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House Financial Services Committee

“Terrorism Financing and the Islamic State”

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Chairman Hensarling, Ranking Member Waters, distinguished members of the House Financial Services Committee, it is an honor to testify before you today on this timely and important matter.

The U.S. government effort to counter the Islamic State, or ISIS, is focused on “five mutually reinforcing lines of effort,” one of which aims to stop ISIS’ financing and funding.¹ That may prove a difficult task, in large part due to the differences between the funding models employed by ISIS and Jabhat al-Nusra (JN) or other al Qaeda affiliates, but not one that is beyond the international community’s capabilities.

Combating ISIS financing is an important component of the international campaign against the only group to be even too extreme for al Qaeda. Counter-terror finance tools have proven uniquely effective both as a means to stem the flow of funds to terrorist groups and as sources of actionable financial intelligence (FININT) that can then be leveraged to even greater success. There is no doubt that in those areas where ISIS financing crosses international borders or leverages the international financial system (especially the formal financial sector, banks, but even alternative financial transfer mechanisms) the traditional tools sets developed in the years since 9/11 will continue to prove to be effective means of countering ISIS financing. This includes ISIS’ income from illicit oil smuggling, donations from deep pocket donors in the Gulf and elsewhere, kidnap-for-ransom payments, efforts to access the antiquities black market to sell looted ancient artifacts, and more.

But this is unlikely to be enough to fully “dismantle” ISIS. Unlike al Qaeda and other groups, ISIS, which has renamed itself the Islamic State and unilaterally declared the reestablishment of an Islamic caliphate, 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 was known as ISIS, 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, AQI

¹ US Department of State, “Special Presidential Envoy for the Global Coalition to Counter ISIS,” <http://www.state.gov/s/sect/>

was financially independent by virtue of engaging in tremendously successful criminal activity enterprises domestically within Iraq.

Today, criminal enterprise still accounts for significant ISIS financing, complementing the group's other lucrative sources of income, especially the sale of illicit oil. But 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.

Therefore, while it is true that ISIS criminal enterprises within Iraq are currently beyond the reach of traditional law enforcement and regulatory action, focusing even only on those areas that are vulnerable to current toolsets will effectively deny ISIS the money it needs to hold and administer its Islamic State. Meanwhile, while 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 ISIS have already significantly undermined some of the group's criminal enterprises and further such strikes should continue that trend. And, while the prospects of real political reform in Iraq seem bleak today, should the Iraqi government at some point reprioritize governance and the rule of law over sectarianism and corruption then perhaps local Iraqi law enforcement could—at some future point—investigate and prosecute ISIS criminal enterprises as they domestic criminal activities they are.

Speaking last month, Under Secretary for Terrorism and Financial Intelligence David S. Cohen explained that the Treasury Department's ISIS strategy focuses on imposing financial sanctions on anyone who trades in ISIS's stolen oil, inducing our foreign partners to put an end to kidnap-for-ransom payments, targeting external donor networks for sanctions, restricting ISIS's access to the international financial system, and employing targeted sanctions against ISIS's leadership and facilitators.² This is a wise strategy, using the tools Treasury currently has in its toolkit. I encourage people to look beyond these tools, however, as I am sure Treasury already is, to envision the kinds of tools Treasury and its partners might need to adapt and deal with an evolving illicit financial threat. I submit there is no agency that does this better, thinking outside the box to develop the strategies needed to deal with tomorrow's threats. Treasury's Terrorism and Financial Intelligence branch did just that to address al Qaeda financing after 9/11, and it did so in an even more substantial way in 2005-2006 when it developed tools and strategies to contend with Iran's illicit financial conduct, support for terrorism, and nuclear proliferation. I expect we will see a similarly creative process of adaptation by Treasury and its interagency and international partners when it comes to ISIS as well.

Today, ISIS financing revenue comes primarily from the sale of illicit oil, from the deep pockets of a small number of major donors, and from a wide array of criminal enterprises.

² David S. Cohen, "Remarks of Under Secretary for Terrorism and Financial Intelligence David S. Cohen at The Carnegie Endowment for International Peace, 'Attacking ISIS's Financial Foundation,'" US Department of the Treasury, October 23, 2014, <http://www.treasury.gov/press-center/press-releases/Pages/j12672.aspx>.

Oil

By September, estimates put ISIS' daily income at around \$3 million³, giving it a total value of assets between \$1.3 and \$2 billion,⁴ making it the world's best-funded terrorist group. By this standard, ISIS draws more income than many small nations, including Tonga, Nauru, and the Marshall Islands⁵. This income is crucial to ISIS's existence, as it helps supply and maintain equipment, provide salaries for fighters, manage civilian infrastructure and administration, expand its propaganda campaign, and bribe tribal leaders.

