



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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TESTIMONY OF CHIP PONCY DIRECTOR, OFFICE OF STRATEGIC POLICY, FOR TERRORIST FINANCING AND FINANCIAL CRIMES U.S. DEPARTMENT OF THE TREASURY BEFORE THE U.S. SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE

Washington, D.C.--Chairman Lieberman and Ranking Member Collins, and distinguished members of the Committee, thank you for the opportunity to appear before you today to discuss the efforts of the U.S. Department of the Treasury (Treasury) to conduct private sector outreach and develop a better understanding of Muslim-American communities. Treasury's primary focus in outreach to the charitable sector and to these affected communities, concerns the ongoing risk of terrorist organizations' abuse and exploitation of charities, as well as using preventive measures to combat such abuses.

I. Introduction

Before describing Treasury's efforts to address these challenging issues, I would like to make three introductory points. First, as I will explain more fully in discussing various outreach initiatives, Treasury enjoys a broad-based relationship with the Muslim community here in the United States and abroad, in the private sector and with the governments of Muslim countries. This relationship not only includes critical and constructive engagement on combating terrorist financing and other threats, but also encompasses economic dialogues on development and financial markets.

Second, it is critical to clarify up front what violent Islamist extremism means and what it does not mean in the context of our counter-terrorist financing campaign and broader counter-terrorism mission. As Treasury and the Administration, the Congress and this Committee have repeatedly recognized, our global war against terrorism is not an attack against Islam or any religion, nor is it an attack against the fundamental freedoms of speech or expression. Rather, our war on terror is focused on Al Qaida and other terrorist organizations that seek to pervert and distort one of the great religions of the world in order to justify their violent agendas, intolerant ideologies and terrorist methods.

Third, I would like to recognize at the outset of my testimony that Treasury's role in combating terrorist financing – and in advancing the broader counter-terrorism mission of the U.S. Government (USG) – relies upon the leadership and support of the Congress and the interagency, international and private sector communities. Since September 11, 2001, and under the direction of the Administration and the Congress, Treasury has worked together with its law enforcement, regulatory and intelligence partners from across the interagency community, international counterparts from finance ministries around the world, state and local governments, and the private sector to help develop and implement a comprehensive and multi-faceted counter-terrorism strategy that degrades the capacity of terrorist organizations and their support networks. Such communication, coordination and collaboration across these relationships are essential to the success of our efforts.

To advance our counter-terrorist financing campaign and the broader counter-terrorism mission, we must aggressively apply our authorities and resources to identify, disrupt and dismantle these terrorist organizations and discredit their view of the world. This includes understanding how violent Islamist extremists can function as key members of terrorist organizations and facilitators of terrorist activity, and taking appropriate action against such individuals. This also includes partnering with our Muslim neighbors, communities and allies to promote tolerance, advance fundamental rights such as the freedoms of speech and expression, protect all citizens of the world against terrorist attacks, and counter the message of violent Islamist extremism that al Qaida and other organizations often rely on to cultivate support for their actions.

In order to fully appreciate how Treasury's efforts to combat terrorist financing and protect the charitable sector from abuse further the overall USG effort to counter violent Islamist extremism, it is useful to briefly review the general mission of Treasury's Office of Terrorism and Financial Intelligence (TFI) and to highlight certain elements of TFI's broad counter-terrorist financing strategy. I would then like to focus on Treasury's specific outreach efforts to engage the Muslim and charitable communities, and how these efforts can be particularly effective in isolating and countering violent Islamist extremism.

II. TFI's Counter-Terrorist Financing Efforts of Particular Relevance to Countering Violent Islamist Extremism

In 2004, the Congress and the Administration improved Treasury's ability to contribute to the counter-terrorist financing campaign and the broader war on terror through the creation of the Office of Terrorism and Financial Intelligence (TFI). TFI's overarching mission is to marshal Treasury's unique regulatory, enforcement, intelligence, and policy authorities and capabilities with the twin aims of: (i) safeguarding the financial system against illicit use, and (ii) combating rogue nations, terrorist facilitators, WMD proliferators, money launderers, drug kingpins, and other national security threats through the development and application of financial information and economic and financial measures. It is the only office of its kind in the world.

