



Countering ISIL Financing: A Realistic Assessment

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The U.S. government's effort to counter the Islamic State in Iraq and the Levant (ISIL) is focused on "[five mutually reinforcing lines of effort](#)," one of which aims to stop ISIL's financing and funding. That may prove a difficult task, in large part due to the differences between the funding models employed by ISIL on the one hand and al-Nusra Front (ANF) or other al Qaeda affiliates on the other, but not one that is beyond the international community's capabilities.

ISIL financing revenue comes primarily from the sale of illicit oil, from kidnappings for ransom, and from a wide array of criminal enterprises such as extortion, looting antiquities and stealing livestock. There have been some notable cases of deep pocket donors from the Gulf, but these have been more the exception than the norm.

The good news: Coalition airstrikes may have cut ISIL's oil revenue by as much as two-thirds. And yet, while revenues were reportedly at \$2 to \$3 million a day at its heyday, ISIL could still be raking in as much as \$750,000 to \$1.3 million a day, or something in the range of \$30 million a month, from oil revenues alone. Meanwhile, kidnapping ransoms yielded at least \$20 million in 2014 and extortion rackets and other criminal enterprises raise several million dollars each month.

Combating ISIL financing is an important component of the international campaign against the only group to be even too extreme for al Qaeda. And while ISIL is a rich terror group, it is a poor state. Hampering its ability to govern the territories it controls, pay salaries, and field a capable military will undermine what domestic legitimacy it enjoys, erode support from key constituent groups, and constrict its battlefield capabilities.

Black Gold

Oil has been the major source of funds for ISIL. Before the coalition airstrikes began, estimates of ISIL's oil revenue alone had it drawing in more income than some small nations. ISIL has tapped into pre-existing black market routes that date back to the 1990s and the smuggling networks that propped up the Saddam-era oil-for-food program. It uses these to sell extracted crude oil to smugglers, who then transport the oil outside of

conflict zones using a variety of means: tanker trucks, vans, jerry cans carried by mules, makeshift pipes, and even rafts when crossing rivers. In one case, Turkish authorities found an underground pipeline as long as 3 miles (4.8 kilometers).¹ These facilitators typically are not even officially affiliated with ISIL, and the long-established nature of the smuggling routes will make them difficult to take out.

To accommodate domestic demand, ISIL occasionally transports crude oil into neighboring countries, refines it into low quality gasoline at makeshift refineries, and brings it back to urban centers for resale. For example, the two million residents of Mosul buy fuel that is extracted from nearby field in Qayara, refined in Syria, and transported back to Mosul.²

While ISIL does sell its oil to foreign customers in Turkey, Kurdistan, and Jordan, it has gradually re-directed its focus internally, fueling its vehicles and establishing dependence between civilians and its capacity to provide them oil at nearly half the free market price per barrel. This is due to the increasing costs of exporting stolen crude throughout the region.³

A major component of ISIL's oil strategy is its dependence on specialized labor. In many cases, ISIL has paid and protected pre-existing skilled workers to remain at their posts and maintain the oil fields. For example, the Qayara oilfield kept pumping after ISIL asked the Iraqi employees to stay, promising them protection from the government and rival opposition groups.⁴ This increasing mutual dependence between the militants and civilians poses several issues for U.S. strategy of destroying the facilities. ISIL propaganda attributes the subsequent destabilizing effects on the economy to the U.S. air campaign, in an effort to turn former laborers and specialized workers into more hardline supporters.

How has a fairly small band of militants suddenly mastered the complexities of the international oil economy and cross border smuggling? They didn't. In the first instance, these smuggling networks date back to the Hussein regime and were only later used by Former Regime Elements (FRE's) and jihadis to fund the Iraqi insurgency. These smuggling networks had served as tools used by the Iraqi regime to evade U.N. sanctions and U.N Oil for Food trade limitations. According to a 2003 United Nations Office on Drugs and Crime (UNODC) report, "Theft of oil and copper and trafficking in these products is currently a major problem. The evolving nature of organized crime in Iraq is based on sophisticated smuggling networks, many established under the previous regime to circumvent U.N. sanctions."⁵

Then, as now, some facilitators were ideologically driven members of militant Islamist or FRE groups or like-minded followers, while others were traditional criminal smugglers who do not differentiate between the smuggling of foodstuffs or the smuggling of foreign fighters across the Syrian-Iraqi border. As a West Point review of the seized Sinjar documents concluded, "Large groups of people—such as foreign fighters—cross the border in remote locations, often using the same tracks and trails as the livestock smugglers. In fact, the same ring of smuggling guides will often move both livestock and human beings."⁶