Prior to the air campaign against ISIS which began in September, ISIS operated around 350 oil wells in Iraq⁶ and 60% of Syria's oil fields.⁷ In August, oil production from facilities under ISIS control was estimated at around 80,000 barrels per day. ISIS is believed to sell some 30,000 barrels a day in Iraq and 50,000 in Syria, which go for roughly \$40 per barrel on the black market.⁸ ISIS only produces around a fifth of the total capacity of the oil fields' under its control in Iraq and Syria.⁹ Even prior to the conflict, Syria's oil fields were considered old and inefficient, producing only 10% of total capacity.¹⁰ ISIS has tapped into pre-existing black market routes that date back to the 1990s and the smuggling networks that propped up under Saddam regime 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).¹¹

³ Ken Dilanian, "Islamic State group's war chest is growing daily," *Associated Press*, September 15, 2014, <http://bigstory.ap.org/article/islamic-state-groups-war-chest-growing-daily-0>.

⁴ Martin Chulov, "How an arrest in Iraq revealed Isis's \$2bn jihadist network," *The Guardian*, June 15, 2014, <http://www.theguardian.com/world/2014/jun/15/iraq-isis-arrest-jihadists-wealth-power>.

⁵ Terrence McCoy, "ISIS just stole \$425 million, Iraqi governor says, and became the 'world's richest terrorist group,'" *Washington Post*, June 12, 2014, <http://www.washingtonpost.com/news/morning-mix/wp/2014/06/12/isis-just-stole-425-million-and-became-the-worlds-richest-terrorist-group/>.

⁶ Janine di Giovanni, Leah McGrath Goodman, and Damien Sharkov, "How Does ISIS Fund Its Reign of Terror?" *Newsweek*, November 6, 2014, http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?piano_t=1.

⁷ Katarina Montgomery, "Understanding the Oil Money that's Fueling ISIS," *Syria Deeply*, November 4, 2014, <http://www.syriadeeply.org/articles/2014/11/6345/understanding-oil-money-fueling-isis/>.

⁸ Richard Barrett, "The Islamic State," *The Soufan Group*, November 2014, <http://soufangroup.com/wp-content/uploads/2014/10/TSG-The-Islamic-State-Nov14.pdf>, p. 47.

⁹ Giovanni, Goodman, and Sharkov, "Reign of Terror," http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?piano_t=1.

¹⁰ Karen Leigh, "ISIS Makes Up To \$3 Million a Day Selling Oil, Say Analysts," *Syria Deeply*, August 2, 2014, <http://abcnews.go.com/International/isis-makes-million-day-selling-oil-analysts/story?id=24814359>.

¹¹ Benoit Faucon and Ayla Albayrak, "Islamic State Funds Push into Syria and Iraq with Labyrinthine Oil Smuggling Operation," *Wall Street Journal*, September 16, 2014, <http://online.wsj.com/articles/islamic-state-funds-push-into-syria-and-iraq-with-labyrinthine-oil-smuggling-operation-1410826325?tesla=y>

From the Syrian town of Ezmerin, about 500 illegal oil pipelines extend to the Turkish side of the Orontes (“Asi” in Arabic) River.¹² Diesel fuel is pumped from tankers on the Syrian side into private tanks via simple “pump” and “stop” commands over cell phones.¹³ These tanks feed pipelines that are buried deep under agricultural fields, crisscross under streets, to reach the back yards of private houses in villages scattered across Hatay Province.¹⁴ Customers arrive to the houses and purchase the oil at a discount price. Around 80-90% of Hacıpasa’s villagers are somehow involved in the fuel smuggling operation.¹⁵

To accommodate domestic demand, ISIS 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 2 million residents of Mosul buy fuel that is extracted from nearby field in Qayara, refined in Syria, and transported back to Mosul.¹⁶

While ISIS 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. Turkey says it seized nearly 20 million liters of oil at its southern border in the first eight months of 2014.¹⁷ The Kurdish Regional Government announced the arrest of several citizens along with a number of Kurdish politicians and security officials for facilitating the smuggling of stolen oil.¹⁸ U.S. airstrikes have targeted ISIS’s dozens of “teakettle” refineries run by local Syrian businessmen that churn out only 100 barrels a day.¹⁹ An International Energy Agency report estimates the current production is down to 20,000 bpd.²⁰

A major component of ISIS’s oil strategy is its dependence on specialized labor. In many cases, ISIS has paid and protected pre-existing skilled workers to remain at their posts and maintain the oil fields. For example, Qayara oilfield kept pumping after ISIS asked the Iraqi employees to stay, promising them protection from the government and rival opposition groups.²¹ This

¹² Fehin, Tastekin. “Turkish villages smuggle IS oil through makeshift pipelines.” *Al-Monitor*. September 15, 2014. <http://www.al-monitor.com/pulse/originals/2014/09/turkey-syria-iraq-illegal-oil-pipeline.html>

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ahmed Rasheed, “Oil smuggling finances Islamic State’s new caliphate,” *Reuters*, July 23, 2014, <http://www.reuters.com/article/2014/07/23/us-iraq-security-oil-idUSKBN0FS0BP20140723>.