Combating terrorist financing as an essential element of the broader war on terror continues to be a primary focus across TFI. I would like to briefly mention those particular elements of TFI's counter-terrorist financing strategy that are also relevant in countering violent Islamist extremism. These include:

- identifying typologies of terrorist financing support networks and the vulnerabilities of those networks to targeted sanctions and other financial measures;

- developing and implementing effective targeted sanctions regimes and other financial measures against terrorist organizations and their support networks to identify, disrupt, deter and ultimately prevent such support networks from providing terrorists with the resources they need to operate;
- globalizing implementation of international standards to combat terrorist financing, and
- combatting terrorist exploitation of charities.

Of these particular elements of TFI's strategy to combat terrorist financing, I would like to focus on our efforts to combat terrorist exploitation of charities. It is these efforts that form the basis of our outreach to the charitable and Muslim-American communities.

Combating terrorist exploitation of charities

Combating terrorist exploitation of the charitable sector represents an important component of TFI's counter-terrorist financing strategy and is of particular relevance to countering violent Islamist extremism. Terrorist organizations often establish or infiltrate charities to raise funds and support for their activities and operations. Charities are an attractive target for terrorist organizations for a variety of reasons, including:

- Charities enjoy the public trust, have access to considerable sources of funds, and are often cash-intensive.
- Some charities have a global presence that provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity.
- Depending on the legal form of the charity and the country of origin, charities may often be subject to little or no governmental oversight (for example, registration, record keeping, reporting and monitoring), or few formalities may be required for their creation (for example, there may be no skills or starting capital required, no background checks necessary for employees).
- Unlike for-profit organizations, charitable funds are meant to move in one direction only. Accordingly, large purported charitable transfers can move without a corresponding return of value.
- Charities attract large numbers of unwitting donors along with the witting, thus increasing the amount of money available to terrorist organizations.
- The legitimate activities of charities related to terrorist organizations – such as the operation of schools, religious institutions, and hospitals – create fertile recruitment grounds, allowing terrorists to generate support for their causes and to propagate violent and extremist ideologies.
- By providing genuine relief and development services – as nearly all of the charities associated with terrorist organizations do – these charities benefit from public support, generating reluctance by many governments to take enforcement action against them.

Terrorist organizations have taken advantage of these characteristics to infiltrate the charitable sector and exploit charitable funds and operations to cover for or support terrorist activities or agendas. As explained in Section III below, the ongoing nature of such terrorist exploitation is well documented and

described in the annex to Treasury's revised *Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities* (Voluntary Guidelines).

In response to this ongoing threat, TFI has worked with its interagency partners to develop a four-pronged strategy to combat such exploitation:

- A. Enhancing transparency of the charitable sector through coordinated oversight;
- B. Protecting the integrity of the charitable sector through targeted enforcement actions;
- C. Raising awareness of terrorist financing threats and risk mitigation practices in the charitable sector through comprehensive and sustained outreach; and
- D. Multi-lateralizing our efforts through international engagement.

Each element of this strategy is briefly discussed in turn below.

Enhancing transparency of the charitable sector through coordinated oversight: Strengthening the transparency of the charitable sector combats exploitation by terrorist organizations and abuse more generally by allowing charitable organizations, donors, and government authorities to better understand, oversee and detect abusive activity in the sector. In the U.S., the transparency of the charitable sector is managed by a three-level web of oversight consisting of: (i) the federal government; (ii) state authorities; and (iii) the private sector. At the federal level, the primary vehicle for oversight of charities is the federal tax system, administered by the Internal Revenue Service (IRS). The IRS oversees the charitable sector through its Tax Exempt and Government Entities Operating Division (TEGE). Additionally, U.S. states have agencies with oversight responsibilities over any charity raising money in that state, no matter where the charity is domiciled. Thirty-nine states require any such charity to register with them. Finally, a key element of the U.S. system is the self-regulation and self-policing performed by private sector bodies.

