



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

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CONTACT: Molly Millerwise
(202) 622-2960

**Testimony of Daniel L. Glaser, Acting Assistant Secretary
Office of Terrorist Financing and Financial Crimes
U.S. Department of the Treasury**

**Before the House Financial Services Subcommittee on Oversight and Investigations
and the House Armed Services Subcommittee on Terrorism**

Chairwoman Kelly, Chairman Saxton, Ranking Members Guterrez and Meehan, and distinguished Subcommittee members, thank you for inviting me to testify today before both subcommittees on the important issue of Iraqi insurgency financing, and the efforts of the Department of the Treasury, in conjunction with our interagency colleagues, to combat it. This is obviously a critical and worrisome matter, and I share with you, and with my counterparts at the Department of Defense, a sense of urgency in doing our utmost to disrupt the flow of funds to those seeking to attack our troops, coalition partners, and innocent civilians in Iraq.

I. OVERVIEW

The groups responsible for conducting the Iraqi insurgency, like other terrorist organizations, require organization and logistical support. It has been said that single acts of violence may not require extensive financial resources. For instance, suicide bombers and those who plant improvised explosive devices (IEDs) reportedly are paid only a few hundred dollars each. However, it takes much more money to support the overarching insurgency/jihadist effort. Significant financing is required to secure the loyalty of network members and pay for salaries, coordination and organization, propaganda, housing, food, shelter, medical care, and transportation of foreign insurgency fighters into and throughout Iraq. Disrupting the flow of these funds provides an important means of combating the entire insurgency effort. Following the money upstream and downstream can help us identify, locate, and disrupt the insurgents themselves, as well as their financial networks. It is for this reason that combating insurgency financing has become a top priority of the Departments of the Treasury and Defense, and of the entire U.S. Government.

A. Insurgency Groups

The Iraqi insurgency encompasses several distinct, but often overlapping groups:

- Sunni jihadists, such as al Qaida-endorsed Abu Mus Al-Zarqawi and the Zarqawi network (aka Tanzim Qa`idat Al-Jihad Fi Bilad Al-Rafidayn or Al-Qaida of the Jihad in the Land of the Two Rivers), and the Ansar Al-Sunnah/Ansar Al-Islam network;
- Former Regime Elements (FRE)/Ba'athists. This group includes senior officials of the former Saddam regime (particularly former Iraqi Ba'ath Party officials and members of the Iraqi military and security services), their family members, and agents; and
- Indigenous tribal groups and local militias whose tribal loyalties, nationalist goals, or Islamist ideologies have caused them to engage in acts of violence against Coalition forces and the civilian population.

Despite their different motivations, it appears that these groups are capable of tactical cooperation when it suits their purposes.

B. Sources of Insurgency Financing

The financing networks of the Iraqi insurgency are complex and diverse. Insurgents draw on both external financing and on internal Iraqi sources of funds and materiel. For example, the Zarqawi Network and other jihadist groups use a variety of classic al Qaida-type terrorist financing mechanisms, including:

- Funds provided by charities, Iraqi expatriates, and other deep pocket donors, primarily in the Gulf, but also in Syria, Lebanon, Jordan, Iran, and Europe;
- Criminal activities, such as kidnapping for ransom, possible narcotics trafficking, robbery, theft, extortion, smuggling, and counterfeiting (goods and currency).

Former Regime Elements fund their insurgency activities by using assets pilfered by the former Iraqi regime and secret accounts in other countries. FRE still inside Iraq, as well as indigenous tribes and local militias, also rely on local charities and mosques, local sympathizers, legitimate businesses, donations from middle-class Iraqi businessmen, and grassroots donors for support. Furthermore, Iranian-backed proxy groups transfer funds and materiel provided directly by Iran into Iraq.

While internal financing clearly provides significant support for the Iraqi insurgency, the Treasury Department, and my testimony, focuses primarily on efforts to combat external insurgency financing.

