network into Africa, other countries in the Middle East, and Asia. In Nigeria, for instance, the terrorist organization Boko Haram recently pledged its allegiance to Da'ish. While the move might end up nominally aiding the group with fundraising and recruitment, it may also have been motivated by a desire to counter the recent military setbacks that Boko Haram has suffered at the hands of Nigerian and neighboring government forces. In Libya, Da'ish sent emissaries in late 2014 to meet with extremist groups across the country in an effort to establish a formal relationship. Da'ish fighters now control key sections of Libyan cities like Surt, along the Mediterranean coast. In Egypt, leaders from the group Ansar Bayt al-Maqdis, based in the Sinai Peninsula, pledged their loyalty to Da'ish in 2014. Da'ish has even established networks and been involved in attacks in Afghanistan, including allegedly perpetrating the April 2015 bombing at a Kabul Bank branch in Jalalabad, which killed roughly three dozen civilians.

While Da'ish and al Qa'ida both want to establish Islamic caliphates, they differ in important ways. Da'ish is less reliant on funding from Persian Gulf donors and raises money from such activities as smuggling oil, selling stolen goods, kidnapping and extortion, and seizing bank accounts. While both movements view Shi'a Muslims as infidels, Da'ish has regularly targeted Shi'a. As its beheadings and burnings highlight, Da'ish operatives have also been more inclined to conduct grisly attacks. A decade ago, al Qa'ida leader Zawahiri wrote a letter to al Qa'ida in Iraq extremists—the predecessors of Da'ish—warning that its gruesome practices were counterproductive. "Among the things which the feelings of the Muslim populace who love and

---

[3] Da'ish is an acronym from the Arabic name of the group, al-Dawlah al-Islamiyah fil 'Iraq wal-Sham.
[4] Abu Bakr al-Baghdadi, "A Message to the Mujahidin and the Muslim Ummah in the Month of Ramadan," Al-Hayat Media Center, June 2014.

support you will never find palatable—also—are the scenes of slaughtering the hostages," Zawahiri scolded.[5] The warnings went unheeded.

Other Sunni jihadist groups, such as the various Ansar al-Sharia organizations in Libya, are members of neither Da'ish nor al Qa'ida. Overall, the number of Sunni jihadist groups jumped 58 percent between 2010 and 2013.[6] Libya, for instance, has become a breeding ground for new groups after the collapse of its government, which followed only four years after the overthrow of Muammar Qaddafi. While Qaddafi's demise and the July 2012 democratic elections represented a remarkable achievement for political freedom, Libya faces massive challenges. The bureaucracy is weak and well-armed militias control much of the countryside and urban areas. Ansar al-Sharia Libya, a loose collection of extremist groups, has emerged into this vacuum. Based in such cities as Benghazi, Darnah, and Misratah, which hug the Mediterranean coast, the various Ansar al-Sharia factions seek to establish sharia in the country.

The number of extremist fighters has also increased dramatically, more than doubling between 2010 and 2013 to a high of over 100,000 fighters. The wars in Syria and Iraq are the single most important attraction for fighters. Extremist groups represent a significant portion of the Syrian rebel manpower against the Assad regime. The levels of extremist violence have also grown. Among al Qa'ida affiliates alone, the number of attacks more than doubled between 2010 and 2013. But most are not directed at the United States—or the West more broadly. Roughly 98 percent of these attacks targeted local regimes and civilian populations across such countries as Iraq, Syria, Yemen, and Somalia.[7]

This rise in Sunni extremism has been caused, in part, by a growing weakness of governments across Africa and the Middle East, where the Arab uprisings created an opportunity for extremist groups to secure a foothold. Since 2010, governance indicators in these areas have dropped markedly in such categories as political stability, rule of law, and control of corruption, according to World Bank data. The surge has also been caused by the transnational movement of fighters trained on such battlefields as Iraq, Syria, Afghanistan, and Pakistan. These wars have provided a unique environment for extremists to pray, share meals, train, socialize, and fight together. A growing number of operatives have moved from these battlefields to new locations in Africa, the Middle East, and South Asia.

---

[5] Letter from Ayman al-Zawahiri to Abu Musab al-Zarqawi, July 9, 2005.
[6] Seth G. Jones, *A Persistent Threat: The Evolution of al Qa'ida and Other Salafi Jihadists*, Santa Monica, Calif.: RAND Corporation, RR-637-OSD, 2014.
[7] The data in this paragraph come from Jones, 2014.

Third, Hezbollah remains one of the most capable terrorist organizations in the world. The group's original aims were to establish a radical Shi'a Islamist theocracy in Lebanon and to destroy Israel. In recent years, Hezbollah has developed proficient governance capabilities and participated in parliamentary elections in Lebanon. It has also established cells and infrastructure in place across the globe, from Latin America and Africa to Europe and Asia. The 2006 war between Hezbollah and Israel demonstrated that Hezbollah's paramilitary wing, Al-Muqawama al-Islamiyya, has evolved into an adept guerrilla army. Hezbollah has also supported some Palestinian militants and provided fighters to Syria in support of the Assad regime. Hezbollah's threat to the United States has varied over the years. In 1983, for example, Hezbollah conducted a suicide attack that killed 241 U.S. Marines, 58 French paratroopers, and 6 civilians at the U.S. and French barracks in Beirut. But Hezbollah's primary adversary remains Israel. This could change, for example, with a deterioration in U.S.-Iranian relations.

II. Terrorist Financing

Based on the current terrorist landscape, this section will briefly examine the financing of the groups highlighted in the previous section.

A. Al Qa'ida and Its Affiliates: Core al Qa'ida has received funding from multiple sources, such as private donations to front charities. Some of al Qa'ida's affiliates have increasingly raised money through kidnapping, using an elaborate network of middlemen and negotiators to exchange their captives for funds. According to one assessment, al Qa'ida and its affiliates earned at least $125 million in revenue from kidnappings between 2008 and 2014.[8] This may be why the head of al Qa'ida in the Arabian Peninsula, Nasir al-Wuhayshi, remarked: "Kidnapping hostages is an easy spoil, which I may describe as a profitable trade and a precious treasure."[9]

Overall, al Qa'ida affiliates finance themselves in different ways. Al Qa'ida in the Arabian Peninsula, for example, has traditionally funded itself through several mechanisms. The first is through *zakat*, or philanthropic religious donations to al Qa'ida-connected collectors. A second is through mosque collections, though this has been regulated to some extent at larger mosques in Saudi Arabia. Although some donors may know how their money is being used, others may believe their donations are used by more legitimate Islamic charities. A third funding mechanism is through a wide range of licit and illicit activities, such as running farms and seizing bank

---

[8] Rukmini Callimachi, "Paying Ransoms, Europe Bankrolls Qaeda Terror," *New York Times*, July 29, 2014.
[9] Callimachi, 2014.

accounts. Over the past year, for example, al Qa'ida in the Arabian Peninsula has secured hundreds of thousands of dollars from raiding banks in such Yemeni cities as Al Mukalla, a port city located on the Gulf of Aden.

Al Shabaab derives much of its funding from its own activities, particularly taxation of trade and other forms of business occurring in, or passing through, its areas of control in Somalia. The group's control of the strategically important southern port town of Kismayo—prior to losing control of the city in September 2012—was particularly important, including facilitating its illicit trade in charcoal. Al Shabaab also controls parts of the southern Kenyan border region, through which there is a significant flow of smuggled goods. In addition, the group is reported to tax farmers in its territory. Al Shabaab has also received funding from its sympathizers based in Western countries, including in the United States.

B. Da'ish and Its Affiliates: Da'ish receives money from such activities as smuggling oil, selling stolen goods, kidnapping and extortion, seizing bank accounts, and smuggling antiquities.[10] Alongside intimidation to gain access to arms caches, Da'ish has previously extorted cash and monetary tribute from other insurgent groups and community leaders. Controlling the derivative fuels market (gasoline, cooking gas, and diesel) has historicall been a particularly lucrative sector for Da'ish, which has diverted shipments of fuel to external markets (such as in Jordan and Syria) to take advantage of higher prices there. Following Da'ish's capture of Mosul in June 2014, the group raided several banks in the city. Meanwhile in Syria, Da'ish militants on July 3 seized control of the Al-Omar oil field in the Deir ez Zour governorate. This oil field—the largest in Syria—had been under the control of Jabhat al-Nusrah. The seizure of oil and gas facilities has been a key priority for Da'ish in its operations across both Syria and Iraq, though Da'ish revenues from oil have recently been degraded.

There is considerable diversity among Da'ish's affiliates. Boko Haram, for example, carried out a series of raids on banks to secure finances after its establishment. Over time, Boko Haram has increasingly relied on such measures as extortion. Its operatives have made telephone calls or sent text messages to individuals, threatening violence if they fail to pay. Boko Haram has also received substantial funding from kidnapping.

---

[10] See, for example, Patrick B. Johnston, "Countering ISIL's Financing: Testimony Presented Before the House Financial Services Committee on November 13, 2014," Santa Monica, Calif.: RAND Corporation, CT-419, November 2014. On antiquities, see Financial Action Task Force, *Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)*, Paris, February 2015.

C. Hezbollah: Hezbollah receives some assistance from Iran. As Hezbollah leader Sheikh Hassan Nasrallah remarked several years ago: "We have been receiving since 1982 all kinds of moral, political and material backing from the Islamic Republic of Iran." His statement was the first time he openly admitted that Iran provided aid. "In the past we alluded partially to this truth," Nasrallah remarked. "We used to speak of a moral and political support while keeping silent when questioned about our military backing so as not to embarrass Iran. But today . . . we have decided to speak out."[11] In addition, Hezbollah has extensive fundraising capabilities of its own. Hezbollah's welfare and educational programs are run by charitable foundations, which collect money, often legitimately, from Shi'a Muslim communities inside and outside Lebanon. The group also benefits from a diverse series of licit and illicit activities in Lebanon, Iran, Latin America, West Africa, and elsewhere, including construction, credit card fraud, illicit drugs, sale of counterfeit goods, foodstuffs, and clothing manufacture.

III. Policy Implications

U.S. efforts to undermine the finances of terrorist groups must be done as part of a broader effort to undermine terrorist ideology, target its key leaders, build the capacity of local allies, and take other steps. They must also involve coordination among multiple U.S. agencies and allies—such as foreign governments, international institutions, and non-governmental organizations—overseas. Following are several steps that remain important.

A. Focus on the Most Significant Threats: Because of the sheer number of terrorist groups today, the United States should focus on targeting the finances of those groups that present a substantial threat to the United States. Terrorist groups can be divided into several categories: (1) groups that pose a high threat because they are involved in active plotting against—or encouraging attacks in—the U.S. homeland; (2) groups that pose a medium threat because they are involved in plotting attacks against U.S. facilities (such as embassies) and U.S. citizens overseas; and (3) groups those that pose a low threat because they are focused on targeting local regimes or other countries. Table 1 provides an overview.

---

[11] "Hezbollah Chief Boasts of Iran Military Support," *Agence France-Presse*, February 7, 2012.

Table 1. Terrorist Threats to the United States

	High Threat	Medium Threat	Low Threat
Characteristics	Plotting against U.S. homeland and U.S. targets overseas (e.g. U.S. embassies)	Plotting against U.S. targets overseas, but little or none against U.S. homeland	Limited or no active plotting against U.S. targets overseas or U.S. homeland
Examples	• Al Qa'ida in the Arabian Peninsula • Core al Qa'ida (including the Khorasan Group) • Da'ish • Some inspired individuals and networks	• Al Shabaab • Ansar al-Sharia Libya groups • Al Qa'ida in the Islamic Maghreb • Hezbollah • Boko Haram • Jabhat al-Nusrah	• East Turkestan Islamic Movement • Imarat Kavkaz

The highest threat likely comes from al Qa'ida in the Arabian Peninsula, core al Qa'ida (including its Levant cell, sometimes referred to as the Khorasan Group), Da'ish, and a range of inspired individuals. With the collapse of the Yemeni government, al Qa'ida in the Arabian Peninsula retains a capability and desire to target the U.S. homeland and U.S. interests overseas. Core al Qa'ida also presents a threat because of its interest in targeting the U.S. homeland, though its leaders have had difficulty recruiting—or even inspiring—competent operatives in the West. Da'ish is a threat primarily because of its effort to inspire individuals in the West to conduct attacks. A small number of inspired individuals, like the Tsarnaev brothers, who perpetrated the April 2013 Boston Marathon bombings, also pose a threat. The growth in social media and the terrorist use of chat rooms, Facebook, Twitter, YouTube, and other sites and applications has facilitated radicalization inside the United States and provided extremists better access to encrypted communication. The six Americans arrested in April 2014 for attempting to leave the United States to fight with Da'ish in Syria, for example, used the instant messaging application Kik to communicate with each other and with extremists overseas.[12]

Several groups pose a medium-level threat because of their interest in—and capability to—targeting U.S. citizens and installations overseas. The various Ansar al-Sharia groups in Libya, for instance, have planned attacks against U.S. diplomats and infrastructure, including the U.S.

---

[12] United States District Court for the District of Minnesota, United States of America v. Mohammed Abdihamid Farah, et al., April 2015.

embassy. Al Shabaab's objectives are largely parochial, and it has conducted attacks in Somalia and the region, especially Kenya. Finally, some groups present a low-level threat to the United States. They do not possess the capability or intent to target the United States at home or overseas. They include such groups as the East Turkestan Islamic Movement, which is primarily interested in Chinese targets.

B. Utilize Targeted Tools: Since these terrorist groups are able to secure funding from multiple sources, an effective financial campaign needs to consider a wide range of tools. These tools need to be modified to deal with different groups and should be based on intelligence analysis of how groups finance themselves, including using documents and other material seized from counterterrorism raids. Examples of key steps include:

- *Sanction individuals, groups, and supporters:* These sanctions can involve the Specially Designated Nationals (SDN) list, other sanction programs, and broader actions of the U.S. Treasury Department's Office of Foreign Assets Control. These sanctions should also include banks that handle terrorist funds, including banks used by middlemen or hawalas handling terrorist financing.

- *Attack money laundering:* Money laundering generally refers to financial transactions in which criminals, including terrorist organizations, attempt to disguise the proceeds, sources, or nature of their illicit activities. The U.S. Department of the Treasury should continue to utilize a range of assets—including a diverse assortment of legal authorities, core financial expertise, operational resources, and expansive relationships with the private sector and international community—to identify and attack money laundering vulnerabilities and networks across the domestic and international financial systems. This includes actions under Section 311 of the USA PATRIOT Act. It also includes support to the Financial Action Task Force, an international policymaking and standard-setting body dedicated to combating money laundering and terrorist financing.

- *Undermine terrorist use of charitable organizations:* While charities provide essential services, comfort, and hope to those in need around the world, terrorists have exploited the charitable sector to raise and move funds. Groups use some to provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations and operations.

