



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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House Financial Services Subcommittee on Oversight and Investigations

Chairwoman Kelly, Congressman Gutierrez, members of the Committee, I appreciate this opportunity to speak to you today regarding the Government Accountability Office's October 2005 report on U.S. efforts to deliver training and technical assistance abroad to combat terrorist financing. In my testimony I will focus on the role of the Treasury Department in the interagency process for coordinating the provision of technical assistance and training. I will briefly describe the work of the Treasury Department's Office of Technical Assistance (OTA), and will review some examples of training and technical assistance that illustrate the Treasury Department's track record and how we fit in with both: (i) the broader U.S. Government technical assistance and training mission abroad to combat terrorist financing, and (ii) Treasury's broader technical assistance mission in countries of strategic interest.

It is important to note that the U.S. Government's counter-terrorist financing technical assistance and training abroad are crucial components of the U.S. Government's overall strategy to combat terrorist financing abroad. As the Treasury Department noted in its response to the GAO's October 2005 Report, other elements of the Treasury Department and the U.S. Government are focused on other crucial components of this U.S. Government counter-terrorist financing strategy.¹

¹ The Treasury Department's response to the GAO's October 2005 Report notes that the U.S. Government's strategy for combating terrorist financing abroad, as described in the *2003 National Money Laundering Strategy*, includes the following core strategic aims:

- Applying financial authorities and targeted financial sanctions against individuals and entities comprising terrorist organizations and their support networks;
- Establishing international standards to combat terrorist financing;

Today the Treasury Department is fully and cooperatively engaged with other agencies to ensure the timely delivery of quality training and technical assistance abroad, and that our collective effort is producing results. Recognizing that there is always room for improvement, Treasury is working with the Departments of State, Justice, and Homeland Security to make any needed adjustments that would enhance our coordination and effectiveness in this critical area.

Treasury's Office of Technical Assistance

The Department of the Treasury, through OTA, provides policy advice and technical assistance to select reform-minded governments seeking to strengthen their management of public finances. Most of these countries are in the process of development or transformation. Others have suffered severe deterioration of their financial institutions as a result of war, civil strife, or prolonged neglect. In all cases, OTA's assistance aims to increase transparency and accountability, reduce corruption, and strengthen the development of market-based policies and practices that support growing economies and stable democracies.

OTA focuses its assistance on five core disciplines:

- budget policy and management;
- banking and financial services;
- government debt issuance and management;
- tax policy and administration; and
- financial enforcement.

Assistance may take a number of forms, both broad and specific: supporting the development of sound macroeconomic and financial policies; helping governments to strengthen the legal and regulatory foundation for their financial system; and assisting governments in their effort to plug leaks in their "financial plumbing" through the development of improved financial processes and systems.

Treasury's approach to technical assistance and its role in the interagency effort have certain defining features. One important feature is that Treasury, unlike many other agencies, has a standing, specialized technical assistance program, funded in large part by the Treasury International Affairs Technical Assistance component of the 150 Account appropriation. As Deputy Assistant Secretary for Technical Assistance Policy, I oversee a program that currently fields approximately 140 advisors in some 70 countries around the world. Many of these experts are long-term, resident advisors. Treasury's experience suggests that, while short-term

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- Ensuring global compliance with these international standards;
 - Addressing terrorist financing mechanisms of particular concern;
 - Facilitating international information sharing; and
 - Facilitating outreach and cooperation with the private sector and the international financial community.

Providing technical assistance and training is a critical element of the third aim of this strategy. In 2004, the Congress and the Administration established the Office of Terrorism and Financial Intelligence (TFI) as a central pillar within Treasury to formulate and coordinate the Department's counter-terrorist financing and anti-money laundering (AML) efforts, which include working with the interagency community to advance each of the strategic aims identified above.

assistance can be effective, the presence of a resident advisor can be critical to strengthening capacity and affecting change in certain environments.

A second defining feature of Treasury's program is our emphasis on the benefits of, and our ability to deliver, an integrated financial assistance package, utilizing experts from a number of OTA's five core disciplines. This is particularly important for Treasury's efforts in the financial enforcement area. As I will discuss further below, reducing a country's vulnerability to terrorist financing may require addressing weaknesses in the banking system, strengthening the monitoring and investigative capacity of tax authorities, and establishing wholly new institutions such as financial intelligence units.

Financial Enforcement and Combating Terrorist Financing Post 9/11

Financial enforcement includes initiatives specifically intended to combat the financing of terrorism – the focus of today's hearing – but also encompasses a broad array of financial crimes, such as money laundering, white-collar crime, and corruption in the management of public finances. One of the lessons of the post 9/11 era is that there can be overlap between terrorist financing and financial crimes more broadly, and that a comprehensive approach is needed to eliminate financial safe havens for terrorists throughout the world.