¹⁷ “Turkey cracks down on oil smuggling with ISIS in mind,” *Associated Press*, October 6, 2014, <http://www.cbsnews.com/news/turkey-cracks-down-on-oil-smuggling-with-isis-in-mind/>.

¹⁸ Giovanni, Goodman, and Sharkov, “Reign of Terror,” http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?pianto_t=1.

¹⁹ Deborah Amos, “How the Islamic State Smuggles Oil to Fund Its Campaign,” *NPR*, September 9, 2014, <http://www.npr.org/blogs/parallels/2014/09/09/346844240/how-the-islamic-state-smuggles-oil-to-fund-its-campaign>.

²⁰ Matthew Philips, “Islamic State Loses Its Oil Business,” *Businessweek*, October 14, 2014, <http://www.businessweek.com/articles/2014-10-14/u-dot-s-dot-air-strikes-cut-isis-oil-production-by-70-percent>.

²¹ Rasheed, “Oil smuggling,” <http://www.reuters.com/article/2014/07/23/us-iraq-security-oil-idUSKBN0FS0BP20140723>.

increasing mutual dependence between the militants and civilians poses several issues for U.S. strategy of destroying the facilities. ISIS 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.

Charitable donations

ISIS 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 ISIS was known as al-Qaeda in Iraq (AQI). Documents seized in a September 2007 raid on a suspected AQI safe house in Sinjar, in western Iraq, revealed that in the 2006-2007 timeframe the group depended on donations, much of which came from AQI leaders, foreign fighters, and local Iraqis.²²

Yet donations are now only one, relatively small, source of financing for the group. As Treasury's David Cohen put it, ISIS "derives some funding from wealthy donors [but] even though [ISIS] currently does not rely heavily on external donor networks, it maintains important links to financiers in the Gulf..."²³

Still, ISIS 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.²⁴ In April 2013, in a statement not limited to ISIS, the State Department noted that donations from the Persian Gulf were a "major source of funding for Sunni terrorist groups, particularly...in Syria."²⁵ But while Saudi Arabia and the United Arab Emirates have made significant strides in combating terror finance within their countries, Qatar and Kuwait remain problematic jurisdictions. Today, those radical deep pocket donor in Saudi Arabia still wishing to transfer money to Syria often do so through Kuwait.²⁶

In March, Department of the Treasury Undersecretary David Cohen singled out Qatar as an especially "permissive jurisdiction" for terrorist financing. Qatari oversight is so lax, Cohen noted, that "several major Qatar-based fundraisers act as local representatives for larger terrorist fundraising networks that are based in Kuwait." Not wanting to expose sensitive intelligence, Cohen pointed to press reports that Qatar not only supports Hamas but also extremist groups

²² Brian Fishman (ed.), *Bombers, Bank Accounts, and Bleedout: Al-Qai'da's Road In and Out of Iraq*, Harmony Project (Combating Terrorism Center at West Point, 2008), p. 93. Available online (http://www.ctc.usma.edu/harmony/pdf/Sinjar_2_July_23.pdf).

²³ David Cohen, "Attacking ISIL's Financial Foundation," Carnegie Endowment for International Peace, October 23, 2014, <http://carnegieendowment.org/2014/10/23/remarks-by-u.s.-treasury-under-secretary-david-s.-cohen-on-attacking-isil-s-financial-foundation>

²⁴ Giovanni, Goodman, and Sharkov, "Reign of Terror," http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?pianto_t=1.

²⁵ US Department of State, "Chapter 2: Middle East and North Africa," *Country Reports on Terrorism 2013*, <http://www.state.gov/j/ct/rls/crt/2013/224823.htm>.

