

Questions for the Record

House Committee on Foreign Affairs Subcommittee on the Western Hemisphere Hearing
“Advancing U.S. Interests in the Western Hemisphere: The FY2018 Budget Request”
July 12, 2017 at 2:00 p.m. in Rayburn Room 2172

Chairman Jeff Duncan

TO: ALL WITNESSES

1. Hezbollah / TBA: The Tri-border Area (TBA) continues to be a main source of revenue for Hezbollah.
 - Are you satisfied that the three governments in the area are doing all they can to combat Hezbollah terror finance in the TBA?
 - Are Hezbollah revenues in the TBA growing or shrinking, both in absolute terms and relative to Hezbollah’s total budget? Can you quantify those revenues and tell us what percentage of Hezbollah’s budget do they represent?
 - Is it a priority of the Trump admin to disrupt Hezbollah financial flows from the TBA?
 - What tools may the Administration need from Congress to make the executive branch more effective in tackling Hezbollah?

Palmieri: The Administration is committed to disrupting financial flows to Hizballah from all areas of the globe, including the Tri-border Areas of Argentina, Brazil, and Paraguay (TBA). The TBA is a regional nexus for arms and narcotics trafficking, pirated goods, human smuggling, and counterfeiting. Recent investigations in the TBA suggest that money laundering and other illicit finance activity are also major problems in the area. All three TBA governments have taken steps to counter money laundering and the financing of terrorism, and are aware of the threat posed by Hizballah. Still, gaps remain in domestic and international information sharing and cooperation, the investigation and prosecution of terrorism financing cases, and the implementation of targeted financial sanctions regimes to comply with United Nations Security Council resolutions. The State Department is working with countries in the region to enhance partner capacity and capability to counter the financing of terrorism. For example, the State Department’s Bureau of Counterterrorism funds a resident legal advisor at U.S. Embassy Buenos Aires focused on counterterrorism finance capacity building in all three TBA countries, and the State Department’s Antiterrorism Assistance program supports a Tri-border regional program which, along with other U.S. government agency assistance, is building TBA countries’ counterterrorism law enforcement capacity.

The U.S. government’s mechanisms to pressure Hizballah include diplomacy, law enforcement action, and sanctions. Our sanctions against Hizballah are an effective tool in our effort to degrade Hizballah’s capabilities, dismantle its global financial network, and deny Hizballah access to the international financial system. Congress has provided the Executive Branch with sufficient authorities to sanction Hizballah, and we will continue to use those to the fullest. The Departments of State and Treasury have sanctioned over 100 Hizballah individuals and entities, including the May 2017 designation of senior Hizballah leader, Hashem Safieddine. We will continue exercising these authorities to keep Hizballah cut off from the international financial system and to preserve the strength of the Lebanese banking sector, which is a key U.S. partner in the fight against terrorist financing and anti-money laundering.

2. Colombia / Coca: How much does the U.S. plan to spend in FY 2017 and FY 2018 to support Colombia's efforts to reduce coca cultivation, whether through forced eradication or through voluntary eradication/crop substitution?

Palmieri: We remain deeply committed to supporting Colombian efforts to combat drug trafficking and roll back recent increases in coca cultivation and cocaine production. Congress directed \$391 million for U.S. assistance to Colombia in FY 2017, with a particular focus on counternarcotics. Our FY 2018 budget request reflects the Administration's focused approach to foreign assistance. We prioritized programs that address the coca cultivation increase. The Administration's FY 2018 request includes an eight percent increase from the FY 2016 Actual levels for Department of State and USAID counternarcotics programs. The FY 2018 Request for International Narcotics Control and Law Enforcement (INCLE) funds for Colombia counternarcotics activities is \$90.5 million, a slight increase over the FY 2016 Actual level. Additionally, the FY 2018 Request includes \$57.4 million in Economic Support and Development Funds (ESDF) for USAID counternarcotics programming, a 16 percent increase above FY 2016 Actual levels. The Department will concentrate these resources on the high priority supply reduction efforts such as interdiction and eradication, as well as rural development programs to improve the conditions necessary for inclusive, licit economic growth.

