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## The State Department Role in Combating the Financing of Terrorism

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Testimony Before the Senate Committee on Banking, Housing, and Urban Affairs

Washington, DC

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Mr. Chairman, Distinguished Members of the Committee,

Thank you for the opportunity to discuss with you the contribution of the Department of State to U.S. Government efforts to combat money laundering and the financing of terrorism. As Assistant Secretary of State for Economic and Business Affairs, I have been actively involved in our campaign against terrorist financing. Your interest and attention to this important area is extremely valuable, and much appreciated.

This vital task is a high priority for the State Department. With the new challenges posed by the post-9/11 world, the Department of State has played a critical role, in Washington and overseas, in building and sustaining the international cooperation essential to keeping funds from use by terrorists and terrorist organizations. However, interagency cooperation is vital and essential to success in this endeavor.

In my remarks today, I would like to review in general terms what we have accomplished since 9/11 in the international fight against terrorist financing. I would also like to sketch for you the role of the Department of State in this effort, and to update the committee on recent regional developments as well as those in key multilateral institutions.

Finally, I would like to say a few words on what we see as some of the key challenges moving forward.

### What we have accomplished since 9/11

Mr. Chairman, all of us involved in the fight against terrorist financing can rightfully take pride that the 9/11 Commission's Final Report accorded the U.S. Government's efforts against terrorist financing its highest marks. In the four-and-a-half years since 9/11, we have built a new set of structures and mechanisms within the U.S. government

to combat terrorist financing. This is an interagency process that works.

That team effort by the U.S. Government has also served as the foundation for the international cooperation, called for in the Commission's initial Report, which the Administration has worked hard to develop in a variety of settings and with a variety of tools. Our efforts encompass building political will of partners, public outreach, sanctions implementation, law enforcement, intelligence-gathering, financial regulation, standard-setting and training and technical assistance.

Since terrorists largely operate internationally, a key component of the fight is to build international cooperation. Diplomacy is critical to winning the political commitment from which cooperation in other areas flows, and our embassy teams play vital roles in this effort.

With cooperation, intelligence and law enforcement officers can follow the money. With international cooperation on asset freeze designations (as well as travel bans under UN resolutions), we force terrorists into less reliable and more costly means of moving money.

We have, for example, worked with foreign partners to:

- Implement the sanctions mandated by United Nations Security Council resolutions 1267 and 1373 to expose and isolate terrorist organizations and their supporters.
- Utilize law-enforcement tools to prevent, investigate and prosecute terrorist financiers.
- Collect and analyze financial intelligence in order to understand and dismantle terrorist networks, and expose their operations.
- Build capacity to develop and effectively enforce a robust legal regime against terrorists and their supporters.
- Support development of high-quality international standards, especially through the Financial Action Task Force on Money Laundering and Terrorist Financing (FATF).

As the Commission acknowledges, there is still much to do. But our shared goal remains the same: building an international coalition to deny access to the global financial system to terrorists, terrorist organizations, their financiers and supporters.

Since 9/11, I have traveled to the political and financial centers of Europe, capitals of key strategic partners such as Saudi Arabia, other Gulf states and Pakistan, as well as to the United Nations in New York, as part of our diplomatic effort to build this international coalition. Colleagues who are here with us today, and others from many U.S. agencies, have undertaken similar missions to those and other parts of the world.

We have also welcomed a steady stream of visitors to the United States who engage various levels at State and other U.S. Government agencies on terrorist financing issues. These include senior officials at the highest levels of government as well as mid-level officials and journalists sponsored by the U.S. on International Visitor Grants.

International cooperation remains fundamental to our common endeavors for the simple reason that most of the funds used to support terrorism are located outside the jurisdiction of the United States. International cooperation is essential to initiatives in fields ranging from intelligence and law enforcement coordination to targeted financial sanctions to norms

and standards of financial regulation.

Our experience in the years since 9/11 reinforces the conviction that we will be successful in detecting, disrupting and dismantling terrorist financial networks only through active cooperation with partners around the globe.

### **The changed landscape**

One anecdotal measure of the success of this coalition can be seen in the increasing use by terrorist financiers of non-traditional financing channels in preference to the formal international financial system. This means terrorist networks are increasingly relying on riskier, more difficult and expensive means to finance their operations.

But it is also further evidence that we face a resilient and adaptable foe, and signals a new phase in our campaign against terrorism finance. Already, abuse of such financing instruments as charities and not-for-profit organizations, cash couriers, wire transfers and other alternative remittance systems have become an increasing focus of our discussions with international partners, as have criminal means of raising money.

### **Role of the Department of State**

The Department of State's contribution to Administration efforts to safeguard the international financial system from terrorist financing and money laundering focus on achieving three key objectives:

- Designation. Blocking assets and cutting off worldwide channels of terrorist financing;
- Standard-setting. Establishing international standards; and
- Capacity and commitment. Ensuring global compliance with international standards.

Our work is based on close cooperation with the National Security Council, Treasury, Justice, Homeland Security and other agencies, and includes foreign policy guidance, diplomatic engagement, and training and technical assistance. In some cases, State will lead, in others Treasury, or DHS, or Justice may take the lead, for example, but we strive to approach them all as a coordinated team.