TFI and the IRS have worked together to strengthen the transparency of the charitable sector across federal, state and private sector interests through coordinated and enhanced oversight and outreach. Recent and ongoing efforts include the revision of federal tax forms such as the revised Form 1023 application for tax-exempt status, collaboration and awareness raising regarding terrorist financing risks and risk mitigation practices with state authorities such as the National Association of State Charities Officials (NASCO) and the National Association of State Attorney Generals (NAAG), and with private sector umbrella groups such as Independent Sector, the Council on Foundations, the Evangelical Council for Financial Accountability (ECFA), the Better Business Bureau Wise Giving Alliance, and the Islamic Society of North America. These efforts, coupled with TFI's outreach efforts described below, have improved the transparency of the charitable sector, making it more difficult for terrorist organizations to penetrate and exploit charitable and donor communities.

Protecting the integrity of the sector through targeted enforcement actions: TFI and the IRS, including TE/GE and the Criminal Investigative Division, work with the Federal Bureau of Investigation (FBI), the Department of Justice and other interagency partners to investigate and combat cases of terrorist financing in the charitable sector through targeted regulatory and law enforcement investigations, information sharing, terrorist financing designations, and criminal prosecutions. To date, the U.S. has designated five U.S.-based charities for terrorism related activities, blocked the assets of another U.S.-based charity in aid of investigation, and designated an additional 39 international charities for terrorist financing. Additionally, there have been a number of criminal prosecutions, including the leader of a U.S.-based charity for fraud and racketeering based on terrorist financing activity; an

indictment of the largest Muslim-American charity and its leadership on terrorist financing-related charges, and several investigations of other charities suspected of terrorist activity. Many of these investigations are ongoing.

Raising awareness of terrorist financing threats and risk mitigation practices in the charitable sector through comprehensive and sustained outreach: Identifying, attacking and protecting against terrorist abuse of charities require the active support of charities themselves. The government and the charitable sector share common interests in promoting and protecting charitable giving. Through active engagement with the charitable sector, TFI and its interagency partners are fostering awareness of terrorist financing risks to the charitable sector, explaining USG efforts to combat this ongoing abuse, and clarifying and improving ways in which the sector can mitigate these risks through best practices. These outreach efforts are described in greater detail below.

Multi-lateralizing our efforts through international engagement: The threat of terrorist financing through charities is clearly an international one and requires the understanding, cooperation and collaboration of our international partners. Through bilateral engagement and multilateral bodies such as the Financial Action Task Force (FATF), TFI and its interagency partners have: (i) published typologies of abuse to improve the global understanding of the terrorist threat to the charitable sector; (ii) established international standards, best practices and information-sharing channels to combat terrorist financing in national charitable sectors and international charitable organizations; (iii) improved global oversight of the international charitable sector; (iv) encouraged investigative techniques for detecting terrorist abuse of charities, and (v) multi-lateralized terrorist financing designations against international charities and charitable officials supporting terrorist organizations.

These comprehensive efforts to combat terrorist exploitation of the charitable sector are particularly important in countering violent Islamist extremism for two reasons. First such efforts attack a primary means of fundraising for terrorist organizations, thereby depriving violent Islamist extremists and their adherents from a particularly effective way of providing the funds necessary to execute terrorist activities and operations. Second, these efforts prevent terrorist organizations and violent Islamist extremists from leveraging relief and development assistance to win popular support from vulnerable populations and to recruit and radicalize additional members and operatives for a terrorist organization.

As discussed in the section on outreach below, such an aggressive strategy in combating terrorist exploitation of charities requires a robust outreach effort to charitable and Muslim communities to ensure that they understand the nature of the threat of terrorist exploitation, the basis of USG actions to combat this threat, and the efforts that they can undertake to mitigate the risk of terrorist abuse.