Lynch: I refer you to the response provided by Mr. Palmieri, Acting Assistant Secretary in the Bureau of Western Hemisphere Affairs, Department of State.

3. Northern Triangle / Alliance for Prosperity: In the context of the FY18 budget request, what steps is the U.S. Government taking to ensure the Northern Triangle Governments are progressing in ensuring noncompliant taxpayers pay their fair share of taxes, and that compliant businesses, like U.S. companies investing in these countries, receive timely refunds of excess taxes paid?

Palmieri: U.S. foreign assistance in the Northern Triangle countries of El Salvador, Honduras, and Guatemala supports improving the efficiency of government services, including areas such as the collection and administration of taxes. U.S. programming under the FY 2018 budget request will continue to prioritize efficient tax collection and budget transparency by improving the accountability and independence of government institutions, particularly the tax authorities. As an outcome of the June 15-16 Conference on Prosperity and Security in Central America, the U.S. and Northern Triangle governments committed to improve the business climate in the region, including through efficient, transparent, and professional tax administration.

In El Salvador, a recently launched five-year USAID program, the Domestic Resource Mobilization activity, will use FY 2018 funding to expand tax collection and revenue generation. Since 2010, and as result of more than 50 years of USAID engagement with the Government of El Salvador, tax revenue collection has increased by 35 percent (as percent of GDP), which equates to approximately \$1 billion in additional tax revenues collected.

In Guatemala, USAID launched in 2017 the Fiscal and Procurement Reform Project (FPRP), which aims to improve the Guatemalan government's ability to invest in health, education, nutrition, infrastructure and other public services through more efficient tax collection and procurement reform. Additionally, the Department of State's Bureau of International Narcotics and Law Enforcement provides assistance to the Superintendence of the Tax Administration, including supporting a customs advisor, and works with the Attorney General's asset forfeiture unit to improve the collection and management of unpaid taxes.

It is a U.S. government priority to work with the Northern Triangle governments to ensure compliant taxpaying businesses, including U.S. companies, receive timely refunds. For example, in El Salvador, following U.S. engagement, the Salvadoran legislature passed legislation in March that helped PriceSmart receive outstanding refunds through a credit for future tax payments. The U.S. embassies in Tegucigalpa and Guatemala City continue to engage the Governments of Honduras and Guatemala seeking resolution of similar tax refund issues.

TO: MR. PALMIERI

1. Paraguay / Sanctions: You recently traveled to Paraguay. Are you satisfied that the government of Paraguay is doing its best to support the implementation of U.S. sanctions against Hezbollah's Specially Designated Global Terrorists in the Tri-border Area?

Palmieri: While Paraguay has taken steps to counter terrorist financing in the Tri-border Area (TBA), there is more that Paraguay should do to improve its financial controls regime and better enforce its existing laws and policies. Paraguay continues to face challenges with immigration, customs, and law enforcement controls along its porous borders, particularly in the TBA with Argentina and Brazil, and its dry border with Brazil from the TBA to the city of Pedro Juan Caballero. The largely unregulated flow of people, licit and illicit goods, and money greatly increases the risk of terrorist financing, though the magnitude of TBA money flows that ultimately finance terrorist operations is unclear.

Paraguay has counterterrorist financing legislation and the ability to freeze without delay and confiscate terrorist assets, though the lack of a legislatively approved mechanism to dispose of those assets complicates Paraguay's ability to do so. There were no terrorist financing convictions or actions to freeze terrorist assets in 2016, despite reports of terrorist-affiliated financial activities occurring in or passing through the country. However, Paraguay is investigating several large money laundering cases with potential connections to terrorist financing. Paraguay will be subject to a GAFILAT (the Financial Action Task Force-style regional body for Latin America) mutual evaluation in 2018 and is seeking ways to improve its anti-money laundering and counter-terrorism financing regime ahead of that review. We are using this heightened attention as an opportunity to push for action on outstanding money laundering cases, improvement of counter-terrorism financing mechanisms and enhanced internal Paraguayan interagency cooperation.

