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## Survey of Terrorist Groups and Their Means of Financing

Katherine Bauer

Blumenstein-Katz Family Fellow, The Washington Institute for Near East Policy

Testimony submitted to the House Financial Services Subcommittee on Terrorism and Illicit Finance

September 7, 2018

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Chairman Pearce, Ranking Member Perlmutter and distinguished members of the subcommittee, thank you for the opportunity to testify today on counter-terrorist financing (CFT).

The threat of terrorism and extremism is increasingly complex. Over the last fifteen years, the U.S. and its allies have dramatically improved their capacity to detect and disrupt attacks through increased information sharing and to undermine such groups through the deployment of sophisticated diplomatic, military and financial initiatives. Nonetheless, years of conflict in Syria, Iraq and Yemen have provided fertile ground for terrorist groups and extremist ideologies. These conflicts have spurred humanitarian crises and stoked sectarianism.

Prior to the 9/11 attacks, al-Qaeda's (AQ) primary source of funds was external donations funneled largely through charitable fronts. However, as AQ, and more recently the so-called Islamic State (IS), established global networks of affiliates, their methods of financing have also diversified. A number of dynamics underlie these changes, including counterterrorism efforts broadly and counter-terrorist financing efforts specifically, but also the breakdown of political systems and the proliferation of weak and ungoverned spaces that have allowed terrorist organizations to increasingly hold territory, tax and extort the local population, and even control, extract and sell natural resources. Terrorist organizations have also capitalized on trends of globalization that facilitate ever greater movement of ideas, people and funds.

As these organizations appear better resourced than ever before, some have called into question the value of CFT efforts. My testimony today will first look at the evolving nature of terrorism and terrorist financing, focusing on the cases of the Islamic State, Al Qaeda, and Iranian support for terrorism. Next, I will examine the effectiveness of counter-terrorist financing efforts, looking at the "tools in the toolkit," and their application; the role of financial sanctions and financial intelligence, and as well as the role of the private sector.

### THE ISLAMIC STATE

When the Islamic State took over vast swaths of territory in Syria and Iraq in the spring and summer of 2014, it posed an unprecedented and nontraditional CFT challenge, due both to the size of its budget—reportedly close to \$2 billion in 2014—and its ability to derive the vast majority of its revenues from the territory it controls. The Islamic State did not develop this expertise overnight. Over a decade, its predecessors, al-Qaeda in Iraq (AQI) and the Islamic State in Iraq, developed a sophisticated system of financial management, even taking the strategic

decision in 2009, according to documents recovered in Iraq<sup>1</sup>, to derive revenues locally to avoid foreign dependence and direction. During the second part of the last decade, AQI resembled an organized-crime organization, engaging in sales of stolen goods, black market fuel sales and later, large scale extortion.<sup>2</sup>

In Iraq and Syria, the Islamic State effectively took advantage of multiple preexisting dynamics to enrich itself quickly after taking territory. These included a high concentration of natural resources, and established smuggling networks needed to monetize them; a sizable population and sufficient economic activity to tax and extort; and opportunities to loot valuable goods, including machinery and weapons, as well as bank branches, from which it is reported to have taken as much as \$500 million.

Despite the Islamic State's early prosperity, its considerable expenses created vulnerabilities that the U.S.-led Counter IS Coalition, along with the government of Iraq, effectively exploited. For example, in August 2015, the Iraqi government ceased paying salaries to employees in Islamic State-controlled territories, thereby cutting their revenue from the taxation of the salaries and reducing liquidity in IS-controlled territory.<sup>3</sup> In late 2015, the Coalition also began to use air strikes to target and degrade Islamic State-controlled oil extraction, refining, and transportation. However, perhaps the greatest impact on IS's bottom line has been the loss of territory, which means fewer local resources—including people—under its control to tax and extort.<sup>4</sup>

As the Islamic State in Syria and Iraq has reverted to an insurgency, it has returned to many of the fundraising methodologies deployed by AQI. For example, as journalists and humanitarian workers return to recently liberated areas, the organization could potentially begin kidnapping for ransom again. In fact, in its most recent report, the UN Analytical Support and Sanctions Monitoring Team warned about the heightened risk of “an increased global incidence of kidnapping for ransom among other revenue generating crimes and methods of financing.”<sup>5</sup>

### *Islamic State Provinces*

The Islamic State's recognition of franchises in eight countries across the Middle East, Africa, and Asia in November 2014, raised concerns that the so-called IS core in Syria and Iraq would share both its wealth and its fundraising expertise with its new affiliates. The groups that pledged allegiance to the Islamic State, most of which were preexisting organizations, already had established funding mechanisms. The provinces' forerunners

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<sup>1</sup> Johnston, Patrick B., Jacob N. Shapiro, Howard Shatz, Benjamin Bahney, Danielle F. Jung, Patrick Ryan and Jonathan Wallace, *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005–2010*, Santa Monica, CA: RAND Corporation, 2016, [http://www.rand.org/pubs/research\\_reports/RR1192](http://www.rand.org/pubs/research_reports/RR1192).

<sup>2</sup> Bauer, Katherine, “The Evolution of Terrorist Financing Methodologies and Response” Institut Europea de la Mediterrania, “IEMeD Mediterranean Yearbook 2017,” 2017, <http://www.iemed.org/publicacions/historic-de-publicacions/anuari-de-la-mediterrania/sumaris/iemed-mediterranean-yearbook-2017>

<sup>3</sup> Glaser, Daniel, “The Evolution of Terrorism Financing: Disrupting the Islamic State,” *The Washington Institute for Near East Policy*, October 21, 2016, <https://www.washingtoninstitute.org/policy-analysis/view/the-evolution-of-terrorism-financing-disrupting-the-islamic-state>

<sup>4</sup> Ibid.

<sup>5</sup> United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

were primarily locally financed through crime, smuggling, extortion, and kidnapping for ransom; they generated significant revenue but were unable to support and sustain a state-building project like that of the Islamic State.<sup>6</sup>

Some of the IS provinces were undoubtedly motivated to affiliate themselves with the Islamic State based on the perception (and sometimes the promise) of additional resources. For a number of the provinces—at least in Libya, Sinai, Yemen, and the Philippines—it appears to be the case. Funds were provided either directly from the Islamic State core, or via other provinces, such as Libya to the Sinai and Yemen to Somalia.<sup>7</sup>

Prior to being pushed out of Sirte in December 2016, the IS province in Libya appeared to emerge as a regional hub for the group. In May 2016, the Treasury Department designated Libya-based Salmi ‘Ammar, IS-Sinai Province’s representative in Libya for transferring hundreds of thousands of dollars from Libya to the Sinai Province.<sup>8</sup> The Islamic State in Somalia has also received funds from IS Libya, according to the UN, as well as support from IS in Yemen. Also notable, Abdelhamid Abaaoud, a suspected organizer of IS attacks in France and Belgium in November 2015 and March 2016, is reported to have had contacts with IS members in Libya related to financial and travel issues on behalf of the “Verviers cell,” which was disrupted by Belgian police in early 2015.<sup>9</sup>

### *Neither Remaining nor Expanding*

Having deprived the Islamic State of ninety-eight percent of the territory it once occupied,<sup>10</sup> the international community is entering a new phase in the counter-IS campaign.

While it initially focused on the group’s territorial grounding, which made it easier to locate fighters, both of foreign and indigenous origin, the next phase will focus on less visible networks of individuals and cells acting with a greater degree of autonomy.<sup>11</sup> In fact, the group’s most significant recent attacks have been traced back to groups or “provinces” operating outside of Syria and Iraq, such as the Manchester and Barcelona bombings, as

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<sup>6</sup> Bauer, Katherine. “Financing” in “Beyond Syria & Iraq: Examining Islamic State Provinces,” ed. Katherine Bauer, The Washington Institute for Near East Policy, November 2016. <https://www.washingtoninstitute.org/policy-analysis/view/beyond-syria-and-iraq-examining-islamic-state-provinces>

<sup>7</sup> United Nations Security Council “Twentieth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Jun. 30, 2017. Web. [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2017/573](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573); United Nations Security Council, “Twenty-first report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Dec. 31, 2017, [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2018/14/rev.1](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/14/rev.1);

<sup>8</sup> U.S. Department of Treasury, “Treasury Designates Al-, Al-Nusrah Front, AQAP, and Isil Fundraisers and Facilitators,” press release, May 19, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0462.aspx>

<sup>9</sup> Brisard, Jean-Charles and Jackson, Kevin, “The Islamic State’s External Operations and the French-Belgian Nexus,” *CTC Sentinel* Vol: 9, Is: 11, November/December 2016, <https://ctc.usma.edu/the-islamic-states-external-operations-and-the-french-belgian-nexus/>

<sup>10</sup> “CJTF-OIR reflects on 2017 and looks forward to 2018,” United States Central Command, Jan. 1, 2018, <http://www.centcom.mil/MEDIA/NEWS-ARTICLES/News-Article-View/Article/1406595/cjtf-oir-reflects-on-2017-and-looks-forward-to-2018/>

<sup>11</sup> United Nations Security Council, “Report of the Analytical Support and Sanctions Monitoring Team pursuant to Security Council resolutions 1526 (2004) and 2253 (2015) concerning Islamic State in Iraq and the Levant (ISIL) (Da’esh), Al-Qaida and the Taliban and associated individuals and entities,” April 4, 2016, [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2016/213](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2016/213)

well as the bombing of a Sufi mosque in Egypt.<sup>12</sup> So-called frustrated travelers—those who were unable to travel before the collapse of the so-called Caliphate, or who have since returned—will continue to pose a greater threat and challenge to local law enforcement.<sup>13</sup>

As IS has backed away from its mantra of “remaining and expanding,” it has encouraged followers to undertake attacks locally rather than traveling to fight in the Levant. Small cells, like foreign terrorist fighters, often self-fund through legitimate sources such as employment income, social assistance, or family support as well as through illicit sources such as fraudulent bank loans or other forms of fraud. Despite recognizable typologies, such transactions can be hard for law enforcement to spot without specific intelligence due to the relatively modest amount of funds being moved.<sup>14</sup>