C. Efforts to Combat Insurgency Financing

The complexity of disrupting insurgency financing is clear, but can essentially be divided into two components:

- *Identifying and Disrupting Funding and Support Networks Globally.* For example, our efforts to disrupt the funding of the Zarqawi Network and of other Sunni jihadists focus on the Gulf region and Europe, while our primary areas of concern for FRE insurgency funding are Syria, Lebanon, and Jordan.
- *Identifying and Disrupting the Mechanisms By Which Funds Are Transferred Into and Disbursed Within Iraq.* Once these groups raise the funds, they must be transported into Iraq. Though we must of course be vigilant about all potential financial mechanisms – *e.g.*, formal financial systems, *hawala*, trade-based value transfers, *etc.* – the mechanism of greatest concern is the physical transportation of cash into Iraq, particularly across the Iraqi-Syrian border.

Addressing these challenges requires a comprehensive effort, relying on contributions from the intelligence, law enforcement, diplomatic, military, and financial communities within the U.S. Government. The Treasury Department is an important component of this overall effort, and as described in detail below, we have a range of financial tools that we have deployed vigorously to address both the funding and transfer elements of Iraqi insurgency finance.

II. IDENTIFYING AND DISRUPTING FUNDING AND SUPPORT NETWORKS GLOBALLY

As I have noted, the international components of the Iraqi insurgency can be divided roughly into three groups: (i) Former Regime Elements; (ii) Sunni Jihadists; and (iii) indigenous tribal groups.

A. Former Regime Elements: Return of Looted Iraqi Assets

Since March 2003, the U.S. Government has focused on the need to locate, freeze, and repatriate Iraqi assets from around the world, as well as to find cash and other assets within Iraq that were stolen and hidden by Former Regime Elements. From the beginning, the Iraqi asset hunt was a top priority in order to return the money to its rightful owners, the Iraqi people. It is also critically important, however, to locate and repatriate these funds in order to prevent former regime assets from being used to support the Iraqi insurgency. At this time, we are monitoring several streams of money, some of which belong to FRE and some of which were caught up in old illicit trading accounts. We want to prevent the leakage of any of this money into the hands of those supporting the insurgency.

In May 2003 the United Nations Security Council adopted UNSCR 1483, which calls on U.N. Member States to identify, freeze and transfer to the Development Fund for Iraq (DFI) assets of senior officials of the former Iraqi regime and their immediate family members, including entities owned or controlled by them or by persons acting on their behalf. The President subsequently issued Executive Order (E.O.) 13315, which authorizes the Secretary of the Treasury to freeze the assets of former regime elements. To date, under E.O. 13315, the Department of the Treasury has designated scores of Iraq-related entities and individuals

(including 55 senior Iraqi officials who were named by the President in issuing E.O 13315, and 47 administrative or “derivative” designations.) The U.S. Government, in turn, submits these names to the United Nations for listing by the UN 1518 Committee under UNSCR 1483.

Only a week ago, the Department of the Treasury designated six of Saddam Hussein’s nephews (sons of Saddam’s half brother and former presidential advisor, Sabawi Ibrahim Hasan Al-Tikriti), and we understand that their names have now been accepted at the UN. Four of the designated individuals provided financial support (and in some cases, weapons and explosives) to Iraqi insurgents. Similarly, on June 17, 2005, we designated, Muhammad Yunis Ahmad for providing funding, leadership and support from his base in Syria to several insurgent groups that are conducting attacks in Iraq.

On June 9, 2005, we also designated two associated Syrian individuals, General Zuhayr Shalish and Asif Shalish and a related asset, the Syria-based SES International Corporation for their support to senior officials of the former Iraqi regime. SES also acted as false end-user for the former Iraqi regime and facilitated Iraq's procurement of illicit military goods in contravention of UN sanctions.