Paraguay continues to participate in the State Department's Antiterrorism Assistance program, as part of a tri-border regional program; through this program State/INL-funded a training series in the TBA for Paraguayan, Argentine, and Brazilian judges, prosecutors, and investigators on countering money laundering and contraband flows. The Department of Treasury recently finalized a survey of various financial institutions in the TBA in order to identify structural or legislative weaknesses in the financial controls regimes of TBA countries. The Department of Justice has also made available a range of technical assistance to TBA countries. The Department of Homeland Security and other U.S. government agencies are also contributing to building Paraguay's counterterrorism law enforcement and border security capacity in a whole-of-government approach to the issue.

2. HIFPA: In 2015 Congress passed HIFPA, in order to empower the Executive branch in its global fight against Hezbollah's terror finance. To date, HIFPA measures were not adopted against financial institutions in Latin America, especially in the Tri-border Area of Argentina Brazil and Paraguay, despite a robust presence of a Lebanese Shia community there with proven ties to Hezbollah and despite ongoing trade based money laundering activities by its members.

- Could you tell Congress why the Obama administration never activated HIFPA measures against Hezbollah in Latin America? Is it because there are no activities worth targeting or because HIFPA provides the executive branch insufficient tools?

Palmieri: The Administration fully supports the Hizballah International Financing Prevention Act of 2015 (HIFPA). In April 2016, the Department of Treasury released regulations to implement HIFPA. These regulations apply to countries around the world, including in Latin America. Our sanctions against Hizballah are an effective tool in our effort to degrade Hizballah's capabilities, dismantle its global financial network, and deny Hizballah access to the international financial system. Congress has provided the Executive Branch with sufficient authorities to sanction Hizballah, and we will continue to use those authorities. The Departments of State and Treasury have sanctioned over 100 Hizballah individuals and entities, including the May 2017 designation of senior Hizballah leader, Hashem Safieddine. We will continue exercising these authorities, including HIFPA, to keep Hizballah cut off from the international financial system and to target financial institutions when we have evidence that they are knowingly facilitating significant transactions or engaged in money-laundering activities on behalf of or to benefit Hizballah.

3. **Paraguay / Narcotics:** In March the State Department released its annual International Narcotics Control Strategy Report. The section on Paraguay indicates the Paraguayan authorities may have intentionally misshaped an investigation about a \$1.2 billion money laundering scheme implicating a suspected Hezbollah financier. It is my understanding that the bank implicated in the scheme is Banco Amambay, a financial institution linked to the president of Paraguay.
 - Are you satisfied that the Government of Paraguay is doing what's required to successfully prosecute those involved?
 - Did that money, or part thereof, go through the financial system of the U.S.?

Palmieri: The United States and Paraguay enjoy strong cooperation in law enforcement and security and work closely to address issues of transnational crime, including money laundering and drug trafficking. Historically, Paraguayan law enforcement efforts to implement anti-money laundering laws and laws countering the financing of terrorism laws have been lacking. The Paraguayan government has made a strong commitment to increasing transparency and fighting corruption, two areas that are essential in the fight against money laundering and drug trafficking. The INCSR helps to stimulate our ongoing discussion with partners on how to address these issues.

We understand that some part of the funds related to this money laundering scheme may have passed through U.S. financial institutions, though it is still early in the investigation. We are working closely with the Paraguayan government to support its efforts to complete a thorough investigation and move forward with prosecutions. Specifically, an interagency team, including U.S. Department of Justice components, will travel to Paraguay in coming weeks to support Paraguayan efforts to analyze evidence the Paraguayans have collected in this case. In 2017, the State Department's International Narcotics and Law Enforcement bureau, in cooperation with the Government of Paraguay, also conducted a transnational crime course training series, which focused on investigating money laundering and trafficking of drugs and illicit goods for Paraguayan, Argentine, and Brazilian officials.