Much of the conversation surrounding IS financing likewise has focused on its ability to derive revenue from territory it controlled. Despite reports that revenue generation has fallen broadly in line with territorial losses, the group appears to continue to be well-resourced: reportedly paying salaries, covering medical expenses<sup>15</sup>, and making on-going transfers to branches or provinces beyond Syria and Iraq.<sup>16</sup> According to a recent UN report, one member state estimates IS’s total reserves to be in the low hundreds of millions of dollars.<sup>17</sup> Meanwhile, Islamic State affiliates are also looking to diversify their sources of funding; the Sinai branch robbed a bank in al Arish in October 2017, believed to have netted 17 million Egyptian pounds (about one million dollars).<sup>18</sup>

There has been great concern that the group was able to stash considerably amounts abroad or in front companies within Iraq and abroad.<sup>19</sup> In February 2018, *The Economist* reported that, according to an Iraqi

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<sup>12</sup> Hoffman, Bruce, “Episode 19: Bruce Hoffman on ISIS in 2017 and Beyond,” The Security Studies Podcast, Georgetown University, January 2018. Podcast. <https://soundcloud.com/security-studies-podcast/episode-19-bruce-hoffman-on-isis-in-2017-and-beyond>

<sup>13</sup> The net flow of foreign terrorist fighters out of Syrian and Iraq has been lower than initially anticipated, according to: United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

<sup>14</sup> United Nations Security Council, “Twentieth report of the Analytical Support and Sanctions Monitoring Team,” August 7, 2017, [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2017/573](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573)

<sup>15</sup> Daragahi, Borzou, “After The Black Flag of ISIS, Iraq Now Face The White Flags,” *Buzzfeed News*, Apr. 1, 2018. Web. [https://www.buzzfeed.com/borzoudaragahi/isis-iraq-white-flags-syria-new-name?utm\\_term=.pvPKYBbjz#.pxPLenvDJ](https://www.buzzfeed.com/borzoudaragahi/isis-iraq-white-flags-syria-new-name?utm_term=.pvPKYBbjz#.pxPLenvDJ)

<sup>16</sup> United Nations Security Council, “Twentieth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Jun. 30, 2017. Web. [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2017/573](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573); United Nations Security Council, “Twenty-first report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Dec. 31, 2017, [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2018/14/rev.1](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/14/rev.1); Daragahi, Borzou, “After The Black Flag of ISIS, Iraq Now Face The White Flags,” *Buzzfeed News*, Apr. 1, 2018, [https://www.buzzfeed.com/borzoudaragahi/isis-iraq-white-flags-syria-new-name?utm\\_term=.pvPKYBbjz#.pxPLenvDJ](https://www.buzzfeed.com/borzoudaragahi/isis-iraq-white-flags-syria-new-name?utm_term=.pvPKYBbjz#.pxPLenvDJ)

<sup>17</sup> United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

<sup>18</sup> Magdy, Sam & Sweilam, Ashraf, “Militants rob bank, attack church in Egypt’s Sinai; 7 dead,” Associated Press, Oct. 16, 2017. <https://apnews.com/9b6b816ce2c645dfab8c4460cc84876e>

<sup>19</sup> United Nations Security Council, “Twentieth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Jun. 30, 2017, [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2017/573](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573); United Nations Security Council, “Twenty-first report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368

legislator, \$400 million was smuggled out of Iraq and Syria during its retreat.<sup>20</sup> According to U.S. National Intelligence Manager for the Middle East David Cattler the U.S. intelligence community continues to hunt for the funds.<sup>21</sup> In fact, the UN Monitoring Team recently reported that the lack of information on the current state of IS finances was of “immediate concern.”<sup>22</sup>

The Islamic State is apparently still able to move funds across borders using money exchange houses and hawala dealers, including to provide financial support to affiliates overseas—although “the extent of such support is unclear, and may be declining,” according to the UN Monitoring Team.<sup>23</sup> Some of these funds appear to have gone to or through Turkey, via hawala dealers on the Syria/Turkish border, and possibly via other militants based in Idlib province. IS-linked exchangers likewise claim to have sent millions of dollars through other militant organizations there, then onward to Europe.<sup>24</sup> In mid-March 2018, Turkish police raided a currency exchange in Istanbul with alleged ties to the Islamic State, arresting two and recovering \$1.3 million, as well as gold, silver, British pounds, and weapons.<sup>25</sup> In August 2017, the U.S. and Iraq jointly designated IS Finance Emir Salim al Mansur, who is believed to have moved from Iraq to Turkey in early 2017.<sup>26</sup>

Funds abroad were also used for procurement purposes. In February 9, 2018, the U.S. designated Yunus Emre Sakarya and his company Profesyoneller Elektronik, in Turkey due to his involvement in procuring UAV equipment worth \$500,000 in 2016 for the Islamic State.<sup>27</sup>

A study of improvised explosive device (IED) procurement by Conflict Armament Research published in December 2017 revealed that IS obtained components for IED through money service businesses and front

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(2017) concerning ISIL (Da'esh), Al-Qaida and associated individuals and entities,” Dec. 31, 2017, [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2018/14/rev.1](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/14/rev.1)

<sup>20</sup> “Islamic State has been stashing millions of dollars in Iraq and abroad,” *The Economist*, Feb. 22, 2018, <https://www.economist.com/news/middle-east-and-africa/21737302-their-so-called-caliphate-crumbles-jihadists-are-saving-up-fight>

<sup>21</sup> Cattler, David, “A Survey of the Near East: Implications for U.S. National Security,” The Washington Institute for Near East Policy, March 13, 2018, <https://www.washingtoninstitute.org/policy-analysis/view/a-survey-of-the-near-east-implications-for-u.s.-national-security>

<sup>22</sup> United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

<sup>23</sup> “Twentieth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da'esh), Al-Qaida and associated individuals and entities,” United Nations Security Council, Jun. 30, 2017. Web. [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2017/573](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573); Twenty-first report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da'esh), Al-Qaida and associated individuals and entities,” United Nations Security Council, Dec. 31, 2017. Web. [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2018/14/rev.1](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/14/rev.1)

<sup>24</sup> Solomon, Erika, “Isis finds escape route for the profits of war,” *Financial Times*, Aug. 23, 2017, <https://www.ft.com/content/b2f616d4-8656-11e7-8bb1-5ba57d447eff>

<sup>25</sup> “Turkish police discover around \$2M in cash in Istanbul office of 2 Daesh-linked suspects,” *Daily Sabah*, Apr. 4, 2018, <https://www.dailysabah.com/war-on-terror/2018/04/04/turkish-police-discover-around-2m-in-cash-and-gold-in-istanbul-office-of-2-daesh-linked-suspects>

<sup>26</sup> U.S. Department of the Treasury, “Treasury Collaborates with Iraqi Government to Sanction ISIS Finance Emir,” press release, Aug. 29, 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0149.aspx>

<sup>27</sup> U.S. Department of the Treasury, “Treasury Sanctions ISIS Facilitators Across the Globe,” press release, Feb. 9, 2018, <https://home.treasury.gov/news/press-release/sm0284>

companies, which purchased the components for IS from legitimate suppliers.<sup>28</sup> The United Nations Monitoring Team warned in July 2018 that IS was likely to increase its use of IED as it reverts back to asymmetric tactics. The Monitoring Team said that IS in Afghanistan was reportedly using an IED precursor—ammonium nitrate—preferred by the group and that an attempt to smuggle the compound to Libya had been disrupted in January 2018.<sup>29</sup>

### *Exchange Houses*

The Islamic State often used exchange houses to collect international funds, pay its fighters and employees, and make purchases.<sup>30</sup> With the majority of its territory lost, exchange houses are now particularly useful to move funds out of Syria and Iraq. Iraqi authorities have taken a number of actions against exchange houses to isolate the Islamic State from the international financial system. In December 2015, the Central Bank of Iraq banned 142 currency-exchange houses from participating in Central Bank currency auctions based on concerns that they were moving funds for the Islamic State.<sup>31</sup> On December 13, 2016, the United States, in collaboration with the Government of Iraq, sanctioned Selselat al Thahab Money Exchange in Iraq for facilitating the movement of funds on behalf of IS.<sup>32</sup> Again, in June 2017, Washington took joint action with the Government of Iraq against Umar al-Kubaysi and his al-Kawathar money exchange firm. According to the Treasury, al-Kawathar reconciled approximately \$2.5 million with another Iraq-based IS-associated money exchange company, as well as the previously-sanctioned Syria-based Hanifa Currency Exchange, and sent transfers to a Gulf-based company, which was co-owned by two suspected IS facilitators.<sup>33</sup>

The risk of exchange houses being exploited by terrorist financiers is not new. The Islamic State has taken advantage of the same informal or weakly regulated channels as other illicit financial actors such as Iran have done before. In a 2015 report on emerging terrorist financing typologies, the intergovernmental Financial Action Task Force highlighted the vulnerability of exchange companies and other remitters to terrorist financing where they are not regulated.<sup>34</sup> The exchange houses targeted by the Iraqi government are a prime example, since most were located in Islamic State-controlled areas outside the scope of Central Bank supervision. By denying such exchange houses access to dollar auctions, the Iraqi government effectively found a way to regulate these out-of-reach enterprises.