Target Local Revenue Sources: The terrorist organizations discussed in this testimony have generated substantial revenue from local sources. These sources can be targeted. For example,

Da'ish raises most of its money through such practices as oil smuggling, sales of stolen goods, and extortion. Undermining these sources of revenue requires providing support for local ground, air, and maritime operations that disrupt these networks. Against Da'ish, for instance, effective ground and air strikes by local forces—with U.S. assistance—can disrupt Da'ish's oil operations, reduce its profits, and buy time to build more-robust diplomatic, intelligence, and military capabilities for a coordinated effort to weaken Da'ish financially. One challenge is to avoid destroying those assets that legitimate successor governments will need to maintain.[13]

While these steps may not, by themselves, severely degrade terrorist groups that threaten the United States, they can, in combination with other steps, undermine the support necessary for terrorist groups to function.

---

[13] See, for example, Johnston, 2014.

Congressional Testimony

A Survey of Global Terrorism and Terrorist Financing

Jonathan Schanzer
Vice President for Research
Foundation for Defense of Democracies

Hearing before the
Task Force to Investigate Terrorist Financing
Committee on Financial Services

Washington, DC
April 22, 2015

FDD
FOUNDATION FOR DEFENSE OF DEMOCRACIES
1726 M Street NW • Suite 700 • Washington, DC 20036

Jonathan Schanzer April 22, 2015

Chairman Fitzpatrick, Ranking Member Lynch, members of the Task Force to Investigate Terrorist Financing, on behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, thank you for the opportunity to testify.

My testimony today draws from the work of a number of CSIF analysts at FDD who have been tenaciously tracking the financial flows of terrorist operatives and rogue states. I am pleased to showcase their research today, and it is my hope that CSIF can become a resource for this task force for years to come.

I should note that I was a terrorism finance analyst at the U.S. Department of the Treasury during the time when Juan Zarate, now a CSIF senior counselor, was a senior administration official. I am particularly pleased to be testifying alongside him today.

Crime and Terror Finance

Mr. Chairman, I will address in my testimony the major states behind terror finance in the Middle East today. But before I do, allow me to briefly note one dominant trend we continue to observe: the intersection of terrorism and crime.

Designated terrorist groups in Africa and the Middle East take advantage of the territories they control. They do so rather easily by exploiting existing businesses and levying oppressive taxes and tolls on the populations they dominate. The Islamic State, for example, extracts taxes in the territories it has seized in Syria and Iraq. The group is involved in extortion, through protection rackets and high taxes for basic services, such as electricity.[1] The Islamic State also brings in funds from illegal sales of antiquities as it ravages ancient towns in Syria and Iraq.[2]

Boko Haram, based primarily in Nigeria but also active in parts of Chad, Cameroon, and Niger, has used its military strength to tax the fish trade in the areas it controls.[3] Boko Haram secures major resources by robbing banks[4] and stealing Nigerian military equipment and vehicles.[5] The group also sustains itself by threatening poor farmers and kidnapping farmers' family members in exchange for animals and food.[6]

---

[1] Ashley Fantz, "How ISIS Makes (and Takes) Money," *CNN*, February 19, 2015. (http://www.cnn.com/2015/02/19/world/how-isis-makes-money/)
[2] Duncan Mavin, "Calculating the Revenue From Antiquities to Islamic State," *The Wall Street Journal*, February 11, 2015. (http://www.wsj.com/articles/calculating-the-revenue-from-antiquities-to-islamic-state-1423657578)
[3] Siobhan O'Grady, "Boko Haram Turns Robin Hood's Strategy on Its Head," *Foreign Policy*, March 5, 2015, (http://foreignpolicy.com/2015/03/05/boko-haram-turns-robin-hoods-strategy-on-its-head-nigeria-niger/)
[4] Heather Murdock, "Nigeria's Boko Haram Funding Vast, Varied," VOA News, March 20, 2014. (http://www.voanews.com/content/analysts-nigerias-boko-haram-funding-vast-varied/1875921.html)
[5] Aminu Abubakar, "Boko Haram Mount Dynamite Raid, Rob Bank, in Looting Spree,"*Agence France Presse* (France), November 5, 2014. (http://www.businessinsider.com/afp-boko-haram-mount-dynamite-raid-rob-bank-in-looting-spree-2014-11)
[6] Siobhan O'Grady, "Boko Haram Turns Robin Hood's Strategy on Its Head," *Foreign Policy*, March 5, 2015. (http://foreignpolicy.com/2015/03/05/boko-haram-turns-robin-hoods-strategy-on-its-head-nigeria-niger/)

In Somalia, al-Shabaab maintains a robust taxation system in the areas it dominates, notably deriving tax income from charcoal.[7] The U.N. estimates that al-Shabaab earns $75 to $100 million per year through illegal charcoal sales alone.[8] Al-Shabaab has used proceeds from the illegal ivory trade to fund terrorist attacks in Kenya. A 2012 investigation showed that al-Shabaab was earning between $200,000 and $600,000 per month by selling ivory tusks.[9]

Meanwhile, other terrorist groups sustain themselves through drugs. Whether it is the Taliban's heroin trade[10] or Hezbollah's Latin American narcotics rings,[11] terrorist groups continue to profit from illegal drugs, despite their purported piety.

Local and regional criminal activity is difficult for an outside power to stop. To be sure, the U.S. government can issue executive orders and targeted financial sanctions against individuals involved in these illicit activities. However, money from the financial underworld moves in cash and through value-transfer systems, meaning that for the United States, addressing these challenges often requires bilateral or multilateral cooperation with local law enforcement to establish better controls.

Iran

Mr. Chairman, the number one terrorist sponsoring country in the world is the Islamic Republic of Iran. The U.S. Department of State labeled Iran a State Sponsor of Terror in 1984.[12] Three decades later, the designation is still apt. The regime backs a wide range of terrorist groups, including Hezbollah, Palestinian Islamic Jihad, Hamas, the Houthi rebels in Yemen, Shi'ite militias in Iraq, and militants in Afghanistan. Iran also maintains its own terrorism apparatus: the Islamic Revolutionary Guard Corps (IRGC). In recent years, Iran's ability to support the IRGC and these other terror proxies has diminished somewhat, thanks to the sanctions that the United States and its allies have put in place to block Iran's illicit financial activities and to inhibit its attempts to build a nuclear weapon. Most of the "nuclear sanctions" are not purely nuclear sanctions, but hybrid sanctions linked to Iran's support for terrorism, proliferation, and human rights violations.

Now, however, with the Joint Comprehensive Plan of Action (JCPOA) framework announced on April 2, and with a final deal expected by the June 30 deadline, the White House appears poised to remove many of those sanctions.

---

[7] Tim Keatinge, "The Role of Finance in Defeating al-Shabaab," *Royal United Services Institute*, December 2014. (https://www.rusi.org/downloads/assets/201412_WHR_2-14_Keatinge_Web.pdf)

[8] "Study: Charcoal Production By Al-Shabaab Increases in Survey Area," *Phys.org*, February 10, 2015. (http://phys.org/news/2015-02-charcoal-production-al-shabaab-survey-area.html)

[9] Nir Kalron & Andrea Crosta, "Africa's White Gold of Jihad: al-Shabaab and Conflict Ivory," *Elephant Action League*, accessed April 17, 2015. (http://elephantleague.org/project/africas-white-gold-of-jihad-al-shabaab-and-conflict-ivory/)

[10] Michael Chossudovsky, "The Spoils of War: Afghanistan's Multibillion Dollar Heroin Trade," *Centre for Research on Globalization*, January 7, 2015. (http://www.globalresearch.ca/the-spoils-of-war-afghanistan-s-multibillion-dollar-heroin-trade/91)

[11] Matthew Levitt, "South of the Border, A Threat From Hezbollah," *The Journal of International Security Affairs*, May 15, 2013. (https://www.washingtoninstitute.org/uploads/Documents/opeds/Levitt20130515-JISA.pdf)

[12] State Sponsors of Terrorism," *U.S. Department of State*, accessed April 10, 2015. (http://www.state.gov/j/ct/list/c14151.htm)

As it stands already, between November 2013 (when the Joint Plan of Action was announced) and the June 30 deadline, the international community will have ceded some $12 billion to Iran in cash transfers.[13] Moreover, this does not include direct sanctions relief and tens of billions of dollars in indirect economic gains.[14] I am concerned that some of these funds have already found their way to terrorist groups, and that much more terror finance could be on the way. After a final nuclear deal, an estimated $100 billion that has been held in semi-restricted accounts in China, India, Japan, South Korea, and Turkey likely will be remitted directly back to Iran over time.[15] Moreover, news reports now suggest that the White House plans to give as much as $50 billion to Iran as an upfront "signing bonus."[16]

The White House has unfortunately limited the terms of the agreement with Iran to narrow nuclear parameters, despite Iran's extensive record of destabilizing activities throughout the region. This means that while some restrictions will hopefully remain on some Iranian banks involved in terror finance, others will melt away. As a result, Iran's Supreme Leader, Ali Khamenei, will have greater flexibility to disperse the windfall from the nuclear deal to terrorist groups at his discretion.

After oil export and central bank sanctions are suspended, Iran will also be able to sell its oil on the open market. Iran is believed to have 30 million barrels of oil in floating storage.[17] It is likely that Iran, which currently sells one million barrels per day under heavy restrictions, will be able to return to pre-sanctions levels of 2.2 million barrels per day within a year or so.[18]

To break down the math: An extra one million barrels per day at $50 per barrel is $50 million per day, or $18 billion annually, which could flow to terrorists' coffers. Add that to the aforementioned escrowed oil revenues of $100 billion and we are looking at a windfall of nearly $120 billion.

Moreover, if the international community allows Iranian banks back into the formal financial sector, as is currently being contemplated under a final nuclear agreement, it will then be easier for Iran to transfer this money to banks worldwide for the purposes of funding terrorism.

---

[13] Mark Dubowitz & Jonathan Schanzer, "Cheap Oil Won't Stop Iran," *The National Interest*, January 27, 2015. (http://nationalinterest.org/feature/cheap-oil-wont-stop-iran-12128)

[14] Paul Domjan, Mark Dubowitz, Jennifer Hsieh, & Rachel Ziemba, "Sanctions Relief: What Did Iran Get?" *Foundation for Defense of Democracies & Roubini Global Economics*, July 2014. (http://defenddemocracy.org/content/uploads/general/RoubiniFDDReport.pdf)

[15] Jennifer Hsieh, Rachel Ziemba, & Mark Dubowitz, "Iran's Economy Will Slow But Continue To Grow Under Cheaper Oil and Current Sanctions," *Roubini Global Economics and Foundation for Defense of Democracies*, February 2015. (www.defenddemocracy.org/media-hit/FDDRoubini-Report_Cheaper-Oil/#sthash.iy9aG2eV.dpuf); Carol E. Lee & Jay Solomon, "U.S. Suggests Compromise on Iran Sanctions," *The Wall Street Journal*, April 17, 2015. (http://www.wsj.com/articles/u-s-suggests-compromise-on-iran-sanctions-1429308388)

[16] Ibid.

[17] Jonathan Saul & Florence Tan, "UPDATE 1- Iran Storing 30 Million Barrels of Oil at Sea," *Reuters*, March 25, 2015. (http://www.reuters.com/article/2015/03/25/iran-crude-ship-idUSL3N0WR41520150325)

[18] U.S. Energy Information Administration, "Iran," *Country Analysis Briefs*, July 22, 2014. (http://www.eia.gov/countries/cab.cfm?fips=IR)

In practical terms, that means Iran can continue to arm Hamas with missiles, whether by land or by sea.[19] Iran will continue to teach Hamas how to build and perfect missiles, as well.[20] Treasury has designated Iranian officials for facilitating this relationship in recent years, but with the release of funds, Treasury's job is going to get a lot more difficult.[21]

Similarly, the released Iranian funds will likely flow to Hezbollah. In 2013, the U.S. Department of State reported that Iran has provided "hundreds of millions of dollars" to the Lebanese terror group.[22] Tehran has armed Hezbollah with light weapons as well as long-range missiles,[23] including a domestically produced model of a Chinese Silkworm anti-ship cruise missile.[24] Iran is also widely believed to have supplied Hezbollah with drones.[25]

Sanctions relief is also likely to bring a surge of Iranian support to the Assad regime in Syria. Iran has already provided Assad's government with cash since the uprising began in March 2011, including a reported[26] $3.6 billion dollar line of credit in July 2013.[27] Iran has also provided expertise and support in "intelligence, communications and…crowd control" to keep Assad in place as rebel forces have attempted to unseat him.[28] Iranian officials have called Syria the country's "35th province."[29] In 2013, Qassem Suleimani, commander of the IRGC's elite Quds Force, said, "We will defend Syria to the end."[30] Backing up their words with action, the

---

[19] "Israel Halts 'Weapons Shipment from Iran'," *BBC*, March 5, 2014. (http://www.bbc.com/news/world-middle-east-26451421); Yaakov Lappin, "Israel Navy Intercepts Gaza-Bound Iranian Rocket Ship Near Port Sudan," *The Jerusalem Post*, March 5, 2014. (http://www.jpost.com/Defense/Israel-Navy-intercepts-Gaza-bound-Iranian-rocket-ship-near-Port-Sudan-344369)

[20] "Larijani Says Iran Gave Hamas Its Rocket Know-How," *Naharnet* (Lebanon), July 24, 2014. (http://www.naharnet.com/stories/en/140398)

[21] U.S. Department of the Treasury, Press Release, "Fact Sheet: U.S. Treasury Department Targets Iran's Support for Terrorism Treasury Announces New Sanctions Against Iran's Islamic Revolutionary Guard Corps-Qods Force Leadership," August 3, 2010. (http://www.treasury.gov/press-center/press-releases/Pages/tg810.aspx); U.S. Department of State, Press Release, "Terrorist Designation of HAMAS Operative Muhammad Hisham Muhammad Isma'il Abu Ghazala," September 22, 2011. (http://www.state.gov/r/pa/prs/ps/2011/09/173352.htm); and U.S. Department of the Treasury, Press Release, "Treasury Sanctions Hizballah Leadership," August 22, 2013. (http://www.treasury.gov/press-center/press-releases/Pages/jl2147.aspx)

[22] *U.S. Department of State*, "Country Report on Terrorism 2013," April 30, 2014. (http://www.state.gov/j/ct/rls/crt/2013/224826.htm)

[23] "Iran Said to Give Hezbollah Missiles That 'Can Reach Dimona'," *The Times of Israel* (Israel), November 22, 2014. (http://www.timesofisrael.com/hezbollah-has-iranian-made-missiles-that-can-reach-dimona/)

[24] Mark Mazetti & Thom Shanker, "Arming of Hezbollah Reveals U.S. and Israeli Blind Spots," *The New York Times*, July 19, 2006. (http://www.nytimes.com/2006/07/19/world/middleeast/19missile.html?_r=0)

[25] Milton Hoenig, "Hezbollah and the Use of Drones as a Weapon of Terrorism," *Public Interest Report*, Spring 2014, page 1. (http://fas.org/wp-content/uploads/2014/06/Hezbollah-Drones-Spring-2014.pdf)

[26] Karim Sadjadpour, "Iran's Unwavering Support to Assad's Syria," *Combating Terrorism Center,* August 27, 2013. (https://www.ctc.usma.edu/posts/irans-unwavering-support-to-assads-syria)

[27] Suleiman al-Khalidi, "Exclusive: Iran's Support for Syria Tested by Oil Price Drop," *Reuters,* December 19, 2014. (http://www.reuters.com/article/2014/12/19/us-mideast-crisis-syria-iran-idUSKBN0JX21420141219)

[28] Tim Lister, "What Does Iran Get for Supporting al-Assad?" *CNN,* August 13, 2012. (http://www.cnn.com/2012/08/08/world/syria-iran-analysis/)

[29] Will Fulton, Joseph Holliday, & Sam Wyer, "Iranian Strategy in Syria," *AEI's Critical Threats Project & Institute for the Study of War,* May 2013. (http://www.understandingwar.org/sites/default/files/IranianStrategyinSyria-1MAY.pdf)

[30] See: Behnam Ben Taleblu, "Iran's Levantine Strategy," *Threat Matrix*, May 24, 2014. (http://www.longwarjournal.org/archives/2014/05/irans_levantine_strategy.php)

Iranians continue to send vast quantities of military support to their Syrian ally,[31] and IRGC forces have been on the battlefield in Syria since 2012.[32]

The Iranians are also likely to increase their support for the rebel Houthi movement that is currently wreaking havoc in Yemen. Multiple reports suggest that Iran has been sending the Houthis weapons since 2009.[33] As recently as last month, an Iranian ship reportedly unloaded more than 180 tons of weapons and military equipment at a Houthi-controlled port in western Yemen.[34] Iran also appears to also be utilizing Pouya Air—an airline previously designated by the U.S. for its weapons shipments to Syria—to send arms to the Houthis.[35]

Tehran has also provided financial support to the Houthi movement. In 2012, U.S. officials noted that Iran had been sending cash to Yemen to back the rebels.[36] And in December 2014, a Yemeni official warned that "sacks of cash" from Tehran had been arriving at Sana'a International Airport, some of which was channeled via Hezbollah.[37]

Sanctions relief to Iran will almost certainly mean an increase in these activities.