Rep. Elliot L. Engel

TO: ALL WITNESSES

1. In the May 24, 2017 report by the Inspectors General of the Departments of State and Justice on *Responses by DEA and the State Department to Three Deadly Force Incidents in Honduras*, we learn that DEA and State Department officials referred to a U.S.-vetted Honduran police unit as "highly trained and vetted" and described joint operations involving the unit and DEA FAST as being "Honduran led." However, the IGs found that officials were aware that these descriptions were inaccurate and that, in fact, the unit was "not capable of leading such operations." Moreover, the IG review found that agents from the vetted unit manipulated evidence and produced erroneous testimonies.

Meanwhile, a recent ProPublica investigation has revealed that members of another U.S.-vetted police unit in Mexico are believed to have leaked extremely sensitive information about the Zetas drug cartel which resulted in the killing of more than 50 people in Allende, Mexico in 2011.

These findings raise serious concerns regarding our vetted unit programs in Latin America as well as regarding how our government deals with - or fails to deal with - deficiencies and shortfalls in the preparedness and professionalism of US-vetted foreign security units.

What corrective measures are being taken to ensure that, going forward, U.S.-vetted units meet minimal standards that allow them to lead law enforcement operations effectively and professionally? What measures are being taken to ensure that serious problems that emerge within vetted units are promptly investigated and dealt with and to ensure that Congress is provided accurate also information regarding the capacity, competence and integrity of vetted units?

Palmieri: The State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) supports vetted units comprising host country law enforcement officers operating under the direct oversight of an embedded U.S. law enforcement officer. Vetted units are an important interagency tool for building law enforcement capacity around the world. Through the support of vetted units, INL helps to create trustworthy foreign partners with which the United States can share operational intelligence and material assistance with a greatly reduced risk of corruption. Vetted units help dismantle transnational criminal organizations by addressing immediate high-threat security issues related to gangs, money laundering and financial crimes, drug trafficking, and human trafficking and smuggling.

Vetted units fall into two major categories: 1) those funded with U.S. law enforcement operations funds, such as the Drug Enforcement Administration (DEA) Sensitive Investigative Units (SIU), and 2) those funded with foreign assistance accounts, such as International Narcotics Control and Law Enforcement (INCLE)-funded non-SIU vetted units. In Mexico, for example, no INCLE funds currently support the DEA SIU program. However, INL does provide administrative support to the DEA SIU by managing DEA's funds allotted for this purpose. For information regarding the DEA SIU program in the region, we refer you to the DEA.

INL partners with the U.S. interagency to create and support vetted units. For example, working with Immigration and Customs Enforcement (ICE) Homeland Security Investigations (HSI) and the Federal Bureau of Investigation (FBI), INL-supported vetted units undergo a rigorous background check, including polygraph examinations. The Department of State vets all units of security forces before providing INL assistance, including to ensure compliance with the Leahy law as codified in 620M of the Foreign Assistance Act of 1961 to protect against providing

assistance to any unit if there is credible information that the unit has committed gross violations of human rights. Vetted units must meet the following additional standards: polygraphs of unit members must be conducted at least every two years by U.S. or competent host country technicians certified by U.S. technicians; unit members must sign a three year commitment of service; U.S. implementing agencies must maintain a fixed ratio of at least one U.S. government advisor for every 15 host country vetted personnel; and the implementing agency must submit a formal training component for unit personnel. These requirements help to ensure that host country personnel in vetted units maintain their integrity over time and that U.S. support has a cumulative effect on building host country capacity, including the ability to share sensitive law enforcement information with the United States and other international partners.

Through regular communication with the U.S. interagency at our embassies, we ensure INL-supported vetted units continue to operate effectively and professionally. Should any information emerge that these units are no longer trusted partners, INL and the U.S. interagency work together to address the problem, including removing individuals from the unit or suspending assistance, if necessary. Clearly delineating U.S. agency responsibilities and agreeing upon accountability reporting and protocols in advance of U.S. supported foreign police operations is also essential to ensuring vetted units operate effectively and that critical incidents are properly investigated. Through the interagency agreement process, INL already incorporates general terms and conditions under which INL and the Department of Justice, for example, implement foreign assistance. In addition, INL is in the process of negotiating an updated Memorandum of Understanding that should provide greater clarity in roles and responsibilities including general provisions and protocols for law enforcement accountability.