The effect of our sanctions increases exponentially when they are applied multilaterally. Therefore, it is absolutely vital for the countries around the world, particularly those with assets of designees within their borders, to act in conjunction with the U.S. and consistently with their obligations under UNSCR 1483. A significant portion of FRE funds are in Syria or are controlled by individuals within Syria, and we are convinced that the Syrian Government can do significantly more to address it. Though there have been some encouraging recent steps on related issues, including Syria’s recent transfer of \$117 million to the DFI, in addition to the \$3.8 million transferred in January, these steps are insufficient. At the beginning of Operation Iraqi Freedom, there was an estimated \$850 million in Iraqi accounts in Syria. Of this amount, Treasury investigators found that the Syrian government had paid out approximately \$580 million in claims to Syrian businesses without the authorization of SOMO, and that \$262 million remained frozen in an account at the Commercial Bank of Syria. This bank was subsequently designated by the Treasury Department in May 2004 as a “primary money laundering concern” under Section 311 of the USA PATRIOT Act. Syria should act immediately to bring itself into compliance with its international obligations and transfer these funds back to the people of Iraq. They should also work with the Iraqi government to review both the pending and the previously-paid claims.

FRE assets clearly are not stashed in Syria alone. Large amounts of frozen Iraqi assets are in Lebanon and Switzerland. We, together with the State Department, are working with these countries to identify and isolate former regime assets where we find them and to transfer these assets to the Development Fund for Iraq, as required by resolution 1483.

B. Sunni Jihadists: Classic Terrorist Financing

Fund raising for the Sunni jihadist groups in Iraq – such as the al Qaida-affiliated Zarqawi network – follows similar patterns as fund raising for Sunni jihadist terrorist groups throughout the world, including deep-pocket donors and the abuse of charities. Indeed, there is reason to

believe that extremist networks throughout the world that had been providing financial support to jihadist terrorist groups are directing portions of their funds to Iraqi insurgency groups. It should therefore not be surprising that, as with other jihadist terrorist groups, our efforts to identify and disrupt the fundraising of jihadist/ insurgency groups is focused, though not limited to, the Gulf region and Europe. It should also not be surprising that we have at our disposal many of the same tools and authorities.

Just as there is a U.N. Security Council Resolution requiring countries to freeze the assets of former Iraqi regime elements, so too are there U.N. Security Council Resolutions requiring countries to freeze the assets of individuals and entities related to al Qaida, Usama bin Laden, and the Taliban (UNSCR 1267) and other global terrorist groups (UNSCR 1373). The U.S. implements its obligations under these resolutions through E.O. 13224. To date, the Treasury Department has designated over 400 individuals and entities under E.O. 13224. These actions include individuals and entities tied to jihadist insurgency groups:

- Sulayman Khalid Darwish (January 25, 2005) (Syria-based Zarqawi supporter/financier), also designated by the UN, pursuant to UNSCR 1267; Syria joined the U.S. in co-designating Darwish at the UN.
- Muhsin al-Fadhli (February 15, 2005) (Kuwait-based Zarqawi and Al Qaida supporter, also designated by the UN, pursuant to UNSCR 1267); and
- Bilal Mansur Al-Hiyari (April 13, 2005) (Jordan-based member of the Zarqawi Network), whose name was also submitted to the UN for listing pursuant to UNSCR 1267.

While stand-alone designations by the U.S. are important, they do not carry the same weight or effect as international actions. We need to act in concert with our partners in the regions of greatest concern. It is for this reason that the Departments of the Treasury and State have worked tirelessly both to improve the effectiveness of national targeted financial sanctions regimes throughout the world, and to encourage countries to use this tool proactively and aggressively.

In this respect, U.S. outreach efforts to countries in the Gulf region are manifold, both bilaterally and multilaterally. For example, just this calendar year I have personally traveled to Saudi Arabia, Bahrain, and Kuwait, and have led the U.S. delegation to the Middle East/North Africa Financial Action Task Force (MENA FATF) – a new multilateral body that works to ensure the implementation of comprehensive anti-money laundering and counter-terrorist financing systems throughout the region. Launched in November 2004, this 14-member body held its first plenary session in Bahrain in April 2005 and is preparing for its second plenary session in September of this year, currently scheduled to take place in Beirut. This body has the potential to be effective in persuading its members to implement systems to freeze assets in a timely and effective manner. It remains too early to tell how effective MENA FATF will be, but the indications so far demonstrate considerable enthusiasm and energy. We support this initiative and hope that it will succeed on the difficult road that lies ahead of it.

