

House Armed Services Subcommittee on Terrorism, Unconventional Threats and Capabilities

*Tracking and Disrupting Terrorist Financial Networks:
A potential model for Inter-agency success?*

Statement of Principal Director, Transnational Threats
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Good afternoon and thank you for your invitation. On December 2, 2008, the Deputy Secretary of Defense signed the DoD's interim Counterthreat Finance Policy. This policy states, "the Department of Defense shall work with other U.S. Government departments and agencies, and with partner nations to disrupt and degrade adversaries' ability to negatively affect U.S. interests."¹

To help improve DoD's efficacy and ability to work with the broader interagency counterthreat finance community, we are focused on the following goals and objectives:

First, we are working to validate counterthreat finance as a DoD mission. The final, Directive version of the above stated interim policy is still in process, and will be finalized by the beginning of June. Second, we are focused on educating both DoD and the interagency as to how DoD capabilities can be leveraged to support broad U.S. government efforts to attack illicit finances that "negatively affect U.S. interests." Third and perhaps most importantly, we are working to identify and propagate new methodologies within the broader USG counterthreat finance community.

¹ U.S. Department of Defense (DoD) Directive Type Memorandum 08-034. 2 Dec. 2008. U.S. Department of Defense. <<http://dtic.mil/whs/directives/corres/pdf/DTM-08-034.pdf>>

Our active participation in national-level working groups, contribution to national strategies and frameworks, and strong partnerships with the Departments of State and Treasury and the Department of Justice, through the Drug Enforcement Administration, as well as several others, are a testament to the hard work of many dedicated professionals and could serve as a template for interagency cooperation in pursuit of a common goal.

Argument for Counterthreat Finance as a Valid DoD Mission

In his essay “A Failure of Generalship,” LTC Paul Yingling points out that “armies do not fight wars; nations fight wars. War is not a military activity conducted by soldiers, but rather a social activity that involves entire nations.”² As we have learned, the DoD should not and indeed cannot and should not bear the sole burden of this national activity.

With regard to counterthreat finance, DoD is clearly in support even though these efforts directly support the war fighter. We do not possess the expertise or the authorities to effectively undertake counterthreat finance on our own. Over time, we in the policy arena, as well as my senior uniformed military colleagues such as Lieutenant General Fridovich, the Director of Special Operations Command’s Center for Special Operations, have recognized the utility of attacking our enemies’ finances as one of many simultaneous actions focusing on constricting the environment in which these enemies

² Yingling, Paul LTC. “A Failure of Generalship.” Armed Forces Journal 27 Apr. 2007

operate. General Fridovich will speak shortly to SOCOM's efforts towards integrating DoD counterthreat finance capabilities across the department.

In our work together, we have seen evidence that cracking down on terrorists' logistical and financial support networks in addition to their operational cells makes it increasingly difficult for terrorists to conduct operations, procure and transfer false documents and weapons, and move operatives. In order to efficiently and effectively undertake disruptive actions—in order to even begin to understand these complex financial networks and their vulnerabilities—departments and agencies that have not historically been well coordinated have begun working together much more closely.³

This cooperation is critically important when it comes to defining the problem—putting the pieces of intelligence together into a more comprehensive picture that tells us about these terrorist/criminal networks, how they operate, where they overlap, and where their potential vulnerabilities lie. In some respects terrorist organizations are similar to businesses anywhere in the world. They need to raise, store and move money. It can be difficult at times to distinguish between the financial activities of organized crime and terrorist groups. “When both are closely scrutinized, the only discernable difference is that most terrorists have political or religious motivations, rather than profit...,” but even then, that is not always the case. A good example of this is the FARC in Colombia, which started out as a terrorist group with political goals, over time morphing into a transnational drug trafficking organization.

³ Bracken, Paul. “Financial Warfare.” Foreign Policy Research Institute E-notes. September, 2007. <<http://www.fpri.org/enotes/200709.bracken.financialwarfare.html>>

In his essay “Financial Warfare,” Yale University professor Paul Bracken notes “financial warfare blurs the military and civilian spheres of conflict. As such, it requires coordination between all relevant departments and agencies.”⁴ In this new strategic environment, increased ambiguity together with the fact that military operations are becoming increasingly multilateral as well as multiagency makes the need to focus effort more accurately even more urgent. This is no easy challenge.

Our enemies seek out our soft spots and weak seams. There is a growing alliance between criminal and terrorist networks and an increasing reliance on many of the same pipelines of informal, illicit architecture to move money, weapons, individuals and goods.⁵ For example, Dr. Matthew Levitt who is here today, has written that “in South America, Hezbollah supporters engage in a wide range of criminal enterprises to raise, transfer and launder funds in support of their terrorist activities. These enterprises include, among others, mafia-style shakedowns of local Arab communities, sophisticated import-export scams involving traders from India and Hong Kong, and small-scale businesses that engage in a few thousand dollars worth of business but transfer tens of thousands of dollars around the globe. In one case, Paraguayan officials arrested an operative for

⁴ Ibid.