State officials lead or take part in a wide variety of regional and bilateral initiatives and multi-agency diplomatic missions relating to money laundering and terrorist financing. They are also active participants in key multilateral institutions including FATF and the FATF-style regional bodies (FSRBs), the UN 1267 Sanctions Committee and the UN Counterterrorism Committee, the UN Office of Drug Control (UNODC), the G8 Roma-Lyon Group and the Organization of American States.

Leadership of our efforts to combat money laundering and terrorist financing engages the resources of three State Department functional bureaus, in cooperation with a cross-section of other bureaus and U.S. diplomatic missions:

- The Bureau of International Narcotics and Law Enforcement Affairs (INL) has primary responsibility within State for international anti-crime issues, including programs to combat money laundering and other financial crimes.
- The Office of the Coordinator for Counterterrorism (S/CT) plays a lead role in our domestic designation program, and shares responsibility with INL for coordinating U.S. AML/CFT capacity-building programs overseas.

- The Bureau of Economic and Business Affairs (EB) coordinates terrorist financing policy, and coalition building on terrorist financing, including on UN sanctions under Resolution 1267.

## Designation

Overall, the key role that the Department of State can play is to help build political will in other countries to staunch the financing of terrorism. As part of this broader effort we focus on two tasks to help identify and interdict terrorist assets:

- Public designation of terrorists and terrorist organizations; and
- Work with partners abroad to freeze the assets of terrorists and their supporters.

State shares responsibility, and works closely together with Treasury, for designations under U.S. Executive Order 13224. Designations under this order result in asset-blocking and a prohibition on transactions with the designated individual or entity. The Administration has frozen the assets of 436 individuals and entities on 76 separate occasions pursuant to this order.

State has responsibility, in consultation with Treasury and Justice, for designation of Foreign Terrorist Organizations (FTOs). These designations make it a crime to provide material support to the designated organization, subject its members, representatives, and material supporters to exclusion from the United States, and block FTO assets held in U. S. financial institutions. Forty-two organizations are currently designated as FTOs.

We also work with Justice and Homeland Security to designate groups for the Terrorism Exclusion List. Such an action makes individual aliens providing support to, or associated with, these organizations inadmissible to or, if appropriate, subject to deportation from the United States. Many of the groups on this list are banks, NGOs, and other organizations found to have provided support to terrorist organizations.

Internationally, State coordinates U.S. diplomatic engagements on terrorist financing, including nominations of individuals and entities associated with al-Qaida, Usama bin Laden or the Taliban for mandatory sanctions under UNSCR 1267. We also lead U.S. initiatives to build international support for the UN 1267 sanctions process. The 1267 Sanctions Committee has listed over 300 persons and over 100 entities, including 139 names submitted by the United States.

Overseas, American diplomats are engaged in regular dialogue in support of U.S. strategies against terrorism and financial crime. We have instructed that at each mission, a senior official chair regular interagency meetings to develop and propose strategies aimed at building a broad international coalition through cooperation with host governments against the financing of terrorism, including on designation, asset blocking and capacity building.

## Standard-setting

In the area of international standard-setting, the Treasury Department leads U.S. efforts in the Financial Action Task Force, but State participates in its plenary and working group meetings to establish high-quality international standards in the areas of money laundering and terrorist financing. We work hand in glove with the Treasury and Justice Departments in this effort, including through diplomatic support provided by missions overseas in pushing the importance of the FATF criteria to host governments.

Treasury has provided invaluable leadership within the U.S. Government on our efforts to effectively utilize FATF to address terrorist financing. The FATF 40+9 Recommendations provide the international framework for a comprehensive national legal regime. FATF continues to clarify and refine these Recommendations through Interpretive Notes and best practices guidelines agreed by its 33 members.

State, along with Treasury and Justice, each funds a one-third share of the annual United States contribution to FATF. State's INL bureau provides the only U.S. funding support for FSRBs that, among other activities, adapt FATF Recommendations to regional requirements.

State has also sponsored an initiative in the Organization of American States to update the Inter-American Drug Abuse Control Commission (CICAD) Model Regulations on Money Laundering to reflect FATF standards and UN Security Council resolutions on terrorist financing.

### **Capacity and commitment**

The Department of State has been active in U.S. efforts to support global compliance with international standards, particularly in three areas:

- Assessing compliance with these standards;
- Providing capacity-building assistance for key countries in need; and
- Engaging governments and institutions on implementing measures to prevent terrorist financing and money laundering.

### **Assessments**

The Department of State is a strong proponent of the FATF-style regional bodies (FSRBs) in their work adapting FATF standards to meet regional requirements. In Washington, we work closely on this endeavor with Treasury, the U. S. agency with policy lead on FSRBs, and Justice. Our overseas missions provide diplomatic support for the FATF and FSRB processes.

For example, to support global efforts to assess compliance with international standards, the Department's INL bureau has recently begun to earmark contributions through its funding mechanism for the FSRBs, and requiring statements of goals, objectives and measures of performance from the recipient bodies.