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<sup>28</sup> “Reports: Weapons of the Islamic State,” Conflict Armament Research, Dec. 2017, <http://www.conflictarm.com/reports/weapons-of-the-islamic-state/>

<sup>29</sup> United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

<sup>30</sup> Warrick, Joby, “Inside the economic war against the Islamic State,” *The Washington Post*, Dec. 31, 2016, [https://www.washingtonpost.com/world/national-security/take-them-back-to-the-19th-century-inside-the-economic-war-against-the-islamic-state/2016/12/30/5f91f514-ceb7-11e6-a747-d03044780a02\\_story.html?noredirect=on&utm\\_term=.8fde058f964c](https://www.washingtonpost.com/world/national-security/take-them-back-to-the-19th-century-inside-the-economic-war-against-the-islamic-state/2016/12/30/5f91f514-ceb7-11e6-a747-d03044780a02_story.html?noredirect=on&utm_term=.8fde058f964c)

<sup>31</sup> Bauer, Katherine and Levitt, Matthew. “Denying the Islamic State Access to Money-Exchange Houses,” The Washington Institute for Near East Policy, February 3, 2016, <http://www.washingtoninstitute.org/policy-analysis/view/denying-the-islamic-state-access-to-money-exchange-houses>

<sup>32</sup> U.S. Department of the Treasury, “Treasury Sanctions Senior Isil Financier and Two Money Services Businesses,” press release, Dec. 13, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0684.aspx>

<sup>33</sup> U.S. Department of the Treasury, “Treasury Sanctions Iraq-based ISIS Financial Facilitation Network,” press release, June 15, 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0109.aspx>

<sup>34</sup> “FATF Report: Emerging Terrorist Financing Risks,” Financial Action Task Force, October, 2015. <http://www.fatf-gafi.org/media/fatf/documents/reports/Emerging-Terrorist-Financing-Risks.pdf>

More broadly, it should be noted that in areas where banking services are largely inaccessible to segments of society, or unavailable altogether, exchange houses can provide a much-needed means of sending or receiving remittances, including humanitarian support in conflict zones and their environs. But they also present vulnerability as a potential conduit for comingling illicit funds with licit remittances. Even in nonconflict areas with sizable populations lacking bank access, exchange houses act as a bridge between cash-based informal economies and the banks upon which they rely to effect international transfers. But this layer can also help obfuscate the underlying party to a transaction and shield bad actors from the global financial institutions they transit. Regional regulators, therefore, must take decisive steps to wall off their financial systems from unlicensed or loosely regulated money remitters vulnerable to exploitation by illicit actors.

Despite these efforts, the group's credible threats of violence against enterprises in Syria, Iraq, and elsewhere will likely allow it to maintain a large sum, out of sight of authorities.<sup>35</sup> As information becomes available, authorities should prioritize targeting cross-border movement of funds as well as procurement efforts, which are particularly susceptible to disruption through public exposure because of the need to appear legitimate in order to complete purchases of dual use goods.

## AL-QAEDA

As the Islamic State burst onto the scene and quickly dominated the threat landscape, its financial underpinnings drew significant attention. Al-Qaeda funding, however, became less of a focus as IS overshadowed its precursor. Al-Qaeda financing also grew more difficult to track as the group took a back seat to the Islamic State and its financial infrastructure labored under the increasing irrelevance of its traditional core in Afghanistan. But al-Qaeda has more recently been able to exploit its safe havens in Syria and relocated some senior leaders to the country from South Asia. There and elsewhere, such as in Yemen, al-Qaeda has rebuilt its financial baseline. Altogether, the threat from al-Qaeda persists, and understanding its sources of revenue and resources is therefore critically important.<sup>36</sup>

As most al-Qaeda affiliates have diversified their fundraising methods away from reliance on individual donors and the exploitation of charitable flows in order to mask their transactions, they have become less dependent on the core. The beginnings of this decentralizing trend could be recognized years ago with the rise of a reverse-directional flow of money going from affiliates toward the increasingly impoverished core.<sup>37</sup> In a 2005 letter to Abu Musab al-Zarqawi, then leader of AQI, Ayman al-Zawahiri, then al-Qaeda's number two, asked for money, noting that "many of the lines [of financing] had been cut off. Because of this we need a payment..."<sup>38</sup> Documents recovered from AQI in 2009 revealed that, in the intervening years, Zarqawi's organization, then called the

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<sup>35</sup> Johnston, Patrick B. "Oil, Extortion Still Paying Off for ISIS," *The Cipher Brief*, Oct. 27, 2017, <https://www.thecipherbrief.com/article/middle-east/oil-extortion-still-paying-off-isis>

<sup>36</sup> Portions of this section are drawn from Bauer, Katherine and Matthew, Levitt, "Al Qaeda Financing: Selected Issues," in Zelin, Aaron, "How Al-Qaeda Survived Drones, Uprisings, and the Islamic State," The Washington Institute for Near East Policy, June 2017, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>

<sup>37</sup> Levitt, Matthew and Michael Jacobson, "The Money Trail," The Washington Institute for Near East Policy, November 2008, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus89.pdf>

<sup>38</sup> Letter from Ayman al-Zawahiri to Abu Musab al-Zarqawi, July 9, 2005; English translation available at <https://ctc.usma.edu/app/uploads/2013/10/Zawahiris-Letter-to-Zarqawi-Translation.pdf>

Islamic State in Iraq and led by Abu Omar al-Baghdadi, had made a strategic decision to derive revenues locally to avoid foreign dependence and direction.<sup>39</sup>

Experts have also noted an increase in collaboration and assistance among and between al-Qaeda branches. For example, a January 2017 UN report claimed that al-Shabab in East Africa has “relied on financial, logistical, and ideological guidance” from al-Qaeda in the Arabian Peninsula (AQAP).<sup>40</sup> Similarly, the UN reported, al-Qaeda in the Indian Subcontinent (AQIS) has taken on “a more active supporting role” for Taliban groups in Afghanistan.<sup>41</sup> Indeed, there is historical precedent for such cooperation. A letter between the leaders of AQAP and al-Qaeda in the Islamic Maghreb (AQIM) in 2012 discussed kidnapping for ransom, calling the tactic a “profitable trade and a precious treasure.”<sup>42</sup>

For years, al-Qaeda affiliates have pursued more diverse funding streams as compared to the core, most prominently engaging in such tactics as kidnapping for ransom and extortion. In northwest Africa, AQIM received roughly \$100 million in ransom payments between 2008 and 2014, according to estimates.<sup>43</sup> In 2016, the U.S. Department of State reported that AQIM continued to conduct kidnapping-for-ransom operations, primarily targeting Westerners whose governments were known to pay ransoms.<sup>44</sup> In Somalia, al-Shabab generated as much as \$25 million in revenue from the illicit charcoal trade alone when it controlled Kismayo port, according to the UN Monitoring Group on Somalia and Eritrea.<sup>45</sup> In Yemen in 2015 AQAP took advantage of the ongoing conflict between the internationally recognized government of Abdu Rabu Mansour Hadi and the Houthi rebels, backed by now-deceased former president Ali Abdullah Saleh, to take control of parts of Hadramawt governorate, seizing perhaps \$100 million from a Central Bank branch,<sup>46</sup> extorting funds from the national oil company, and raising as much as \$2 million per day in taxes on goods and fuel coming into the port of al-Mukalla.<sup>47</sup> Today, observers note more “terrorist economies”: areas where groups take advantage of weak, corrupt states lacking rule of law or even full territorial control to tax, extort, and exploit local resources.

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<sup>39</sup> Patrick B. Johnston et al., *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005–2010* (Santa Monica, CA: RAND Corporation, 2016). Web.

[http://www.rand.org/content/dam/rand/pubs/research\\_reports/RR1100/RR1192/RAND\\_RR1192.pdf](http://www.rand.org/content/dam/rand/pubs/research_reports/RR1100/RR1192/RAND_RR1192.pdf)

<sup>40</sup> United Nations Security Council, “Nineteenth Report of the Analytical Support and Sanctions Monitoring Team established pursuant to resolution 1526 (2004), January 13, 2017,

[http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2017/35](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/35).

<sup>41</sup> Ibid.

<sup>42</sup> United Nations Security Council, “Nineteenth Report of the Analytical Support and Sanctions Monitoring Team established pursuant to resolution ,”Fifteenth Report of the Analytical Support and Sanctions Monitoring Team Submitted pursuant to Resolution 2083 (2012) concerning al-Qaida and Associated Individuals and Entities” January 23, 2014,

[http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S\\_2014\\_41.pdf](http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S_2014_41.pdf).

<sup>43</sup> Rukmini Callimachi, “Paying Ransoms, Europe Bankrolls Qaeda Terror,” *New York Times*, July 29, 2014,

<https://www.nytimes.com/2014/07/30/world/africa/ransoming-citizens-europe-becomes-al-qaedas-patron.html>.

<sup>44</sup> U.S. Department of State, *Country Reports on Terrorism 2015*, <https://www.state.gov/j/ct/rls/crt/2015/index.htm>.

<sup>45</sup> United Nations Security Council, Report of the Monitoring Group on Somalia and Eritrea,” July 12, 2013,

[http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2013/413](http://www.un.org/ga/search/view_doc.asp?symbol=S/2013/413).

<sup>46</sup> United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

<sup>47</sup> Yara Bayoumy et al., “How Saudi Arabia’s War in Yemen Has Made al Qaeda Strong—and Richer,” *Reuters*, April 8, 2016, <http://www.reuters.com/investigates/special-report/yemen-aqap/>.

## *Al-Nusra Front*

The rise of al-Qaeda's Syrian affiliate, al-Nusra Front (ANF) brought new opportunities for the organization both operationally and financially. Al-Qaeda leadership considers the Levant to be of strategic importance for the group's future. A 2016 UN Security Council report claimed that al-Nusra "remains one of the most effective branches of Al Qaeda worldwide."<sup>48</sup> The group's budget could have been as much as \$10 million a year in 2016, according to a U.S. official.<sup>49</sup> Although ANF's split with the Islamic State in April 2013 undoubtedly hurt its bottom line, it is also possible that ANF's financial needs are relatively small: the group reportedly does not pay salaries to foreign fighters and can extort military and other nonlethal support from moderate groups in exchange for allowing them to operate in northern Syria. In addition, a crucial aspect of al-Nusra's long-term strategy has been to minimize its control over populated areas within Syria, focusing instead on practical power-sharing arrangements and the socialization of civilians and armed groups into gradual acceptance of its power.<sup>50</sup> Thus, the affiliate has not been overly burdened by costs of governance. Although ANF "may earn some funds from external donations," the UN reported in 2018 that the group "appears to be largely self-sufficient."<sup>51</sup> That al-Nusra is no longer reliant on foreign sources does not necessarily mean that the group no longer receives such support. However, it does likely mean that even if ANF foreign funding was disrupted, that alone would be insufficient to bankrupt the group.