⁵ Douglas Farah. “The Criminal-Terrorist Nexus and its Pipelines.” The NEFA Foundation Terror Watch.

selling millions of dollars in pirated software and funding Hezbollah with some of the profits.”⁶

The formalization of U.S. Defense policy to support broader domestic and international efforts to detect and disrupt illicit finance streams is an opportunity for military leaders to gain an understanding of the larger aspects of war and provide leadership for military innovations to support interagency and international efforts already underway.

DoD Capabilities and the Broader U.S. Government Counterthreat Finance Effort

When military commanders hear the term “counterthreat finance,” many automatically assume a connection to Treasury and State Department administrative sanctions. While these are certainly the most public actions taken by the U.S. government, they constitute only one broad set of tools drawing on the expertise of various U.S. government agencies and their private and public sector partners around the world.⁷ Moreover, they overlook the capabilities of the Department of Justice, in particular the Drug Enforcement Administration and the Federal Bureau of Investigation, to seize and forfeit our adversaries’ assets.

⁶ Matthew Levitt. “Hezbollah: Financing Terror through Criminal Enterprise.” US Senate. Hearing of the Committee on Homeland Security and Governmental Affairs. May 25, 2005. <<http://www.washingtoninstitute.org/html/pdf/hezbollah-testimony-0525.pdf>>

⁷ Matthew Levitt and Michael Jacobson. The Money Trail: Finding, Following and Freezing Terrorist Finances. *The Washington Institute for Near East Policy*. November 2008.

Recently, there have been increasing calls for metrics to measure the efficacy of the actions we have taken against threat financing. Are we, the U.S. Government, meeting our stated objectives in disrupting our enemies' financial networks? If the intelligence community cannot locate any known assets of a target prior to designation, is the action worthwhile?

Publicly blocking bank accounts of individuals and organization is one effective option and puts the spotlight on them. It increases the risks to any company or government doing business with them, regardless of whether or not assets are actually frozen. Financial sanctions legitimize additional actions which can involve both financial and non-financial measures. This is where financial warfare and military strategy converge. Most people think of financial warfare as a substitute for military action, as a non-kinetic way to change behaviors.”⁸ Over time it can become a complement rather than a substitute, when combined with kinetic military actions.

Further, it is the act of designation itself that can generate financial institutions to conduct a thorough search of accounts to determine if the newly designated individual/entity does in fact have assets that can be frozen. The expectation that the intelligence community has prior knowledge of specific accounts can be overly optimistic. This is yet another reason why designations can be a valuable tool—these actions and those they generate provide us insights and information to which the USG and its partners would not otherwise have had access.

⁸ Paul Bracken, “Financial Warfare.” Foreign Policy Research Institute E-notes. <<http://www.fpri.org/enotes/200709.bracken.financialwarfare.html>>

“Financial warfare also has a deep connection with information operations and network warfare which are easily overlooked. These operations point to a new type of conflict against computing and network infrastructures in the financial sector. When these networks are cut off or compromised, money stops flowing and operations cease.”⁹ We will continue to integrate counterthreat finance into our efforts. New developments are creating increasingly favorable conditions for these activities.

New Methodologies: DoD Can Play Shaping Role

Given all of these disparate pieces—narcotics networks, transnational criminal organizations, terrorist groups, etc. there could be a greater focus on putting these pieces together in a more comprehensive picture that would give the U.S. Government much needed insights into their vulnerabilities. One could further argue that the current financial crisis is providing our enemies with increased opportunities. For example, a recent news article detailed how Italy’s mafia gangs are profiting by expanding lending to small businesses and buying real estate.¹⁰

DoD has an opportunity to play a significant role in this new strategic environment, to work closely with other departments and agencies to collaborate on identifying and (when appropriate) disrupting illicit networks. In order to be successful however, the

⁹ Ibid.

¹⁰ Mark Heinrich “Ample Signs of Mafia Millions Buoying Banks,” *Reuters*. February 9, 2009.

DoD needs to fully embrace the “whole of government” approach. Other departments and agencies possess the expertise and more importantly the authorities to conduct counterthreat finance activities. These departments and agencies have collaborated in the years subsequent to 2001 and have developed a robust community for collaboration and coordination. The DoD should look for ways to plug into ongoing efforts to accomplish these goals, and can help shape new, developing methodologies to combat these threats.