Rep. Norma J. Torres

TO: ALL WITNESSES

1. Of the \$750,000,000 appropriated for the U.S. Strategy for Engagement in Central America in Fiscal Year 2016 and the \$655,000,000 for Fiscal Year 2017, what is the approximate value of the total assistance assigned to each Central American country, including both bilateral assistance and assistance through the Central America Regional Security Initiative and any other regional programs?

Palmieri: The Northern Triangle countries receive bilateral and regional assistance, primarily through the Central America Regional Security Initiative (CARSI). CARSI is appropriated regionally, but notified by country, consistent with FY 2016 special notification requirements. The State Department and USAID provide CARSI allocations for all Central American countries in a report to the respective congressional appropriations committees, consistent with the Joint Explanatory Statement accompanying Division J of Public Law 115-31, the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017.

The approximate combined bilateral and regional FY 2016 assistance allocated specifically for each country is: \$8.8 million for Belize, \$24.4 million for Costa Rica, \$139.9 million for El Salvador, \$203 million for Guatemala, \$180.9 million for Honduras, \$16 million for Nicaragua, and \$22 million for Panama. The remaining FY 2016 regional funds of \$155 million are not allocated by specific country. FY 2017 allocations have not yet been finalized; however, the Joint Explanatory Statement accompanying Division J of Public Law 115-31, the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017, includes specified bilateral levels, by account, for Northern Triangle countries. FY 2017 allocations will be finalized after all pre-

obligation requirements are complete, including after the final 653(a) report is submitted to Congress.

Lynch: I refer you to the response provided by Mr. Palmieri, Acting Assistant Secretary in the Bureau of Western Hemisphere Affairs, Department of State.

2. Of the \$750,000,000 appropriated for the U.S. Strategy for Engagement in Central America in Fiscal Year 2016 and the \$655,000,000 for Fiscal Year 2017, what is the approximate value of the total assistance assigned to support each of the three main pillars of the U.S. Strategy for Engagement in Central America: prosperity, security, and governance?

Palmieri: FY 2016 funds appropriated for the U.S. Strategy for Engagement in Central America (“Strategy”) are allocated approximately evenly between the prosperity, security, and governance pillars of the Strategy. The June 2017 Conference on Prosperity and Security in Central America reinforced U.S. commitment to advance prosperity, security, and governance goals and work closely with the Northern Triangle governments of El Salvador, Guatemala, and Honduras to complement their Plan for the Alliance for Prosperity. FY 2017 funds have not yet been allocated by pillar; however, we anticipate a similar distribution.

Lynch: I refer you to the response provided by Mr. Palmieri, Acting Assistant Secretary in the Bureau of Western Hemisphere Affairs, Department of State.

3. Of the \$750,000,000 appropriated for the U.S. Strategy for Engagement in Central America in Fiscal Year 2016 and the \$655,000,000 for Fiscal Year 2017, what is the approximate value of the total assistance that will be delivered through contracts, versus grants and cooperative agreements?

Palmieri: The Department and USAID provide funding to the U.S. interagency, NGOs, contractors, and international organizations (e.g., host government or multilateral organizations like the World Bank) to implement U.S. programming that advances U.S. prosperity, governance, and security objectives in Central America, and to maximize the impact of U.S. assistance. In FY 2016, USAID programmed approximately \$112 million through direct contracts and \$92 million through direct grant/cooperative agreements. The choice of mechanism varies over time by country and program and is based on a number of factors, including: the specific project requirements, the capacities of implementers, and cost effectiveness. For example, in a recent USAID analysis of 19 ongoing violence prevention programs in Central America, there was an equal distribution of awards to contractors and NGOs – seven each.

Lynch: I refer you to the response provided by Mr. Palmieri, Acting Assistant Secretary in the Bureau of Western Hemisphere Affairs, Department of State.

4. What are the specific indicators that State and USAID are using to measure progress for the U.S. Strategy for Engagement in Central America?