Turkey

Iran, it should be noted, was already receiving financial perks from a NATO ally long before the P5+1 agreed to a nuclear framework. Between 2012 and 2013, Turkey facilitated a massive sanctions-busting operation that yielded Iran $13 billion or even more. As revealed in a recent corruption scandal, Iran may have also benefited from another roughly $100 billion in illicit Turkish transfers.

---

[31] "Iran Increases Military Support to Syria's Assad, Diplomats Say," *Haaretz* (Israel), March 14, 2013. (http://www.haaretz.com/news/middle-east/iran-increases-military-support-to-syria-s-assad-diplomats-say-1.509295); United Nations Security Council, "Final Report of the Panel of Experts Established Pursuant to Resolution 1929 (2010)," June 12, 2012, page 26. (http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/s_2012_395.pdf)

[32] Ian Black, "Iran Confirms it Has Forces in Syria and Will Take Military Action if Pushed," *The Guardian* (U.K.), September 16, 2012. (http://www.theguardian.com/world/2012/sep/16/iran-middleeast)

[33] "Yemen Seizes Weapons Vessel With Iranian Crew," *Al Arabiya* (Saudi Arabia), October 26, 2009. (http://www.alarabiya.net/articles/2009/10/26/89328.html); Barbara Starr, "Weapons Seized Off Yemen Point to Iran, U.S. Official Says," *CNN*, January 29, 2013. (http://www.cnn.com/2013/01/29/world/meast/yemen-weapons-seized/); Yara Bayoumy & Mohammed Ghobari, "Iranian Support Seen Crucial for Yemen's Houthis," *Reuters*, December 15, 2014. (http://www.reuters.com/article/2014/12/15/us-yemen-houthis-iran-insight-idUSKBN0JT17A20141215); Phil Stewart, "Large Arms Shipment Intercepted Off Yemen, Iran Eyed As Source," *Reuters*, January 28, 2013. (http://www.reuters.com/article/2013/01/29/us-yemen-weapons-iran-idUSBRE90S01B20130129)

[34] "Iranian Ship Unloads 185 Tons of Weapons for Houthis at Saleef Port," *Al Arabiya* (Saudi Arabia), March 20, 2015. (http://english.alarabiya.net/en/News/middle-east/2015/03/20/Iranian-ship-unloads-185-tons-of-weapons-for-Houthis-at-Saleef-port.html)

[35] Roni Daniel, "התמונות חושפות את הטריק האירני," *Mako* (Israel), March 31, 2015. (http://mobile.mako.co.il/news-world/arab-q1_2015/Article-2e8f4352aa07c41004.htm); Oren Adaki, "Nonstop: Tehran to Sana'a," *Qualitative Military Edge*, April 3, 2015. (http://militaryedge.org/analysis-articles/nonstop-tehran-sanaa/)

[36] Eric Schmitt & Robert F. Worth, "With Arms for Yemen Rebels, Iran Seeks Wider Mideast Role," *The New York Times*, March 15, 2012. (http://www.nytimes.com/2012/03/15/world/middleeast/aiding-yemen-rebels-iran-seeks-wider-mideast-role.html?pagewanted=all&_r=0)

[37] Yara Bayoumy & Mohammed Ghobari, "Iranian Support Seen Crucial for Yemen's Houthis," *Reuters*, December 15, 2014. (http://www.reuters.com/article/2014/12/15/us-yemen-houthis-iran-insight-idUSKBN0JT17A20141215)

Between 2012 and 2013, Turkey was purchasing Iranian natural gas in Turkish lira and transferring the proceeds to Halkbank accounts that Iranian gold traders used to buy gold in Turkey. The gold was subsequently shipped off to Dubai and then Iran.[38] At the time, Turkey's Deputy Prime Minister Ali Babacan unabashedly explained that his country's gold exports to Iran worked like "payments for our natural gas purchases."[39]

From Turkey's perspective, there was no reason to hide the arrangement. The sale of gold was technically legal because the sales were going to individuals, not the government of Iran. And trade with individuals was not, at the time, in violation of sanctions. Still, once the scheme was discovered, 47 members of Congress demanded an explanation from Secretary of State John Kerry and Secretary of the Treasury Jack Lew.[40] The Obama administration and Congress adopted new legislation in January 2013 imposing a blanket prohibition on all gold sales to Iran.

Inexplicably, however, the administration did not make the prohibition effective immediately; the sanctions only became effective six months later, on July 1, 2013. By forestalling the imposition of the sanctions, the White House granted Turkey and Iran additional months of trading opportunities. According to a report by FDD's executive director Mark Dubowitz and our colleagues at Roubini Global Economics, "Iran's Golden Loophole" allowed Tehran to receive over $13 billion before "gas-for-gold" slowed to a trickle.[41]

A massive corruption scandal that erupted last year suggests that Turkish government figures were involved in yet another massive scheme that processed an additional €87 billion in illicit transactions.[42] The Turkish government has quashed all investigations into this scheme, which included gold traders in Istanbul, UAE money traders, Iranian and Chinese banks, and an astounding list of high-level officials.

However, Turkey's illicit financial activity does not end there. Ankara's desire to bring down the Assad regime in Syria has led to inexcusable policies that have enabled the growth of jihadist groups like Jabhat al-Nusra (JN) and the Islamic State (IS). Turkey's southeastern frontier—the territory along its 565-mile border with Syria—is now akin to Peshawar, Pakistan in the 1990s as the primary gateway for this generation of jihadists.[43]

---

[38] Aslı Kandemir, "Exclusive: Turkey to Iran Gold Trade Wiped Out By New U.S. Sanction," *Reuters*, February 15, 2013. (www.reuters.com/article/2013/02/15/us-iran-turkey-sanctions-idUSBRE91E0IN20130215)

[39] Joe Parkinson & Emre Peker, "Turkey Swaps Gold for Iranian Gas," *The Wall Street Journal*, November 23, 2012. (http://online.wsj.com/news/articles/SB10001424127887324352004578136973602198776)

[40] Rep. Jeff Duncan, et al., "Letter to Secretary of State John Kerry & Secretary of the Treasury Jack Lew," April 11, 2013. (https://jeffduncan.house.gov/sites/jeffduncan.house.gov/files/Turkey-Iran%20Letter%20%28April%2011%202013%29.pdf)

[41] Gary Clark, Rachel Ziemba, & Mark Dubowitz, "Iran's Golden Loophole," *Foundation for Defense of Democracies and Roubini Global Economics*, May 13, 2013, pages 5-8. (www.defenddemocracy.org/stuff/uploads/documents/FDD_RGE_Iran_Gol_Report__May_2013_FINAL_2.pdf)

[42] Jonathan Schanzer & Emanuele Ottolenghi, "Turkey's Teflon Don," *Foreign Policy*, March 31, 2014. (http://foreignpolicy.com/2014/03/31/turkeys-teflon-don/)

[43] Kren Leigh, "Q&A: On Foreign Fighters Flowing Into Syria," *Syria Deeply*, December 2, 2013. (http://www.syriadeeply.org/articles/2013/12/2628/qa-foreign-fighters-flowing-syria/); Kadri Gürsel, "Has Turkey Become The 'Pakistan of the Middle East'," *Al Monitor*, September 24, 2013. (http://www.al-monitor.com/pulse/security/2013/09/time-act-al-qaeda-Turkey-jabhat-al-nusra.html#)

Turkish authorities have not only turned a blind eye to the border traffic. They have also been accused of actively assisting fighters to cross the border.[44] Multiple reports further suggest that since 2012, extremist financiers (mainly from Persian Gulf countries such as Qatar and Kuwait) have been camped out in hotels along the southeastern Turkish frontier meeting with jihadist groups.[45] Meanwhile, IS has been recruiting fighters in at least eight Turkish cities, including Ankara and Istanbul, by offering hefty salaries.[46]

Turkey has also been involved in the financing of IS through illicit oil sales. Indeed, Turkey has been a key market for the sale of oil from fields conquered by IS.[47] At its peak, between $1 million and $2 million worth of oil was reportedly smuggled daily to Turkey's border areas to be sold through middlemen.[48] Turkey's main opposition party charges that $800 million in oil from

[44] Adam Entous & Joe Parkinson, "Turkey's Spymaster Plots Own Course on Syria," *The Wall Street Journal*, October 10, 2013. (http://online.wsj.com/news/articles/SB10001424052702303643304579107373585228330); Alev Scott & Alexander Christie-Miller, "Exclusive: ISIS Starts Recruiting in Istanbul's Vulnerable Suburbs," *Newsweek*, September 12, 2014. (http://www.newsweek.com/2014/09/19/exclusive-how-istanbul-became-recruiting-ground-islamic-state-269247.html); Katrin Elger, Hasnain Kazim, Christoph Reuter, & Holger Stark, "The Caliphate Next Door: Turkey Faces Up to its Islamic State Problem," *Spiegel International* (Germany), September 29, 2014. (http://www.spiegel.de/international/world/islamic-state-jihadist-activity-in-northern-syria-forces-Turkey-hand-a-994392.html); Barney Guiton, "'ISIS Sees Turkey as Its Ally': Former Islamic State Member Reveals Turkish Army Cooperation," *Newsweek*, November 7, 2014. (http://www.newsweek.com/isis-and-Turkey-cooperate-destroy-kurds-former-isis-member-reveals-Turkish-282920)

[45] U.S. Department of the Treasury, Press Release, "Treasury Further Exposes Iran-Based Al-Qa'ida Network," October 18, 2012. (http://www.treasury.gov/press-center/press-releases/Pages/tg1741.aspx); "You Can Still See Their Blood," *Human Rights Watch*, October 11, 2013. (http://www.hrw.org/node/119645/section/11); Chana Ya'ar, "Report: Turkey Supports Funding to Syrian Jihadist Rebels?" *Arutz Sheva* (Israel), October 3, 2013. (http://www.israelnationalnews.com/News/News.aspx/166047#.VEAx_vldVps); Email correspondence with Barak Barfi, February 8, 2014.

[46] Alev Scott & Alexander Christie-Miller, "Exclusive: ISIS Starts Recruiting in Istanbul's Vulnerable Suburbs," *Newsweek*, September 12, 2014. (http://www.newsweek.com/2014/09/19/exclusive-how-istanbul-became-recruiting-ground-islamic-state-269247.html); "Looking for ISIL: How Jihadists Operate Among Turks," *Hürriyet Daily News* (Turkey), September 22, 2014. (http://www.Hürriyetdailynews.com/looking-for-isil-how-Turks-become-jihadists.aspx?pageID=238&nID=72054&NewsCatID=352); "ISIS Renting Villas in Istanbul," *Aydınlık* (Turkey), September 29, 2014. (http://aydinlikdaily.com/Detail/ISIS-Renting-Villas-In-Istanbul/4619#.VClv7xuHGzE.twitter)

[47] Mike Giglio, "This Is How ISIS Smuggles Oil," *BuzzFeed*, November 3, 2014. (http://www.buzzfeed.com/mikegiglio/this-is-how-isis-smuggles-oil); Anthony Faiola & Souad Mekhennet, "In Turkey, a Late Crackdown on Islamist Fighters," *The Washington Post*, August 12, 2014. (http://www.washingtonpost.com/world/how-Turkey-became-the-shopping-mall-for-the-islamic-state/2014/08/12/5eff70bf-a38a-4334-9aa9-ae3fc1714c4b_story.html); "Turkey Cracks Down on Oil Smuggling Linked to IS," *Associated Press*, October 6, 2014. (http://www.nytimes.com/aponline/2014/10/06/world/europe/ap-eu-Turkey-oil-smuggling.html?smid=tw-share&_r=0)

[48] David Sanger & Julie Hirschfeld Davis, "Struggling to Starve ISIS of Oil Revenue, U.S. Seeks Assistance From Turkey," *The New York Times*, September 13, 2014. (http://www.nytimes.com/2014/09/14/world/middleeast/struggling-to-starve-isis-of-oil-revenue-us-seeks-assistance-from-Turkey.html?_r=0); Mike Giglio, "This Is How ISIS Smuggles Oil," *BuzzFeed*, November 3, 2014. (http://www.buzzfeed.com/mikegiglio/this-is-how-isis-smuggles-oil)

IS-occupied regions may have been sold in the country in 2014,[49] although the recent drop in global oil prices and coalition air strikes on Iraqi oil fields may have decreased that revenue.[50]

IS has also profited from smuggling antiquities from Syria into Turkey, primarily through the border crossing near Tel Abyad.[51] It is difficult to calculate the exact amount IS receives from the antiquities trade, but *The Guardian* reported that IS made an estimated $36 million alone by selling artifacts from the al-Nabuk area, west of Damascus.[52]

Several reports also suggest that Turkey has supplied weapons to jihadi groups operating along the Turkish border, including JN and IS.[53] On January 1, 2014, the Turkish gendarmerie stopped a suspicious truck headed to Syria in Turkey's Hatay province and found weapons and ammunitions that allegedly belonged to Turkey's intelligence agency.[54] About two weeks later, on January 19, soldiers in Adana searched another group of trucks carrying weapons, also linked to the intelligence agency.[55] Testimonies by two Turkish truck drivers from the Adana case pointed to direct Turkish government involvement.[56]