We have supported Treasury in sharing best practices to combat money laundering and terrorist financing with international financial institutions including the IMF, the World Bank and the Inter-American and Asian Development Banks. We welcome last year's agreement by the FATF, IMF and World Bank to develop a common methodology to incorporate the FATF 40+9 into their country financial sector reviews.

### **Capacity building**

To help build global capacity, we work bilaterally and regionally as well as through multilateral organizations to develop, coordinate and implement anti-money laundering and counter-terrorist financing assistance programs.

State takes an active role in planning, funding and delivery of U.S. training and technical assistance to a selected group of some two-dozen countries where financial systems are particularly vulnerable to abuse by terrorists. This process demands close interagency cooperation, and we have been working hard to improve the process.

These bilateral assistance programs utilize a comprehensive model aimed at developing or reinforcing legal, judicial, financial regulatory, financial intelligence and law enforcement capabilities. Programs encompass legislative drafting, Financial Intelligence Unit (FIU) development, judicial and prosecutorial training, financial supervision and financial crime investigative training, as well as the funding of long-term resident advisers, and are increasingly focused on addressing abuse of alternative remittance systems, non-profit organizations and cash couriers.

Last year, the U.S. government provided anti-money laundering and terrorist financing training to more than 100 countries, and a total of over 130 since 9/11. Some of this training was done on a regional basis, through International Law Enforcement Academies (ILEAs) in Budapest, Gaborone and Bangkok. Altogether, the U.S. has helped established five ILEAs to combat drug trafficking, criminality and terrorism.

Other regional programs have included a partnership with the United Kingdom and European Union to develop and implement the recently-completed five-year Caribbean Anti-Money Laundering Program, and a similar program recently established for the 14 non-FATF members of the Pacific Island Forum. In Latin America, the U.S. has provided funds to the CICAD Money Laundering Group of Experts and to the 3+1 Group in South America.

State also leads the U.S. delegation to the G8 Counter-Terrorism Action Group (CTAG) to coordinate the international provision of anti-terrorism training and technical assistance. CTAG donors have established a gaps/assistance matrix based on the counterterrorism finance needs identified in FATF assessments of key countries, and agreed that sustained assistance over time is required to close the gaps. By mid-2005, 12 members of the CTAG, including the United States, had provided more than 200 coordinated technical assistance programs to more than 150 countries.

### Implementation

Engaging other governments on the importance of implementing measures against terrorism finance and money laundering has been a cornerstone of our diplomatic strategy following 9/11. Components of this engagement have included bilateral diplomacy, technical assistance and work through multilateral institutions such as FATF and the United Nations.

In 2005, 17 countries promulgated or updated anti-money laundering and terrorist financing laws. The number of jurisdictions that have criminalized money laundering to include predicate crimes beyond narcotics increased to 172 from 163 in 2004. Ten more countries criminalized terrorist financing, bringing the total number of countries with such laws to 123. In addition, seven more financial intelligence units (FIUs) became members of the Egmont Group, raising its global membership to 101, and 123 governments are members of the seven FATF-style regional bodies (FSRBs).

U.S. Government assistance programs, coordinated with our embassies, continue to include programs to help governments to make the necessary legal and regulatory changes to ensure compliance with international standards and expectations.

State's INL bureau played a key role with Treasury and Justice in development of the FATF Non-Cooperative Countries and Territories (NCCT) process to reduce the vulnerability of financial systems to money laundering. Targeted Department assistance programs have contributed to removal of all six Western Hemisphere and 15 of the other 17 NCCTs from the FATF list. In 2005, FATF removed the Cook Islands, Indonesia, Nauru and the Philippines from the list, leaving only Burma and Nigeria as remaining NCCTs.

State assistance to the United Nations Office on Drugs and Crime (UNODC) Global Program against Money Laundering has provided mentoring and other assistance for promoting compliance with FATF Recommendations and reinforcing of national anti-money laundering institutions capable of combating the financing of terrorism.

The Department's annual International Narcotics Control Strategy Report (INCSR) assesses the global money laundering situation and national as well as multilateral anti-money laundering efforts in a separate volume on money laundering and financial crimes that also addresses terrorist financing.

This report features summaries and comparative analyses on more than 200 governments, and is recognized worldwide as a standard reference for identifying critical weaknesses in anti-money laundering systems. The State Department, on behalf of the more than a dozen contributing agencies, was gratified that 9/11 Commission Co-chairman Lee Hamilton testified before the House Financial Services Committee to the INCSR's usefulness.

### **Additional contributions**

In addition to the aforementioned, the Department of State contributes to efforts in areas which, although related more directly to our larger counter-terrorism efforts, support U.S. efforts against the financing of terrorism. These include, most prominently, economic policies favorable to development, and public diplomacy.

### **Economic tools**

This discussion of the Department's role has focused on direct actions that we are taking to fight terrorism and terrorist financing. But there are longer term, indirect actions that can help to address the economic conditions that support terrorist rhetoric and recruitment.

One of the recommendations of the 9/11 Commission focused on the need to include in our comprehensive counter-terrorism strategy policies to encourage development and open societies to improve the lives of those who might otherwise turn to terrorism. In the post-9/11 world, it is now clear as never before that the national security of the United States and the economic development of the world's poorest countries are inextricably linked.