²⁶ "Funding ISIS," The Washington Institute for Near East Policy, <http://www.washingtoninstitute.org/policy-analysis/view/funding-isis-infographic>.

operating in Syria. "To say the least," he concluded, "this threatens to aggravate an already volatile situation in a particularly dangerous and unwelcome manner."²⁷

Qatar has presented a tricky counter-terror finance problem for some time, but now, under steadily increasing pressure over charges that Qatar itself has funded extremists in Syria and Iraq, Qatari Emir Sheikh Tamim bin Hammad al Thani took it upon himself to personally assure German Chancellor Angela Merkel that his regime does no such thing. But even he conceded that "such organizations are partly financed from abroad," so Qatar has now issued a new law creating a new agency empowered to regulate charities in the kingdom that are engaged in politics, send money overseas or receive foreign contributions.²⁸

This, of course, is a welcome first step in the right direction, but it will only amount to anything if the new law is actually implemented and enforced. Unfortunately, Qatar has a history of introducing such laws with great fanfare but little or no follow-through or enforcement.

In 2004, Qatar passed a law criminalizing terror financing, established a Financial Intelligence Unit (FIU), and founded the Qatari Authority for Charitable Activities (QACA).²⁹ Another law, passed in 2006, expanded charitable oversight and gave additional authorities to the Ministry of Civil Service and Housing Affairs. All positive steps, but by the time an International Monetary Fund (IMF) mutual evaluation team came to inspect Qatar's anti-money laundering and counter-terror finance (AML/CFT) regime two years later, it found significant problems. The IMF reported that terrorist financing was criminalized in Qatar, "but in a limited way."³⁰ The administrative order creating the FIU, it transpired, was inconsistent with Qatar's anti-money laundering law. A system requiring the disclosure of currency transported across the border was assessed by the IMF as being "neither implemented nor effective."³¹ And despite having authority to confiscate, freeze or seize funds tied to money laundering or terror finance, not a single confiscation had been ordered because not a single money laundering charge had been brought before the courts. To the contrary: The IMF reported that it appeared that "on one occasion, the [Qatari] authorities offered safe harbor to a person designated under [United Nations terrorism designation list] UNSCR 1267. No actions were taken with respect to this person's funds or other assets."³²

In a surreal encounter in 2009, this author experienced firsthand Qatar's penchant for passing legislation and considering the matter closed without any implementation or enforcement. In a meeting with Qatari officials in Doha, this author asked how the Qatari FIU assessed the

²⁷ 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, March 4, 2014, <http://www.treasury.gov/press-center/press-releases/Pages/jl2308.aspx>

²⁸ Amena Bakr, "Insight – Qatar pares support for Islamists but careful to preserve ties," *Reuters*, November 2, 2014, <http://uk.reuters.com/article/2014/11/02/uk-mideast-crisis-qatar-insight-idUKKBNOIM07E20141102>.

²⁹ International Monetary Fund, "Qatar: Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism," October 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr08322.pdf>.

³⁰ International Monetary Fund, "Qatar: Report on the Observance of Standards and Codes – FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism," *IMF Country Report No.08/321*, October 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr08321.pdf>.

³¹ *Ibid.*

³² International Monetary Fund, "Qatar," <http://www.imf.org/external/pubs/ft/scr/2008/cr08322.pdf>.

compliance of local Hawalas (informal money transfer businesses common in the region) with a then-new law requiring Hawalas to register with the government or shut down. The official explained — with a straight face — that there appeared to be no Hawalas operating in the country since none had registered with the authorities as required under the new law.³³ In fact, the official had an identical conversation with IMF assessors just a few weeks earlier. Highly skeptical that not a single Hawala operated in the country, IMF experts returned to their hotels and asked expatriate foreign workers how they sent money back to their families in their home countries. Their answers were hardly surprising: "Hawalas." The IMF team returned to the official with a long list of Hawalas operating openly in Qatar, required the government submit an updated section of its report on this issue to the IMF, and stressed the need to actually implement and enforce new laws.³⁴

The following year Qatar passed still another AML/CFT law, this time specifically requiring prosecutors to freeze funds of U.N.-designated terrorist organizations. A National Anti-Terrorism Committee (NATC) was empowered to designate terrorists independently of the U.N., but no designations were made as of 2013.³⁵ While Qatar requires financial institutions to file suspicious transaction reports, Qatar's FIU has referred to the public prosecutor a grand total of one case for investigation as of November 2013.

Fast forward to Qatar's latest recommitment to provide regulatory oversight of its charitable sector. This law was ready in draft form last year, but was only passed now under significant international pressure. Last year, the State Department noted that "formally" the Qatari Ministry of Labor and Social Affairs monitors and licenses nongovernmental charitable organizations and requires their foreign partners to submit to a vetting and licensing process. Formally. In fact, this has not happened, in part because so long as charities operated within the Qatar Financial Center (QFC), they were exempt from having to register or be subject to supervision.