ANF may have historically received as much as a few million dollars a year from private donors in the Gulf. U.S. Treasury designations of al-Nusra financiers based in Qatar and Kuwait paint a picture of what former Treasury undersecretary for terrorism and financial intelligence David Cohen called "permissive jurisdictions" for terrorist financing.<sup>52</sup> For example, in August 2015, the U.S. Treasury designated Sa'ad bin Sa'd Muhammad Shariyan al-Ka'bi, a Qatari financier for ANF. Al-Ka'bi had reportedly "set up donation campaigns in Qatar to aid with fundraising in response to a request from an ANF associate for money to purchase both weapons and food."<sup>53</sup> Gulf-based donors and fundraisers have long supported al-Qaeda core, as well as the group's affiliates in Iraq and, more recently, Syria, often relying on an Iran-based facilitation network to move funds and operatives—including senior leaders—between the Gulf, South Asia, and the Levant.

The September 2014 designation of Abd al-Malik Abd al-Salam (aka Omar al-Qatari) demonstrates the connectivity between the various fundraising and facilitation networks. According to the Treasury Department, al-Qatari, a Jordanian with Qatari residency, provided "broad support" to ANF, including funds and material support. In 2011 and 2012, he worked with associates in Turkey, Syria, Lebanon, Qatar, and Iran to raise and

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<sup>48</sup> United Nations Security Council, "Eighteenth Report of the Analytical Support and Sanctions Monitoring Team Submitted pursuant to Resolution 2253 (2015) concerning Islamic State in Iraq and the Levant (Da'esh), al-Qaida and Associated Individuals and Entities," July 19, 2016, <https://www.un.org/sc/ctc/wp-content/uploads/2016/09/MT-18th-report.pdf>.

<sup>49</sup> Nicole Magney and Paul Cruickshank, "A View from the CT Foxhole: Adam Szubin, Acting Under Secretary for Terrorism and Financial Intelligence, U.S. Dept. of Treasury," *CTC Sentinel* 9, no. 8 (August 2016), <https://www.ctc.usma.edu/posts/a-view-from-the-ct-foxhole-adam-szubin-acting-under-secretary-for-terrorism-and-financial-intelligence-u-s-dept-of-treasury>.

<sup>50</sup> Charles Lister, *Profiling Jabhat al-Nusra*, Brookings, 2016, [https://www.brookings.edu/wp-content/uploads/2016/07/iwr\\_20160728\\_profiling\\_nusra.pdf](https://www.brookings.edu/wp-content/uploads/2016/07/iwr_20160728_profiling_nusra.pdf).

<sup>51</sup> United Nations Security Council, "Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015)," July 27, 2018, <http://undocs.org/S/2018/705>

<sup>52</sup> Ibid.

<sup>53</sup> U.S. Department of Treasury, "Treasury Designates Financial Supporters of Al-Qaida and Al-Nusra Front," press release, August 5, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/jl0143.aspx>

move funds and weapons, and enable fighter travel, including with al-Qaeda facilitators Khalifa Muhammad Turki al-Subaiy in Qatar and Muhsin al-Fadhli, who was then heading the group's network in Iran.<sup>54</sup> Facilitators he worked with recruited fighters among Syrian refugees in Turkey and coordinated weapons procurements via Lebanon for al-Nusra's benefit. Qatari himself raised funds through the Internet for al-Qaeda, moved funds on behalf of Subaiy to al-Qaeda senior leaders, and delivered funds to Fadhli in Iran.<sup>55</sup>

### *Al-Qaeda In Iran*

For decades, Iran has provided safe haven to a central network of facilitators for al-Qaeda and its affiliates for moving money and aiding members' transit from South Asia to Syria.<sup>56</sup> According to a UN report released on July, 2018, "Al Qaeda leaders in the Islamic Republic of Iran have grown more prominent, working with Aiman al-Zawahiri and projecting his authority more effectively than he could previously."<sup>57</sup> The relationship between Iran and al-Qaeda is long and complicated, dating back to at least the mid-1990s, when al-Qaeda negotiated safe passage for its members from Sudan through Iran to Afghanistan. Later, some al-Qaeda members and their families sought safe haven in Iran following the U.S. invasion of Afghanistan. Although Iran arrested a number of al-Qaeda members residing within its borders in 2003—including Osama bin Laden's son Saad—it was unclear if they remained in custody and whether Iranian detention constrained their activities.<sup>58</sup> In 2009, then Treasury undersecretary Stuart Levey called on Iran to "give a public accounting of how it is meeting its international obligations to constrain al-Qaeda."<sup>59</sup>

According to the State Department's 2016 *Country Reports on Terrorism*, Iran has "remained unwilling to bring to justice senior al-Qa'ida members it continued to detain, and refused to publicly identify the members in its custody."<sup>60</sup> Over the last decade, U.S. sanctions against al-Qaeda have pointed to the significance of the Iran-based network.<sup>61</sup> Sanctions actions in 2011 and 2012 highlighted "Al-Qaeda's critically important Iran-based funding and facilitation network"<sup>62</sup> and sought to expose "Iran's secret deal with al-Qaeda allowing it to funnel funds and operatives through its territory,"<sup>63</sup> according to the U.S. Treasury.

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<sup>54</sup> U.S. Department of the Treasury, "Treasury Designates Twelve Foreign Terrorist Fighter Facilitators," press release, September 24, 2014, <https://www.treasury.gov/press-center/press-releases/Pages/jl2651.aspx>.

<sup>55</sup> Ibid.

<sup>56</sup> U.S. Department of State, *Country Reports on Terrorism 2015*, <https://www.state.gov/documents/organization/258249.pdf>.

<sup>57</sup> United Nations Security Council, "Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015)," July 27, 2018, <http://undocs.org/S/2018/705>

<sup>58</sup> U.S. Department of the Treasury, "Treasury Targets Al Qaida Operatives in Iran," press release, January 16, 2009, <https://www.treasury.gov/press-center/press-releases/Pages/hp1360.aspx>.

<sup>59</sup> Ibid.

<sup>60</sup> U.S. Department of State, *Country Reports on Terrorism 2016*, <https://www.state.gov/documents/organization/272488.pdf>

<sup>61</sup> Bauer, Katherine and Matthew, Levitt, "Al Qaeda Financing: Selected Issues," in Zelin, Aaron, "How Al-Qaeda Survived Drones, Uprisings, and the Islamic State," The Washington Institute for Near East Policy, June 2017, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>

<sup>62</sup> U.S. Department of the Treasury, "Treasury Further Exposes Iran-Based Al-Qa'ida Network," press release, October 18, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1741.aspx>.

<sup>63</sup> U.S. Department of the Treasury, "Treasury Targets Key Al-Qa'ida Funding and Support Network Using Iran as a Critical Transit Point," press release, July 28, 2011, <https://www.treasury.gov/press-center/press-releases/Pages/tg1261.aspx>.

Sanctions that exposed the Iran-based network initially, in July 2011, targeted six al-Qaeda members, including facilitators in Kuwait and Qatar. According to the Treasury Department, the network, led by Yasin al-Suri, was “collecting funding from various donors and fundraisers throughout the Gulf and was responsible for moving significant amounts of money via Iran for onward passage to al-Qaeda leadership in Afghanistan and Iraq.”<sup>64</sup> Suri also worked with the Iranian government to secure the release of al-Qaeda personnel from Iranian prisons. In announcing a related action under the State Department’s Rewards for Justice program later in 2011, a Treasury official said that Iranian authorities had maintained a relationship with Suri and “allowed him to operate within Iran’s borders since 2005.”<sup>65</sup>

The Kuwaiti Muhsin al-Fadhli soon replaced Suri as al-Qaeda’s senior facilitator and financier in Iran.<sup>66</sup> Fadhli had been sanctioned in 2005 for financing aspects of the Iraqi insurgency, including “the Zarqawi network” and al-Qaeda. He had also been convicted by a Kuwaiti court and was wanted in Saudi Arabia for terrorism-related activities. According to the Treasury Department, Fadhli began working with the Iran-based network in 2009 but was later arrested by Iranian authorities. After being released in 2011, he assumed leadership of the network, which the State Department described as “a core facilitation pipeline through Iran, enabling al-Qaeda to move funds and fighters to South Asia and to Syria.” As of October 2012, according to the Treasury Department, al-Qaeda elements in Iran led by Fadhli were “working to move fighters and money through Turkey to support al-Qaeda affiliated elements in Syria,” as well as leveraging his extensive network of Kuwaiti jihadists to send money to Syria.<sup>67</sup> Fadhli was killed on July 8, 2015, by a U.S. airstrike in Syria, where he was reportedly leading a group of seasoned al-Qaeda operatives working with ANF in hopes of recruiting Europeans and Americans to conduct attacks in the West.<sup>68</sup>

To further address al-Qaeda’s network in Iran, the U.S. Treasury in July 2016 announced new sanctions against three senior al-Qaeda members located in Iran. The sanctions, characterized by the Treasury as “action to disrupt the operations, fundraising, and support networks that help al-Qaeda move money and operatives from South Asia and across the Middle East,”<sup>69</sup> echo congressional testimony from National Counterterrorism Center director Nicholas Rasmussen earlier that year in which he raised concerns that al-Qaeda was exploiting safe havens in Syria “by relocating some of its remaining leadership cadre from South Asia to Syria.”<sup>70</sup> These sanctions again highlight the ease of travel for al-Qaeda facilitators and operatives in Iran, as well as their ongoing contact with Iranian officials and operational roles. One designee, Yisra Muhammad Ibrahim Bayumi, has been in Iran since 2014 and has served as a mediator with Iranian authorities. Abu Bakr Muhammad Muhammad Ghumayn

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<sup>64</sup> Ibid.

<sup>65</sup> U.S. Department of State, “Briefing on New Rewards for Justice Reward Offer,” December 22, 2011, <https://2009-2017.state.gov/r/pa/prs/ps/2011/12/179654.htm>.

<sup>66</sup> U.S. Department of State, “Rewards for Justice—al-Qaeda Reward Offers,” October 18, 2012, <https://2009-2017.state.gov/r/pa/prs/ps/2012/10/199299.htm>.