Since the 9/11 terrorist attacks Treasury OTA has sought to strengthen its financial enforcement program. Indeed, we have made this OTA's highest priority. Over the last four years the enforcement program has grown substantially. Currently, it has advisors in 43 countries in the Greater Middle East, Asia, Latin America, Sub-Saharan Africa, Central and Eastern Europe and the Former Soviet Union.

The strengthening of our program was made possible by the financial support of Congress and the patriotic response of former government officials. In response to 9/11, Congress enacted the 2001 Emergency Supplemental Appropriations Act. Pursuant to that authority, the Office of Management and Budget released the first tranche from the President's emergency response fund on September 24, 2001. Of these funds, \$3 million was made available in December 2001 to OTA for technical assistance in anti-money laundering/countering the financing of terrorism (AML/CFT). In parallel, immediately after September 11, Treasury was inundated with resumes from recently retired federal law enforcement officers and federal prosecutors asking simply, "What can I do to help?" Their commitment has allowed Treasury to reinforce its ranks via personal services contracts and establish a cadre of over sixty financial experts with extensive backgrounds in investigating and prosecuting financial crimes totaling nearly 1,000 years of senior level USG experience.

The appropriateness of using "contractors" for technical assistance in combating terrorist financing and financial crimes is an issue that has arisen in the GAO review. There are pros and cons to using contractors. In my view it is important to understand who these contractors are. OTA Financial Enforcement Advisors, retained under personal services contract, include:

- retired Assistant U.S. Attorneys who have worked in U.S. Attorneys Offices in various U.S. cities, and attorneys who worked in the Department of Justice, specializing in white-collar and organized crime, money laundering, financial and other major crimes;

- former agents from the Criminal Investigation Division of IRS with experience in the investigation of complex financial crimes including money laundering, financial fraud, terrorist financing, tax fraud/evasion, and the inspection and oversight of money service businesses;
- retired agents from the FBI with experience in the investigation of financial crimes and public corruption, and in the training of law enforcement officers;
- former regulators and examiners from the Federal Reserve, the FDIC, and the OCC with expertise in the examination, audit and regulation of financial institutions; and
- former agents of the U.S. Customs Service, the Immigration and Naturalization Service, the Financial Crimes Enforcement Network, and the Drug Enforcement Administration.

These experts are the backbone of OTA's assistance program in areas directly and indirectly related to combating terrorist financing. I have personally met many of these "contractors," and I can assure you there is no finer, more qualified, or more trustworthy group of men and women to complement the limited number of permanent USG officials available to address the enormous need for training and technical assistance, including training, in this area.

Work on the Ground

My colleague from the State Department has described the interagency process for identifying priority countries, assessing their needs, and coordinating the provision of training and technical assistance. I will focus on noting some examples of assistance that Treasury has provided in order to illustrate the range of countries where we have been active and, in particular, the kinds of assistance we deliver. Examples are drawn from both the period prior to the creation of the interagency coordination group, and following its creation. A common element from both periods is that assistance has been needed in many areas resulting in the involvement of various agencies reflecting their particular mandate and expertise. The purpose of creating an interagency process, as my colleague has noted, was to try to ensure that limited resources were focused on those governments with the greatest needs and strategic importance, and to ensure that coordination was as systematic and efficient as possible.

Prior to the implementation of the interagency coordination process, OTA deployed Financial Enforcement teams to the following countries:

- Afghanistan, to place a resident advisor to help ensure that international donor funds were used for development purposes and not "leaked" to warlords or any remaining terrorist elements.
- Azerbaijan, to incorporate AML/CFT provisions in work that was being done on criminal tax enhancements.
- Ukraine, to strengthen that country's compliance systems, after Ukraine was designated a Financial Action Task Force (FATF) Non-Cooperating Country.
- Thailand, to support the work of an OTA resident advisor already assigned to the Anti-Money Laundering Office there.
- Uganda and Tanzania, to provide training and mentoring on financial crimes investigations and to assist in the development of a comprehensive AML/CFT law.

- Senegal, to work with the West Africa Economic and Monetary Union on harmonization of AML/CFT laws and regulations among its francophone member states.
- Bangladesh, to assist the OTA Banking and Financial Services advisor to the Central Bank with banking sector compliance on anti-money laundering.
- Colombia, to integrate counter terrorist financing concerns with the anti-narcotics-based money laundering work in cooperation with IRS-Criminal Investigative Division.
- The countries of the Eastern Caribbean, to develop a regional approach for the many non-compliant island nations to meet FATF standards.

Since the creation of a formal interagency coordination process, OTA's engagement has continued apace, complementing assistance provided by other agencies. A critical part of the formal interagency coordination process has been the designation of priority countries. Because this designation of priority countries is classified, I cannot share their names with you here but would do so in a closed session.