As a matter of United States policy, development is central to the National Security Strategy, which the President issued on March 16 this year. It states: "Development reinforces diplomacy and defense, reducing long-term threats to our national security by helping us build stable, prosperous, and peaceful societies." In addition to our core AID programs, examples of policy tools aimed at promoting this goal include:

The Millennium Challenge Account (MCA) provides assistance to reduce poverty through economic growth in those

countries that rule justly, invest in their people and encourage economic freedom. The MCA is based on the finding, and common sense notion, that aid is most effective when invested in countries that are committed to good governance and already have good policies in place.

Our long-standing support for the Heavily Indebted Poor Countries (HIPC) initiative promotes debt sustainability and enables the poorest countries to devote additional resources to reducing poverty and promoting economic growth.

Both the MCA and HIPC reflect the President's National Security Strategy, which states: "Improving the way we use foreign assistance will make it more effective in strengthening responsible governments, responding to suffering, and improving people's lives."

An aggressive U.S. multilateral and bilateral trade agenda to liberalize global markets also supports our development goals, especially in realizing the President's bold vision of a Middle East Free Trade Area (MEFTA) – concluding Free Trade Agreements with Oman, Bahrain and Morocco (the last already in force), developing special export zones in Egypt and Jordan, and considering others in Pakistan and Afghanistan. Saudi Arabia became a full member of the World Trade Organization in December 2005.

Bilateral Investment Treaties (BITs) support adoption of market-oriented policies that can promote growth and new employment. For example, we are negotiating a high-standard BIT with Pakistan that supports the adoption of market-oriented policies that can promote growth and new employment and reduce poverty.

## **Public diplomacy**

The Department of State is also working to address the 9/11 Commission's critique of U.S. public diplomacy efforts aimed at countering terrorism.

In recent months, we have ramped up our efforts to get our message before the public. When I have traveled to discuss terrorism finance issues, I also met with local journalists. When I could not travel to speak at a conference on terrorist financing last November in Madrid, I made arrangements to address participants through videoconferencing. I know my colleagues from Treasury and other departments are making similar outreach efforts.

State also provides briefings on combating terrorism finance to a mix of foreign professionals – including law enforcement, legislators and government officials, judges, attorneys, and journalists from many parts of the world. These have been very lively sessions that have given us an opportunity to clarify misunderstandings and garner greater support for meeting U.S. objectives.

We are making a concerted effort to place opinion pieces by U.S. government officials in key media outlets throughout the world. This year we have placed opinion pieces in every continent in multiple languages reaching millions of foreign readers, including a recent placement in pan-Arab newspapers. The number of readers we reach is only part of the story – the fact is these opinion pieces do influence changes in foreign legislation and spur more effective law enforcement efforts overseas.

My most recent opinion piece discusses concern over misuse of charitable donations and explains the steps

which governments can take to both protect those who donate to charities and to regulate charitable organizations in a way that facilitates rather than hindering their work. This piece has been placed in leading newspapers in Saudi Arabia, Jordan, Indonesia and Sri Lanka, as well as the pan-Arab Ash-Sharq al-Awat, and will be published in European and African capitals in the days ahead.

We regularly provide targeted talking points for U.S. embassies to use to educate the public and government officials about the risks and links between terror financing, money laundering, arms trade and drug smuggling. We also provide ongoing training to U.S. foreign service officers and other U.S. government officials on the public diplomacy aspects of discussing terror financing issues with overseas audiences.

## **Recent developments**

Mr. Chairman, when we last met in July 2005, my remarks focused on money laundering and terrorist financing in the Middle East and Pakistan. At this time, I would like to take a few minutes to update the Committee on developments in these areas, as well as provide an overview of issues in other regions and international organizations where the Departments of State, Treasury and other agencies, as well as U.S. diplomatic missions, have been active.

Key recent developments include:

- UN Security Council adoption of measures to strengthen international sanctions against the Taliban and al-Qaida.
- Thirty-five new listings for sanctions under UNSCR 1267, including the Movement for Islamic Reform in Arabia (MIRA) and Al-Akhtar Trust International, sponsored by seven different governments including the U.S.
- International consensus at the Financial Action Task Force on implementing oversight of non-profit organizations.
- Inauguration of the U.S.-Saudi Strategic Dialogue and the U.S.-UAE Terrorist Financing Coordinating Committee.
- Adoption of best practices papers on charities, cash couriers and hawala by the Middle East and North Africa Financial Action Task Force (MENAFATF).
- Ongoing anti-money laundering programs aimed at strengthening existing law and building effective financial intelligence units; the Saudi financial intelligence unit is now fully operational.
- Regular dialogue with the European Union on terrorism finance issues.
- EU adoption of legislation on money laundering and regulation of cash couriers, and guidance on oversight of charities.

## **United Nations**

During my testimony last July, I briefly touched on work we were doing in New York to improve the effectiveness of the UN sanctions regime targeting the Taliban and al-Qaida. Later that same month, those negotiations resulted in the unanimous adoption by the Security Council of UNSCR 1617.