<sup>67</sup> U.S. Department of Treasury, “Treasury Further Exposes Iran-Based Al-Qa’ida Network,” press release, October 18, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1741.aspx>.

<sup>68</sup> Eric Schmitt, “Leader of Qaeda Cell in Syria, Muhsin al-Fadhli, Is Killed in Airstrike, U.S. Says,” *New York Times*, July 21, 2015, [https://www.nytimes.com/2015/07/22/world/middleeast/leader-of-qaeda-cell-in-syria-muhsin-al-fadhli-is-killed-in-airstrike-us-says.html?\\_r=0](https://www.nytimes.com/2015/07/22/world/middleeast/leader-of-qaeda-cell-in-syria-muhsin-al-fadhli-is-killed-in-airstrike-us-says.html?_r=0).

<sup>69</sup> U.S. Department of the Treasury, “Treasury Designates Three Senior al-Qaida Members,” press release, July 20, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0523.aspx>.

<sup>70</sup> Nicholas J. Rasmussen, “Worldwide Threats to the Homeland: ISIS and the new wave of terror,” Hearing before the Committee on Homeland Security, House of Representatives, One Hundred Fourteenth Congress, July 14, 2016, <https://www.gpo.gov/fdsys/pkg/CHRG-114hhrg25265/html/CHRG-114hhrg25265.htm>

appears to have traveled between 2014 and 2015 to Iran, where he assumed control of the financing and organization of al-Qaeda members.<sup>71</sup>

### *Abuse of the Charitable Sector*

Another way in which al-Qaeda has successfully raised funds is through abuse of the charitable sector. In the years after the September 11 attacks, disrupting terrorists' ability to abuse charitable giving as a means of raising, transferring, and laundering funds was a major focus of counterterrorism authorities around the world. Charities operating as fronts for terrorist groups were designated by national authorities and world bodies such as the UN, the charitable sector was encouraged to implement more sophisticated due-diligence procedures to protect the industry from abuse, and governments engaged in outreach and information campaigns.<sup>72</sup>

Thus, for a while, it seemed like terrorist abuse of charity had dissipated as a preferred illicit-finance typology. Then came the war in Syria and a series of other conflicts across the Middle East and North Africa, and the issue was back on the agenda as a counterterrorism priority. Consider AQAP, which as of January 2017 "continue[d] to receive significant donations, including under the cover of charitable organizations."<sup>73</sup> As conflicts continue with no end in sight across the Middle East and North Africa—from Syria to Yemen to Libya—charities are crucial for alleviating the accompanying humanitarian crises.

While terrorism financing through the abuse of charities has returned, there is not the same emphasis on large-scale false fronts as before 9/11. Facilitated by the rise of social media, fundraisers can now more easily set up false fronts online. Hajjaj al-Ajmi, who was sanctioned by the UN in 2014, used Twitter to solicit donations for ANF.<sup>74</sup> Some have even openly crowd-sourced donations for ANF and other jihadist groups operating in Syria, such as Saad bin Saad al-Kaabi, who posted solicitations on Facebook and WhatsApp accounts for "arming, feeding and treating" fighters in Syria.<sup>75</sup> Kaabi was listed at the UN in 2015.<sup>76</sup>

Fundraisers have also used social media to thank and confirm to donors the delivery of funds and material support to jihadist groups. In a video uploaded to YouTube in October 2016, U.S.-designated ANF financier Abd Allah bin Muhammad al-Muhaysini thanked Gulf donors for supporting jihadists in Syria:

"As for the businessmen, and I will mention some of them, the ones who prepared these hundred rockets, may God reward them. One hundred Elephant rockets...some from a

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<sup>71</sup> U.S. Department of the Treasury, "Treasury Designates Three Senior al-Qaeda Members," press release, July 20, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0523.aspx>.

<sup>72</sup> U.S. Department of the Treasury, "Typologies and Open Source Reporting on Terrorist Abuse of Charitable Operations in Post-Earthquake Pakistan and India," [https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/charities\\_post-earthquake.pdf](https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/charities_post-earthquake.pdf).

<sup>73</sup> UN Security Council, "Nineteenth Report of the Analytical Support and Sanctions Monitoring Team Submitted pursuant to Resolution 2253 (2015) concerning ISIL (Da'esh), al-Qaida and Associated Individuals and Entities," S/2017/35, January 13, 2017, [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/2017/35](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/35).

<sup>74</sup> UN Security Council, "Narrative Summary of Reasons for Listing: Hajjaj bin Fahd al Ajmi," August 15, 2014, [https://www.un.org/sc/suborg/en/sanctions/1267/aq\\_sanctions\\_list/summaries/individual/hajjaj-bin-fahd-al-ajmi](https://www.un.org/sc/suborg/en/sanctions/1267/aq_sanctions_list/summaries/individual/hajjaj-bin-fahd-al-ajmi).

<sup>75</sup> "Are Terrorists Raising Money in Qatar?" *CNN*, video clip, 7:14, <http://www.cnn.com/videos/us/2014/06/18/erin-dnt-qatar-terror-fundraiser.cnn>.

<sup>76</sup> UN Security Council, "Narrative Summary of Reasons for Listing: Sa'd bin Sa'd Muhammad Shariyan al-Kabi," September 21, 2015, [https://www.un.org/sc/suborg/en/sanctions/1267/aq\\_sanctions\\_list/summaries/individual/sa'd-bin-sa'd-muhammad-shariyan-al-ka'bi](https://www.un.org/sc/suborg/en/sanctions/1267/aq_sanctions_list/summaries/individual/sa'd-bin-sa'd-muhammad-shariyan-al-ka'bi).

group of brothers in Islan from Riyadh, some from our brother Abu Ahmad from Kuwait, some from our brother Abu al-Jud from Qatar, and some from brothers I have not mentioned... I tell all the businessmen of the Muslims, this is your money now, fighting in the path of God.”<sup>77</sup>

According to the U.S. Treasury, between 2013 and 2015, Muhaysini raised millions of dollars for ANF, claiming himself that he had secured \$5 million in donations to arm fighters.<sup>78</sup>

Nevertheless, cases of major charity fronts remain, and large-scale organizations funneling money to al-Qaeda continue to come to light. For example, Saudi Arabia and the United States jointly acted against the al-Furqan Foundation Welfare Trust in May 2015. The U.S. Treasury identified al-Furqan as the successor entity to two organizations it had previously designated, the Afghan Support Committee and the Revival of Islamic Heritage Society, and described al-Furqan as a “charitable organization that is a major conduit of financial and material support for terrorist groups...in some cases under the guise of humanitarian work.” In addition to charging that it supported al-Qaeda, the Treasury denounced al-Furqan for aiding the Taliban and the Pakistani jihadist group Lashkar-e-Taiba. Simultaneously, Saudi Arabia designated al-Furqan under its own counterterrorism laws.<sup>79</sup>

Less than a year later, the United States and Saudi Arabia again took joint action against four individuals and two organizations for supporting the same three terrorist groups in Afghanistan and Pakistan. Among those sanctioned were the Scottish-born jihadist James McLintock and the al-Rahmah Welfare Organization (RWO), of which McLintock was the president, CEO, and chairman. According to the Treasury Department, RWO and other associated outfits received “large amounts of money from British donors who were not aware of the NGOs’ Taliban ties.” Whereas the Treasury statement cited McLintock for supporting a variety of terrorist groups in Afghanistan and Pakistan, he also appeared to be involved in Syria.<sup>80</sup>

## IRANIAN SUPPORT FOR TERRORISM

As the foremost state sponsor of terrorism, Iran provides hundreds of millions of dollars a year to proxies in the Levant, and increasingly across the Middle East. Beyond funding, Iran also provides training, and arms and equips its terrorist proxies. This is primarily done through the Islamic Revolutionary Guards Corps’ (IRGC)

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<sup>77</sup> al-Muhaysini, Abdullah. “Sheikh al-Muhaysini Announces Beginning of Breaking Siege of Aleppo and Fires 100 Elephant Rockets”. YouTube video, 12:02. Posted October 2016, since removed date unknown. See Zelin, Aaron Y, “Policy Focus 153:How Al-Qaeda Survived Drones, Uprisings, and the Islamic State: The Nature of the Current Treat,” The Washington Institute for Near East Policy, June 2017. <http://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>

<sup>78</sup> U.S. Department of the Treasury, “Treasury Designates Key al-Nusra Front Leaders,” press release, November 10, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0605.aspx>.

<sup>79</sup> U.S. Department of the Treasury, “The U.S. and Saudi Arabia Take Joint Action against Terrorist Financing Entity Attempting to Evade U.S. and UN Sanctions and Violate Saudi Laws,” press release, April 7, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/jl10019.aspx>.

<sup>80</sup> U.S. Department of the Treasury, “United States and Saudi Arabia Designate Terrorist Fundraising and Support Networks,” press release, March 31, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0400.aspx>.