III. Treasury's Outreach Efforts to the Muslim-American and Charitable Communities

In addition to countering violent Islamist extremism through the particular elements of TFI's counter-terrorist financing strategy discussed above, Treasury is addressing this threat more directly by working with its partners in the interagency community and the Muslim-American and charitable communities to:

- A. Sustain a comprehensive outreach campaign to explain and address the threat of terrorist exploitation of the charitable sector; and
- B. Support a broad economic dialogue with the Middle East / North Africa region.

The overarching objective of this outreach campaign and economic dialogue is to better understand and address the challenges facing the moderate Islamic community and the charitable sector and to support the development and integration of the moderate Islamic community into American society and the global economy, thereby alienating violent Islamist extremists and minimizing their ability to generate support or sympathy for terrorist organizations, agendas or ideologies.

A. Charitable and Muslim-American Outreach

Our outreach to the charitable and Muslim-American communities generally consists of an ongoing discussion relating to the following four fundamental points:

- (i) *The USG recognizes and strongly supports the essential role of charity in Muslim, American and global society.*

Almsgiving is an important expression of religious faith for Muslims throughout the world. Charity is one of the pillars of Islam, pursuant to which observant Muslim men and women have a duty to give a certain percentage of their earnings to specified recipients (*Zakat*), as well provide alms throughout the year (*Sadaqah*). Such giving builds local communities, and also links these communities to the other parts of the world. It is important to recognize and respect this role of charity in the Muslim faith.

It is also important to note that charitable giving and philanthropy is a core American value and an integral part of American culture and society. As an example, in recent years the American people have donated more than \$200 billion annually to charitable causes, including to Muslim populations such as those affected by the 2004 tsunami in Indonesia and Southeast Asia and the 2005 earthquake in Pakistan.

The USG strongly encourages such expressions of charity, as evident by the favorable tax treatment that charities and donors receive under the Internal Revenue Code. We will continue to work with the Muslim-American community and the charitable sector to promote the practice of charitable giving in ways that are safe and effective.

- (ii) *Terrorist organizations continue to effectively exploit charity to finance their operations and to cultivate broader support from vulnerable populations.*

As described above, various characteristics of the charitable sector make it particularly vulnerable to terrorist abuse, by both witting and unwitting charities and donors. Such abuse may involve the narrow diversion of funds intended to support charitable activities but redirected for terrorist operations or activities. A more common problem with well-organized terrorist groups such as Hezbollah or Hamas is the broader exploitation of charitable services to radicalize vulnerable populations and cultivate support for terrorist organizations, agendas and ideologies. Often, charitable and Muslim communities are not aware of this problem of broader exploitation because their charitable funds are actually used for charitable purposes. A problem arises, however, when a terrorist organization controls and administers such charity in ways that recruit support and radicalize communities that begin to rely on the terrorist organization for assistance.

As described below, the ongoing nature of such broad terrorist exploitation is well documented and described in the annex to Treasury's revised Voluntary Guidelines. It is critical that our sustained outreach to the charitable and Muslim communities conveys the nature and depth of this abuse.

- (iii) *The USG has developed and is applying a comprehensive strategy to combat terrorist abuse of charity through a comprehensive four-pronged strategy.*

Another critical component of our outreach message involves a clear explanation of the USG's four-pronged approach to combating terrorist exploitation of the charitable sector, as described above. Misperceptions of USG actions to combat terrorist exploitation of the charitable sector, including through the use of targeted sanctions and independent criminal investigations against those charities that operate as part of a terrorist organization's support network, may foster a sense that the USG is unfairly targeting Muslim communities or Muslim charity. Clear and sustained outreach is necessary to explain the USG approach and to address any such misperceptions before they become grounds for victimization and alienation. It is also essential to explain and underscore the importance of legal safeguards that remain in place for those under investigation or sanctioned pursuant to designation under Executive Order 13224.

- (iv) *The USG and the charitable sector must work together to promote safe and effective charitable activity and to protect the sector from terrorist exploitation.*

The fourth fundamental element of our outreach to the charitable and Muslim communities is the need for the USG and these communities to work together to overcome the threat of terrorist exploitation of charity. A good example of how this partnership can produce significant results is the revision and issuance of Treasury's Voluntary Guidelines, based on extensive consultation between Treasury and the charitable and Muslim communities.