In its latest annual report on terrorism trends, the State Department politely described Qatar's oversight of local donations to foreign organizations as "inconsistent" and more bluntly characterized implementation of the country's AML/CFT law as "lacking" and marred by "significant gaps."³⁶ In the words of one U.S. official, the Qatari attitude to date is often that "a law has been passed, and therefore the problem has been solved."³⁷ It should therefore not surprise that last December the Treasury Department added Abd al-Rahman al-Nu'aymi, a Qatari academic and businessman, to its terror list, noting he "ordered the transfer of nearly \$600,000 to al-Qa'ida via al-Qa'ida's representative in Syria, Abu-Khalid al-Suri, and intended to transfer nearly \$50,000 more." An equal opportunity terror financier, Treasury reported that al-Nu'aymi

³³ Senior Qatari official, interview by author, January 2008.

³⁴ Qatari Banking Regulator, interview by author, January 2008.

³⁵ "Qatar's Record of Counterterrorism," Embassy of the State of Qatar: Washington, D.C., <http://www.qatarembassy.net/article/qatars-record-of-counterterrorism>.

³⁶ US Department of State, "Chapter 2. Country Reports: Middle East and North Africa Overview," *Country Reports on Terrorism 2013*, <http://www.state.gov/j/ct/rls/crt/2013/224823.htm>.

³⁷ State Department official, interview by author, January 2008.

also sent funds to al Qaeda in Iraq (now called ISIS), to al Qaeda in the Arabian Peninsula (AQAP) and to al-Shabaab in Somalia.³⁸

To date, implementation and enforcement have not been a component of Qatar's approach to these issues. Instead, Qatar routinely stresses to investors and critics alike the passage of laws that, on paper, appear robust but are almost never implemented or enforced.

In and of itself, the passage of this latest law is therefore unremarkable. Qatar has passed similar laws in the past, without acting on any of the authorities the laws gave to its departments and agencies. It was the day after announcing the new law that the Qatari emir informed the German chancellor that "Qatar has never supported and will never support terrorist organizations."³⁹ Having the charity regulations on the books is an essential first step; however, it must be implemented. The proof in the pudding will not be when Qatar opens the doors of a new charity oversight agency, but rather when that agency takes action against the terror financing that is indeed taking place within the country.

The penchant for passing legislation and considering the matter closed without implementation or enforcement is similar in Kuwait. In 2013, a Kuwaiti law was passed criminalizing terrorist financing, allowing for freezing of assets and the creation of a Financial Intelligence Unit (FIU).⁴⁰ Yet, Treasury has described Kuwait as the "epicenter of fundraising for terrorist groups in Syria."⁴¹ Kuwait is more politically vibrant, and thus more volatile than Qatar. Any meaningful crackdown on terrorist financing would certainly "invite the wrath of powerful Salafist politicians and clerics...[as well as] the Sunni majority [who] have criticized the government for not providing military [enough] military support to the Syrian opposition."⁴² For example, Kuwaiti MP Mohammed Hayef al-Mutairi has "raised funds for jihadist groups with direct ties to ISIS."⁴³

According to Undersecretary Cohen, the U.S. has applied sanctions against more than 24 individuals associated with al-Qaeda in Iraq (AQI) or ISIS over the past 10 years. The passing of Security Council Resolution 2178 ensures the international community's commitment to preventing and rolling back the flow of foreign fighters and funds to ISIS and Al-Nusrah Front

³⁸ US Department of the Treasury, "Treasury Designates Al-Qa'ida Supporters in Qatar and Yemen," December 18, 2013, <http://www.treasury.gov/press-center/press-releases/pages/j12249.aspx>.

³⁹ Bakr, "Qatar pares support," <http://www.reuters.com/article/2014/11/02/us-mideast-crisis-qatar-insight-idUSKBN01M07B20141102>.

⁴⁰ Lori Plotkin Boghardt, "The Terrorist Funding Disconnect with Qatar and Kuwait," The Washington Institute for Near East Policy, May 2, 2014, <http://www.washingtoninstitute.org/policy-analysis/view/the-terrorist-funding-disconnect-with-qatar-and-kuwait>.

⁴¹ 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, March 4, 2014, <http://www.treasury.gov/press-center/press-releases/Pages/j12308.aspx>.

⁴² Plotkin Boghardt, "The Terrorist Funding Disconnect," <http://www.washingtoninstitute.org/policy-analysis/view/the-terrorist-funding-disconnect-with-qatar-and-kuwait>.

⁴³ Janine di Giovanni, Leah McGrath Goodman, and Damien Sharkov, "How Does ISIS Fund Its Reign of Terror?" *Newsweek*, November 6, 2014, http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?piano_t=1.

