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A Survey of Terrorist Financing

Addendum

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RAND Office of External Affairs

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Document submitted on June 12, 2015 as an addendum to testimony presented before the House Financial Services Committee, Task Force to Investigate Terrorist Financing on April 22, 2015

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The RAND Corporation

A Survey of Terrorist Financing
Addendum²

Before the Committee on Financial Services
Task Force to Investigate Terrorism Financing
United States House of Representatives

June 12, 2015

The questions found in this document were received from the Committee, asking for additional information following the hearing on April 22, 2015, and the subsequent responses were submitted for the record.

Question for the Record from U.S. Representative Ann Wagner

Mr. Jones, during your testimony you stated your concern that there has not been a major effort of the intelligence community and the military to target human trafficking being conducted by terrorist organizations. How can these entities augment their current priorities with an increased focus on identifying human trafficking being employed by terrorist groups? Understanding that this isn't a major source of funding for terrorist groups aside from ransom and extortion, are there any readily recognizable financial solutions to help identify and suppress this activity from being successful?

**Response by Dr. Seth Jones, Director, International Security and Defense Policy Center,
RAND Corporation**

Both are excellent questions. Beginning with the first question—and based on my own research and experience in the U.S. special operations community—the primary focus of U.S. Department of Defense efforts has generally been to target individuals involved in terrorist leadership, fundraising, propaganda, and military operations. Human trafficking has not been a primary focus, though it has obviously been a concern. Yet based on recent trends, human trafficking is indeed a problem, and some terrorist groups have been involved in human trafficking. There is some

¹ The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of RAND or any of the sponsors of its research. This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

² This testimony is available for free download at <http://www.rand.org/pubs/testimonies/CT430z1.html>.

evidence, for example, that the Islamic State of Iraq and the Levant (ISIL) has raised some revenue from human trafficking.³

U.S. government agencies can begin by collecting and analyzing more intelligence on human trafficking by terrorist groups, and then increasing actionable ways to disrupt human-trafficking networks. It is also important to continue training U.S. government officials to improve awareness and to report cases of human trafficking. The Department of Defense has taken a helpful step forward, for example, with its program for Combating Trafficking in Persons (CTIP). All Defense Department personnel with job responsibilities that require daily contact with Department of Defense contractors or foreign national personnel are supposed to take relevant CTIP acquisition training.

Second, the U.S. government should consider additional financial steps to help identify and undermine human trafficking. Human traffickers use a variety of ways to launder money, such as cash-intensive businesses, money service businesses, cash couriers, hawala (informal banking) systems, front companies, and investments in high-value goods such as cars and real estate. The U.S. Department of the Treasury can utilize a range of assets—including a diverse assortment of legal authorities, core financial expertise, operational resources, and expansive relationships with the private sector and international community—to identify and target money-laundering networks across the domestic and international financial systems. The Department of the Treasury should better integrate targeting human-trafficking networks into its portfolio and report on measures of effectiveness.

Question for the Record from U.S. Representative Keith Ellison

Somalia and other parts of East Africa face a humanitarian crisis. There are nearly no financial institutions willing to remit funds from the U.S.—or the U.K. or Australia—to Somalia.

- Are you concerned that the closure of these accounts may heighten the national security threat when people in Somalia, Sudan and other parts of East Africa cannot get the resources they need to pay for food, school fees or business start-ups?
- Are you concerned that the closure of these accounts may force diaspora financial flows “underground” and inadvertently make terrorist financing investigations more difficult?

³ See, for example, Financial Action Task Force, *Financing of the Terrorist Organisation of Islamic State in Iraq and the Levant*, Paris: Financial Action Task Force, February 2015, p. 13.

- How can we balance the need to curtail terrorism financing while simultaneously ensuring that the Somali population—and other nations’ citizens—have access to legitimate remittance channels?

Response by Dr. Seth Jones, Director, International Security and Defense Policy Center, RAND Corporation

The issue of remittances to Somalia is an important one, and recent developments are indeed troubling. Most banks in the United States have now stopped servicing the accounts used by money transfer operators to allow individuals in the United States to send money to their families and friends back in Somalia, even though most individuals are simply trying to pay for food, medicine, school fees, and other daily costs. Somalia lacks a central banking system and heavily relies on these remittances. The curtailment of these accounts harms non-governmental organizations (NGOs) as well. As the chief executive of a Nairobi-based NGO recently noted, “We are not sure how we are going to be able to continue operations and send money to the field to Somalia without being about to use the Somali money transfer companies.”⁴

It is unclear, however, whether the closure of these accounts will make terrorist financing investigations *more* difficult. After all, terrorist groups like al Shabaab don’t rely on these types of foreign remittances for the bulk of their funding. Al Shabaab derives much of its funding from its own activities, particularly taxation of trade and other forms of business occurring in, or passing through, its areas of control in Somalia. The group’s control of the strategically important southern port town of Kismayo—prior to losing control of the city in September 2012—was particularly important, including facilitating its illicit trade in charcoal. Al Shabaab also controls parts of the southern Kenyan border region, through which there is a significant flow of smuggled goods. In addition, the group is reported to tax farmers in its territory.

Still, it is worth closely examining a range of options, such as working with U.S. agencies like the U.S. State Department and U.S. Treasury Department to help provide temporary remittance channels. In addition, the United States, World Bank, and other governments and NGOs can help Somalia re-establish such institutions as an autonomous central bank that is better equipped to carry out its monetary and financial-sector regulatory and supervisory responsibilities; commercial banks and non-bank financial institutions that are sound and more efficient; and commercial banks and non-bank financial institutions, instruments, and services that meet the needs of the

⁴ Karen Attiah, “The Global Squeeze on Somalia Just Got Worse, Thanks to Kenya,” *Washington Post*, April 10, 2015.

government, NGOs, businesses, and households in both rural and urban communities. Many of these steps are difficult and may take time, but they are a good place to start.