The truck in Hatay was allegedly part of an aid convoy operated by the Turkish charity Humanitarian Relief Fund (İHH), which has been repeatedly accused of working with radical groups in Syria including al-Qaeda,[57] Ahrar al-Sham,[58] and others.[59] İHH, best known for its ill-

---

[49] Sibel Uktu Bila & Güler Vilmaz, "Opposition MP Says ISIS is Selling Oil in Turkey," *Al-Monitor*, June 13, 2014. (http://www.al-monitor.com/pulse/business/2014/06/Turkey-syria-isis-selling-smuggled-oil.html#)

[50] "Islamic State Revenues Hit By Lost Iraqi Oil Fields: Report," *Agence France Presse* (France), April 8, 2015. (http://news.yahoo.com/islamic-state-revenues-hit-lost-iraqi-oil-fields-234333847.html)

[51] Amr al-Azm, Salam al-Kuntar & Brian I. Daniels, "ISIS' Antiquities Sideline," *The New York Times*, September 2, 2014. (http://www.nytimes.com/2014/09/03/opinion/isis-antiquities-sideline.html?_r=1)

[52] Martin Chulov, "How an Arrest in Iraq Revealed Isis's $2Bn Jihadist Network," *The Guardian* (U.K.), June 15, 2014. (http://www.theguardian.com/world/2014/jun/15/iraq-isis-arrest-jihadists-wealth-power)

[53] "BDP: Türkiye El Nusra'ya Silah Verdi," *Radikal* (Turkey), July 30, 2013; (http://www.radikal.com.tr/politika/bdp_Türkiye_el_nusraya_silah_verdi-1144124) Emre Uslu, "El Nusra'yı Kim Destekliyor," *Taraf* (Turkey), September 19, 2013; (http://www.taraf.com.tr/yazilar/emre-uslu/el-nusra-yi-kim-destekliyor/27333/) "El Nusra Silahları Türkiye Üzerinden Tırlarla Gönderiyordu," *Dicle Haber Ajansı* (Turkey), June 23, 2014; (http://www.diclehaber.com/tr/news/content/view/407656?page=4&from=942074458) & Cansu Çamlıbel, "Türkiye'den Silah Geliyor," *Hürriyet* (Turkey), January 27, 2014. (http://www.Hürriyet.com.tr/dunya/25661278.asp)

[54] Fevzi Kızılkoyun, "Hatay'da Silah Yüklü TIR," *Hürriyet* (Turkey), January 2, 2014. (http://www.Hürriyet.com.tr/gundem/25484247.asp)

[55] Fehim Taştekin, "Turkish Intelligence Service Trucks Reveal Secrets," *Al Monitor*, January 20, 2014. (http://www.al-monitor.com/pulse/originals/2014/01/turkish-intelligence-trucks-smuggle-syria.html)

[56] "Kılıçdaroğlu'ndan Davutoğlu'na Yanıt: 'Belge mi İstiyorsun, Al Sana Belge'," *HaberTürk* (Turkey), October 14, 2014. (http://www.haberTürk.com/gundem/haber/999337-Kılıçdaroğlundan-davutogluna-yanit-belge-mi-istiyorsun-al-sana-belge)

[57] "Turkish Anti-Terrorist Police Raid Aid Agency Near Syrian Border," *Reuters*, January 14, 2014. (http://www.reuters.com/article/2014/01/14/us-Turkey-ngo-idUSBREA0D0JI20140114)

[58] Aaron Zelin, "The Syrian Islamic Front: A New Extremist Force," *Washington Institute for Near East Policy*, February 4, 2013. (http://www.washingtoninstitute.org/policy-analysis/view/the-syrian-islamic-front-a-new-extremist-force)

[59] Horan Maunaha, "Везе са ИХХ-ом воде ка Министарству одбране," *Glas Srpske* (Serbia), January 20, 2014. (http://www.glassrpske.com/novosti/vijesti_dana/Veze-sa-IHH-om-vode-ka-Ministarstvu-odbrane/144621.html)

fated flotilla to Gaza in 2010, has also come under scrutiny for its support for Hamas. The organization is a member of a designated Hamas charity known as the Union of Good.[60]

Beyond the government's close ties with İHH, Turkey has allowed a number of Hamas figures to operate on its soil with impunity. One example is Saleh Arouri, the founder of the West Bank's Izz al-Din al-Qassam Brigades.[61] Arouri is suspected of raising funds for Hamas and of leading the group's West Bank operations from Turkey.[62] Arouri is also believed to have launched a plot to take down the Palestinian Authority government in Ramallah.[63]

Turkey is home to 10 Hamas operatives that Israel released in 2011 as part of a prisoner exchange deal. This includes Mahmoud Attoun and Taysir Suleiman, who were both sentenced to life terms in Israel, but now appear on television and lecture about the merits of Hamas.[64] Imad al-Alami, a long-time liaison with Iran, also reportedly went to Turkey for medical treatment after last summer's Gaza war, and is believed to remain there today.[65]

Turkey also appears to be the home of two leading Hamas financiers. According to a Kuwaiti newspaper, Bakri Hanifa plays a significant role in an ongoing financial operation to move tens of millions of dollars to Turkey from Qatar. From Turkey, the funds are reportedly then sent on to Hamas' political and military wings.[66]

Another key financial figure for Hamas in Turkey appears to be Maher Ubeid. A 2011 report by the Palestine Press News Agency, a website affiliated with the ruling Fatah faction, alleges that Ubeid is a Hamas financial operative who receives funds from Turkish official sources and transfers them to Hamas in Gaza via Turkish money changers.[67]

Finally, there are indications that Turkey has been assisting jihadists in Libya since 2013. Greek and Egyptian authorities have snared some weapons shipments,[68] while Libyan authorities have

---

[60] U.S. Department of the Treasury, Press Release, "Treasury Designates the Union of Good," November 12, 2008. (http://www.treasury.gov/press-center/press-releases/Pages/hp1267.aspx)

[61] Alex Fishman, "Leaving Prison, Returning to Terror," *Ynet News* (Israel), October 21, 2013. (www.ynetnews.com/articles/0,7340,L-4443522,00.html)

[62] David Barnett, "Israel Indicts More Palestinian Terror Cells," *The Long War Journal*, April 18, 2013; (www.longwarjournal.org/threat-matrix/archives/2013/04/israel_indicts_more_palestinia.php) Yoav Limor, "'There Is No Intifada'," *Israel Hayom*, January 10, 2014. (www.israelhayom.com/site/newsletter_article.php?id=14651); Jihan al-Husseini, "هنية في القاهرة اليوم وابو مرزوق مسؤول الاعلام," *Al Hayat* (U.K.), April 23, 2013. (http://alhayat.com/Details/506404); "מעורבות פעיל ששוחרר בעסקת שליט בכהוונת טרור," *Shin Bet Website* (Israel), accessed April 16, 2015. (http://www.shabak.gov.il/publications/publications/Pages/shotef170413.aspx)

[63] "Israel Says it Foiled Hamas Plan for Massive Attacks on Israel, Coup Against PA," *Times of Israel* (Israel), August 18, 2014. (www.timesofisrael.com/israel-says-it-foiled-hamas-plan-for-coup-against-pa-in-west-bank/)

[64] Jonathan Schanzer & Michael Argosh, "Lying Down with Dogs," *Foreign Policy*, August 20, 2014. (http://www.foreignpolicy.com/articles/2014/08/20/turkey_hamas_palestine_erdogan_abbas_israel)

[65] Jonathan Schanzer & Grant Rumley, "Hamas's Main Man From Turkey to Tehran," *Foreign Policy*, December 8, 2014. (http://foreignpolicy.com/2014/12/08/hamas-main-man-from-turkey-to-tehran-imad-al-alami-iran/)

[66] "معارضون لأردوغان يطلعون جهات غربية على النشاط المشبوه لحماس," *Al Seyassah* (Kuwait), September 14, 2014. (http://al-seyassah.com/عل-غربـ ـية-جهات-بـ ط لعون-لأردوغان-معار ضون/)

[67] Adnan al-Tamimi, "ناشيونال انترست: موقف الدوحة من حماس وفلسطين لن يتغير حتى لو غادر مشعل الى تركيا," *The New Khalij* (UAE), January 18, 2015. (http://www.thenewkhalij.com/ar/node/8711)

[68] Yorgo Kirbaki, "O Gemi AB Yasağına Takıldı," *Hurriyet* (Turkey), January 31, 2013. (http://www.hurriyet.com.tr/planet/22481275.asp); "20 Bin Kalaşnikof Taşıyan Geminin Kaptanı Türk Çıktı," *T24*

stopped others.[69] In February, Libya's internationally recognized Prime Minister Abdullah al-Thinni directly accused Turkey of having sent weapons to the Islamist rebels.[70] Most recently, a U.N. report found that Turkish firms were among the international companies violating the international arms embargo on Libya and shipping weapons to anti-government factions.[71]

As my colleague Thomas Joscelyn noted, Turkey also appears to be providing shelter to Libya's jihadists. In January, a leader of the al-Qaeda affiliate Ansar al-Sharia Libya died at a Turkish hospital due to injuries sustained in battles in Benghazi.[72]

Saudi Arabia

The Kingdom of Saudi Arabia is often described as a "moderate" Arab state, but this term fails to address several issues. Saudi Arabia is the number one exporter of an ascetic and virulent strain of Islam known as "Wahhabism" that has engendered hatred toward other religions and sparked religiously inspired violence. From 1973 to 2002, the Saudi government spent tens of billions of dollars on Islamic institutions and activities in the non-Muslim world alone, which fueled the construction of more than 1,500 mosques, 150 Islamic centers, 200 Muslim colleges, and 2,000 Islamic schools—all dedicated to teaching Wahhabism.[73]

The Saudi-U.S. relationship came under severe strain after September 11, 2001, as Americans learned that 15 of the 19 hijackers were Saudis and followers of Saudi-born Osama bin Laden. Numerous Islamic institutions in the U.S. came under heavy scrutiny. Of the nearly 50 that were raided, shut down, or had their assets frozen because of terrorist activities, most were controlled or funded by Saudis. These institutions included: the Muslim World League, the World Assembly of Muslim Youth, SAAR Foundation, the International Institute of Islamic Thought, and the School of Islamic and Social Sciences.[74] Under fire, the Saudis took tentative steps to

---

(Turkey), November 10, 2013. (http://t24.com.tr/haber/20-bin-kalasnikof-tasiyan-geminin-kaptani-turk-cikti,243671); "حية وذخيرة أسلحة تحمل تركيا من قادمة حاويات 4 ضبط :الجمارك," *Al Youm Al-Saabe'* (Egypt), December 28, 2014. (www.youm7.com/story/2013/12/28/ذخيرة-أسلحة-تحمل-تركيا-من-قادمة-حاويات-4-ضبط--الجمارك/حية/1422258#.VTURnZP-XgNc)

[69] Qaasemi al-Jum'i, "درنة في للتكفيريين تركية أسلحة شحنة تقصف ليبية طائرات," *Al Arab* (U.K.), August 13, 2014. (http://www.alarab.co.uk/?id=30302); Ahmad Mu'amar, "ليبيا في مصراتة الى تركيا من قادمة بالاسلحة محملة سفينة ضبط," *Sada Al-Balad* (Egypt), December 28, 2014. (http://www.el-balad.com/1313911)

[70] Ahmed Tolba & Ayman al-Warfalli, "Libyan PM Says Turkey Supplying Weapons to Rival Tripoli Group," *Reuters*, February 27, 2015. (http://www.reuters.com/article/2015/02/27/us-libya-security-turkey-idUSKBN0LV1S120150227)

[71] Benoit Faucon, "U.N. Warns Arms Bound for Libya Pose Terror Risk," *The Wall Street Journal*, March 1, 2015. (http://www.wsj.com/articles/u-n-warns-arms-bound-for-libya-pose-terror-risk-1425246008?mod=rss_middle_east_news); John Pearson, "Libyan Arms Embargo 'Almost Nonexistent', Says UN," *The National* (UAE), March 2, 2015. (http://www.thenational.ae/world/middle-east/libyan-arms-embargo-almost-nonexistent-says-un)

[72] Thomas Joscelyn, "Libyan Ansar al-Sharia Leader Gets Medical Treatment in Turkey," *FDD Policy Brief*, January 28, 2015. (http://www.defenddemocracy.org/media-hit/thomas-joscelyn-libyan-ansar-al-sharia-leader-gets-medical-treatment-in-turkey/)

[73] Alexander Alexiev, "The Wages of Extremism: Radical Islam's Threat to the West and the Muslim World," *Hudson Institute,* March 2011, page 44. (http://www.hudson.org/content/researchattachments/attachment/875/aalexievwagesofextremism032011.pdf)

[74] Alex Alexiev, "The End of an Alliance," *National Review,* November 26, 2002. (accessed via Nexis)

stem the flow of funds, although several of these organizations continue to operate out of the Kingdom with varying degrees of government sponsorship.[75]

As late as 2007, then-Undersecretary of the Treasury for Terrorism and Financial Intelligence Stuart Levey said, "If I could somehow snap my fingers and cut off the funding from one country, it would be Saudi Arabia."[76] In 2009, a memo signed by then-Secretary of State Hillary Clinton stated, "Donors in Saudi Arabia constitute the most significant source of funding to Sunni terrorist groups worldwide."[77]

Treasury Department officials indicate that U.S.-Saudi cooperation on terror finance has improved in recent years,[78] but considerable funds continue to flow from Saudi coffers to jihadist organizations. In 2010, coalition and Afghan forces arrested a Haqqani Network weapons facilitator boarding an airplane destined for Saudi Arabia.[79] In 2011, the Pakistani newspaper *Dawn* reported that nearly $100 million in annual financial support to radical clerics originated in Saudi Arabia and the UAE. Families with multiple children and severe financial difficulties were targeted for recruitment. Parents received cash payments averaging $6,500 if their child was chosen for a "martyrdom operation."[80]

Saudi Arabia published its first terror finance blacklist in 2014. However, as my colleague David Andrew Weinberg noted at the time, the list was highly politicized with a focus on the rival Muslim Brotherhood movement, and the process lacked rigorous standards.[81] In the meantime, the Saudis have moved against some charities, such as the Pakistani branch of Kuwait's Revival of the Islamic Heritage Society (RIHS), which the U.S. sanctioned in 2008 for funding al-Qaeda. However, Riyadh has inexplicably failed to target all of the charity's offices—the regime today continues to provide state perks to clerics who openly fundraised for RIHS.[82]

Kuwait

---

[75] U.S. Government Accountability Office, "Combating Terrorism: U.S. Agencies Report Progress Countering Terrorism and Its Financing in Saudi Arabia, but Continued Focus on Counter Terrorism Financing Efforts Needed," September 2009, page 9. (www.gao.gov/new.items/d09883.pdf)

[76] Brian Ross, "U.S.: Saudis Still Filling Al Qaeda's Coffers," *ABC News*, September 11, 2007. (http://abcnews.go.com/blogs/headlines/2007/09/us-saudis-still/)

[77] Declan Walsh, "WikiLeaks Cables Portray Saudi Arabia as Cash Machine for Terrorists," *The Guardian* (U.K.), December 5, 2010. (http://www.theguardian.com/world/2010/dec/05/wikileaks-cables-saudi-terrorist-funding)

[78] Jonathan Schanzer, "Saudi Arabia's Terror Finance Problem," *The Weekly Standard*, September 7, 2011. (www.weeklystandard.com/blogs/saudi-arabia-s-terror-finance-problem_592744.html)

[79] Bill Roggio, "Haqqani Network Facilitator Arrested on Plane Bound for Saudi Arabia," *The Long War Journal*, November 9, 2010. (http://www.longwarjournal.org/archives/2010/11/haqqani_network_faci.php)

[80] Qurat ul ain Siddiqui, "Saudi Arabia, UAE Financing Extremism in South Punjab," *Dawn* (Pakistan), May 22, 2011. (www.dawn.com/2011/05/22/saudi-arabia-uae-financing-extremism-in-south-punjab.html)

[81] David Andrew Weinberg, "Saudi Arabia Moves Against the Muslim Brotherhood," *FDD Policy Brief*, March 7, 2014. (http://defenddemocracy.org/media-hit/saudi-arabia-moves-against-the-muslim-brotherhood/)

[82] David Andrew Weinberg, "Saudi Steps on Terror Finance Fall Short," *FDD Policy Brief*, April 16, 2015. (http://defenddemocracy.org/media-hit/david-weinberg-saudi-steps-on-terror-finance-fall-short/)

"Our ally Kuwait has become the epicenter of fundraising for terrorist groups in Syria."[83] So said David Cohen, then-undersecretary for terrorism and financial intelligence at the Treasury Department and now deputy director of the CIA, just last year. Kuwait remains a country of considerable concern, although it is difficult to know whether these funds from deep-pocketed donors are flowing with or without the approval of the Kuwaiti government.