(ANF). But reflecting the relatively small role major donors play in ISIS financing, only two of the individuals designated over the past few months, Tariq Al-Harzi and Abd al-Rahman al-Anizi, were designated specifically for providing financial support to ISIS:

- As of mid-2014, Al-Harzi has been an ISIL official operating in Syria. As a high-profile ISIL member, he works to raise funds and recruit and facilitate the travel of fighters for the terrorist organization. He was also known as one of the first terrorists to join ISIL, according to information available to the U.S. Government.⁴⁴ Al-Harzi worked to help raise funds from Gulf-based donors for ISIL. In September 2013, he 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. The Qatar-based ISIL financial facilitator also enlisted Al-Harzi's assistance with fundraising efforts in Qatar.⁴⁵
- Since at least 2008, al-'Anizi worked with a senior ISIL facilitator and ISIL financial official to transfer funds from Kuwait to Syria.⁴⁶ He also worked with an ISIL facilitator to pay for the travel of foreign fighters moving from Syria to Iraq.⁴⁷

As noted above, last December Treasury also singled out Abd al-Rahman bin 'Umayr al-Nu'aymi, who secured the transfer of over \$2 million per month to AQI (now called ISIS), along with donations to al Qaeda in the Arabian Peninsula (AQAP), al Qaeda in Syria, and al-Shabaab in Somalia.

Information included in some of these designations reveals operational echoes of the old AQI. Tariq Al-Harzi not only arranged for ISIS to receive approximately \$2 million from a Qatar-based ISIL financial facilitator, but worked directly with fighters as well. According to Treasury's designation, "As of late 2013, Al-Harzi was ISIS's Amir of suicide bombers and a key figure in an ISIS facilitation network that played a central role in ISIS's suicide and vehicle-borne improvised explosive (VBIED) attacks in Iraq.... Al-Harzi worked with other ISIS members to facilitate the travel of individuals from Syria into Iraq." Back in the mid-2000s, AQI was similarly relying on at least 95 such coordinators in Syria to arrange travel for foreign fighters to Iraq. Giving a sense of how well-organized this system was, the coordinators appeared

⁴⁴ US Department of the Treasury, "Treasury Designates Twelve Foreign Terrorist Fighter Facilitators," September 24, 2014, <http://www.treasury.gov/press-center/press-releases/Pages/j12651.aspx>.

⁴⁵ US Department of the Treasury, "Treasury Designates Twelve Foreign Terrorist Fighter Facilitators," September 24, 2014, <http://www.treasury.gov/press-center/press-releases/Pages/j12651.aspx>.

⁴⁶ US Department of the Treasury, "Treasury Designates Three Key Supporters of Terrorists in Syria and Iraq," August 6, 2014, <http://www.treasury.gov/press-center/press-releases/Pages/j12605.aspx>.

⁴⁷ US Department of the Treasury, "Treasury Designates Three Key Supporters of Terrorists in Syria and Iraq," August 6, 2014, <http://www.treasury.gov/press-center/press-releases/Pages/j12605.aspx>.

to specialize in working with prospective foreign fighters and suicide bombers from specific locales. For example, one Syrian coordinator worked primarily with Saudi clients.⁴⁸

Criminal enterprises

Unlike al Qaeda, ISIS 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. 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.⁴⁹ 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."⁵⁰ 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.

Today, ISIS engages in a wide array of criminal activities, large and small. ISIS 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.

ISIS has robbed banks, reportedly including the central bank in Mosul. But ISIS reportedly takes in a few million dollars a month in "taxes" alone in Mosul. Most of these "taxes" are levied on companies and individuals. Tawfik, a Mosul-based computer shop owner said the extortionists "told us that everyone in the street who is working pays for them and that we should pay too...[the extortionists] killed three people because they had not paid or were actually late to pay." Tawfik fled to Erbil after an anonymous caller demanded amount \$114,000 for "jihad", an

⁴⁸ Brian Fishman (ed.), *Bombers, Bank Accounts, and Bleedout: Al-Qai'da's Road In and Out of Iraq*, Harmony Project (Combating Terrorism Center at West Point, 2008), p. 93. Available online (http://www.ctc.usma.edu/harmony/pdf/Sinjar_2_July_23.pdf).

⁴⁹ John F. Burns and Kirk Semple, "U.S. Finds Iraq Insurgency Has Funds to Sustain Itself," *New York Times*, November 26, 2006, http://www.nytimes.com/2006/11/26/world/middleeast/26insurgency.html?_r=1&oref=slogin&module=Search&mbReward=relbias%3Ar%2C%7B%22%3A%22RI%3A9%22%7D.