¹ Benoit Faucon and Ayla Albayrak, "Islamic State Funds Push into Syria and Iraq with Labyrinthine Oil Smuggling Operation," *Wall Street Journal*, September 16, 2014

² Ahmed Rasheed, "Oil smuggling finances Islamic State's new caliphate," Reuters, July 23, 2014

³ "Turkey cracks down on oil smuggling with ISIS in mind," Associated Press, October 6, 2014

⁴ Rasheed, "Oil smuggling,"

⁵ "Organized Crime to Be a Growing Problem in Iraq," UNODC Fact-Finding Mission Report, United Nations Information Service, August 27, 2003; see also Daniel Glaser, Testimony before the House Financial Services Subcommittee on Oversight and Investigations and the House Armed Services Subcommittee on Terrorism, July 28, 2005.

⁶ *Bombers, Bank Accounts, and Bleedout: Al-Qai'da's Road in and Out of Iraq*. Harmony Project, Combating Terrorism Center West Point. Pp. 87

Criminal networks took over smuggling routes that were previously linked to local tribes -- especially when it came to smuggling oil siphoned from pipelines – cutting into local tribes’ traditional streams of revenue.⁷ This smuggling amounted to a significant amount of money, considering that the Iraqi oil ministry estimated in 2005 that approximately 10% to 30% of imported fuel was ultimately smuggled out of Iraq.⁸ In 2008, the Iraq Study Group found that corruption is “debilitating.” The report cited expert estimates that “150,000 to 200,000—and perhaps as many as 500,000—barrels of oil per day are being stolen.” The consequence for local populations is clear: “Controlled prices for refined products result in shortages within Iraq, which drive consumers to the thriving black market...corruption is more responsible than insurgents for the breakdowns in the oil sector.”⁹ This untidy mix of insurgents, terrorists, professional smugglers, and corrupt government officials provided multiple opportunities for financial gain for all parties involved then, and it still does today.

The air campaign has indeed made progress in denting oil revenue, but mostly by hitting mobile oil refineries. These strikes will only go so far. Additional countermeasures need to target other aspects of ISIL’s oil economy, such as designating the middlemen who smuggle oil from ISIL-controlled territories. This will take some creativity, but it is the middlemen, who cannot operate without access to the formal financial economy and whose business crosses borders, who are vulnerable to sanctions. While ISIL itself has limited exposure to formal Treasury actions, the middlemen are the connective tissue through which ISIL can be hurt.

Criminal Enterprise

Criminal enterprise accounts for significant ISIL revenue, complementing the group's other lucrative sources of income. ISIL has been financially self-sufficient for at least eight years by virtue of engaging in tremendously successful criminal activity enterprises on the ground in Iraq. ISIL steals livestock, sells foreign fighter’s passports, taxes minorities and farmers and truckers, runs a sophisticated extortion racket, kidnaps civilians for ransom payments, and much more.

ISIL has robbed banks, reportedly including the central bank in Mosul. But ISIL reportedly takes in a few million dollars a month in “taxes” alone in Mosul. Most of these “taxes” are levied on companies and individuals. ISIL also levies taxes on goods and all vehicles and trucks bringing in those goods, including oil, into population centers like Mosul.¹⁰ As part of their broader effort to increase civilian-ISIL mutual dependence, ISIL has seized up to 40% of Iraq’s wheat production, including 16 silos.¹¹

ISIL also seizes property under the control of its “Bayt al-Mal”, or treasury system. Most of the seized property belonged to Christians, Shiites, and former government officials, who either fled or were killed by ISIL. The seized real estate was then auctioned off for cash.¹² Even prior to the June takeover, ISIL was deeply embedded in Mosul’s real estate scene and had infiltrated the local authority’s real estate registration offices.

⁷ Author interview with US Government subject matter expert, Washington DC, February 28, 2008.

⁸ Burns, John F and Kurt Semple, “U.S. Finds Iraq Insurgency Has Funds to Sustain Itself,” *The New York Times*, February 26, 2006

⁹ Chester Oehme III, “Terrorists, Insurgents, and Criminals—Growing Nexus?” *Studies in Conflict and Terrorism* no.31 2008. p 86.