Qods Force or IRGC-QF, the branch of the IRGC responsible for external operations, as well as increasingly via its chief proxy Lebanese Hezbollah.<sup>81</sup>

Beginning in the mid-2000s, the U.S.-led financial constriction campaign against Iran drew attention to Iran's use of deceptive financial practices to move funds to its terrorist proxies. In 2007, the U.S. Treasury Department sanctioned Iran's state-owned Bank Saderat for transferring "\$50 million from the Central Bank of Iran through its subsidiary in London to its branch in Beirut for the benefit of Hezbollah fronts in Lebanon that support acts of violence."<sup>82</sup>

In recent actions, the U.S. government has brought a renewed focus to this behavior. In November 2017, the Treasury announced new sanctions against a network circumventing European export control restrictions to procure materials to print counterfeit Yemeni banknotes "potentially worth hundreds of millions of dollars to support Iran's destabilizing activities."<sup>83</sup> In May 2018, the United States and the United Arab Emirates acted jointly to disrupt a currency exchange network using UAE-based exchange houses to acquire U.S. dollar banknotes for use by the IRGC-QF.<sup>84</sup> And, the following week, the then-Governor of the Central Bank of Iraq, Valiollah Seif, was included in a round of sanctions that included an Iraq-based bank and a Hezbollah official. According to the Treasury, Seif "conspired with the IRGC-QF to move millions of dollars...to allow the IRGC-QF to fund its activities abroad."<sup>85</sup> The transfers were routed through the Iraqi al-Bilad Islamic Bank for the benefit of Hezbollah.<sup>86</sup>

Although substantial attention has been given to Iran's efforts to establish a "land bridge" in the Levant, the IRGC-QF has, for years, used an air bridge to move weapons and fighters to and from training in Iran. In 2011, the United States sanctioned Iranian carrier Mahan Air for "secretly ferrying operatives, weapons and funds on its flights."<sup>87</sup> The airline "provided travel services to IRGC-QF personnel flown to and from Iran and Syria for military training," and "transported personnel, weapons and goods on behalf of Hizballah."<sup>88</sup> Mahan also briefly made passenger flights from Tehran to Sana in the spring of 2015, not long after Houthi rebels took control of

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<sup>81</sup> Eisenstadt, Michael, "Shia Militias as a Military," in Ghaddar, Hanin, "Iran's Foreign Legion," Policy Note 46, Washington Institute for Near East Policy, February 2018. <https://www.washingtoninstitute.org/policy-analysis/view/irans-foreign-legion-the-impact-of-shia-militias-on-u.s.-foreign-policy>

<sup>82</sup> U.S. Department of the Treasury. "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. <https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>

<sup>83</sup> "Under Secretary Sigal Mandelker Speech before the Foundation for the Defense of Democracies," Press Release, U.S. Department of the Treasury, June 5, 2018, <https://home.treasury.gov/news/press-releases/sm0406>; "Treasury Designates Large-Scale IRGC-QF Counterfeiting Ring," Press Release, U.S. Department of the Treasury, November 20, 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0219.aspx>.

<sup>84</sup> "United States and United Arab Emirates Disrupt Large Scale Currency Exchange Network Transferring Millions of Dollars to the IRGC-QF," Press Release, U.S. Department of the Treasury, May 10, 2018, <https://home.treasury.gov/news/press-releases/sm0383>

<sup>85</sup> "Treasury Targets Iran's Central Bank Governor and an Iraqi Bank Moving Millions of Dollars for IRGC-Qods Force," Press Release, U.S. Department of the Treasury, May 15, 2018, <https://home.treasury.gov/news/press-releases/sm0385>.

<sup>86</sup> "Under Secretary Sigal Mandelker Speech before the Foundation for the Defense of Democracies," Press Release, U.S. Department of the Treasury, June 5, 2018, <https://home.treasury.gov/news/press-releases/sm0406>.

<sup>87</sup> "Treasury Designates Iranian Commercial Airline Linked to Iran's Support for Terrorism," Press Release, U.S. Department of the Treasury, October 12, 2011, <https://www.treasury.gov/press-center/press-releases/Pages/tg1322.aspx>

<sup>88</sup> Ibid.

the Yemeni capital. These continued until the Saudi-led coalition bombed the tarmac to prevent a Mahan plane from landing.<sup>89</sup> Despite remaining on U.S. sanctions lists, Mahan opened new routes to Moscow, Kiev, Copenhagen, and Paris in the first year after the Iran nuclear deal came into force.<sup>90</sup>

Since its 2011 designation, more than 200 individuals and entities associated with Mahan Air have been added to U.S. sanctions lists.<sup>91</sup> Most recently, in July 2018, the Treasury designated a Malaysia-based General Sales Agent (GSA) acting on behalf of Mahan.<sup>92</sup> Treasury Secretary Steven Mnuchin put the airline industry “on notice,” stating: “The United States government has been very clear about the deadly role played by Mahan Air. Our action against an independent company providing General Sales Agent services to Mahan makes clear to all in the aviation industry that they urgently need to sever all ties and distance themselves immediately from this airline.”<sup>93</sup>

### *Hezbollah*

In addition to substantial Iranian support, Hezbollah has for decades helped fund its terrorist and social service initiatives through a diverse portfolio of criminal and commercial activities, relying on a worldwide network not only for financial, but also logistical and even operational support. This includes from large Lebanese diaspora communities, especially in West Africa and South America. In the tri-border area of Paraguay, Argentina, and Brazil, for instance, supporters have taken advantage of loosely regulated territory to engage in a range of illicit activities including fundraising and money laundering for the benefit of Hezbollah.<sup>94</sup>

These networks have come under pressure in recent years following a series of U.S. actions that have constrained Hezbollah’s finances, and prompting Hezbollah secretary-general Hassan Nasrallah in July 2016 to (falsely) insist that Hezbollah is exclusively funded by Iran.<sup>95</sup> His remarks came after Lebanese authorities moved to comply with U.S. legislation—the Hezbollah International Financing Prevention Act (HIFPA)—that put Lebanese banks at risk of being cut off from the U.S. financial system if they did business with designated Hezbollah-affiliates. Hundreds of such Hezbollah-linked accounts were closed, threatening the militia’s social support network and commercial interests.<sup>96</sup>

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<sup>89</sup> “First Iran Flight Lands in Shiite-Held Yemen Capital,” *National*, March 1, 2015, <http://www.thenational.ae/world/middle-east/first-iran-flight-lands-in-shiite-held-yemen-capital>; Mohammed Ali Kalfod and Kareem Fahim, “Saudis Hit a Yemeni Airport, Possibly Closing Aid Route,” *New York Times*, April 28, 2015, <http://www.nytimes.com/2015/04/29/world/middleeast/saudis-hit-a-yemeni-airport-possibly-closing-aid-route.html>.

<sup>90</sup> See Mahan Air Press Room, <http://www.mahan.aero/en/contact/press-room>.

<sup>91</sup> Nadimi, Farzin. “Treasury Increases the Pressure on Iranian Airlines,” *The Washington Institute for Near East Policy*, June 1, 2018, <https://www.washingtoninstitute.org/policy-analysis/view/treasury-increases-the-pressure-on-iranian-airlines>

<sup>92</sup> “Treasury Designates Mahan Air Service Provider,” Press Release, U.S. Department of the Treasury, July 9, 2018, <https://home.treasury.gov/news/press-releases/sm423>

<sup>93</sup> idib

<sup>94</sup> Levitt, Matthew. “Hezbollah’s Criminal Networks: Useful Idiots, Henchmen, and Organized Criminal Facilitators”. In: Matfess, Hilary and Mikalucic, Michael, ed., *Beyond Convergence: World Without Order*. Washington, DC.: Center for Complex Operations, Institute for National Strategic Studies, National Defense University.

<sup>95</sup> <https://www.washingtoninstitute.org/policy-analysis/view/targeting-hezbollahs-home-front-finances>

<sup>96</sup> Schenker, David and Bauer, Katherine, “Targeting Hezbollah’s Home-Front Finances,” *The Washington Institute for Near East Policy*, July 5, 2016, <https://www.washingtoninstitute.org/policy-analysis/view/targeting-hezbollahs-home-front-finances>.

HIFPA hit especially hard because of a multiyear effort by the U.S. Treasury to target Hezbollah business interests used both to generate revenue and provide commercial cover. Notably, in June 2015, the U.S. designated Adham Tabaja and his al-Inmaa Engineering Contracting group, which had been used “to obtain oil and construction development projects in Iraq that provide both financial support and organizational infrastructure to Hezbollah.”<sup>97</sup> According to the Treasury, Tabaja maintained direct ties to senior Hezbollah organizational elements and held properties in Lebanon on behalf of the group. Al-Inmaa Engineering and Contracting had been used by Hezbollah as an investment vehicle dating to at least the mid-2000s. “More recently” the Iraqi branches of Tabaja’s firm have provided “organizational infrastructure” to Hezbollah. Tabaja associate Kassem Hejejj opened bank accounts for Hezbollah in Lebanon and Iraq and “provided credit to Hezbollah procurement companies.” Another Tabaja associate, Husayn Ali Faour, managed the Lebanon-based Car Care Center, a front company used to supply Hezbollah’s vehicle needs.<sup>98</sup>

Another example is Kassim Tajideen, designated in May 2009 for being “an important financial contributor to Hezbollah who operates a network of businesses in Lebanon and Africa.” Tajideen also contributed to Hezbollah and funneled money through his brother, a Hezbollah commander and ran “cover companies” for Hezbollah in Africa.<sup>99</sup> In December 2010, Treasury designated Kassim Tajideen’s brothers and business partners, Ali Tajideen and Hussein Tajideen, for “providing support to Hizballah.” Stuart Levey, Under Secretary for Terrorism and Financial Intelligence at the time, regarded Ali Tajideen and Hussein Tajideen as “two of Hizballah’s top financiers in Africa,” stating that their “multinational network generates millions of dollars in funding” and “secures strategic geographical strongholds for Hizballah.”<sup>100</sup> Arrested by Moroccan authorities on March 12, 2017 based on a U.S. indictment, Kassim Tajideen was extradited from Morocco to the United States later that month.<sup>101</sup>

IRGC-QF has also used commercial cover to move funds to Hezbollah. In February 2017, Beirut-based QF official Hasan Dehghan Ebrahimi was called out for facilitating millions of dollars’ worth of cash transfers to Hezbollah, including through U.S.-designated Hezbollah construction firm Wa’ad Company. According to Treasury, Ebrahimi used a network of Lebanon-based companies with ties to the broader Middle East to transfer funds, launder money, and conduct business.”<sup>102</sup>

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<sup>97</sup> “Treasury Sanctions Hizballah Front Companies and Facilitators in Lebanon And Iraq,” Press Release, U.S. Department of the Treasury, June 20, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/jl0069.aspx>.

<sup>98</sup> U.S. Department of the Treasury, “Treasury Sanctions Hizballah Front Companies and Facilitators in Lebanon and Iraq,” press release, June 10, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/jl0069.aspx>.

<sup>99</sup> U.S. Department of the Treasury, “Treasury Targets Hizballah Network in Africa,” press release, May 27, 2009, <https://www.treasury.gov/press-center/press-releases/Pages/tg149.aspx>.

<sup>100</sup> U.S. Department of the Treasury, “Treasury Targets Hizballah Financial Network,” press release, December 9, 2010, <https://www.treasury.gov/press-center/press-releases/Pages/tg997.aspx>.