My colleague David Andrew Weinberg broke the story last year that Kuwait's appointed Minister of Justice and Islamic Affairs, Nayef al-Ajmi, was involved in no fewer than three different networks that were funding jihadists in Syria.[84] Treasury ultimately called out al-Ajmi and the Kuwaitis, and al-Ajmi resigned.[85]

Even after this incident, the Kuwaitis were not terribly concerned by the presence of terror financiers on their soil. After the United States and the U.N. sanctioned Sunni cleric Hajjaj al-Ajmi for funding jihadists in Syria and Iraq, Kuwaiti authorities picked him up at the airport from Qatar, but quickly released him without charges. Shafi al-Ajmi, another designated cleric and fundraiser, was also picked up and then released shortly thereafter.[86]

I should also note briefly that Hakim al-Mutairi, the head of Kuwait's Ummah Party, has been described as a leader of Hajjaj al-Ajmi's fundraising commission.[87] He reportedly provided seed funding for the creation of one of the most radical groups on the battlefield, Ahrar al-Sham in Syria, which operates in close cooperation with al-Qaeda and was co-founded by bin Laden's onetime courier.[88] Mutairi could be a person of interest for this Task Force moving forward.

Qatar

No discussion of Gulf-based terror finance would be complete without attention to Qatari activities. Qatar supports a range of jihadi actors across the Middle East. This is something that

---

[83] David Cohen, "Confronting New Threats in Terrorist Financing," *Remarks before the Center for a New American Security*, March 4, 2014. (www.treasury.gov/press-center/press-releases/Pages/jl2308.aspx)

[84] David Andrew Weinberg, "New Kuwaiti Justice Minister Has Deep Extremist Ties," *The National Interest*, January 16, 2014. (http://nationalinterest.org/commentary/new-kuwaiti-justice-minister-has-deep-extremist-ties-9719)

[85] David Andrew Weinberg, "Controversial Kuwaiti Minister Offers to Step Down," *FDD Policy Brief*, March 30, 2014. (http://www.defenddemocracy.org/media-hit/david-weinberg-controversial-kuwaiti-minister-offers-to-step-down/#sthash.WAGapTL5.dpuf)

[86] "Kuwait Releases Detained Cleric Suspected of Financing Militants," *Reuters*, August 21, 2014. (http://www.reuters.com/article/2014/08/21/us-syria-crisis-kuwait-cleric-idUSKBN0GL1X120140821)

[87] Elizabeth Dickinson, "Playing with Fire: Why Private Gulf Financing for Syria's Extremist Rebels Risks Igniting Sectarian Conflict at Home," *Brookings Institution*, December 2013, page 9. (http://www.brookings.edu/~/media/research/files/papers/2013/12/06%20private%20gulf%20financing%20syria%20extremist%20rebels%20sectarian%20conflict%20dickinson/private%20gulf%20financing%20syria%20extremist%20rebels%20sectarian%20conflict%20dickinson.pdf)

[88] Joseph Braude, "The Muslim Brotherhood's More Frightening Offshoot: While More and More Islamists Despair of Political Participation, the Ummah Party is Training Fighters for a Widespread Jihadist Campaign," *The Atlantic*, July 15, 2013. (http://www.theatlantic.com/international/archive/2013/07/the-muslim-brotherhoods-more-frightening-offshoot/277786/?single_page=true); Joby Warrick, "Private Donations Give Edge to Islamists in Syria, Officials Say," *The Washington Post*, September 21, 2013. (http://www.washingtonpost.com/world/national-security/private-donations-give-edge-to-islamists-in-syria-officials-say/2013/09/21/a6c783d2-2207-11e3-a358-1144dee636dd_story.html)

has been noted by a number of legislators. In December of last year, for example, Representatives Peter Roskam and Brad Sherman penned a bipartisan letter to Treasury Secretary Jack Lew, expressing their deep concern and calling for additional sanctions against terror financiers operating with impunity from Qatari territory.[89] That same month, 24 members of the House Foreign Affairs Committee signed a letter to the Secretary suggesting that Qatar and Turkey be subject to U.S. sanctions if their governments keep turning a blind eye to terror finance.[90]

The Qataris are incredibly candid—almost shameless—about their support for the terrorist group Hamas. Last year, Treasury's Undersecretary bluntly noted, "Qatar, a longtime U.S. ally, has for many years openly financed Hamas."[91] Famously, in October 2012, Qatar's emir pledged $400 million to Hamas projects during a high-profile visit to Gaza.[92] His was (and is still) the only visit by a world leader to Gaza since Hamas took it over by force in 2007.

After Hamas and Fatah reached a reconciliation agreement in May 2014, Qatar pledged an additional $60 million to help Hamas pay salaries to its Gaza employees.[93] In July, Doha tried to transfer the funds via Jordan's Arab Bank. Currently battling a lawsuit on charges of facilitating financial transactions for Hamas, Arab Bank declined to process the payment, reportedly as a result of U.S. pressure.[94]

Qatar is the home base of Hamas leader Khaled Meshal, who is believed to have holdings of $2 billion or more, according to both Israeli and Arab media sources.[95] Companies registered under the names of Meshal's wife, Amal al-Burini, and one of their daughters, are reportedly involved in real estate development projects, including a large shopping mall in Qatar.[96]

---

[89] Rep. Peter Roskam & Rep. Brad Sherman, "Letter to Secretary of the Treasury Jack Lew," December 10, 2014. (http://roskam.house.gov/sites/roskam.house.gov/files/RoskamSherman_Letter%20to%20SecLew%20re%20Qatar.pdf)

[90] "Ros-Lehtinen, Deutch, Poe, and Sherman Lead Bipartisan Letter to Treasury Department Seeking Action Against Hamas Supporters In Turkey and Qatar," *Congresswoman Ileana Ros-Lehtinen*, December 9, 2014. (http://ros-lehtinen.house.gov/press-release/ros-lehtinen-deutch-poe-and-sherman-lead-bipartisan-letter-treasury-department-seeking)

[91] David Cohen, "Confronting New Threats in Terrorist Financing," *Remarks before the Center for a New American Security*, March 4, 2014. (www.treasury.gov/press-center/press-releases/Pages/jl2308.aspx)

[92] Jodi Rudoren, "Qatar's Emir Visits Gaza, Pledging $400 Million To Hamas," *The New York Times*, October 23, 2012. (http://www.nytimes.com/2012/10/24/world/middleeast/pledging-400-million-qatari-emir-makes-historic-visit-to-gaza-strip.html?_r=0)

[93] Patrick Goodenough, "U.S. Selling $11B In Weaponry To Gulf State That Supports Hamas, Syrian Jihadists," *CNS News*, July 16, 2014. (http://www.cnsnews.com/news/article/patrick-goodenough/us-selling-11b-weaponry-gulf-state-supports-hamas-syrian-jihadists)

[94] Elhanan Miller, "US Blocked Qatari Funds Intended For Hamas Employees," *The Times of Israel* (Israel), July 15, 2014. (http://www.timesofisrael.com/us-blocked-qatari-funds-intended-for-hamas-employees/)

[95] "הטייקונים של חמאס: ה'אלד משעל שווה 2-5 מיליארד דולר, סגנו אבו-מרזוק שווה 2-3 מיליארד דולר," *Globes* (Israel), July 24, 2014. (http://www.globes.co.il/news/article.aspx?did=1000957870); "حماس": هنية يملك اربعة مليارات.. ومشعل مليار دينار" "خمسة.. وابو مرزوق ثلاثة.. والله عيب يا اعلام مصر ان تهبط الى هذا المستوى في حملاتكم التحريضية على قادة يتصدون لابشع عدوان," *Ra'i al-Youm* (United Kingdom), July 26, 2014. (http://www.raialyoum.com/?p=127306)

[96] "Hamas Leaders Worth Millions of Dollars From Allegedly Skimming Donations and Extortion: Is Anyone Surprised?" *Inquisitr*, July 18, 2014. (http://www.inquisitr.com/1359383/hamas-leaders-worth-millions-of-dollars-from-allegedly-skimming-donations-and-extortion-is-anyone-surprised-update/)

Izzat al-Rishq, a prominent figure from the Hamas Politburo, is based in Qatar.[97] Qatar is also believed to be hosting Talal Ibrahim Abd al-Rahman Sharim, a member of the Qassam Brigades who likely played a recent role in financing Hamas cells in the West Bank.[98] In late December, Doha briefly detained two other Hamas financiers but then inexplicably chose to let them go.[99]

Hossam Badran, a Hamas Politburo spokesman, is also based in Qatar.[100] He is accused of directing a terrorist cell in the West Bank and transferring funds for explosives. There is also the Qatar-based operative Hisham Hejaz, who reportedly provided arms and directed a West Bank Hamas operative to carry out shootings and kidnappings against Israelis.[101]

Finally, as part of the 2011 deal for the freedom of kidnapped Israeli soldier Gilad Shalit, 15 Hamas members released from Israeli jail were deported to Qatar.[102] The BBC reported in 2012 that, "all the exiles' costs in Doha are being paid by the Qatari government."[103]

Qatar is equally accepting of JN, the al-Qaeda affiliate group fighting in Syria. Qatar has welcomed JN figures to Doha, and Qatari officials have continued to meet with the group's leader, Abu Muhammed al-Jolani, according to sources cited by Reuters.[104] If the group drops its formal ties with al-Qaeda, Qatar has reportedly promised additional funding, despite the fact that JN is one of the more radical groups on the battlefield in Syria today and remains blacklisted for terrorism by both Washington and the United Nations.[105]

In one very strange episode, the cousin of Qatar's foreign minister was arrested in Lebanon for providing assistance to a financier of global terrorism, now known to have provided seed funding

---

[97] "Hamas Backs Qatar Minister's 'Courage' in Israel Spat," *Agence France Presse* (France), February 9, 2015. (http://www.dailymail.co.uk/wires/afp/article-2946091/Hamas-backs-Qatar-ministers-courage-Israel-spat.html)

[98] Yonah Jeremy Bob, "Shin Bet Busts Palestinian Footballer For Meeting With Hamas Terrorist in Qatar," *The Jerusalem Post* (Israel), June 11, 2014. (http://www.jpost.com/Sports/Palestinian-soccer-player-admits-to-meeting-with-Hamas-operative-while-in-Qatar-356003)

[99] Taylor Luck, "In Hamas Leader's Exit from Qatar, Signs of Growing Saudi-Egyptian Influence," *Christian Science Monitor*, January 26, 2015. (http://www.csmonitor.com/World/Middle-East/2015/0126/In-Hamas-leader-s-exit-from-Qatar-signs-of-growing-Saudi-Egyptian-influence)

[100] "Mideast Divisions Cloud Gaza Cease-Fire Efforts," *Mashable*, July 19, 2014, (http://mashable.com/2014/07/19/gaza-cease-fire-efforts/); Maram Hussein, "All Options Are On The Table: Hamas Official," *Qatar Tribune* (Qatar), August 6, 2014. (http://www.qatar-tribune.com/viewnews.aspx?n=0927F2AB-E7B6-414F-BB5F-5F893B63DF98&d=20140806)

[101] David Barnett, "Hamas Terrorist in Qatar Helps Hebron Terror Cell Plan Kidnappings," *The Long War Journal*, January 31, 2013. (http://www.longwarjournal.org/archives/2013/01/israeli_authorities_uncover_ha.php); "Security Forces Capture Hamas Terrorist: Baker Saad, a Hamas Operative, Had Planned to Carry Out Terror Attacks Involving Shooting and Kidnapping Israelis," *IDF Website*, June 3, 2013. (http://www.idf.il/1283-19091-EN/Dover.aspx)

[102] "مبعدو صفقة تبادل حركة حماس وإسرائيل," *Wafa* (Palestinian Territories), January 10, 2011. (http://www.wafainfo.ps/atemplate.aspx?id=9155)

[103] Michael Buchanan, "Freed Palestinian Prisoners Adapt to Qatar Exile," *BBC* (U.K.), February 1, 2012. (http://www.bbc.com/news/world-middle-east-16638652)

[104] Mariam Karouny, "Syria's Nusra Front May Leave Qaeda to Form New Entity," *Reuters*, March 4, 2014. (http://uk.reuters.com/article/2015/03/04/uk-mideast-crisis-nusra-insight-idUKKBN0M00G620150304)

[105] Jay Solomon and Nour Malas, "Qatar's Ties to Militants Strain Alliance," *The Wall Street Journal*, February 23, 2015. (http://www.wsj.com/articles/qatars-ties-to-militants-strain-alliance-1424748601); Mariam Karouny, "Syria's Nusra Front May Leave Qaeda to Form New Entity," *Reuters*, March 4, 2014. (http://uk.reuters.com/article/2015/03/04/uk-mideast-crisis-nusra-insight-idUKKBN0M00G620150304)

to JN. Although he was later found guilty of terror finance by a Lebanese court, he was not present at the trial because Doha reportedly used heavy diplomatic pressure to release him from Lebanese custody. He remains a free man in Qatar today, where he has continued to fundraise for campaigns and use social media to spread propaganda for several of al-Qaeda's various branches.[106]

In December 2009, the State Department listed Qatari cooperation on terror finance among "the worst in the region," noting that, "Al-Qaida, the Taliban, UN 1267-listed LeT [Lashkar-e-Taiba], and other terrorist groups exploit Qatar as a fundraising locale."[107] Two of the more prominent names to have come out of Qatar include Abdulrahman al-Nuaymi and Khalifa al-Subaiy. Nuaymi was sanctioned by the United States, European Union, and United Nations for financing numerous branches of al-Qaeda to the tune of over $2 million per month. Reports indicate that he was an old friend of the emir and the longtime president of a state-funded think tank, the Arab Center for Research and Policy Studies, also known as the Doha Institute, which recently opened a U.S. branch.[108]

Subaiy, for his part, was designated by the United States in 2008 for providing funds to 9/11 planner Khaled Sheikh Mohammed and other senior al-Qaeda operatives in Pakistan. Qatar chose to let him out of detention without filing lasting charges, promising to keep him "under control." Yet, Treasury revealed last year that in 2012 Subaiy had resumed sending hundreds of millions of dollars to al-Qaeda's core leadership in Pakistan.[109]

Finally, the Qataris this January embraced former al-Qaeda sleeper agent Ali al-Marri as a returning hero, even throwing a dance party for him with people waving swords. Marri apparently received a phone call upon his return from the country's prime minister. Doha also previously failed to report on the cross-border movements of Ali's brother Jarallah, whose Guantanamo files suggest he was involved in terror finance.[110]

A Note About Egypt

Mr. Chairman, it is important to briefly note here that all of the countries analyzed to this point, apart from Iran, are widely regarded in this town as allies of the United States. But it is clear from our review of their terror finance track records that their policies suggest otherwise.