This resolution extends the mandate of the 1267 Sanctions Committee's Monitoring Team: the eight experts, including one American, who are its eyes and ears. It also clarified what constitutes association with al-Qaida, adds enhanced due-process provisions to the listing process and "strongly urges all member states to implement the comprehensive international standards embodied in the FATF 40 Recommendations on Money Laundering and the FATF Nine Special Recommendations on Terrorist Financing."

This outcome benefited from teamwork by a State/Treasury/Justice team that worked intensively to develop the language in 1617 and garner international support for the resolution.

UNSCR 1624, a resolution related to the incitement of terrorist acts, was adopted unanimously in September at a Security Council summit as part of the UN's response to terrorism. We are currently discussing the elements of a strategy to drive effective implementation of this resolution internationally.

## **FATF and FATF-style regional bodies**

### **FATF**

With strong leadership by Treasury, the USG team has worked successfully to build cooperation and promote best practices.

The Financial Action Task Force adopted an Interpretative Note to guide members' implementation of its Special Recommendation VIII on oversight of non-profit organizations at its February 2006 meeting in Cape Town. Agreement followed months of negotiation, where Treasury led the U.S. team, and represents international consensus on common priorities and procedures to avoid abuse of the sector by terrorist financiers.

FATF also agreed to establish an ad-hoc process to address outstanding membership questions, including the appropriate size of the organization and other governments' interest in joining.

The two new FATF-style regional bodies (FSRBs) recognized by FATF in 2004, the Middle East and North African Financial Action Task Force (MENAFATF) and the Eurasia Group (EAG), brought the total number of FSRBs to eight. The U.S. holds observer status with each. Both have been active putting programs into operation.

### **MENAFATF**

MENAFATF has already proven itself one of the most engaged of the regional bodies. It has formed several active working groups and issued commendable best practices papers in the areas of bulk cash smuggling, supervision of charities and underground banking. Mutual evaluations will get underway this year.

MENAFATF held its most recent plenary in Cairo March 22-23, and supported March 24-25 the U.S.-MENA Private Sector Dialogue on Combating Laundering and Terrorist Financing.

### **Eurasia Group (EAG)**

The Eurasia Group (EAG) is working to compile a comprehensive list of regional training and technical assistance needs and donors. It is also establishing a regional training center in Moscow to be managed by its Russian-led secretariat. Mutual evaluations will begin this year.

Charter members of the EAG include Belarus, China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. Ukraine was added as a member at the most recent plenary in Moscow in December.

## **Middle East**

### **Gulf States**

We are continuing high-level interagency engagement with all the Gulf States, focusing on sustaining their capacity to effectively address the terrorist threat. The U.S. Government has conducted Anti-Terrorism Assistance (ATA) programs with all the states of the Arabian Peninsula.

The Gulf States have made significant progress in improving their abilities to combat terrorist financing, and have worked closely with us in this area. They have diligently implemented UN Security Council sanctions.

While there is more that can be done, we have developed highly cooperative and mutually beneficial relations with the Gulf States in the areas of law enforcement, intelligence sharing, and terrorist finance. We are presently working with them to combat the illicit use of cash couriers, which is especially pertinent to these cash-based economies.

### **Saudi Arabia**

We continue to engage Saudi Arabia through regular, high-level diplomatic meetings to urge enhanced emphasis on combating terrorist finance. I want to highlight for you a number of cooperative activities we are currently engaged in with Saudi counterparts:

This past year, we established the U.S.-Saudi Strategic Dialogue, which Secretary Rice inaugurated during her November 2005 visit to Riyadh. The Dialogue includes a number of working groups, including one dedicated to counterterrorism, which will creatively address terrorist finance, among other key issues. A second round of the Dialogue is scheduled to take place in the U.S. later this year.

Saudi Arabia is working to establish a charities commission to regulate all charitable donations leaving the kingdom. We continue to stress the need for appropriate regulatory oversight of all charitable organizations headquartered there, such as the World Muslim League, the International Islamic Relief Organization (IIRO) and the World Assembly of Muslim Youth (WAMY). Senior Saudi officials have reiterated, as recently as last week, that existing regulations prevent unauthorized bank money transfers by charities from leaving Saudi Arabia.

In late 2005, the Government of Saudi Arabia enacted stricter regulations on the cross-border movement of funds. Money in excess of \$16,000 must be declared upon entry and exit from the country. While the regulations were effective immediately, Customs staff training is continuing, as highlighted by recent discussions with senior Saudi officials. A cash declaration process is also now in place.

The Saudi government is also working to strengthen its nascent Financial Investigations Unit (FIU), established in 2005 and now up and running and receiving reports from Saudi financial institutions. We have consistently urged the Saudis to accelerate the FIU's membership in the Egmont Group of financial intelligence units in order to facilitate the international sharing of financial information. The Financial Crimes Enforcement Network (FinCEN), the U.S. financial intelligence unit, is working with the Saudi unit on the Egmont application process and plans to sponsor it when it qualifies.

## **Kuwait**

Kuwait is currently working to revise and strengthen its anti-money laundering law to specifically criminalize terrorist financing. We expect that draft legislation to be ready for review by the cabinet and parliament by the summer.