We also have extensive outreach efforts to Europe – most prominently the US-EU Counter-Terrorist Financing Working Group, chaired by Assistant Secretary of State Anthony Wayne. Through this and other mechanisms, we are working to ensure the effective and aggressive implementation of targeted financial sanctions throughout Europe. Recently, British Chancellor Gordon Brown highlighted the urgency of this task when he told EU finance ministers that they must improve efforts to seize terrorist assets. While he recognized that some countries are taking effective measures, he noted that the collective effort is “only as strong as your weakest link.” We are working with the UK as well as many other countries in Europe to build on this momentum and strengthen efforts to track and seize terrorist assets.

Of course, targeted financial sanctions are not the only tool we have in the fight against terrorist financing. The full range of U.S. efforts against terrorist financing are coordinated by the Terrorist Financing Policy Coordination Committee (PCC), which is chaired by Deputy National Security Advisor Juan Zarate, and includes representatives from the Departments of the Treasury, State, Justice, and Defense, as well as representatives from the law enforcement and intelligence communities.

III. IDENTIFYING AND DISRUPTING THE MECHANISMS BY WHICH FUNDS ARE TRANSFERRED INTO AND DISBURSED WITHIN IRAQ

As discussed above, once funds are raised for insurgent groups, they must be transported into and disbursed within Iraq. Though we must of course be vigilant about all potential financial mechanisms – such as, formal financial systems, *hawala*, and trade-based value transfers, *etc.* – the mechanism of greatest concern is the physical transportation of cash into Iraq.

A. Cash Couriers: Insurgency Transfer Mechanism of Choice

There are numerous reasons why cash couriers are the primary mechanism for the transfer of insurgency funds into Iraq. These include (i) porous borders of neighboring states; (ii) the availability of long-established smuggling routes within the region; and (iii) a formal financial system within Iraq that is still maturing.

1. Syria and others

The use of cash couriers is of particular concern with respect to those neighbors of Iraq who continue to ignore the problem. Even if the governments of these countries are not complicit in the transfer of cash across their borders, they are certainly aware of it and can take steps to stop it. The biggest problem country is Syria. Through various sanctions programs, the Treasury Department has targeted Syrian individuals, entities, and officials for a range of issues, including harboring assets of the former Iraqi regime, interfering in Lebanon, inadequately policing the flow of cash across its borders, and failing to implement money laundering and terrorist financing controls. Syria must take action to address all of these concerns, which include securing its border with Iraq and cracking down on cash couriers.

2. Regional Systemic Reform

Porous borders, long-established smuggling routes, and informal financial systems characterize much of the region. We are aware of the regional vulnerabilities and are working with all of these countries to take this matter very seriously. Because cash couriers are a region-wide problem, we are working through regional bodies to address it. I previously mentioned the MENA FATF, which we expect to play a leadership role in ensuring regional compliance with global standards. One of these standards, articulated by the global FATF (Financial Action Task Force) is the enforcement of measures taken to stop the illegal smuggling of cash by couriers. We know that this issue already tops MENA FATF's agenda, and look forward to working with all of the organization's members to underscore the importance of their efforts and implement the appropriate measures.

The Treasury Department and other agencies are also working bilaterally with countries in the region to address cash couriers. For example, the Department of Homeland Security's Immigration and Customs Enforcement (ICE) Office of Investigations, in concert with Customs and Border Protection (CBP) is currently providing bulk cash smuggling training in the region as part of the State Department-chaired Terrorist Finance Working Group (TFWG). To date, ICE and CBP have conducted this training in two countries in the Middle East and plans are currently underway to provide this training to Iraq.

3. Assisting Iraq's Establishment of an Effective Payment System

At present, nearly all payments in Iraq are made in cash; dollars for bigger-ticket (imported) items and real estate transactions, and dinars for other payments. For example, the U.S. military pays its contractors in U.S. dollars, and almost all Iraqi salaries, including the salaries of Iraq government employees, are also paid in cash dollars. Reliance on currency for transactions not only leads to very large inefficiencies in terms of the operation of the financial system; it also carries significant risks with respect to insurgency financing. Since Iraq and its neighboring countries are flooded with U.S. dollars, insurgents can move funds into the country by cash courier without raising attention. Insurgency flows blend into the movement of legitimate funds.

