



**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:

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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 Syria. 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 Qaeda 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 Qaeda 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 report 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.