Kuwait's Ministry of Social Affairs has dismantled all unlicensed charity kiosks, some of which had been linked to terror financing.

In December 2005, Kuwaiti Customs, in conjunction with DHS, hosted a conference to train Kuwaiti officials on preventing terror financing.

## **UAE**

The U.S.-UAE Joint Terrorist Financing Coordinating Committee (JTFFCC) was launched in January 2006. This interagency, bilateral effort allows high-ranking U.S. officials to work directly with their UAE counterparts to address a range of issues, including cash couriers, charities and hawala. The second JTFFCC meeting will take place in the weeks ahead in Abu Dhabi.

Since 2000, the UAE Government has frozen \$1.3 million of funds in 17 different accounts based on UN sanctions. It has also been a leader in setting up new standards for controlling hawala. The UAE passed an anti-terror law in July 2004, encouraged attendance at the Middle East Law Enforcement Training Center and has signed all 12 UN Counterterrorism Conventions.

## **Iraq**

In Iraq we continue to work hard to support government capacity-building across the spectrum. Iraq is in the process of establishing a Money Laundering Reporting Office in the Central Bank of Iraq (CBI) to collect, analyze and disseminate information on financial transactions subject to financial monitoring and reporting, including suspicious activity reports. The U.S. is working with the CBI to build this capacity and to implement the day-to-day functions of a financial intelligence unit.

The USG aims to help Iraq modernize its banking system, establish international standards in its banking regulations and implement and enforce existing laws to combat terrorism financing.

USG assistance to the Central Bank includes providing technical advice on international accounting standards, bank supervision, and licensing. A performance and management assessment of all the state-owned banks was completed this year to establish a baseline for restructuring the banks. The USG is also assisting the GOI with developing a new national payments system that will help increase transparency in the banking system and help the Central Bank in its supervisory role.

We are providing assistance to Iraq's private sector banks in the area of cash flow-based lending, strengthening private banking associations, and helping private international banks to register in Iraq.

We are also working with Iraq to ensure that any new legislation that replaces or enhances the current anti-money laundering act (CPA Order 93) will meet international standards.

## **Jordan**

The Jordanian government has submitted draft anti-money laundering and bank secrecy legislation for approval by Parliament and is working to strengthen its anti-money laundering and terrorist finance controls.

The U.S. Government, in coordination with the Government of Jordan, has assigned a Treasury Attaché to Amman to provide technical assistance and training to Jordanian banking and law enforcement officials, as well as to others in the region.

We have a robust ATA program in place with Jordan, and excellent cooperation in the areas of law enforcement and intelligence-sharing. We are also negotiating a Millennium Challenge Account threshold program to improve governance and business climate,

## **Syria**

On March 9, 2006, Treasury issued a final rulemaking that prohibits all U.S. financial institutions from maintaining or opening correspondent accounts used by or on behalf of the Commercial Bank of Syria (CBS), pursuant to Section 311 of the USA PATRIOT Act, due to CBS's involvement in money laundering and terrorist financing.

The international community has been clear about what it expects of Syria: the government must end the flow of weapons and funds to terrorist groups, such as Hizballah, within Lebanon; it must work to curb the flow of foreign fighters into Iraq; and it must close the offices of Palestinian terrorist groups in Damascus.

## **Lebanon**

On March 23, 2006, the Department of the Treasury designated al-Manar, a satellite television operation owned and controlled by Hizballah, as a terrorist organization pursuant to E.O. 13224. The order also designated al-Nour Radio and the parent company of both groups, the Lebanese Media Group (LMG). Hizballah, a designated foreign terrorist organization, works through and with these entities to raise funds, recruit and otherwise support terrorist activities.

## **South Asia**

### **Pakistan**

Pakistan's proposed anti-money laundering legislation, drafted with U.S. assistance and approved in cabinet last year, remains in Parliament. We are concerned that some elements may not meet international standards, and are trying to engage the Pakistani government to correct deficiencies. Lack of action, including establishment of a financial intelligence unit, leaves us unable to accelerate planned assistance.

In the absence of legislation, Pakistani banking and securities regulators have introduced regulations to improve oversight consistent with Financial Action Task Force regulations.

We welcome the concrete actions Pakistan has taken in response to UN Security Council Resolutions, including the freezing of over \$10 million of al Qaida assets. However, the presence of al-Qaida, other terrorist groups and front organizations, porous borders, and widespread informal, cash-based financial networks mean Pakistan will remain a focus of concern for some time.

We are encouraged by Pakistan's concern that terrorist groups may be presenting themselves as charitable organizations. We would welcome the opportunity to provide technical assistance to help the government meet international standards on preventing abuse of the non-profit sector. Involvement in post-earthquake relief efforts by front organizations for terrorist entities designated by the 1267 Committee raises serious concerns that funds from international donors for earthquake relief and reconstruction could be diverted. We have shared these concerns with Pakistan and have made clear the types of steps the government needs to take to prevent this from happening.

For example, we worked extensively with USAID, which in turn worked with its contractors to make sure that no subcontracts were awarded to terrorist groups. USAID and the Department also worked with private sector donors and NGOs to this end. Treasury contributed guidelines on this subject, which are posted on Treasury's website.