⁵⁰ Hannah Allam, "Records show how Iraqi extremists withstood U.S. anti-terror efforts," *McClatchy DC*, June 23, 2014, http://www.mcclatchydc.com/2014/06/23/231223_records-show-how-iraqi-extremists.html?rh=1.

unreasonable sum of cash for a shop owner who makes only \$1,000 per month.⁵¹ Pharmacists, who previously paid ISIS \$100-\$200 a month, were being forced to pay as much as \$20,000 per month.⁵²

ISIS 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 ISIS. The seized real estate is now being auctioned off for cash.⁵³ Even prior to the June takeover, ISIS was deeply embedded in Mosul’s real estate scene and had infiltrated the local authority’s real estate registration offices.

In April, ISIS finally allowed customers to withdraw money from their accounts in Mosul. But to withdraw money, the account-holder is forced to submit a statement to a three-person committee, all of whom are ISIS members. The committee checks for any connections between the account and government institutions, Christians, Yazidis, or Shiites – all of whom are considered enemies. Even after the conditions are fulfilled, account-holders are only allowed to withdraw ten percent of the balance in the account.⁵⁴ Al-Jabouri, a Mosul local, says most people “don’t want to reveal how much they have in case they are asked to pay money to finance IS (ISIS) fighting.” Often, withdrawals are “taxed” up to ten percent. A Christian teacher, also in Mosul, was not even allowed to take out money because it had been seized by “Bayt al-Mal.” At the same time, Christians and other non-Muslims are forced to pay a *jizya*, a head tax of \$720 per adult male.⁵⁵

ISIS also levies taxes on goods and all vehicles and trucks bringing in those goods, including oil, into population centers like Mosul. A large truck typically pays \$400, while small trucks are charged \$100 and cars \$50 if they are also carrying goods.⁵⁶ As part of their broader effort to increase civilian-ISIS mutual dependence, ISIS has seized up to 40% of Iraqi’s wheat production, including 16 silos. Farmers are forced to pay a tax, either in cash or wheat, much higher than what they sell their product for. For example, a kilo of wheat used to sell for 10,000-

⁵¹ Alice Fordham, “For Extremists In Syria, Extortion Brings Piles Of Cash From Iraq,” *NPR*, April 21, 2014, <http://www.npr.org/blogs/parallels/2014/04/21/304542370/for-extremists-in-syria-extortion-brings-piles-of-cash-from-iraq>.

⁵² “Making themselves at home: al-Qaeda ups mafia-style extortion in Mosul,” *Niqash*, July 11, 2013, <http://www.niqash.org/articles/?id=3321>.

⁵³ Nawzat Shamdeen, “Money-making plots: Extremists now in real estate business in Mosul,” *Niqash*, September 10, 2014, <http://www.niqash.org/articles/?id=3552>.

⁵⁴ Khaled Joumah, “Paying for the caliphate: When extremists become bad bank managers in Mosul,” *Niqash*, April 9, 2014, <http://www.niqash.org/articles/?id=3531>.

⁵⁵ Richard Spencer, “Militant Islamist group in Syria orders Christians to pay protection tax,” *Telegraph*, February 27, 2014, <http://www.telegraph.co.uk/news/worldnews/middleeast/syria/10666257/Militant-Islamist-group-in-Syria-orders-Christians-to-pay-protection-tax.html>.

⁵⁶ Rasheed, “Oil smuggling,” <http://www.reuters.com/article/2014/07/23/iraq-security-oil-idUSL6NOPX1KH20140723>.

11,000 dinars, but now goes for 4,000-5,000, primarily because it was stolen and advertised on the black market.⁵⁷

More than a third of Iraq's 12,000 archaeological sites are under ISIS control. Excavating and selling artifacts that date back to 9,000 BCE has provided ISIS 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 2007.⁵⁸ Most of ISIS's captured historical gems have not been publicized, but could fetch similarly hefty sums.

Lastly, ransom payments from kidnappings may comprise nearly 20% of ISIS's revenue.⁵⁹ Treasury Undersecretary David Cohen has estimated that ISIS has received \$20 million in ransoms this year alone.⁶⁰ Kurdish forces estimate the group takes in \$10 million a month from kidnapping.⁶¹ France may have paid \$18 million for four of its captured journalists in April.⁶² Internally, ISIS manages a thriving sex-trafficking industry. Estimates of the number of kidnapped Yazidi women and girls forced into marriage or sex slavery range from 2,500 to 4,000.⁶³ Women are sold at a low price, however, often as low as \$10, mainly to attract more ISIS recruits, not as a fundraising mechanism.⁶⁴

Policy prescriptions

There is no silver bullet to disrupt ISIS financing, let alone to ultimately defeat the organization. ISIS presents a unique set of circumstances and Treasury should continue to do what it does best: assess the situation and develop new tools and techniques to deal with an evolving illicit finance threat.

