

Declaring an Islamic State, Running a Criminal Enterprise

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The United States and its allies beat al-Qaeda on the battlefield several years ago, but ISIS has financed a resurgence in Syria and Iraq that poses no less a threat to regional stability.

When the Islamic State of Iraq and al-Sham (ISIS) stormed into Iraq and captured Mosul, the largest city in northern Iraq, the group not only walked away with a tremendous amount of abandoned military hardware, but also raided the city's central bank and took off with some \$425 million. Perhaps even more amazing is that the group was already one of the best-funded terrorist groups in the world.

ISIS, which has renamed itself the Islamic State and unilaterally declared the reestablishment of an Islamic caliphate, has been financially self-sufficient for at least eight years, according to U.S. government estimates. Remember that before it renamed itself the Islamic State, the group was known as AQI, as the Islamic State of Iraq, as al Qaeda in Iraq (AQI), as Majlis Shura al-Mujahidin and as Jamaat al-Tawhid wa-l-Jihad. And unlike other groups, which are reliant on state sponsors, major donors or abuse of charity, the group now calling itself the Islamic State has been financially independent by virtue of engaging in tremendously successful criminal activity enterprises.

By 2006, when the group was still known as AQI, it was already bringing in approximately \$70 million through criminal activities. According to a November 2006 U.S. government assessment cited in *The New York Times*, AQI and other groups had successfully created a self-sustaining insurgency in Iraq, raising from \$70 million to \$200 million a year from illegal activities alone. The assessment highlighted oil smuggling, kidnapping for ransom and political corruption as the most significant and profitable enterprises. Even during the height of the Iraq War -- and in large part because of it -- AQI had established an independent financial structure.

Over time, coalition forces gained the upper hand over AQI on the battlefield, including operations like Phantom Thunder, a massive coordinated military operation targeting multiple AQI bases, networks and individual operatives and leaders. These military victories, however, did not translate into the complete elimination of AQI. Indeed, the secret behind the group's ability to reemerge later in Syria and now Iraq is largely a factor of the group's financial

resilience.

In fact, AQI's financial resiliency was so strong that, despite the significant tensions between al Qaeda's then-deputy leader, Ayman al-Zawahiri, and AQI leader Abu Musab al-Zarqawi, Zawahiri found himself in the unenviable position of having to ask Zarqawi for money at a time when international efforts to target al Qaeda's financial channels were taking their toll on al Qaeda's coffers. In a July 2005 letter to Zarqawi, Zawahiri humbly asked the leader of AQI if he could spare "a payment of approximately one hundred thousand" because "many of the lines have been cut off." Zawahiri swallowing his pride and seeking support from the leader of AQI, despite the strained relationship among the two groups, was a clear indication of AQI's superiority in running a self-sufficient operation.

So, how did AQI achieve such financial resilience? This success was the result of its successful criminal enterprises, including mafia-inspired tactics like extortion, kidnapping, smuggling and racketeering. And so, while the U.S. Treasury Department made great strides in limiting outside donations and financial support for al Qaeda and many of its affiliates, AQI's self-sufficiency largely insulated the group from these actions. Documents from the Department of Defense's Harmony Database indicated 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 [Abu Bakr al-]Baghdadi took over after the deaths of two superiors." For AQI, not being tied to major donors in the Gulf or state sponsors was not only advantageous in terms of evading counter-finance measures, it also freed the group from any constraints or demands donors or sponsors might have placed upon the group.

In its current incarnation, the Islamic State may well be richer than some small countries. After its lightning blitzkrieg across northern Iraq, estimates of the group's budget have ranged anywhere from \$100 million to \$200 million to \$2 billion. And while the high-end estimates are almost certainly wildly inflated, even the low-end estimates translate into a comfortable financial situation, which the Islamic State will try to build on under its new self-declared status of caliphate.

Today, the city of Mosul is the epicenter of the Islamic State's criminal enterprise. Before the ISIS invasion of northern Iraq, the group reportedly raised millions every month in Mosul alone through extortion, racketeering and protection services. Now, as caliph, al-Baghdadi will almost certainly make a play to expand the Islamic State's revenue from major donors and charities at the expense of his competitors across the Salafi-Jihadi spectrum, especially Jabhat al-Nusra in Syria and other al Qaeda affiliates around the world.

To be sure, the tension between the Islamic State and al Qaeda is a recurrent theme that al-Baghdadi's declaration of a caliphate has only underscored. As caliph, al-Baghdadi has demanded that all Muslims pledge allegiance to him -- a direct affront not only to Sunni Muslim states like Saudi Arabia but also to Zawahiri and his leadership of al Qaeda. This time around, the international community must realize that defeating the Islamic State on the battlefield is insufficient if not combined with a battle plan targeting its financing through criminal enterprise. We beat AQI on the battlefield several years ago, but it financed a resurgence in Syria and now Iraq that poses no less a threat to regional stability. ❖

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