Palmieri: The U.S. government will use indicators and evaluations within the Results Architecture as the benchmarks for assessing progress under the U.S. Strategy for Engagement in Central America (“Strategy”). The Results Architecture schematically presents the main prosperity, governance, and security objectives of the Strategy and provides the structure for tracking results from the launch of the Strategy throughout implementation. It will continue to evolve, adapting to changes within the geo-political environment, foreign policy, and programmatic needs. All U.S. agencies implementing foreign assistance as part of the Strategy have established performance

output and outcome indicators aligned with the Results Architecture that can be directly attributed to their programs, and they will update these indicators as appropriate. Agencies will set specific targets with timeframes based on planned or actual resource levels prior to program implementation. The performance indicators vary by country, objective, and sub-objective. As applicable, to ensure data quality and reporting consistency, the U.S. government will utilize U.S. government foreign assistance standard indicators. Annual State Department data calls will allow us to assess the effectiveness of foreign assistance in support of the Strategy. The Results Architecture has been shared with the committee and is available upon request.

The U.S. government also identified a series of context indicators to provide a high-level view of the operating environment in Central America and track long-term progress of the Strategy across multiple sectors. National government sources and reputable third-party organizations provide data for these indicators. Data collected will be compared to international and regional benchmarks, as appropriate, and to previous-year country data.

Lynch: USAID's approach to the monitoring and evaluation (M&E) of programs implemented in support of the U.S. Strategy for Engagement in Central America (the Strategy) is closely linked to, and supports, broader interagency efforts to assess results of the Strategy. U.S. Government agencies implementing the Strategy, including USAID, develop performance indicators tailored to their specific programs. Data for these indicators, combined with evaluations and other information generated by agencies' M&E systems, are in turn used to assess progress toward the Strategy's goals and objectives.

In addition to performance indicators for specific programs, USAID worked with the Department of State to select and collect data on a set of 13 context indicators (i.e., indicators that measure contextual factors affecting Central America Strategy implementation but not directly attributable to U.S. government programs). Examples of such context indicators include the World Bank's Doing Business scores, the percentage of population who express trust in the police, and Transparency International's Corruption Perception Index. USAID integrates rigorous M&E into all of its programs, including those the Agency is implementing in support of the Strategy. USAID country-level indicators are the source for region-wide indicators, both of which are described below.

USAID Country-Level Indicators

At a country level, each USAID mission identifies a variety of indicators for measuring progress toward its country-level strategy objectives and results of individual programs. Country-level strategy objectives and related indicators are linked to—and support—the objectives of the Strategy. Country-level Performance Management Plans and program-level M&E Plans document the specific indicators the mission will use to assess progress toward its country-level strategy objectives. Data for many of these indicators are sourced to information reported to USAID on a regular basis by implementing partners (i.e., grantees and contractors) or government counterparts. Examples of indicators include: the number of jobs attributed to rural value chains projects, incremental sales of USAID-supported small- and medium-sized businesses, number of educators who complete professional development activities, number of judicial personnel trained, number of petitions for information filed using national government transparency laws and procedures, and homicide rates and other crime incidence rates in targeted areas. Other indicator data come from USAID-commissioned surveys or other periodic data collection efforts, such as income of

households in targeted areas, satisfaction with local police and government services, and perceptions of security in USAID-supported communities.

USAID Region-Wide Indicators

Drawing from these country-level indicators, in 2015-2016 USAID selected a sub-set of performance indicators for tracking region-wide results of programs implemented as part of the Strategy. These include, for example, number of individuals who complete USG-assisted workforce development programs, number of at-risk youth in targeted communities served, and number of USG-assisted courts with improved case management systems.

With a common set of performance indicators and definitions, USAID is able to aggregate results data across the Northern Triangle countries. In FY 2015, data for one performance indicator (i.e., the number of at-risk youth in targeted communities/ municipalities served) were provided by 15 implementing partners across all Central American missions. In early 2017, USAID modified its initial list of performance indicators to better reflect new and expanded programs and to capture more immediate results of our programs. Currently, USAID is collecting, aggregating, and ensuring the quality of data for 11 performance indicators for programs implemented by Central America missions; as additional programs come online, USAID may expand this list of indicators to include others as needed.