¹⁰ Rasheed, “Oil smuggling,”

¹¹ Maggie Fick, “Special Report: Islamic State uses grain to tighten grip in Iraq,” Reuters, September 30, 2014

¹² Nawzat Shamdeen, “Money-making plots: Extremists now in real estate business in Mosul,” Niqash, September 10, 2014

Additionally, more than a third of Iraq's 12,000 archaeological sites are under ISIL control. Excavating and selling artifacts that date back to 9,000 BCE has provided ISIL its second-largest revenue stream after illicit oil sales. Many of these items are smuggled into Europe via Turkey, Iran, and Syria. While it is nearly impossible to estimate the total profits of selling these artifacts, it is known that one lion sculpture from the region sold for more than \$50 million in New York in 2007.¹³ Most of ISIL's captured historical gems have not been publicized, but could fetch similarly hefty sums.

The problem is that we have tools -- from military force to Treasury designations and more in between -- to deal with oil smuggling and extremist sugar daddies in the Gulf, but our ability to counter ISIL's local criminal enterprises is severely limited. Coalition forces are no longer on the ground in Iraq today, and there is no interagency Iraq Threat Finance Cell (ITFC) to collect financial intelligence and feed operators timely targeting information to take down ISIL financiers. Nor are Iraqi law enforcement agencies able or willing to effectively combat what amounts to local criminal activity.

Although military tools would under other circumstances be the last thing one might think of as a logical means of combating crime, the fact is that airstrikes against ISIL have already significantly undermined some of the group's criminal enterprises and further strikes should continue that trend. By virtue of controlling territory ISIL controls resources -- oil, wheat, water, even ancient artifacts -- which it plunders for its own financial gain. It is also able to tax farmers, truck drivers, minorities and others. Airstrikes aimed at pushing back against ISIL's territorial expansion would have counter-terror finance benefits of its own.

Lastly, ransom payments from kidnappings may comprise nearly 20% of ISIL's revenue.¹⁴ In October, Treasury Undersecretary David Cohen estimated that ISIL had received \$20 million in ransoms in the first ten months of 2014 alone.¹⁵ Kurdish forces estimate the group takes in \$10 million a month from kidnapping.¹⁶ France may have paid \$18 million for four of its captured journalists in April.¹⁷ While the absolute numbers are large, and a definite concern, they are nowhere near on the same scale as the revenues from oil.

On its own, criminal enterprise is an insufficient source for funding for a group committed not just to terrorist and insurgent activity, but to capturing, holding and administering territory, which involves significant expenditures and therefore requires more significant revenue streams. ISIL does benefit from donations from deep pocket donors, which has been a source of funds for the group for nearly a decade, dating back to when ISIL was known as al-Qaeda in Iraq (AQI).

Donations are now only one, relatively small, source of financing for the group. Still, ISIL has accumulated as much as \$40 million or more over the last two years donors in the oil-rich nations of Saudi Arabia, Qatar, and Kuwait.¹⁸

Major Donors

So far, only two individuals have been designated by the Treasury for their connections to ISIL, not for lack of effort but because this is not the major source of funds for ISIL that it is for ANF and other al Qaeda affiliated

¹³ David Kohn, "ISIS's Looting Campaign," *New Yorker*, October 14, 2014

¹⁴ Giovanni, Goodman, and Sharkov, "Reign of Terror," *Newsweek*, November 14, 2014

¹⁵ Cohen, "Attacking ISIL's Financial Foundation,"

¹⁶ Dexter Filkins, "The Fight of Their Lives," *New Yorker*, September 29, 2014

¹⁷ Ian Black and Julian Borger, "British government faces dilemma by refusing to pay hostage ransoms to Isis," *Guardian*, September 2, 2014

¹⁸ Giovanni, Goodman, and Sharkov, "Reign of Terror,"

groups. The two men designated, Tariq Al-Harzi and Abd al-Rahman al-Anizi, were both significant Gulf fundraisers.

According to al-Harzi's designation, "In September 2013, [Al-Harzi] arranged for ISIL to receive approximately \$2 million from a Qatar-based ISIL financial facilitator, who required that Al-Harzi use the funds for military operations only." Meanwhile, al-Anizi had worked since at least 2008 with a senior ISIL facilitator and ISIL financial official to transfer funds from Kuwait to Syria.

The concern is that, like squeezing a balloon, effectively cutting off one source of funding will push ISIL to another. One possible area of expansion is the pool of private donors, particularly in the Gulf, with whom ISIL may have pre-existing personal connections. Although al-Qaeda has disowned ISIL, the latter is a direct descendant of al-Qaeda in Iraq, and some of its members likely still have relationships with donors from the time of the US invasion of Iraq.