The revised Voluntary Guidelines are designed to enhance awareness in the donor and charitable communities of the kinds of practices that charities may adopt to reduce the risk of terrorist financing or abuse. Treasury first released the Voluntary Guidelines in November 2002 and solicited feedback from the charitable sector, which indicated that the Voluntary Guidelines could be substantially improved to assist in identifying reasonable yet effective measures to protect against terrorist abuse. In December 2005, based on extensive review and comment by public and private sector interested parties, Treasury revised and released the revised Voluntary Guidelines in draft form for further public comment. Based on the comments received, Treasury further amended the Voluntary Guidelines to improve their utility to the charitable sector in adopting practices that can better protect it from terrorist exploitation.

Charities and donors are encouraged to consult the revised Voluntary Guidelines when considering protective measures to prevent infiltration, exploitation, or abuse by terrorists. In addition, the revised Voluntary Guidelines are intended to assist charities in understanding and facilitating compliance with preexisting U.S. legal requirements related to combating terrorist financing, which include various sanctions programs administered by TFI's Office of Foreign Assets Control. These pre-existing legal requirements are clearly marked in the text of the revised Voluntary Guidelines.

The revised Voluntary Guidelines are also clearly risk-based, reflecting Treasury's recognition that a "one-size-fits-all" approach is untenable and inappropriate due to the diversity of the charitable sector and its operations. Moreover, Treasury acknowledges in the revised Voluntary Guidelines that certain exigent circumstances (such as catastrophic disasters) may make application of the revised Voluntary Guidelines difficult. In such cases, the revised Voluntary Guidelines advocate that charities should maintain a risk-based approach that includes all prudent and reasonable measures that are feasible under the circumstances.

The revised Voluntary Guidelines also explicitly acknowledge the vital importance of the charitable community in providing essential services around the world, the difficulty of providing assistance to those in need, often in remote and inaccessible regions, and the laudable efforts of the charitable community to meet such needs. As stated in the introductory section of the revised Voluntary Guidelines, the goal of the guidance is to facilitate legitimate charitable efforts and protect the integrity

of the charitable sector and good faith donors by offering the sector ways to prevent terrorist organizations from exploiting charitable activities for their own benefit.

Finally, the revised Voluntary Guidelines include an annex that chronicles the nature of terrorist abuse of charities. The annex notes the exploitation of relief efforts by Lashkar e Tayyiba (a.k.a. Jamaat-ud-Dawa) and other terrorist-related charitable organizations or charitable fronts following the October 2005 earthquake in South Asia; the critical role of Hamas-associated charities in building popular support for the Hamas terrorist organization in the Palestinian territories, and Hezbollah's effective and substantial control of the charitable distribution networks in southern Lebanon as some prominent examples among many that demonstrate the ongoing intent and effectiveness of terrorist organizations in exploiting charitable organizations and relief efforts.

TFI, in coordination with its interagency partners, recently released a risk matrix for charities to better understand relevant risk factors in applying the revised Voluntary Guidelines. TFI, in coordination with its interagency partners, has also recently discussed with the Muslim-American community ways to build upon these efforts with additional products that may help the community better understand how to apply the Guidelines under particularly challenging circumstances where the delivery of assistance is desperately needed but where the risk of abuse is also extremely high. We will continue to explore ways to help address such particularly challenging circumstances, in consultation with the private sector and our interagency partners.

In order to convey and engage the charitable sector and Muslim community on these four fundamental points, TFI, together with officials from the FBI and the Department of Homeland Security, has participated in numerous outreach programs in cities such as Boston, New York City, Chicago, Los Angeles, Detroit and Dearborn, Michigan. These events often take the form of "town hall meetings" and address the nature of the ongoing terrorist threat, our counter-terrorism efforts, and how we can work cooperatively with the Muslim and Arab-American communities. Such meetings also provide a forum for communities to express concerns and comment on our efforts. Another important partnership is our work with NAAG and NASCO, whose state-based resources and contacts are vital to getting our message out to the widest audience.