Indeed, there is circumstantial evidence Treasury's full-court press approach against ISIS is already working far away from Iraq's borders. Consider the case of a jihadist on trial in Germany for joining a group in Syria allied to Islamic State who struggled to send funds to the

⁵⁷ Maggie Fick, "Special Report: Islamic State uses grain to tighten grip in Iraq," *Reuters*, September 30, 2014, <http://www.reuters.com/article/2014/09/30/us-mideast-crisis-wheat-idUSKCN0HP12J20140930>.

⁵⁸ David Kohn, "ISIS's Looting Campaign," *New Yorker*, October 14, 2014, <http://www.newyorker.com/tech/elements/isis-looting-campaign-iraq-syria>.

⁵⁹ Giovanni, Goodman, and Sharkov, "Reign of Terror," <http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html>.

⁶⁰ Cohen, "Attacking ISIL's Financial Foundation," <http://www.treasury.gov/press-center/press-releases/Pages/jl2672.aspx>.

⁶¹ Dexter Filkins, "The Fight of Their Lives," *New Yorker*, September 29, 2014, <http://www.newyorker.com/magazine/2014/09/29/fight-lives>.

⁶² Ian Black and Julian Borger, "British government faces dilemma by refusing to pay hostage ransoms to Isis," *Guardian*, September 2, 2014, <http://www.theguardian.com/world/2014/sep/02/british-government-dilemma-refusing-pay-hostage-ransom-isis>.

⁶³ Ivan Watson, "'Treated like cattle': Yazidi women sold, raped, enslaved by ISIS," *CNN*, November 7, 2014, <http://www.cnn.com/2014/10/30/world/meast/isis-female-slaves/>.

⁶⁴ Fiona Keating, "Iraq Slave Markets Sell Women for \$10 to Attract Isis Recruits," *International Business Times*, October 4, 2014, <http://www.ibtimes.co.uk/iraq-slave-markets-sell-women-10-attract-isis-recruits-1468506>.

Middle East, largely because of measures Treasury and others have already put in place. Sent to Germany to shop for supplies for fellow fighters, Ismail Issa is on trial in Stuttgart. The court proceedings and local media reports “painted a picture of jihadists forced to send a member to Europe for supplies because it had become too hard for them to transfer money without being traced.” But that’s not all: “The extremists used the wire transfer service Western Union to send money around the world, but had become so nervous of transactions being monitored they were afraid to pick up the money.”⁶⁵

But there is certainly much more to be done. To combat ISIS financing, Treasury and its interagency and international partners should consider the following:

1. Continue airstrikes targeting ISIS financial hubs, including oil refineries large and small, as well as smuggling routes known to be used to move oil and other contraband.
2. Leverage financial and other intelligence to target criminal middlemen moving ISIS oil to market, as well as those who transport, refine or otherwise facilitate this process. This is something Treasury has already talked about and actions should be forthcoming. When they do, these should come in waves not as infrequent, one-off actions.
3. Together with other governments and international bodies like MENA-FATF, help countries like Qatar and Kuwait build up their CFT capacity and hold their feet to the fire to actually implement the AML/CFT laws they have passed. Should change not be forthcoming, consider use of 311 or other tools to prevent these jurisdictions from facilitating illicit conduct and undermining legitimate financial systems.
4. Work to isolate ISIS from the international financial system, including blocking banks located in areas of Iraq that are under ISIS control from the international financial system.
5. Continue to press for an international consensus against the payment of ransoms to terrorist groups.

⁶⁵ Justin Huggler, “German jihadi trial shows Islamic State's money transfer struggle,” *Telegraph*, November 5, 2014, <http://www.telegraph.co.uk/news/worldnews/europe/germany/11210325/German-jihadi-trial-shows-Islamic-States-money-transfer-struggle.html>

6. As part of any air campaign, prioritize pushing ISIS back from areas it controls to deny the group the ability to profit from extortion, taxation, looting artifacts and natural resources, and other criminal activities in those areas.
7. Over the long run, press Iraqi government to put in place real political reforms and create a credible, trusted law enforcement body able to move in to liberated areas and other areas under government control and investigate and prosecute the criminal enterprises financing ISIS or other illicit actors.
8. Expand efforts to counter ISIS finance beyond Iraq into Syria as well.