The Department of the Treasury has been engaged in a major effort to help develop a modern payment system for Iraq that follows international best practices.

The Iraq Payment System, as the project is called, is being coordinated by Raleigh Tozer, Senior Vice President, Federal Reserve Bank of New York, and involves various parties, including the Central Bank of Iraq, Iraqi Telephone and Post Company, the U.S. Embassy in Baghdad, the IMF, and the World Bank, as well as the Department of the Treasury. Once implemented, the Iraq Payment System will be able to process instantaneous, electronic large value payments (real time gross settlements (RTGS) and smaller recurring salary and other payments (automated clearing house (ACH)). The system will be internal to Iraq, but will be capable of linking to international payment systems to make or receive payments from outside Iraq.

The Iraq Payment System should begin providing widespread benefits shortly after its implementation. The targeted date for implementing RTGS is January 2006, with ACH a month later, though delays are possible. The Kurdish region has not participated in preparations for the new payment system; however, Kurdish officials have recently expressed interest in taking part.

Establishing a modern payments system could significantly help combat the use of cash couriers by insurgents. Moving from a largely cash economy to a functioning banking and payment system will make it easier to monitor and control financial flows, thereby improving the ability of U.S. and Iraqi financial and law enforcement officials to detect the movement of insurgency funds into and within Iraq.

B. Investigations, Analysis and Asset-Tracking on the Ground in Iraq

In addition to working to identify and disrupt insurgency fund raising and transfers into Iraq, the Treasury Department has worked closely with our interagency counterparts on the ground in Iraq to investigate insurgency funding methods, trace the disbursement of insurgency funds, and enhance the financial investigative capability of the Iraqis. The following provides a sense of the diverse and important missions undertaken by Treasury personnel in Iraq:

1. Currency Tracing

A notable initiative is our on-going currency tracing efforts. Treasury personnel in Iraq work closely with the military to trace the flow and sources of U.S. currency found in Iraq that may be used to fund the insurgency. In this regard, the IRS attaché routinely obtains serial numbers from bulk currency seized by the military from suspected insurgents and transmits this information through Treasury to the Federal Reserve Board of Governors and the Bureau of Engraving and Printing (BEP) to trace its origin and distribution. At present, we are able to trace U.S. currency only into Iraq. However, we are in the process of working with the military to establish a currency tracking program that would trace large-value movements of U.S. currency into, through, and back out of Iraq. If fully implemented, this system should enable us to trace the movement of U.S. currency seized from insurgents into the country, all the way to the insurgents themselves, so that we can both cut off the flow of future funds and also better target insurgency operatives.

2. IRS-Criminal Investigation Agents Assigned to Iraq

From March 2004 through March 2005, IRS-CI deployed seven Special Agents to Iraq to assist in targeting insurgency financing. The IRS-CI agents were embedded with the U.S. military in Iraq, and participated in the Joint Interagency Task Force on the Insurgency (“Insurgency Task Force”). The IRS-CI agents worked closely with the military, the FBI, and the Intelligence Community to identify, trace, and secure assets inside and outside Iraq that might be used to fund insurgent activities. In particular, IRS-CI agents in Iraq helped:

- Interrogate/interview high value targets detained in Iraq, as well as other detainees, money couriers, and a currency exchange dealer, to try to determine the methods used to finance insurgency operations and terrorism in Iraq and uncover front companies and agents;
- Exploit documents recovered in insurgency strongholds and elsewhere in Iraq in order to identify and trace insurgency-related funds, including FRE funds;

- Provide standardized questions on insurgency financing for use by military interrogators;
- Execute search warrants on insurgency targets, including assisting the military with financial and technical advice regarding which items were most relevant for seizure and evidence exploitation. For example, one search warrant targeted a *hawaladar* (currency exchanger) in the Baghdad area;
- Conduct investigations in which the military believed the subjects were involved in financing some forms of terrorist activity, including assassination; and
- Query Treasury's Financial Crimes and Enforcement Network (FinCEN) to track a number of the insurgents and the individuals believed to be involved in funding the insurgency, where there may be a U.S. nexus.