Egypt, meanwhile, has been doing more to combat Hamas finance than anyone might have expected, and this is happening despite the fact that the U.S.-Egypt relationship has been under considerable strain since President Abdel Fattah al-Sisi took power.

---

[106] Andrew Gilligan, "Minister's Family Ties to Terror," *The Telegraph* (U.K.), November 1, 2014. (http://www.telegraph.co.uk/news/worldnews/middleeast/qatar/11203140/Ministers-family-ties-to-terror.html)
[107] "US Fears on Taliban Cash Revealed," *Al-Jazeera* (Qatar), December 6, 2010. (http://www.aljazeera.com/news/middleeast/2010/12/201012519361671 12.html)
[108] David Andrew Weinberg, "Qatar Terror Finance. Part I: Negligence," *Foundation for Defense of Democracies, Center on Sanctions and Illicit Finance*, December 2014. (http://www.defenddemocracy.org/media-hit/qatar-and-terror-finance-part-1/)
[109] Ibid.
[110] David Andrew Weinberg, "Former al Qaeda Operative Freed, Sent Home to Qatar," *The Long War Journal*, January 20, 2015. (http://www.longwarjournal.org/archives/2015/01/former_al_qaeda_oper.php)

Subterranean tunnels connecting the Hamas-controlled Gaza Strip to Egypt's Sinai Peninsula have, for the last decade, been central to Hamas' ability to smuggle cash into Gaza, and to generate funds from taxing the Gaza population. The tunnels were first created as a means to smuggle rockets and other weapons into the coastal enclave, but after Israel imposed a blockade as a result of Hamas' takeover in 2007, the tunnels became a key artery for the importation of a wide range of goods. According to one estimate, Hamas, as Gaza's de facto rulers, collects as much as $365 million in taxes each year from the tunnel trade.[111]

To operate these tunnels, Hamas required cooperation from Egypt. While the tunnels yielded significant gains for Hamas under Hosni Mubarak, after Mohammed Morsi came to power in 2012, the financial benefits increased significantly. According to one report, the Hamas budget doubled from $428 million in 2009 to $897 million in 2013.[112]

While Hamas' system of taxation is still intact—Hamas reportedly raised taxes on Gazans after the 2014 war with Israel[113]—the downfall of the Muslim Brotherhood government in 2013 delivered a blow to Hamas' financial fortunes. The government of President al-Sisi has also destroyed an estimated 2,000 subterranean smuggling tunnels connecting Egypt to Gaza.[114] The importance of the destruction of the tunnels cannot be emphasized enough. In addition to the drop in tax revenue, the crackdown has made bulk cash smuggling—the primary way Hamas' bank accounts can be replenished—exceedingly difficult.

Ala al-Rafati, the Hamas economy minister, told Reuters in 2013 that the anti-tunnel operations cost Hamas $230 million—about one-tenth of Gaza's GDP.[115] And that was before another estimated 900 tunnels were destroyed. It was also before Egypt began establishing a large buffer zone on the Gaza border to prevent further smuggling.[116]

In short, while Egypt still must make improvements in the areas of press freedom, human rights, and judicial independence, Cairo has done outstanding work to inhibit the flow of funds to Hamas. Egypt should be acknowledged accordingly.

Recommendations

Mr. Chairman, the road ahead will be challenging, but I offer a handful of concrete steps that can be taken to step up the fight against terrorist financing.

---

[111] David Lev, "IDF: Hamas Makes A Million A Day In 'Taxes' On Smuggled Goods," *Arutz Sheva* (Israel), February 11, 2013. (http://www.israelnationalnews.com/News/News.aspx/165125#.VAnpC_mwJgl)
[112] Omar Shaban, "Hamas Budget Shows Another Tough Year Ahead for Gaza," *Al Monitor,* March 17, 2014. (http://www.al-monitor.com/pulse/originals/2014/03/hamas-gaza-budget-economy-finance-blockade.html)
[113] "Gazans Furious After Hamas Raises Taxes," *The Tower,* December 18, 2014. (http://www.thetower.org/1405-gazans-furious-after-hamas-raises-taxes/)
[114] "Egyptian Army Destroys Over 1,700 Tunnels on its Border With Gaza," *Middle East Monitor*, June 24, 2014. (https://www.middleeastmonitor.com/news/africa/12338-egyptian-army-destroys-over-1700-tunnels-on-its-border-with-gaza) Many more tunnels have been destroyed over the last 10 months.
[115] Nidal al-Mughrabi, "Hamas Reeling From Egyptian Crackdown On Gaza Tunnels," *Aswat Masriya* (Egypt), July 21, 2013. (http://en.aswatmasriya.com/news/view.aspx?id=2c404781-4e17-412e-8e03-7e2804bf7417)
[116] "Egypt to Deepen Buffer Zone with Gaza After Finding Longer Tunnels," *Reuters*, November 17, 2014. (http://www.reuters.com/article/2014/11/17/us-egypt-sinai-buffer-idUSKCN0J11M920141117)

1. Executive orders and targeted financial sanctions must continue to help the local and regional governments fight the criminal networks that benefit global financiers of terrorism. The U.S. Treasury's efforts may not lead to lightning victories, but they will nevertheless serve an important role in the naming and shaming of illicit actors. Congress should work closely with the Treasury to ensure that priorities and targets accurately reflect our national security needs. Strong bilateral and multilateral cooperation is also important to preventing these criminal networks from expanding.

2. Congressional oversight on the Iran deal and the remaining sanctions architecture after a nuclear deal is reached will be crucial to stemming the flow of Iranian illicit finance. The enforcement of existing executive orders, and the creation of new ones when appropriate, will be vital to curbing Iranian support for terrorism.[117]

3. The Gulf Arab states, despite good cooperation in some areas, must come under considerable pressure from Congress if their financial support for terrorist groups is to stop. Multiple presidential administrations have consistently failed to fully address this problem. Greater coordination with these states in the fight against Iranian proxies could be an inducement. Targeted financial sanctions against individuals and entities should be the punishment if they do not cooperate. We might even consider moving military assets out of countries where terror finance is not being addressed sufficiently.

4. Washington must challenge Turkey on its wide-ranging support for illicit actors. Economic pressure, a review of military cooperation, or even a review of its status as a NATO member could be used to alter Ankara's behavior.

5. Congress can privately threaten and then publicly seek the extradition of designated terror financiers from any host governments that refuse to file even the most basic legal charges against them. Congress can play a pivotal role in this regard by recommending or even legislating the provisions for seeking such extraditions as a standard option for U.S. policy.

6. Support for Egypt's operations to cut off the flow of finance to Hamas and other jihadist groups will be necessary to ensure that this effort continues. This should not come at the expense of efforts to encourage political reform in Egypt. But Cairo deserves credit and support for the good work it has done to date.

Conclusion

Mr. Chairman, there are many other challenges on the terrorism financing front that I did not have time to address today. If I have missed anything you wish to discuss, I am happy to answer your questions.

On behalf of the Foundation for Defense of Democracies, I thank you again for inviting me here today.

---

[117] Jonathan Schanzer, "How to Keep the Financial Pressure on Iran and Its Proxies," *The Huffington Post*, April 13, 2015. (http://www.huffingtonpost.com/jonathan-schanzer/how-to-keep-the-financial-pressure-on-iran-and-its-proxies_b_7034218.html)

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

Statement before the House Committee on Financial Services
Task Force to Investigate Terrorism Financing

"A SURVEY OF GLOBAL TERROSM AND TERRORIST FINANCING"

A Statement by:

The Honorable Juan C. Zarate

Senior Advisor,
Center for Strategic and International Studies (CSIS);
Chairman and Senior Counselor,
Center on Sanctions and Illicit Finance at
the fact Foundation for Defense of Democracies

April 22, 2015

HVC-210 Capitol Visitor Center

WWW.CSIS.ORG
1616 RHODE ISLAND AVENUE NW
WASHINGTON, DC 20036
TEL. (202) 887.0200
FAX (202) 775.3199

Chairman Fitzpatrick, Ranking Member Lynch, and distinguished members of the Task Force to Investigate Terrorism Financing. I am honored to testify before you to discuss the state of the global terrorist threat and terrorist financing. I am very pleased to be doing so with my colleagues and friends, Jonathan Schanzer and Seth Jones. These are two of the country's best experts on the continued evolution of the threat from terrorism.

The work of this new Task Force and of the Committee in focusing on terrorist financing is more important now than ever. The global threat of terrorism is adapting quickly, with the ideology spawned by al Qaeda taking hold in crisis regions and ungoverned spaces around the world. The so-called Islamic State has taken territory and erased borders in the heart of the Middle East and runs a diversified war economy as it attempts to govern and expand its reach. At the same time, terrorist organizations have adapted to the pressure placed on their global financial networks since 9/11 and have learned to raise and manage their own budgets by becoming for-profit organizations that take advantage of the economic resources and opportunities where they operate. Just as the problem of terrorism is more global and diversified today than ever before, the means and resources that networks and groups have to raise and move money have become more varied and localized.

To contain the global reach of terrorist groups and to thwart the manifestation of their ambitions, we must disrupt their financing and force them to make operational and strategic choices. After 9/11, the US government understood that defending the country and undermining terrorism required deterring, disrupting, and dismantling terrorist funding sources and networks is essential to the broader counterterrorism mission. Whether it is Al Qaeda, the Islamic State, or Hizballah, the reality is that terrorist groups need money to operate their networks, implement logistics, maintain territory or influence, and to plan strategically against the United States. Any terrorist group, illicit network, or rogue state seeking significant global reach and impact needs access to the financial and commercial system. Financial flows and budgets become even more important as groups like the Islamic State, Boko Haram, and al Shabaab attempt to govern and operate local economies.

Money is their enabler, but it's also their Achilles' heel. If you can cut off funding flows to rogue groups or states, you can restrict their ability to operate, govern, and force them to make choices—not only budget decisions, but also strategic choices.

Financial strategies are powerful tools that can constrict our enemies' current activities and their strategic reach. Yes, one suicide bombing may cost a terrorist organization less than $1,000, but if that organization cannot pay for all the sophisticated training it would like, cannot adequately maintain its international alliances, and cannot maintain and develop all the programs and operations it imagines, then its ultimate impact will be limited. In maximalist terms, we can alter the enemy's behavior by affecting its bottom line.

The Terrorist Financing Campaign after September 11, 2001

After September 11, 2001, President Bush called for all elements of national power to be deployed, and the US government – led by the US Treasury – reshaped how we used financial power and influence to attack the sources and modalities of terrorist funding. As a result, the United States unleashed a counter-terrorist financing campaign that reshaped the very nature of financial warfare. The Treasury Department, in concert with other elements of the US government, waged an all-out offensive, using every tool in its toolbox to disrupt, dismantle, and deter the flows of illicit financing around the world. The "smart" sanctions of the late 1990s that had targeted rogue leaders and the entities they controlled were put on steroids to target the Al Qaeda and Taliban network and anyone providing financial support to any part of that network.

There were three primary themes defining this campaign that shaped the environment and evolution of financial power after September 11: the expansion of the international anti-money laundering regime; the development of financial tools and intelligence geared specifically to dealing with issues of broad national security; and the growth of strategies based on a new understanding of the centrality of both the international financial system and the private sector to transnational threats and issues pertaining to national security. This environment reshaped the ways in which key actors — namely, the financial community — operated in the post-9/11 world.

Reliance on the anti-money-laundering regime permitted an all-out campaign to ensure that funds intended for terrorist groups, such as Al Qaeda, were not coursing through the veins of the international financial system. This focus reshaped the international financial landscape forever, presenting a new paradigm that governments could use to attack terrorists, criminals, and rogue states. It was a paradigm rooted in denying rogue financial actors access to the international financial system by leveraging the private sector's aversion to doing business with terrorists.

In this context, governments implemented and expanded global anti-money-laundering regulations and practices based on principles of financial transparency, information sharing, and due diligence. Title III of the USA PATRIOT Act provided the baseline for the broadening and deepening of the anti-money laundering system in the United States. Such laws applied new reporting and information-sharing principles to new sectors of the domestic and international financial community, such as insurance companies, brokers and dealers in precious metals and stones, money-service businesses, and hawaladars (hawala is a trust-based money transfer mechanism).

This approach worked by focusing squarely on the behavior of financial institutions rather than on the classic sanctions framework of the past. In this new approach, the policy

decisions of governments are not nearly as persuasive as the risk-based compliance calculus of financial institutions. For banks, wire services, and insurance companies, there are no benefits to facilitating illicit transactions that could bring high regulatory and reputational costs if uncovered. The risk is simply too high.

Because of these new strategies, rogue actors who try to use the financial system to launder money, finance terrorism, underwrite proliferation networks, and evade sanctions can be exposed. They can be denied access by the financial community itself. And the sanctions are based on the conduct of the rogues themselves, rather than on the political decisions of governments. It is the illicit or suspicious behavior of the actors themselves as they try to access the international financial system that triggers their isolation. Such an approach was possible because of the unique international environment after September 11. The environment after the terrorist attacks allowed for amplified and accelerated use of financial tools, suasion, and warfare to attack asymmetric and transnational threats.

The twenty-first-century economy is defined by globalization and the deep interconnectedness of the financial system—as seen in the contagion of financial crises like the Great Recession of 2008. The United States has remained the world's primary financial hub, with inherent value embedded in access to and the imprimatur from the American financial system. The dollar serves as the global reserve currency and the currency of choice for international trade, and New York has remained a core financial capital and hub for dollar-clearing transactions. With this concentration of financial and commercial power comes the ability to wield access to American markets, banks, and dollars as financial weapons.