## **Afghanistan**

Afghanistan has made significant progress in creating and enacting a legal framework to combat money laundering and the financing of terrorism in the formal banking sector. However, twenty-five years of armed conflict devastated physical infrastructure and human capacity in all economic sectors. Commercial banks have only recently re-opened in major cities, and the country's informal financial sector remains large and well established.

The Central Bank's primary challenge is to extend formal regulatory oversight to the informal financial sector. It has the legal authority to do so, but many foreign exchange dealers and money service providers see the requirements as overly burdensome.

Under legislation adopted in 2004, Afghanistan has set up a financial intelligence unit, and an embedded U.S. Treasury advisor is working with the Central Bank to help the FIU become fully operational. The FIU is working with the informal financial sector to implement regulations, but full implementation will require enforcement capacity which the Ministry of Interior and the Attorney General's office do not currently possess.

President Bush has expressed strong support for working with Afghanistan and Pakistan to establish Reconstruction Opportunity Zones (ROZs), with the idea of greater commercial opportunities and jobs as an alternative to extremist recruitment. We envision that a defined range of products in these ROZs would receive duty-free entry into the United States, including some products that are not currently eligible for duty-free treatment under GSP. The recently-launched U.S.-Afghanistan Partnership includes an economic prosperity component and highlights both ROZs and Business Building Bridges initiatives.

Additionally, we are working with the Multilateral Development Banks and the Governments of the South and Central

Asian countries to promote regional cooperation and economic integration.

## **East Asia**

### **Indonesia**

We continue to see results from counterterrorism finance and anti-money laundering assistance provided by Washington agencies in the wake of the 2002 attack in Bali:

- Indonesia's financial intelligence unit has been fully operational since October 2003, receiving and analyzing suspicious transaction reports; over 20 cases have been successfully prosecuted.
- The Indonesian National Police has established a specialized counterterrorism unit that includes financial investigators who have received counterterrorism finance and anti-money laundering training.
- The Indonesian Central Bank has put in place rules and procedures to enhance anti-money laundering compliance for private sector banks.

A U.S. Resident Legal Advisor at Embassy Jakarta is assisting the Indonesian government in implementing anti-money laundering legislation and preparing cases to prosecute financial crimes. Changes in its legal regime led to removal of Indonesia from the Financial Action Task Force's Non-Cooperating Countries and Territories list in February 2005.

Partly due to lack of interministerial coordination, Indonesia's performance in implementing UN sanctions provides an area for improvement. We have provided some training, including on oversight of charities, and are assessing other areas where training might be appropriate.

The Millennium Challenge Corporation is currently negotiating a threshold program with Indonesia that would attack corruption, particularly in the judiciary.

## **Europe**

### **European Union**

Cooperation with the European Union is increasingly guided by the U.S.-EU dialogue on terrorism finance issues, established in September 2004 in fulfillment of 2004 U.S.-EU Summit commitments. This process brings key players together for regular review of current issues, and provides a framework for joint expert-level projects in areas including prosecution, law enforcement, designation and technical assistance.

The U.S. interagency delegation, which I chair, meets with representatives of key EU institutions during each six-month EU Presidency to set direction and assess progress.

Informal expert groups of judicial, technical assistance and designation professionals have begun organizing joint work programs. They have organized U.S.-EU workshops on judicial and designation issues, and conducted a joint financial sector assessment in Tanzania. In November, they held a workshop on implementing FATF standards for asset freezing, with follow-up meetings planned this year on enforcement and listing/de-listing issues.

Discussions are also ongoing aimed at compiling a shared database on treatment of classified information in the U.S. and EU states. However, attempts to implement a 2004 summit agreement to analyze frozen accounts depend on member states' willingness to provide Europol with the necessary authority.

We are also engaging the EU through key member states and international organizations. Resolving differences of approach with respect to the use of administrative or preventive freezing and criminal proceedings remains a key challenge. However, with prodding by FATF and the UK's EU Presidency last fall, more EU member states are taking steps to put legal authorities in place to freeze terrorist assets independent of EU action.

Over the last year, the EU has moved forward with legislation to implement the FATF Special Recommendations on Terrorist Financing. It adopted new measures on money laundering, which also addressed terrorism finance issues, and on regulation of cash couriers. Legislation covering wire transfers is currently before the European Parliament.

The European Commission issued guidance to member state governments last December on oversight of charitable organizations, and has invited U.S. participation in a conference this fall on preventing abuse of the non-profit sector.

## **Russia**

With legislation and enforcement mechanisms in place, cooperation with Russia is improving:

- U.S. and Russian law enforcement agencies have worked together on a number of high-profile money laundering cases, resulting in successful prosecutions in the Russian courts.
- The U.S. and Russian financial intelligence units (for the U.S., Treasury's Financial Crimes Enforcement Network) have established a productive working relationship, sharing sensitive financial information on suspicious transactions almost daily.
- The U.S.-Russia Counterterrorism Working Group (CTWG) meets twice a year to review bilateral cooperation on a range of counterterrorism issues, including terrorism finance.