<sup>101</sup> Spencer S. Hsu, “Lebanese Businessman, Hezbollah Supporter, Charged with Evading U.S. Terror Sanctions,” *Washington Post*, March 24, 2017, sec. Public Safety, [https://www.washingtonpost.com/local/public-safety/lebanese-businessman-hezbollah-supporter-charged-with-evading-us-terror-sanctions/2017/03/24/979dbbd2-10b6-11e7-ab07-07d9f521f6b5\\_story.html](https://www.washingtonpost.com/local/public-safety/lebanese-businessman-hezbollah-supporter-charged-with-evading-us-terror-sanctions/2017/03/24/979dbbd2-10b6-11e7-ab07-07d9f521f6b5_story.html); *United States of America v. Kassim Tajideen and Imad Hassoun*, Indictment, United States District Court for the District of Columbia, Filed March 7, 2017, <https://www.justice.gov/opa/press-release/file/952071/download>.

<sup>102</sup> U.S. Department of the Treasury “Treasury Sanctions Supporters of Iran’s Ballistic Missile Program and Iran’s Islamic Revolutionary Guard Corps – Quds Force,” February 3, 2017. <https://www.treasury.gov/press-center/press-releases/Pages/as0004.aspx>

Separately, in 2016, the U.S. Drug Enforcement Agency announced that, in cooperation with European authorities, it had uncovered a dedicated Hezbollah unit for drug trafficking and money laundering of drug proceeds, resulting in the arrest of members of the network's European cell. The proceeds were used to finance arms purchases for Hezbollah in Syria.<sup>103</sup>

In May 2016, a U.S. official told Congress that Hezbollah was “in its worst financial shape in decades.”<sup>104</sup> There are no indications that this has changed. As more of the group's funding from Iran is dedicated to regional military operations –both those of Hezbollah and the other regional Iranian proxies– Hezbollah has been forced to cut some social services it provides to its Shia base in Lebanon.<sup>105</sup> Nasrallah recently acknowledged the group's “financial crisis,” according to Lebanese press.<sup>106</sup> Hezbollah has ramped up public fundraising efforts in recent years, posting calls for donations on billboards, running advertisements on Hezbollah's al-Manar television station and launching an on-line campaign urging supporters to send funds to “equip a mujahid.”<sup>107</sup>

As the administration moves in November to fully reimplement U.S. nuclear sanctions suspended under the Iran nuclear deal, it's important to remember that even in time of economic crisis, Iran has historically prioritized funding its external activities, including through the allocation of limited hard currency. Consider, for instance, the case of IRGC-QF exploitation of Emirati exchange houses to procure U.S. dollar bank notes to further its destabilizing regional activities. As the value of the Iranian rial continues to fall and oil revenues shrink making foreign exchange more scarce, providing such support will come at an even greater cost to the regime.

## **RESPONSES: ARE COUNTER-TERRORIST FINANCING POLICIES EFFECTIVE?**

Although the cost of an individual terrorist attack may be small, terrorist organizations rely on a steady flow of funds to support operational costs such as salaries, training, transportation, recruitment, and even propaganda. Understanding how a terrorist organization manages its assets is critical to depriving the organization of funds and disrupting its activities in the long term.<sup>108</sup> Indeed, an organization's calculation of how and where to raise funds is determined by a number of factors including ideological, geographical, and practical concerns. Likewise, how much funding an organization requires is determined by its size and objectives. Organizations that control territory, engage in insurgency, or provide social services require additional resources. The larger and more complex an organization's mission, the greater need it has for specialized procedures and personnel to handle

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<sup>103</sup> U.S. Drug Enforcement Administration. “DEA and European Authorities Uncover Massive Hizballah Drug and Money Laundering Scheme.” February 1, 2016, <https://www.dea.gov/press-releases/2016/02/01/dea-and-european-authorities-uncover-massive-hizballah-drug-and-money>.

<sup>104</sup> “Hezbollah in ‘worst financial shape in decades,’ US says,” The Times of Israel, May 25, 2016, <http://www.timesofisrael.com/hezbollah-in-worst-financial-shape-in-decades-us-says/>

<sup>105</sup> Ghaddar, Hanin, “Hezbollah's Women Aren't Happy” The Washington Institute for Near East Policy, October 12, 2016, <http://www.washingtoninstitute.org/policy-analysis/view/hezbollahs-women-arent-happy>.

<sup>106</sup> Bayram, Ibrahim, “Hezbollah turns to charity amid economic woes,” An-Nahar, August 23, 2018, <https://en.annahar.com/article/847815-hezbollah-turns-to-charity-amid-economic-woes>

<sup>107</sup> “Hezbollah Asks for Support on Billboards and Posters,” Al Arabiya, June 7, 2017, <https://english.alarabiya.net/en/News/middle-east/2017/06/07/Hezbollah-asks-for-support-on-billboards.html> ; “Hizbullah Launches Online Fundraising Campaign,” MEMRI, February 10, 2017, <http://cjlabs.memri.org/lab-projects/tracking-jihadi-terrorist-use-of-social-media/hizbullah-launches-online-fundraising-campaign/>

<sup>108</sup> “FATF Report: Emerging Terrorist Financing Risks,” Financial Action Task Force, October 2015. Emerging Terrorist Financing Risks, 2015, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/emerging-terrorist-financing-risks.html>.

financial matters. For example, the Islamic State recruited “an army of accountants”;<sup>109</sup> Al-Qaeda is known for requiring receipts<sup>110</sup>; and the 9/11 hijackers even reportedly returned their remaining funds days before the attacks.<sup>111</sup> Such operations create vulnerabilities to detection and serve as key nodes for disruption.

As terrorist financing typologies evolve, responses from the international community to counter such threats must also adapt. In the decade following the 9/11 attacks in the United States, counter-terrorist financing efforts focused on identifying and disrupting so-called “deep-pocket” donors, primarily located in the Arab Sunni states in the Gulf, and protecting charitable organizations from exploitation and diversion of funds to support terrorist causes.

Considerable efforts were made to establish and gain adoption of international best practices designed to make the international financial system a hostile environment for terrorist support and other forms of illicit finance. Part of this effort involved raising awareness of the risks of terrorist financing and facilitation; bringing governments in high-risk jurisdictions around to implementation of such standards despite concerns of retaliation. Furthermore, by sharing actionable information—either confidentially or through public notification of sanctions actions—governments were incentivized or compelled to disrupt terrorists’ means to raise, store, and move funds.

The rise of the Islamic State—and its almost complete reliance on locally-derived funds—has brought greater attention to the need to not just disrupt terrorist access to the financial system, but to find ways to cut these groups off from means of raising funds. Together with the trend towards criminal sources of funds, there is also a greater focus on law enforcement’s role in disrupting terrorist financing and even the role of kinetic actions in blocking terrorists’ access to revenue.

To counter the threat of terrorist financing, the United States and its allies marshal actionable financial intelligence, regulatory and sanctions authorities, and engagement with public and private stakeholders. A comprehensive approach is necessary, and indeed increasingly implemented. Private sector financial data gleaned by finance ministries and shared with U.S. military and law enforcement agencies helped identify financial targets for military strikes on IS oil infrastructure and cash depots.<sup>112</sup> Today, according to Gerald Roberts, the former section chief of the Terrorist Financing Operations Section of the FBI’s Counterterrorism Division, banks run

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<sup>109</sup> Alexander, Harriet and Beach, Alastair, “How Isil is funded, trained and operating in Iraq and Syria,” The Telegraph, August 23, 2014, <https://www.telegraph.co.uk/news/worldnews/middleeast/iraq/11052919/How-Isil-is-funded-trained-and-operating-in-Iraq-and-Syria.html>

<sup>110</sup> Simpson, Conner, “Al Qaeda Are Strict About Keeping Track of Their Receipts,” The Atlantic, December 29, 2013, <https://www.theatlantic.com/international/archive/2013/12/al-qaeda-are-strict-about-keeping-track-their-receipts/356552/>

<sup>111</sup>“Terrorist Financing Staff Monograph, Appendix A: The Financing of the 9/11 Plot,” National Commission on Terrorist Attacks Upon the United States, [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKEwiylKrt9JfdAhXLMd8KHW\\_R4CbsQFjAAegQICChAC&url=https%3A%2F%2Fgovinfo.library.unt.edu%2F911%2Fstaff\\_statements%2F911\\_TerrFin\\_App.pdf&usq=AOvVaw2t8F6uOZO\\_fNiQFD62ICg7](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKEwiylKrt9JfdAhXLMd8KHW_R4CbsQFjAAegQICChAC&url=https%3A%2F%2Fgovinfo.library.unt.edu%2F911%2Fstaff_statements%2F911_TerrFin_App.pdf&usq=AOvVaw2t8F6uOZO_fNiQFD62ICg7).

<sup>112</sup> Yeganeh Torbati and Brett Wolf, “In Taking Economic War to Islamic State, U.S. Developing New Tools,” Reuters, November 24, 2015, <https://www.reuters.com/article/us-france-shooting-usa-sanctions-insight-idUSKBN0TD0BJ20151124>.

financial intelligence units, which in several cases have provided “that missing piece of the puzzle to identify someone here or abroad who is planning or supporting plans to attack our interests.”<sup>113</sup>

Although financial sanctions are perhaps the most visible and quantifiable tool, they are only one tool in the larger CFT toolkit. For a variety of reasons, not every terrorist funder that comes across the U.S. government’s radar is sanctioned, including diplomatic or intelligence equities, policy considerations, or ongoing law enforcement investigations. Often, it is more useful to share that information with partner governments and allow them to act. Sanctions designations are targeted at key nodes or vulnerabilities in terrorist networks, and although counter-terrorist financing authorities aim to freeze terrorists’ funds, governments know that they will never bankrupt terrorism. Instead, sanctions designations are driven by intelligence and aim to disrupt terrorist financial networks and deter wealthy sympathizers who have financial interests they would rather not put at risk.