The tools the United States applied to tracking and disrupting illicit financial flows — in particular, terrorist financing — were given greater muscle and reach after 9/11. The more aggressive and directed use of these tools amplified their impact and served to condition the environment, making it costlier and riskier for financial actors to do business with suspect customers. The campaign focused on ferreting out illicit financial flows and using that information to our enemies' disadvantage.

The US government focused counterterrorism and regulatory focus on deep-pocket donors and funders, corrupted charities, front operations, and even banks used to facilitate financial flows to terrorist groups. These efforts were intended both to deny terrorists access to the means of raising money and the modalities by which money can be moved – whether via banks and money remitters or hawaladars and cash couriers. The goal was to disrupt any flows of funds headed into the coffers of terrorist organizations and also deter donations and support.

The military and intelligence communities focused their attention and their collection efforts on enemy sources of funding and support networks. The Treasury Department used

targeted sanctions, regulatory pressure, and financial suasion globally to identify terrorist financiers and isolate rogue financial actors. Law enforcement and regulators hammered banks and institutions for failing to identify or capture illicit financial activity or failing to institute effective anti-money-laundering systems. The United States leveraged the entire toolkit, and the aversion of the international banking system and commercial environment to illicit capital, to craft a new way of waging financial warfare.

This approach put a premium on targeting rogues based on their illicit conduct. Interestingly, under the right conditions, this model created a virtuous cycle of self-isolation by suspect financial actors. The more isolated the rogue actors became, the more likely they are to engage in even more evasive and suspicious financial activities to avoid scrutiny, and the more they find themselves excluded from financial networks.

But perhaps the most important insight powering Treasury's campaign was its focus on the financial sector's omnipresence in the international economic system. Financial activity — bank accounts, wire transfers, letters of credit -- facilitates international commerce and relationships. The banks are the ligaments of the international system.

The Treasury realized that private-sector actors — most importantly, the banks — could drive the isolation of rogue entities more effectively than governments based principally on their own interests and desires to avoid unnecessary business and reputational risk. Indeed, the international banking community has grown acutely sensitive to the business risks attached to illicit financial activity and has taken significant steps to bar it from their institutions. As the primary gatekeepers to all international commerce and capital, banks, even without express governmental mandates or requirements, have motivated private-sector actors to steer clear of problematic or suspect business relationships. The actions of legitimate international financial community participants are based on their own business interests, and when governments appear to be isolating rogue financial actors, the banks will fall into line. Reputation and perceived institutional integrity became prized commodities in the private sector's calculus after 9/11. Our financial isolation campaigns leveraged the power of this kind of reputational risk.

In such an environment, the Treasury Department, finance ministries and central banks, and financial regulators around the world used their unconventional tools and influence for broader national security purposes. The old orthodoxy of unilateral versus multilateral sanctions became irrelevant — the strategic question was instead about how to amplify or synchronize the effects of financial pressure with other international actors, including states, international institutions, banks, and other commercial actors.

Transnational nonstate actors and rogue regimes are tied to the global financial order regardless of location or reclusiveness. Dirty money eventually flows across borders. Moreover, in this environment, the banks, as the central arteries of the international

financial system, have their own ecosystems, with established regulatory expectations and penalties and now a routinized gate-keeping function.

The strategies that resulted in this period after 9/11 focused squarely on protecting the broader international financial system and using financial tools to put pressure on legitimate financial institutions to reject dealings with terrorists, rogue and illicit financial actors.

These tools and this approach are no longer new. Economic sanctions and financial influence are now the national security tools of choice when neither diplomacy nor military force proves effective or possible. This tool of statecraft has become extremely important in coercing and constraining the capabilities of terrorist organizations and the behavior of nonstate networks and recalcitrant, rogue regimes, which often appear beyond the reach of classic government power or influence.

Strategic Impact of the Terrorist Financing Mission

The use of this type of financial power and its focus on terrorist financing in particular have revealed some fundamental policy issues and paved the way for new ways of thinking about national security.

The focus on financial intelligence continues to reveal links and associations between America's enemies and networks – otherwise unseen through conventional intelligence. Financial trails don't lie, and they can reveal relationships of convenience and for profit, such as between al Qaida and Iran or between groups like Hizballah and al Qaida in the Islamic Maghreb and South American drug cartels. The "follow the money" doctrine and financial network analysis puts into relief both emerging threats and the enemies' vulnerabilities.

Treasury's designation process – which reveals openly and notoriously the underlying financial infrastructure of terrorist organizations and rogue groups – not only resulted in international financial isolation but also raises difficult and fundamental issues of national security import. For example, the question of how to deal with Gulf allies – such as Qatar and Kuwait – that have supported extremist causes and groups, especially in the wake of the Syrian crisis often come through the designation process. New debates emerged and continue to be relevant, including how to treat organizations like the Muslim Brotherhood, with its leadership raising money and advocating the use of suicide bombers. The question of how to treat financial facilitation should continue to emerge difficult policy questions.

The targeting of financial facilitators also provided novel insights for a new type of deterrence. Though a terrorist trigger puller may not be deterrable in the last instant of an attack, others in the network and business cycle – like bankers and financiers -- could be deterred if they recognized that their resources and legitimacy were at risk. Such deterrence – whether public or quiet -- could affect the availability of capital and the ability of networks to execute significant plots and expand global networks. This insight also allowed us to think differently about how to affect WMD-terrorism by looking at the threat as a business cycle – from the source of nuclear material to the smugglers and facilitators to the end users. Deterrence then was not just aimed at suicide attackers but instead at all of those in the cycle that might touch on the proliferation and deployment of WMD. The focus on financial support to America's enemies will continue to present new opportunities to influence their activities.

In addition, it is in the context of financial warfare that the United States experienced its most consistent questions and tradeoffs about the use of cyber weapons to disrupt the enemy's financial resources. Concern over the effects on the financial system and confidence in the United States as the keeper of the modern capitalist system has constrained the use of such weapons. Ironically, this is the arena in which the United States financial system now faces its greatest vulnerability.

Importantly, using financial power and suasion to affect America's enemies and their budgets – well beyond US borders – provided a form of asymmetric power that the United States could use against non-state networks exploiting the global system. In many ways, this was a strategic window into a new way to leverage power in the 21st century – which does not require kinetics and relies heavily on the influence and decisions of private sector actors. Devising and leveraging this new type of strategic suasion is a critical and new way of thinking about how to leverage American power as power dynamics devolve and shift globally.

Current Challenges and Adaptations

This strategy to combat terrorist financing is not a silver bullet nor is it immune to the enemies' defenses. Terrorists and rogue actors have adapted to this kind of financial pressure.

The Islamic State of Iraq, al Qaeda, and their affiliates have had to adapt, and its affiliates have grown more independent and innovative in developing self-funding mechanisms while individual members and cells use local means to raise necessary funds. The future of terrorist financing parallels the more fractured and localized nature of al Qaida itself and will present new challenges and opportunities for counterterrorism officials.

The Islamic State of Iraq runs a war economy, with a diversified portfolio providing them income. Revenue from running oil operations in Iraq and Syria has been a major source of revenue for the group – as it has taken advantage of the black market in oil, old Iraqi oil smuggling routes, and developed mobile refineries and transport to transact with brokers and even the Assad regime in Syria. The US and coalition airstrikes and pressure on the ground in Iraq have dislodged the Islamic State from some of its oil infrastructure, but it continues to hold facilities and fields in Sryia. Its recent attempt to retake the Baiji oil refinery in Iraq is evidence that they will continue to seek control of oil installations and resources.

With its control of a vast swath of territory and the second largest city in Iraq, Mosul, the Islamic State is able to tax and extort the local population – raising taxes and fees as pressure mounts – control food supplies to ensure submission by local tribes and populations, engage in kidnap for ransom and other criminality, and trade illegally in antiquities from the historic sites it desecrates. It also has access to approximately ninety banks in the Iraqi territory it controls – which have been ordered cut off from transactions by the Central Bank of Iraq – but may also have maintain access to banks in Syria.

This model of financing is not new. For years, al Qaida in Iraq had siphoned oil, extorted and kidnapped for ransom, and robbed banks to raise money, especially as it came under pressure from the US and Iraqi governments. The group attempted to rob the Central Bank of Iraq on June 13, 2010, and engaged in a July 2011 online funding appeal.

In addition, as the Islamic State grows in prominence among violent Sunni extremists and demonstrates continuously that it is an effective fighting force against President Assad in Syria and other Shia enemies throughout the Middle East, the group is likely to obtain more funding from foreign donors, in particular from the Gulf, and through crowd-sourcing and other grassroots' fundraising.

The estimates of the Islamic State's income and resources vary widely and change as the battlefield shifts, with recent reports from the Congressional Research Service, the United Nations Al Qaida and Taleban Monitoring Group, and the Financial Action Task Force providing fidelity regarding sources and means of funding. US officials remind that the Islamic State must expend resources in order to govern and maintain its momentum.

The Islamic State and al Qaeda regional affiliates also rely more heavily on diffuse and localized funding schemes, often relying on criminal activities such as extortion, kidnapping, and financial fraud that provide fruitful sources of funding. These activities, however, also expose networks and members to attention from local authorities and enforcement.

Al Qaida in the Islamic Maghreb (AQIM) has mastered the kidnapping for ransom business, taking European hostages and ransoming them to the tune of tens of millions of dollars a year paid for by governments and insurance companies. This, along with AQIM involvement in drug smuggling through the Sahel into Southern Europe, has allowed AQIM to become a funding engine for the broader al Qaida movement, with support in the past to Boko Haram in Nigeria and perhaps even other sympathetic groups emerging in North Africa. And the al Qaida affiliate in Somalia, the al Shabaab movement, has created the most diversified and innovative funding, with a combination of taxes and checkpoint fees, diaspora remittances, and a charcoal trade-based money-laundering scheme to raise millions of dollars. This explains why the United Nations has imposed sanctions on charcoal exports from Somalia in an attempt to cut off an important revenue source for the al Shabaab moneymen.

Because AQAM is seeking alternative financial sources and efficient vehicles for moving money, it will continue to develop relationships and operations that tie its financing to the infrastructure and operations of other organizations. Today, al Qaeda in Pakistan relies on donations from sympathizers and supporters in the Persian Gulf and Arab states while also increasingly collaborating and sharing resources with Pakistani based militant groups. For example, al Qaeda is known to share resources and secure funding from Lashkar e Taiba, Pakistan's largest and most capable terrorist organization. According to General Carter Ham, Boko Haram, al Shabaab, and al Qaeda have shared funds and traded explosives.

This adaptive collaboration is seen already in the case of drug trafficking, where AQIM has profited from the drug trade from South America through West Africa and the Sahel into Europe. In the past, al Qaeda and groups like Lashkar-e-Taiba (LeT) have benefited from alliances with Indian crime lord Dawood Ibrahim and his organized crime network. The overlaps between the criminal underworld, illicit financial activity, and terrorist operations and funding will continue to evolve as marriages of convenience emerge in common areas of operation. Focusing on key financial conduits, nodes, and networks that serve not just terrorists but transnational criminals will be critical for counterterrorism officials.

Although al Qaeda has been hurt financially, the old funding networks that sustained the Afghan and Arab mujahideen, al Qaeda core, Islamists in Chechnya, AQI, and other elements of al Qaeda still exist. Sympathizers, deep-pocket donors, and charities and other organizations remain, and they can be used to funnel money to sympathetic causes.

These networks have been weakened over time, but they have also revitalized around specific causes important to violent Islamic extremists, most importantly now the conflict in Syria. Syria is providing the most fertile ground for a resurrection of the old terrorist financing and recruitment networks – out of the Arabian Gulf, Iraq, and North Africa – as extremists help drive the fight against President Assad in Damascus. With the need and call for humanitarian funding for refugees and those in desperate need, groups like the

Islamic State or Jabhat al Nusra can use charity to raise money – and develop their governance and social operations. Dangerously, these groups have learned that to survive in these environments and not be rejected by the populace, they not only have to fight but they need to bake bread and mend wounds. External funding allows them to do this.

The deepening conflict between Sunni and Shia in countries throughout the Middle East and South Asia – along with the tumult stemming from the Arab Revolutions – is also providing an opportunity for these networks to be rejuvenated. Thus, galvanizing events, conflicts, or causes could help resurrect these established networks and means by which they have justified support for Islamist causes and moved money transnationally, often relying on front companies, traditional hawala, and cash couriers.

Authorities then must maintain vigilance over these networks and financiers and ensure consistent oversight using existing measures to combat money laundering and terrorism financing. The US government must also press its Gulf allies to prevent the financing of violent extremists groups – quietly and through targeted designations as the Treasury has in recent months with respect to terrorist financiers in Qatar and Kuwait. It must also find avenues of cooperation, as with the joint designation on April 7, 2015, of the Al Furqan Foundation Welfare Trust with the Kingdom of Saudi Arabia. Finally, the US government must pressure Iran to stop the facilitation of financing for terrorist groups in and through its territory – including for al Qaida and the Taleban.

The Sunni-Shia conflict – with battle lines being drawn in Yemen, Syria, and the region – also raises the stakes for Iran's state sponsorship of terror and the financing of operations and groups from Lebanon to Yemen. This is a moment to be more concerned about the scope and scale of Iranian financial support to groups like Hizballah, Hamas, the Palestinian Islamic Jihad, Iraqi militias, Houthi rebels, and others – along with their growing influence as far afield as Latin America. The United States must remain vigilant and prepared to use targeted sanctions and other counter measures along with our allies to counter Iranian maneuvers and financing. This should include continued focus on mechanisms and vehicles used by the Iranian Revolutionary Guard Quds Force and the regime to support such activities.

All the while, new technologies and innovations in the storage and movement of money and value are reshaping the international financial landscape. This is especially the case in developing economies and communities without access to formal financial outlets, which are relying more heavily on mobile devices and mechanisms for storing and transferring money. The pace of growth of these systems in the developing world has been staggering. By 2009, the developing world accounted for three-quarters of the more than four billion mobile handsets in use. Prepaid cards, as an alternate way to store and transfer value, have gained momentum over the years as a replacement for standard currency transactions, with more innovation on the horizon. Crowd sourcing and fundraising facilitated by social

media and the Internet – a problem anticipated by a Treasury Department reported issued in 2003 – are now a regular means by which terrorist groups raise and move money.

In addition, the development of online, alternative currencies and new mechanisms for virtual barter will further open the Internet for potential exploitation by AQAM and its sympathizers. On November 23, 2011, Philippines police arrested four suspects for involvement in a $2 million remote toll scam that started in 2009. The cell gained access to AT&T customers and telephone operating systems to pass revenues to the suspects or their associates. The group hijacked telephone infrastructure and rerouted calls to collect funds and transfers from unwitting users. These funds were then sent on to support Jemaah Islamiyah, the Indonesian-based al Qaida network, and Lashkar-e-Taiba.