As new task forces and financial investigative mechanisms are being developed within Iraq, the Treasury Department is working closely with our interagency counterparts to determine the most effective deployment of IRS-CI agents, including exploring the possibility of sending IRS-CI agents back to Iraq.

3. *IRS-Attaché in Iraq*

As of November 2004, Treasury has stationed an additional IRS-CI agent to serve as the IRS attaché at the U.S. Embassy in Baghdad - one of only eight IRS attachés in the world. The IRS attaché works closely with the Insurgency Task Force. Among other things, the attaché:

- Follows up on FRE designations;
- Coordinates U.S. and Iraqi Government efforts to identify and recover Iraqi assets in and outside Iraq;
- Helps uncover new front companies and agents;
- Facilitates efforts to trace U.S. currency seized from insurgents in Iraq (see discussion above);
- Established and heads an interagency Asset Recovery and Containment of Terrorist and Insurgent Capitalization Task Force (ARCTIC), with a mission to identify and freeze FRE assets in Iraq and identify and freeze funds financing terrorists and insurgents;
- Works with the Chief Judge of the Iraqi Special Tribunal to develop Iraq's capacity to freeze FRE and other insurgency assets seized by Iraqi law enforcement or military forces in Iraq;

- Otherwise helps pursue all possible financial leads involving the insurgency, including conducting interviews of detainees and other persons with possible knowledge of insurgency financing methods and flows; and
- In general assists the U. S. mission in Iraq with issues of financial compliance, including efforts to battle insurgency financing by establishing a formal financial system with proper compliance measures.

4. Treasury Attaché

In addition to the IRS attaché, Treasury has assigned a separate Treasury attaché to the U.S. Embassy in Baghdad. The Treasury attaché:

- Works with the Iraqis to establish the payments system discussed in greater detail above, which will help combat the use of cash couriers to move insurgency funds;
- Assists the Iraqis in crafting a legal regime that can facilitate confiscating FRE assets, which will improve our ability to keep these funds out of the hands of insurgents; and,
- Along with the IRS attaché, coordinates activities with Iraqi counterparts to find hidden FRE assets that may still be in the country and may be used to fuel the Insurgency.

C. Treasury Department/Defense Department Cooperation

Given the prominent role of the military in Iraq, the Treasury Department also has taken steps to ensure maximum cooperation between the Departments of Treasury and Defense in the area of insurgency financing:

- Treasury has posted a full-time Foreign Terrorist Analyst to the U.S. Central Command (CENTCOM) Joint Inter-Agency Coordination Group in Tampa, Florida, which has greatly facilitated interagency information sharing and operational coordination. Very recently, CENTCOM placed a representative in Treasury's Office of Terrorism and Financial Intelligence to further our collaborative counter-insurgency financing efforts.
- Treasury works closely with the Threat Financing Exploitation Unit (TFEU) and other collaborative efforts between CENTCOM and other U.S. government agencies. TFEU is designed to consolidate and share financial intelligence on terrorist and insurgency financial networks in Iraq.

IV. CONCLUSION

The insurgency in Iraq will not be defeated simply by attacking its financial support structure. This effort, however, is an important component of a comprehensive attack on the insurgency

that employs all tools of national power. Identifying and disrupting the insurgency's financial networks can degrade its capabilities, limit its effectiveness, and reveal valuable information on its operations. We have already achieved some success. U.S. and UN efforts to freeze and repatriate FRE assets worldwide have removed billions of dollars in potential sources of insurgency support. Designations and targeted financial sanctions under various Executive orders have isolated financing networks. And our overall efforts to systemically safeguard the international financial system from abuse have increased the risks and costs of doing business for terrorist financiers. Much remains to be done. But we are learning more about the insurgency and its funding mechanisms every day, and we will continue to do all that we can to support our military and coalition partners who are in harms way, and to contribute to our collective efforts to bring peace and security to the people of Iraq.

Thank you again for holding this hearing and for your sustained commitment to this topic. I would be happy to take your questions.