TFI also maintains a number of publicly available web sites and resources, which provide helpful materials related to terrorism financing, U.S. sanctions programs, and risks of terrorist abuse. These offer materials that range from a comprehensive list of designated terrorist organizations and individuals, frequently asked questions, typologies of terrorist behavior, and brochures to a public "hotline". In response to suggestions from the charitable and Muslim-American communities, TFI has also developed a particular web page devoted to terrorist financing issues that impact charities. Treasury is continually updating these materials to reflect changes in law and regulations, additions to the designations list and the emergence of new terrorist risks.

B. A Broad Economic Dialogue with the MENA Region

As noted in my introduction, Treasury's engagement with the Muslim community is not limited to discussing terrorist financing-related issues, but rather includes broad economic ties that Treasury has cultivated throughout the Middle East and North Africa (MENA) region. Treasury regularly meets with Arab-Muslim leaders and bankers as part of its regular course of business, and through formal and informal private sector dialogues, to discuss issues affecting financial markets, as well as the effect of AML/CFT controls on business developments. More generally, Treasury is engaged in a broad effort to expand financial and economic relationships across the Muslim world in a variety of ways. In 2004, Treasury launched the G8-Broader MENA Initiative. Recently, Treasury launched a series of direct bilateral efforts with its colleagues in the Gulf Cooperation Council Countries (GCC). Additionally,

Treasury continues to be extremely active in providing economic reconstruction assistance, working in particular through the Afghan and Iraq Compacts. Similarly, Treasury helped to lead the economic aspects of U.S. and international relief efforts after the tsunami in Southeast Asia and earthquakes in Pakistan and Indonesia.

Another of Treasury's broader initiatives regarding outreach to the Muslim community is the U.S.-Middle East and North Africa Private Sector Dialogue (US-MENA PSD). This dialogue, which links the banking and regulatory communities from the U.S. and MENA regions, focuses on the ongoing challenges relating to the development and implementation of effective AML/CFT controls in the banking sector, with the goal of facilitating effective and efficient AML/CFT implementation and paving the way for business development interests and commercial relationships. To date, we have organized two conferences, and the third US-MENA PSD conference is scheduled to take place in December 2007 in Dubai. Our interaction supports moderates within the Muslim faith and allows us to build new relationships with organizations from the Muslim-American communities, like the Arab Bankers Association of North America (ABANA).

Treasury is also working with the Muslim/Arab American communities to help restore confidence in the integrity of the charitable sector. For example, we are actively working with professional organizations such as the Muslim Advocates/National Association of Muslim Lawyers to develop outreach efforts specifically geared towards the Muslim-American philanthropy. The goal is to have such organizations take responsibility for their own governance and to provide assistance to their members.

Conclusion

In closing, I would like to underscore the importance of maintaining a comprehensive approach to defeating violent Islamist extremism. As members of this Committee have noted, there is no silver bullet to defeating violent extremism or absolutism of any kind. Instead, we must continue to work with our interagency partners, international counterparts, state and local authorities, and the private sector to aggressively apply our authorities and resources pursuant to the broader USG strategy to combat global terrorism. We must also continue to aggressively engage in outreach to the charitable and Muslim communities about the threats we face and the actions we are taking to combat these threats. And we must remember that the moderate Islamic community is our most important asset in this long-term struggle.

In the years since September 11th, we have made substantial progress in forging and strengthening the necessary relationships across various agencies and bureaucracies, as well as across nationalities and geographic and cultural boundaries, but much work still needs be done. I am confident that with the continued leadership of the Congress, the Treasury, our interagency partners across the Administration, and our friends and allies at home and abroad, that we will successfully overcome the challenges that lie before us. And I am honored to continue to serve as a part of this historic effort.

Thank you for the opportunity to speak with you today. I am happy to answer any questions you may have.