Consider, for example, the case of Abd al-Rahman bin 'Umayr al-Nu'aymi, singled out by the Treasury Department in December 2013, who secured the transfer of over \$2 million per month to AQI (now called ISIL), along with donations to al-Qaeda in the Arabian Peninsula (AQAP), al-Qaeda in Syria, and al-Shabaab in Somalia. Such relationships are the foundation of the kind of illicit financial networks we need to focus on – funding AQI yesterday, and possibly ISIL tomorrow. The case of Baghdadi's ex-wife, Saja al-Dulaimi, is telling: she reportedly moved money to militants operating along the Lebanese-Syrian border, including at least \$200,000 she received via wire transfer services and charity organizations. Some of the money reportedly came from residents of Gulf states, sent under the cover of aid to Syrian refugees.¹⁹

Meanwhile, an uptick in law enforcement investigations into abuse of charities in Western countries like France and the UK suggests old-school use of charities as fronts for terror financing schemes may be on the rebound, under the guise of raising funds for the needy suffering from the humanitarian catastrophe that Assad created, and to which ISIL now contributes as well.

Continued vigilance is therefore critical to be sure major donors do not become more of a source of ISIL funding than they are now. As Treasury's David Cohen put it, ISIL "derives some funding from wealthy donors [but] even though [ISIL] currently does not rely heavily on external donor networks, it maintains important links to financiers in the Gulf..."²⁰

Self-financed Recruits

Finally, beyond institutional financing for ISIL writ large, one other area where we need to focus attention is on the means by which prospective foreign fighters finance their travel to Syria, purchase of personal weapons, etc. Along these lines, we should also be looking at ISIL-inspired lone-offenders who—either because they are prevented from leaving for Syria and Iraq and plan an attack at home, or simply followed ISIL's call to carry out attacks in the West—self-finance their operations through local criminal activity or simply dipping into their own bank accounts.

¹⁹ Hugh Naylor and Suzan Haidamous, "An Arrest in Lebanon Lifts the Veil on the Life of Islamic State Leader's Ex-Wife," *Washington Post*, January 28, 2015

²⁰ David Cohen, "Attacking ISIL's Financial Foundation," Carnegie Endowment for International Peace, October 23, 2014

In December, a Montreal teen held up a convenience store for travel funds to join a terrorist group. And in Edmonton, the local police chief expressed concern over cases of potential foreign fighters who took low-skill, relatively high-paying jobs working in the tar sands industry to save money for their travel abroad. “You can make a whole bunch of money in a very short period of time . . . in relative anonymity,” the police chief warned. And in Britain, the Metropolitan Police’s counter-terrorism command unit has noted several cases where jihadists financed themselves through state-funded welfare payments.²¹

In Paris, Amedy Coulibaly claimed to have helped the Kouachi brothers with their “project” by giving them “a few thousand euro” so they could buy what they needed to buy. Coulibaly himself reportedly used a false income statement to take out a 6,000 euro loan to finance the purchase of weapons for the attacks.

Closer to home, Christopher Cornell, who stands accused of plotting to detonate pipe bombs at the Capitol and shoot people as they ran away, simply “saved money” to conduct his attack, according to the FBI.

Conclusion

There is much more work to be done to constrict ISIL’s ability to finance itself through illicit oil sales, but we have tools at our disposal to do that. And while we need to be cognizant of the possibility of increased major donor financing for ISIL, we have tools to deal with that as well. The area where we lack sufficient tools to deal with the problem is ISIL domestic criminal enterprise within Iraq and Syria. We have no Iraq Threat Finance Cell (ITFC) in Iraq today, and the Iraqi government is neither capable nor willing to engage in the kind of law enforcement activities necessary to tackle this problem—not in areas under its control, and certainly not in areas beyond its control. Indeed, the fact that the Ministry of Interior is controlled by the Badr Organization does not bode well for future effective law enforcement in Iraq. We are left, therefore, with military tools to deal with a law enforcement problem. To the extent ISIL is pushed out of areas it now controls it will no longer be able to tax the local population, control banks, abuse natural resources, etc.

ISIL is indeed the best financed terrorist group we have ever seen, but it remains a poorly funded (self-described) “state.” ISIL does not have sufficient funds to effectively govern the areas it controls today, let alone continue to expand its geographic control over still more territory. The good news is that although the anti-ISIL coalition has not yet stopped funding for ISIL, significantly constricting ISIL’s financial flows is a goal that remains within reach. There are a variety of tools at our disposal, from airstrikes to sanctions, which can together cripple ISIL’s financing. Current measures have already seen some success; now is the time to double down.

²¹ Peter Dominiczak, Tom Whitehead & Christopher Hope, “Jihadists funded by welfare benefits, senior police officer warns,” *Daily Telegraph*, November 27, 2014