- In Eastern Europe, an OTA advisor identified financial information related to a terrorist named on a UN list. The courts later released these assets due to lack of legal authority. OTA then requested and funded the travel of a Department of Justice attorney, who had already been working with that country on the passage of their AML law, to assist this government in drafting an asset forfeiture law that now effectively eliminates the loophole that allowed terrorists to shelter assets. This is one example of a success story on interagency coordination.
- In one African country, OTA has been providing an information technology expert to help build the capacity of that nation's Non-Government Organization (NGO) Bureau in registering and monitoring the enormous community of NGOs and public charities there.
- In one Asian country, we are providing two resident advisors, one to work with the country's financial intelligence unit on law enforcement issues, and the other to work within the Southeast Asia region on a multilateral basis with the Asian Development Bank. The work with the financial intelligence unit resulted in that country adopting a cross-border cash reporting mechanism consistent with FATF Special Recommendation Number Nine on Cash Couriers.
- In one South American country, we are providing a resident advisor to work on developing the financial intelligence unit and strengthening the law enforcement entities responsible for AML/CFT issues. We are working with DHS/Immigration and Customs Enforcement in the implementation of a Trade Transparency Unit to monitor trade flows to detect money laundering. The work in this country was praised by the GAO in its review as a model of interagency cooperation.
- In one South Asian country, we are providing a resident advisor to work with the central bank in the development of a financial intelligence unit. This is one of the highest priority engagements for the USG and the work should curb a major flow of terrorist financing.

- In one North African/Middle East country, we are providing a resident advisor to work with the development of a financial intelligence unit that will be part of a regional approach to AML/CFT. This regional approach should result in a superior information sharing mechanism in a critical part of the world.

The work done by OTA Financial Enforcement advisors, and others, has produced results. Eight of the countries identified by the FATF as Non-Cooperative Countries and Territories (NCCT), and which were then provided OTA technical assistance, have been removed from the FATF “blacklist,” some within just one year of receiving assistance.

In addition to those eight NCCT countries, OTA resident advisors have assisted in creating fully functioning financial intelligence units in four other countries where no formal systems had existed prior to Treasury engagement. These twelve countries, exclusive of the Eastern Caribbean Nations, include Peru, Paraguay, Serbia and Montenegro, Albania, Bulgaria, Poland, Russia, Ukraine, Guatemala, Philippines, Georgia, and Romania. Requests for work on new financial intelligence unit projects have come from many countries, including: Afghanistan, Sri Lanka, Jordan, Zambia, Tanzania, Malawi, Senegal, Armenia, and Kyrgyzstan.

Treasury is actively involved in providing training in financial investigative techniques. Our courses address all of the FATF 40 recommendations and the Special 9 recommendations on Terrorist Financing. Work is on-going to create additional training courses to meet requests in the areas of gaming, insurance, and securities. The number of requests for such courses has been, frankly, staggering. Treasury has created four training teams to begin to respond to demand.

While Treasury and other agencies have enjoyed success in our efforts to provide results-oriented technical assistance, we must acknowledge that technical assistance is only as effective as the political will of the recipient country. Inevitably, there are cases where progress has not occurred or been frustratingly slow. Bills that provide for a fully compliant AML/CFT law in two African countries are languishing in their parliaments. A South American country has been slow to enact its anti-terrorism financing law. Corruption in other countries causes lax enforcement and oversight by regulatory entities. And cultural hurdles, particularly dealing with the informal financial sectors, can make compliance very difficult. This underscores the need for strong interagency coordination. Speaking with one voice makes for a more powerful message.

In the spirit of enhanced coordination, OTA is sponsoring a Regional Coordination Meeting in April with representatives from other agencies invited to discuss on-going projects, best practices, vulnerabilities, and agency capacities. Treasury expects that these efforts will lead to the development of regional perspectives on financial crimes that will identify patterns of illegal activity that can ultimately be disrupted.

New technology offers unique challenges. For example, the stored value chips in cellular telephones currently being used throughout Asia present a vulnerability just now being addressed by the international community. Addressing such challenges will require the cooperation of many USG agencies and indeed the international community.

Conclusion

Chairwoman Kelly, Congressman Gutierrez, members of the Committee, the GAO report provided us with an opportunity to reflect upon our efforts over the past several years and to consider what has worked well and what needs improving. In the time that I have been in my position I have seen that steps have been taken to strengthen the interagency process. I agree with my colleagues on the panel that key to our continued success in tackling terrorism finance is strong, effective U.S. interagency coordination. I assure you that OTA and the rest of the USG community are committed to work together toward that goal.

Thank you and I look forward to answering any questions that the Committee may have.