Disrupting terrorist’s financial transactions makes it harder for them to travel, bribe officials, procure materials, provide for their own families, and, ultimately, engage in operations. Denying terrorists—as well as insurgents and proliferators—easy access to financial tools forces them to use more costly, less efficient, and often less reliable means of financing their activities. “We have no illusion that we can entirely prevent the flow of funds to terrorist groups,” then-Treasury Undersecretary David Cohen stated in 2010. “Some funds will find a way to flow. But that does not mean the effort is futile—far from it. What we have learned is that by deterring would-be funders and disrupting the financial facilitation networks, we significantly impede terrorists’ ability to operate.”<sup>114</sup>

For example, in 2006, Philippine police reported that plans by the jihadist militant group Abu Sayyaf was reportedly unable to carry out plans to bomb targets in Manila due to a lack of funds.<sup>115</sup> In 2007, following the outing of several of al-Qaeda’s deep-pocket donors and the ways in which the group used charities to move its funds, Mustafa Abu al-Yazid, al-Qaeda’s finance chief, lamented the group’s money problems in a propaganda video, arguing that the primary need for jihad in Afghanistan was financial. “There are hundreds wishing to carry out martyrdom-seeking operations, but they can’t find the funds to equip themselves,” he said. “So funding is the mainstay of jihad.”<sup>116</sup>

Alongside efforts to disrupt terrorist financing is an equally powerful tool: using financial data to gather intelligence. As the 9/11 Commission’s report concluded, “Expect less from trying to dry up terrorist money and more from following the money for intelligence, as a tool to hunt terrorists, understand their networks, and disrupt their operations.”<sup>117</sup> Following the money allows governments to map out the links between known terrorist operatives and supporters and to identify new ones. The ability to follow the money as an intelligence function is not limited to the formal financial sector. As former senior Treasury official Stuart Levey explained in 2008, “To the extent that terrorists have been pushed out of the formal financial system, this also has advantages

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<sup>113</sup> Gerald Roberts, “Money Flow in the Age of ISIS,” *Chemical Weapons in the Middle East*, The Washington Institute for Near East Policy, May 15, 2015, <http://www.washingtoninstitute.org/policy-analysis/view/money-flow-in-the-age-of-isis>.

<sup>114</sup> David Cohen, “Tackling Terrorist Financing,” Council on Foreign Relations, <https://www.cfr.org/event/tackling-terrorist-financing-0>.

<sup>115</sup> Manny Mogato, “Militants in SE Asia Rely on Donations-experts,” Reuters, July 09, 2008, <https://www.reuters.com/article/idUSMAN23338>.

<sup>116</sup> Levitt, Matthew and Michael Jacobson, “The Money Trail,” The Washington Institute for Near East Policy, November 2008, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus89.pdf>

<sup>117</sup> “Executive Summary,” 9/11 Commission Report [https://govinfo.library.unt.edu/911/report/911Report\\_Exec.htm](https://govinfo.library.unt.edu/911/report/911Report_Exec.htm)

for us, as their alternative methods of moving money are more cumbersome and costly, subjecting terrorists to a greater likelihood of detection and disruption.”<sup>118</sup>

Indeed, financial intelligence (FININT) has provided valuable information in several high-profile investigations. In 2003, transactions between a known al-Qaeda suspect and a previously unknown figure in South Asia allowed the U.S. government to track down Riduan Isamuddin, the mastermind of the 2002 Bali bombing, which killed 202 people.<sup>119</sup> The UK’s National Terrorist Financial Investigations Unit helped thwart the 2006 airline plot by tracking large money transfers disguised as “earthquake relief” from a British-based Islamic charity to the three suspected bombers.<sup>120</sup> One particularly effective FININT program—the Terrorist Finance Tracking Program (TFTP)—produced more than 18,000 FININT leads that U.S. authorities shared with their European counterparts through February 2016.<sup>121</sup>

Some argue that in the age of the Islamic State, the ways terrorists finance their operations simply don’t lend themselves to the traditional tools used to fight terrorist financing, suggesting that financial measures are particularly ineffective at preventing the kinds of self-funded attacks that have recently become common.<sup>122</sup> However, such attacks often cost more than meets the eye, and because even the cheapest attack is not free, when terrorists are frozen out of their bank accounts, they have to resort to riskier tactics. Consider the case of Ismail Issa, an IS operative arrested while traveling from Germany to Syria. The group had sent him with cash to shop for supplies rather than wiring money to an operative already in the country, because it had become too difficult for IS members to transfer money without being picked up by the authorities.<sup>123</sup> In many cases, the jihadists have grown so worried that their transactions were being monitored that they were too scared to collect the funds. Even when terrorists do manage to carry out an attack, financial intelligence can play an important role in the subsequent investigation—as was the case, according to the U.S. Treasury, with the 2013 Boston Marathon bombings, the January 2015 shooting at the offices of the magazine *Charlie Hebdo*, and the November 2015 attacks in Paris.<sup>124</sup>

There is no doubt that IS has represented a unique terrorist financing challenge. However, its ability to take territory was a function not of its particular financial prowess prior, but the breakdown of rule of law in parts of Syria and northwestern Iraq. That terrorist organizations are in some ways better resourced than they were pre-9/11 is not a function of the failure of CFT efforts, but a result of the proliferation of weak and ungoverned

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<sup>118</sup> Stuart A. Levey, “Role of Financial Intelligence,” *Los Angeles Times*, March 26, 2008, <http://articles.latimes.com/2008/mar/26/opinion/le-wednesday26.S4>.

<sup>119</sup> Eric Lichtblau and James Risen, “Bank Data Is Sifted by U.S. in Secret to Block Terror,” *The New York Times*, June 23, 2006, <https://www.nytimes.com/2006/06/23/washington/23intel.html?pagewanted=print>.

<sup>120</sup> Stephen Dametto, “Money trail is the best lead in the fight against terror,” *WAtoday*, November 9, 2014, <https://www.watoday.com.au/opinion/money-trail-is-the-best-lead-in-the-fight-against-terror-20141109-11j8ee.html>.

<sup>121</sup> “Terrorist Finance Tracking Program Questions & Answers,” U.S. Department of the Treasury, [https://www.treasury.gov/resource-center/terrorist-illicit-finance/Terrorist-Finance-Tracking/Documents/tftp\\_brochure\\_03152016.pdf](https://www.treasury.gov/resource-center/terrorist-illicit-finance/Terrorist-Finance-Tracking/Documents/tftp_brochure_03152016.pdf).

<sup>122</sup> Peter R. Neumann, “Don’t Follow the Money,” *Foreign Affairs*, July 24, 2017, <https://www.foreignaffairs.com/articles/2017-06-13/dont-follow-money>.

<sup>123</sup> Justin Huggler, “German jihadi trial shows Islamic State’s money transfer struggle,” *The Telegraph*, November 5, 2014, <https://www.telegraph.co.uk/news/worldnews/europe/germany/11210325/German-jihadi-trial-shows-Islamic-States-money-transfer-struggle.html>

<sup>124</sup> “Terrorist Finance Tracking Program Questions & Answers,” U.S. Department of the Treasury, [https://www.treasury.gov/resource-center/terrorist-illicit-finance/Terrorist-Finance-Tracking/Documents/tftp\\_brochure\\_03152016.pdf](https://www.treasury.gov/resource-center/terrorist-illicit-finance/Terrorist-Finance-Tracking/Documents/tftp_brochure_03152016.pdf).

spaces. Nonetheless, these trends necessitate efforts to understand how terrorist organizations continue to adapt their financial structures and design of increasingly sophisticated measures to counter them.

The Counter-IS coalition, for example, building on the extension of the UN 1267 mandate to cover the Islamic State, developed and implemented a dual prong approach that relied on isolating IS-controlled territory from the global financial system and depriving the Islamic State of access to resources. While the former included supporting Government of Iraq-led measures to take banks and exchange houses in IS-controlled territory offline (including through innovative applications of regulatory authorities targeting illicit exchange houses<sup>125</sup>), the former did indeed involve kinetic action to dissuade oil smuggling and bombings of cash depots.

Critics are right to highlight the high cost of anti-money laundering (AML) and CFT regulations on financial institutions, as well as in pointing to the need to better balance sometimes competing but equally important priorities such as the efficient delivery of timely humanitarian aid and concerns that terrorists continue to abuse charity as a way to raise, launder and move funds.<sup>126</sup> Both have been the subject of intense discussion on ways to ease the CFT burden on banks and charities.<sup>127</sup> More progress can and should be made on both these fronts, which explains why the agencies like the FBI and Treasury Department have stressed the importance of public-private cooperation in the CFT space.<sup>128</sup>

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<sup>125</sup> Katherine Bauer and Matthew Levitt, “Denying the Islamic State Access to Money-Exchange Houses,” The Washington Institute for Near East Policy, February 3, 2016,

<http://www.washingtoninstitute.org/policy-analysis/view/denying-the-islamic-state-access-to-money-exchange-houses>

<sup>126</sup> Katherine Bauer and Matthew Levitt, “Al-Qaeda Financing: Selected Issues,” *How Al-Qaeda Survived Drones, Uprisings, and the Islamic State the Nature of the Current Threat*, June 2017,

<https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>.

<sup>127</sup> Robert Werner, “U.S. Efforts against Terrorism Financing: A View from the Private Sector,” *Chemical Weapons in the Middle East - The Washington Institute for Near East Policy*, June 26, 2007, <http://www.washingtoninstitute.org/policy-analysis/view/u.s.-efforts-against-terrorism-financing-a-view-from-the-private-sector>; “Protecting Charitable Organizations,” U.S. Department of the Treasury, <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Pages/protecting-index.aspx>.

<sup>128</sup> Gerald Roberts, “Money Flow in the Age of ISIS,” *Chemical Weapons in the Middle East - The Washington Institute for Near East Policy*, May 15, 2015, <http://www.washingtoninstitute.org/policy-analysis/view/money-flow-in-the-age-of-isis>; David Cohen, “Remarks of Under Secretary for Terrorism and Financial Intelligence David Cohen before the Center for a New American Security on “Confronting New Threats in Terrorist Financing.” U.S. Department of the Treasury, March 24, 2014, <https://www.treasury.gov/press-center/press-releases/Pages/jl2308.aspx>.