Russia spearheaded creation of the EAG in 2004. With U.S. support, Russia has led efforts to make the Eurasia Group (EAG) an effective FATF-Style Regional Body. The U.S. has detailed a Treasury advisor to the EAG to support Russia's efforts to bring EAG members' legal systems up to international standards.

However, our views and Russia's have sometime diverged regarding the UN 1267 Sanctions Committee's listing process, and we are working to improve our coordination on these issues. In other respects, Russia has been a key partner in UN counterterrorism initiatives. U.S. cooperation with Russia produced the initial draft of UNSCR 1617. Russia also played a key role in our shared effort with the other permanent members of the Security Council to convince China to approve the resolution's endorsement of the FATF 40+9 Recommendations.

## **Latin America**

### **Triborder area**

Although there is no credible information indicating that Islamic terrorist cells are planning attacks in Latin America or the Caribbean, the U.S. Government remains concerned that Hizballah and HAMAS fundraisers are active among the large Muslim communities of the largely-uncontrolled Triborder Area (TBA) of Argentina, Brazil and Paraguay.

We remain concerned that proceeds from narcotics and piracy of goods may be used to support Hizballah in the three TBA countries. In September 2005, the Department of State provided \$750,000 to the Department of Homeland Security's U.S. Immigration and Customs Enforcement (ICE) to establish trade transparency units (TTUs) in these countries. The TTUs will enable the TBA countries and the USG to compare trade data declared at origin and destination of trade transactions; discrepancies will alert authorities to the possibility of fraud, money laundering, or terror financing. Each TTU will be a vetted unit that includes representative of the customs service, financial intelligence unit, law enforcement agencies and, where applicable, the judiciary.

We have been working with all three countries to strengthen their capabilities to deal with financial crimes in other ways:

On March 30, Argentina's Chamber of Deputies passed long-delayed money laundering legislative reforms. The U. S. Embassy in Buenos Aires has engaged in an extended lobbying campaign to for passage of the law, which was earlier approved by the Senate. Argentine press reports have highlighted the role of both the U.S. and the FATF in pressing for the changes. Coincidentally, passage occurred during a high-level visit by the FATF President and Executive Secretary.

The Brazilian government is currently drafting legislation that would criminalize terrorist financing, refine its anti-money laundering regime and provide administrative authority to freeze financial transactions. I understand Assistant Treasury Secretary O'Brien's recent visit to Brazil included consultations on this issue. He also visited Paraguay and Argentina to promote cooperation.

I raised the importance we attach to passage of Paraguay's anti-money laundering legislation during high-level meetings with Paraguayan officials last month in Washington, echoing Assistant Secretary O'Brien's message in Asuncion. The law, drafted with U.S. assistance, would criminalize and enable effective prosecution of money laundering, but has languished in Congress for almost two years, although it may be gaining traction. A \$35 million Millennium Challenge Account threshold program, approved in February, would accelerate effective implementation of the law as well as fight corruption and illicit commerce.

While it remains unclear whether and to what extent intellectual property (IP) piracy is a vehicle for terrorist groups to raise funds, the State Department is providing significant bilateral training and technical assistance to the Paraguay in combating rampant intellectual property piracy in the Tri-Border region, provides IP training to Brazilian police, and plans to involve Paraguay, Brazil and Argentina in regional training to strengthen cross-border customs cooperation.

## **Africa**

### **South Africa**

South Africa is the major financial center in the region, and has a strong track record of cooperation with the United States

in exchanging information relating to money laundering and terrorist financing.

Its legislation for dealing with money laundering and terrorist financing has been in place since May 2005 and stands out in a region where few countries have adequate legal or regulatory regimes in place. It provides the government with investigative and asset-seizure powers in case of suspected terrorist activity, and is applicable to charitable and non-profit organizations as well as financial institutions.

Detailed implementation of this legislation remains a work in progress. The USG interagency continues to engage the South African government to undertake measures to control cross-country currency movement, fully implement the new legislation and take steps to regulate alternate remittance systems.

### **The challenges ahead**

In my presentation today I have attempted to emphasize two themes: 1) we continue to make progress with partners throughout the world against the common threat of terrorism and its financing; and 2) there is much that remains to be done.

In closing, I would like to return to the idea that we have entered a new phase in the campaign against terrorism finance. We are moving far beyond a focus on freeze-and-seize tactics toward a more strategic approach on building coalitions with close partners to make it progressively harder for terrorist-linked money to be collected and moved. Areas that are becoming increasingly prominent in our discussions include:

- Non-traditional financing mechanisms, including cash couriers, Islamic banking, hawala and other alternative remittance systems.
- Non-profit organizations, including front organizations and charities set up to funnel funds to terrorist organizations.
- Corruption, financial crime and trade-based schemes in support of terrorist activities and organizations.
- State sponsors of terrorism and their role in terrorist financing.

Our work in these areas will build on the coalition that has come together since 9/11 to safeguard the international financial system. We will continue to adapt use of multilateral sanctions, establishment of international standards and technical assistance cooperation to changed circumstances, but our shared goal remains the same: isolate terrorist financiers, insulate the financial system and unite the international community through collective action.

I welcome your thoughts on these and other key challenges as we move forward.

Thank you very much.

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