

# Targeting the Dematerialized Caliphate

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Dec 6, 2018

## ABOUT THE AUTHORS



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**Despite losing access to massive oil income, Islamic State operatives keep finding ways to finance their activities, especially low-cost plots by lone wolves and small cells.**

**T**he following remarks were prepared for presentation at the international conference “Targeting the Dematerialized ‘Caliphate’: Extremism, Radicalisation, and Illegal Trafficking,” held in Rome by the NATO Defense College Foundation. [Watch video \(https://www.youtube.com/watch?v=V0Pye02jwml&feature=youtu.be\)](https://www.youtube.com/watch?v=V0Pye02jwml&feature=youtu.be) of Dr. Levitt’s presentation.

The Islamic State faces battlefield defeat both in Iraq and Syria, and has lost more than 90 percent of its revenues since 2015. But despite these setbacks, the group and its affiliates continue to pose a significant and evolving threat around the world.

According to a UN report, “ISIL is now organized as a global network, with a flat hierarchy and less operational control over its affiliates.” In practice, this means that ISIL will become more reliant on individuals and small groups to carry out attacks, using social media and encrypted communication platforms to connect with its operatives and regional affiliates. “Frustrated travelers”—meaning individuals who attempted to travel to conflict zones but were unsuccessful and remain radicalized—as well as foreign terrorist fighter returnees and those fighters who relocate to other battlefields will also become more relevant as ISIL’s pool of recruits diminishes overtime.

But maintaining relationships with regional affiliates and supporting operatives and sympathizers around the world costs money. Despite losing access to massive oil income, the Islamic State continues to find ways to finance its insurgent and terrorist activities.

ISIL still moves money across the Middle East by means of the hawala system and cash couriers, as it did before the fall of its caliphate, and it still raises funds—in Syria and Iraq and in several of its so-called provinces, such as Libya—through extortion and controlling checkpoints, as well as imposing taxes on human smuggling and trafficking networks. The group also takes advantage of legitimate businesses, using them as fronts, as well as “clean” individuals through whom it can access the formal financial system.

As reconstruction efforts begin in territories liberated from the Islamic State, officials fear the group may be well placed to defraud international reconstruction efforts and investment in the local economy, especially through front companies in the construction and other industries. And the Islamic State still has access to sufficient funds to invest in operations across the wider Middle East and beyond, far from the borders of Syria and Iraq. According to recent estimates, ISIL still has a budget of some \$300 million.

The group still provides some financing to its far-flung provinces. For example, ISIL core provided hundreds of thousands of dollars in financing for its affiliate in the Philippines—through a third country—in advance of the siege of Marawi City.

But supporting these provinces is becoming harder. For example, in Afghanistan, while ISIL continues to receive some funding from ISIL core, the local group has been encouraged to become self-sufficient. In Somalia, the past support from ISIL in Yemen is now considered to be limited and unreliable.

ISIL is likely to be financially resilient, however. Unlike al-Qaeda and other groups, ISIL was financially self-sufficient for about eight years as a terrorist and insurgent group before committing itself to running a proto-state. Remember that before it renamed itself the Islamic State, the group—then known as al-Qaeda in Iraq (AQI)—was financially independent by virtue of engaging in tremendously successful criminal activity enterprises domestically within Iraq.

According to a November 2006 U.S. government assessment cited in the *New York Times*, AQI and other groups had created a self-sustaining insurgency in Iraq, raising \$70 million to \$200 million a year from illegal activities alone. Documents from the Department of Defense's Harmony Database indicate that "outside donations amounted to only a tiny fraction—no more than 5 percent—of the group's operating budgets from 2005 until 2010, when Baghdadi took over after the deaths of two superiors."

The Islamic State still poses serious terrorist threats, but it is slowly becoming a more limited global threat as an organized institution and less reliable financial backer of its affiliates and operatives. That's the good news.

The bad news is that ISIL has pivoted from its organized, global model of terror operations to one that encourages small, cheap, and decentralized cells. In other words, the group's loss of revenues may not matter. Unlike large attacks orchestrated over time by large groups, lone offender and small group attacks can be carried out very quickly, with minimal funding and preparation. The result is that in some cases authorities could be denied both the lag time within which they can run an effective investigation and the benefit of key tripwires—like the ability to follow travel, communications, and financials trails—that in the past proved to be especially productive lines of investigative inquiry.