Tracking the mass volumes of rapid and anonymous money flows around the world and getting in front of new technologies to allow for lawful and appropriate tracking will remain major challenges for law enforcement, intelligence, and regulatory officials, especially because groups and individuals are able to hide and layer their identities and ownership interests. Digital currencies – replacing the traditional use of currency and the traditional controls and chokepoints that attach to international money flows – have emerged as efficient, yet potentially problematic ways to raise, move, or hide illicit capital.

Importantly, money allows seemingly disparate networks and groups to blend their operations. Money – and the potential for profit – grease relationships that would ordinarily never exist. The grand global arms traffickers of this era, like Manzar al Kassar and Viktor Bout, have proven this rule. They were willing to service any group or regime willing to pay the right price – often selling arms to warring sides in the same conflict. This principle of opportunistic profit and operations is now implicating the interactions of networks of all ideological stripes. There is money to be made and logistical networks to be harnessed to achieve criminal and political goals.

This blend of purposes is seen most clearly in the conversion of terrorist groups into drug trafficking organizations – like the FARC in Colombia or the Taleban in Afghanistan. Ideology gives way to opportunity. The reason is money. America's enemies – drug trafficking cartels, organized crime groups, militant groups, and terrorists -- are finding each other, as a matter of convenience and opportunity.

These connections also tie groups together and allow them to work together more broadly. The DEA, the FBI, and the intelligence community have focused more and more attention on the nexus between drugs and terror – with terrorist groups assuming the role of drug trafficking organizations and drug trafficking organizations taking on the characteristics and violent methodologies of terrorist groups. The U.S. Attorney for the Southern District of New York has merged its international drug and foreign terrorism sections because of the intimate link between the two.

Crime can pay, making it an especially attractive avenue for fundraising for networks and groups with global ambitions. Where there is money to be made and moved, financial institutions will be implicated. Banks and financial intermediaries will continue to weigh the balance between making significant amounts of money while doing business with suspect customers and the need to apply the most stringent financial controls and standards on money flowing through its systems. We have seen this over and over, with multinational banks, targeted by regulatory authorities and investigators for taking chances with their efforts to evade sanctions and scrutiny.

Systemically, there are some worrying signs as well.

In Europe, the legal structure and basis for the use of targeted sanctions against individuals and entities, based on United Nations designations, remains under enormous stress. The need to reconcile ex-ante due process for individuals with the preventative demands of asset freezes and designations continues to challenge the mechanism by which the European Union adopts and enforces targeted sanctions. Without a solid foundation and a sustainable system, the European Union and its member countries will remain reluctant to adopt aggressive measures to stop terrorist financing using these tools.

In addition, the ecosystem that allows for this form of financial warfare and isolation is resilient but fragile. The forced isolation of more and more actors – and the tendency of the private sector to decline doing business in at-risk sectors, jurisdictions, and with suspect actors – raises the possibility of reaching a tipping point where the effectiveness of these tools begins to diminish. This is especially the case when the use of financial sanctions and regulations are used to address more diverse range of diplomatic and political ills and concerns – like human smuggling, child labor, and human rights abuses.

With the threat of financial sanctions, public opprobrium, and the potential erosion of reputation for banking suspect actors, legitimate financial actors are exiting from problematic markets. This raises concerns that less credible or scrupulous financial actors will fill the vacuum. For authorities, this would entail a potential loss of visibility into certain financial activity; for the banks, this would mean abandoning certain segments of the population or regions of the world.

We have seen this happening already – with banks stung by enforcement actions and painful, public settlements beginning to exit markets and business lines wholesale, money service businesses in North America struggling to find banking relationships with major banks, and embassies searching to maintain bank accounts in the United States and Switzerland.

An inherent and dynamic tension has emerged between the isolation of suspect behavior from the formal financial system and the incorporation of more of the world into the formal financial system. Going forward, the core principle of isolating and exiling actors from the legitimate financial system for policymakers needs to be balanced with the need to ensure that rogue actors can be captured and affected by the legitimate financial system. Financial inclusion needs to be a strategic consideration and complement to our financial exclusion campaigns.

More worrisome, our ability to use these powers could diminish as the economic landscape changes. Treasury's power ultimately stems from the ability of the United States to use its financial powers with global effect. This ability, in turn, derives from the centrality and stability of New York as a global financial center, the importance of the dollar as a reserve currency, and the demonstration effects of any steps, regulatory or otherwise, taken by the United States in the broader international system. If the US economy loses its predominance, or the dollar sufficiently weakens, our ability to wage financial warfare against terrorists and America's enemies could wane. It is vital that policymakers and ordinary Americans understand what is at stake and how this new brand of financial warfare evolved. For it is only a matter of time until US competitors use the lessons of the past decade to wage financial battles of their own—especially against the United States.

Opportunities Ahead

The need to combat terrorist financing is just as important today as it was after 9/11. We need to constrict the budgets of the Islamic State and al Qaeda and to cut the financial and resource links between the groups in order to contain their capabilities, reach, and ambitions. We need to deter and disrupt state sponsorship of terror – with a continued focus on the mechanisms exploited for financing and the evasion of sanctions.

The playbook designed over the past thirteen years is still sharp and can be wielded with effect against targeted actors and networks of concern. The continued reliance on these measures for tactical and strategic purposes by the US government is a testament to their importance. The use of financial intelligence, tools and suasion, enforcement, and financial diplomacy can all be used aggressively to attack terrorist and illicit financing as it hits key chokepoints and the financial system. But the use of these tools must remain strategic, their implementation focused on effectiveness, and reinforced with a strengthened and committed international system devoted to the protection of the international financial system and our collective security. The focus on illicit conduct that is threatening to both the financial system and our collective security must remain at the heart of these efforts.

Indeed, one of the great strengths of the campaign to combat terrorist and illicit financing is that it is based on international norms and principles that are subscribed to by all the relevant banking centers and jurisdictions – and now well understood and largely adopted

by the legitimate actors in the private sector. These standards, established by the Financial Action Task Force and reinforced by the World Bank, International Monetary Fund, the United Nations, and countries around the world, form the baseline for the integrity of a financial system that is intended to be transparent, accountable, and safe. This also means that the sanctions system that has formed the core of these campaigns must be driven by the United States but adopted and implemented more fully by the legitimate capitals of the world. They must be encouraged to take on the task of combating terrorist financing in their countries and globally.

The blending of terror and criminality, along with the local means groups are using to raise and move money, expose them to local and regional disruption, even if they are not using the formal financial system in the first instance. Thus, drug enforcement agents, customs officers, policemen, and tax authorities all become even more relevant in the world of illicit finance – as terrorist groups exploit the seams in the international system. This offers opportunities for US and other law enforcement to partner in more creative ways, building on the intelligence, financial, and military cooperation that already may exist between countries. We have seen this kind of partnership bear fruit in countries around the world, as authorities monitor cash couriers, financial crime, fraud, and corruption schemes.

Finally, we need to operationalize the type of financial and strategic suasion that has made the campaign against terrorist financing effective over the past decade. There are new partners in the international system who need to be enlisted or enabled as we combat new forms of terrorist financing.

To combat the looting of antiquities for profit by the Islamic State, the United States should help empower and enlist a whole set of actors and networks already committed to the preservation of peoples, texts, and culture – including leading archaeologists, anthropologists, universities, heritage trusts, museums, libraries, and even activist celebrities. The Antiquities Coalition, UNESCO, and other organizations have already sounded the alarm and are trying to address this problem. The US should assist and leverage their insights, networks, and activism to stem the flow of funds to ISIS from this trade.

A new coalition should be galvanized to stop the funding of terror and conflict from the illicit wildlife trade – especially the decimation of elephants and rhinos in Africa for their valuable ivory. This trade, which will bring the extinction of some of the world's most magnificent animals, is exploited for profit by terrorist and militant actors, like al Shabaab, the Lord's Resistance Army, and the Janjaweed, along with drug trafficking organizations from South Asia and China. Though the Administration has signed an Executive Order and national strategy to combat wildlife traffic, more needs to be done. The United States could help galvanize and energize the international efforts to prevent these environment crimes, increase enforcement efforts in Africa and Asia, and focus a strategy on disrupting the financial and commercial networks that enable this trade to flourish. This campaign

would bind the environmental activists, conservationists, and the national security community. In this manner, we could serve both our natural and national security, with a new set of allies in the international system.

At every turn, we should be enlisting and empowering new networks of allies – in particular unconventional non-state networks and actors – when our interests align to deter and disrupt sources of financing for terrorism.

The power to affect the budgets of America's enemies is an enormous power that needs to be tended carefully and wielded wisely. And America's enemies – especially nimble terrorist organizations -- will continue to find ways to work around the international pressure and strictures put upon them. This is why the campaign against terrorist financing cannot be treated as a static venture but instead an ongoing and critical part of the changing terrorist and international security landscape. The US government, led by the Treasury, must continue to innovate and find new ways and partners to make it harder, costlier, and riskier for terrorist groups around the world to raise and move money.

Thank you for your attention and for the privilege of testifying. I would be happy to answer any questions and provide more detail as requested.

Testimony

A Survey of Terrorist Financing

Addendum

Seth G. Jones

RAND Office of External Affairs

CT-430/1

June 2015

Document submitted on June 12, 2015 as an addendum to testimony presented before the House Financial Services Committee, Task Force to Investigate Terrorist Financing on April 22, 2015

This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND®** is a registered trademark.

Published 2015 by the RAND Corporation
1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138
1200 South Hayes Street, Arlington, VA 22202-5050
4570 Fifth Avenue, Suite 600, Pittsburgh, PA 15213-2665
RAND URL: http://www.rand.org/
To order RAND documents or to obtain additional information, contact
Distribution Services: Telephone: (310) 451-7002;
Email: order@rand.org

Seth G. Jones[1]
The RAND Corporation

A Survey of Terrorist Financing Addendum[2]

Before the Committee on Financial Services
Task Force to Investigate Terrorism Financing
United States House of Representatives

June 12, 2015

The questions found in this document were received from the Committee, asking for additional information following the hearing on April 22, 2015, and the subsequent responses were submitted for the record.

Question for the Record from U.S. Representative Ann Wagner

Mr. Jones, during your testimony you stated your concern that there has not been a major effort of the intelligence community and the military to target human trafficking being conducted by terrorist organizations. How can these entities augment their current priorities with an increased focus on identifying human trafficking being employed by terrorist groups? Understanding that this isn't a major source of funding for terrorist groups aside from ransom and extortion, are there any readily recognizable financial solutions to help identify and suppress this activity from being successful?

Response by Dr. Seth Jones, Director, International Security and Defense Policy Center, RAND Corporation

Both are excellent questions. Beginning with the first question—and based on my own research and experience in the U.S. special operations community—the primary focus of U.S. Department of Defense efforts has generally been to target individuals involved in terrorist leadership, fundraising, propaganda, and military operations. Human trafficking has not been a primary focus, though it has obviously been a concern. Yet based on recent trends, human trafficking is indeed a problem, and some terrorist groups have been involved in human trafficking. There is some

[1] The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of RAND or any of the sponsors of its research. This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

[2] This testimony is available for free download at http://www.rand.org/pubs/testimonies/CT430z1.html.

evidence, for example, that the Islamic State of Iraq and the Levant (ISIL) has raised some revenue from human trafficking.[3]

U.S. government agencies can begin by collecting and analyzing more intelligence on human trafficking by terrorist groups, and then increasing actionable ways to disrupt human-trafficking networks. It is also important to continue training U.S. government officials to improve awareness and to report cases of human trafficking. The Department of Defense has taken a helpful step forward, for example, with its program for Combating Trafficking in Persons (CTIP). All Defense Department personnel with job responsibilities that require daily contact with Department of Defense contractors or foreign national personnel are supposed to take relevant CTIP acquisition training.

Second, the U.S. government should consider additional financial steps to help identify and undermine human trafficking. Human traffickers use a variety of ways to launder money, such as cash-intensive businesses, money service businesses, cash couriers, hawala (informal banking) systems, front companies, and investments in high-value goods such as cars and real estate. The U.S. Department of the Treasury can utilize a range of assets—including a diverse assortment of legal authorities, core financial expertise, operational resources, and expansive relationships with the private sector and international community—to identify and target money-laundering networks across the domestic and international financial systems. The Department of the Treasury should better integrate targeting human-trafficking networks into its portfolio and report on measures of effectiveness.

Question for the Record from U.S. Representative Keith Ellison

Somalia and other parts of East Africa face a humanitarian crisis. There are nearly no financial institutions willing to remit funds from the U.S.—or the U.K. or Australia—to Somalia.

- Are you concerned that the closure of these accounts may heighten the national security threat when people in Somalia, Sudan and other parts of East Africa cannot get the resources they need to pay for food, school fees or business start-ups?
- Are you concerned that the closure of these accounts may force diaspora financial flows "underground" and inadvertently make terrorist financing investigations more difficult?

[3] See, for example, Financial Action Task Force, *Financing of the Terrorist Organisation of Islamic State in Iraq and the Levant*, Paris: Financial Action Task Force, February 2015, p. 13.

- How can we balance the need to curtail terrorism financing while simultaneously ensuring that the Somali population—and other nations' citizens—have access to legitimate remittance channels?

Response by Dr. Seth Jones, Director, International Security and Defense Policy Center, RAND Corporation

The issue of remittances to Somalia is an important one, and recent developments are indeed troubling. Most banks in the United States have now stopped servicing the accounts used by money transfer operators to allow individuals in the United States to send money to their families and friends back in Somalia, even though most individuals are simply trying to pay for food, medicine, school fees, and other daily costs. Somalia lacks a central banking system and heavily relies on these remittances. The curtailment of these accounts harms non-governmental organizations (NGOs) as well. As the chief executive of a Nairobi-based NGO recently noted, "We are not sure how we are going to be able to continue operations and send money to the field to Somalia without being about to use the Somali money transfer companies."[4]

It is unclear, however, whether the closure of these accounts will make terrorist financing investigations *more* difficult. After all, terrorist groups like al Shabaab don't rely on these types of foreign remittances for the bulk of their funding. Al Shabaab derives much of its funding from its own activities, particularly taxation of trade and other forms of business occurring in, or passing through, its areas of control in Somalia. The group's control of the strategically important southern port town of Kismayo—prior to losing control of the city in September 2012—was particularly important, including facilitating its illicit trade in charcoal. Al Shabaab also controls parts of the southern Kenyan border region, through which there is a significant flow of smuggled goods. In addition, the group is reported to tax farmers in its territory.

Still, it is worth closely examining a range of options, such as working with U.S. agencies like the U.S. State Department and U.S. Treasury Department to help provide temporary remittance channels. In addition, the United States, World Bank, and other governments and NGOs can help Somalia re-establish such institutions as an autonomous central bank that is better equipped to carry out its monetary and financial-sector regulatory and supervisory responsibilities; commercial banks and non-bank financial institutions that are sound and more efficient; and commercial banks and non-bank financial institutions, instruments, and services that meet the needs of the

[4] Karen Attiah, "The Global Squeeze on Somalia Just Got Worse, Thanks to Kenya," *Washington Post*, April 10, 2015.

government, NGOs, businesses, and households in both rural and urban communities. Many of these steps are difficult and may take time, but they are a good place to start.