Terrorist attacks carried out by lone offenders or small groups are on the rise, especially coming on the heels of explicit calls by both Islamic State and al-Qaeda leaders for like-minded followers to carry out attacks in their home countries. ISIL has been pushing lone offender attacks for years now, and it understands these present real challenges for intelligence and law enforcement. In an online e-book titled *[How to Survive in the West: A Mujahid Guide](https://www.memri.org/jttm/e-book-distributed-twitter-how-survive-west-%E2%80%93-mujahid-guide)* (<https://www.memri.org/jttm/e-book-distributed-twitter-how-survive-west-%E2%80%93-mujahid-guide>), the group argued: "With less attacks in the West being group (networked) attacks and an increasing amount of lone-wolf attacks, it will be more difficult for intelligence agencies to stop an increasing amount of violence and chaos from spreading in the West."

The terrorist threat from lone offenders or small groups is also magnified by the phenomenon of returning foreign terrorist fighters (FTFs). Many of these battle-hardened fighters will move on to new battlefronts, some will die fighting, and others may return home disgruntled or disillusioned by what they saw in Syria and Iraq and prove no threat at home. But some will, and these could either act on their own or recruit a small group to carry out an attack.

According to a U.S. National Terrorist Financing Risk Assessment, authorities worry that the same way ISIL travelers fund most of their own travel to Syria and Iraq, the same type of simple self-funding could also underwrite attacks at home. The challenge is that by their very nature, lone offender and small-scale terrorist attacks are less vulnerable to many of the traditional tools in the counterterror finance toolkit.

Looking back at homegrown plots in the West—including both homegrown networks and lone offenders—several key patterns emerge:

**Low-cost attacks.** Lone offenders and small terror cells are able to keep costs low for their plots since they have few members to train and equip, rely on simple weapons, and in contrast to larger terrorist organizations, are not subject to the high and indirect costs of developing and maintaining a terrorist organization. Today, knives and cars are two commonly used weapons in small scale attacks. Both are unsophisticated, readily available, and often involve no costs at all since they are already in the possession of the attackers.

**Self-financing.** In many cases, lone offenders or small groups may self-finance their activities through legal means such as dipping into their own bank accounts or salaries, taking out a loan, receiving welfare payments, borrowing money from friends or family, engaging in petty crime, or working at a job to raise sufficient funds. They also generate funding through illegal activities. And, with fewer opportunities for error, and lacking the need to amass large amounts of money that could raise suspicions, self-financed attacks are actually more likely to be successfully carried out than attacks that receive external funding.

Though most lone offenders or small groups are self-funded, there are examples of lone offenders who have connections to terrorist organizations and receive external monetary support to carry out attacks abroad. In March 2018, U.S. investigators uncovered an ISIL financial network that was transferring money to an operative in the United States through false eBay transactions. The recipient, Mohammed Elshinawy, pretended to sell printers on eBay as a cover for the payments he was receiving through PayPal and Western Union for “operational purposes” in the United States.

**Transfer methods.** According to UN reporting, ISIL core “sent money to places where it does not have affiliates...in an attempt to prepare for its eventual military defeat” in Syria and Iraq. In other words, not only is ISIL preparing to move funds to its other provinces, it is also moving funds to other places where newly inspired followers or returning FTFs can use ISIL funds to carry out attacks.

For example, according to an Australian report, “regional authorities are concerned by funds flowing into the region to support local terrorism networks.” The report notes that “given only small sums are required to stage a deadly attack, even modest amounts of funding from foreign terrorist groups pose a significant risk to the region’s security.”

## COUNTERING HOMEGROWN FINANCING

The challenges posed by lone offender and small group terrorism should not have come as a surprise to practitioners. Indeed, consider this statement included in the 9/11 Commission Report which forecasted in 2004 many of the CFT challenges we face today: “Though progress has apparently been made, terrorists have shown considerable creativity in their methods of moving money. If al-Qaeda is replaced by smaller, decentralized terrorist groups, the premise behind the government’s efforts—that terrorists need a financial support network—may become outdated. Moreover, some terrorist operations do not rely on outside sources of money and may now be self-funding, either through legitimate employment or low-level criminal activity.”

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