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DANIEL PORTER

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TO WHAT EXTENT DID ATTACKING THE SOURCES OF ISIL'S FUNDING OPERATIONS CONTRIBUTE TO THE WEAKENING OF THE ISLAMIC STATE?¹

Daniel Porter

This article examines the impact attacking the sources of Islamic State's funding operations had on weakening the Caliphate. Delineating between kinetic and non-kinetic operations to target Islamic State's funding, this article highlights the inefficacy of national, regional and international attempts to weaken the group through targeting their relationship to the international financial system, as this relationship was largely non-existent. Rather, the targeting of oil infrastructure, cash depots, and population centres had a more significant effect due to the subsequent reduction of Islamic State's ability to financially exploit their territory and population. This article is in line with Peter Neumann's critique of non-kinetic counter-terrorism operations, agreeing that "instead of continuing to look for needles in a haystack, governments should overhaul their approach."

Introduction

Terrorism requires financing, and as such, there has been an instinctive appeal by governments countering terrorist organisations to *follow the money*. In response to the threat posed by Islamic State (IS), this has led to the creation of the Counter ISIL Finance Group and Iraqi-U.S. Committee to Counter Terrorist Financing,² alongside the international adoption of nine previously released counter terrorist financing (CTF) recommendations by the Financial Action Task Force (FATF).³ The value of such policies in contributing to the weakening of IS, alongside conventional military

¹ The views expressed in this publication are those of the author and do not necessarily reflect the views of the International Counter-Terrorism Youth Network.

² Glaser, Daniel. 'The Sixth Counter ISIL Finance Meeting Convenes in Kuwait,' U.S. Department of the Treasury, October 26, 2016.

³ Shostak, Alessio. 'Striking at their Core – De-funding the Islamic State of Iraq and Syria', *Journal of Terrorism Research*, Volume 8, Issue 1, February 2017, p.46.

operations, shall be examined herein; arguing that the influence of purely CTF measures has largely been insignificant. For the purposes of this essay, IS shall be principally considered as a state project in Iraq and Syria, with limited focus on their role as an insurgency or transnational terrorist movement. This is not to suggest that IS has not operated as all of these symbiotically, nor that the threat of low-sophistication, low-cost, lone actor attacks does not remain as prevalent as ever. Rather, analysing the effectiveness of attacking IS's sources of funding becomes more transparent when looking predominantly at the caliphate. This is because there are much more demonstrable indications of the state project being considerably weakened since their peak in 2014, most notably the parallel decline in revenue and territorial control.

Expenditures for IS are vast, with surveillance, travel and weapons being their smallest expense wherein "only 10% of funds are allocated."⁴ This is because not only must a terrorist group also pay training costs, salaries, death-in-service benefits, and the costs of recruitment and propaganda, but an organisation controlling territory must also consider all expenses tied to social services and the running of a state. IS were at one point the "world's richest terrorist group",⁵ with highest estimates of its assets valued at \$1.8 billion and territorial control of 90,800km² in 2015.⁶ It is therefore naïve to expect an attack on IS funding to immediately cripple the organisation; even in June 2017 after 3 years of CTF and military operations, IS still controlled 36,200km² (territory larger than the Netherlands) and their 2016 revenue was between \$520-870 million.⁷ What is essential to consider is that during this period, attacking the sources of IS funding forced the organisation to choose between salaries and social services, between training and propaganda. Even without eradicating IS, their daily life was challenged.

Definitions and Literature Review

To assess the overall contribution of attempts to weaken IS through attacking their sources of funding, this essay shall delineate between kinetic and non-kinetic

⁴ Ibid. p.44.

⁵ Neumann, Peter. 'Don't Follow the Money: The Problem with the War on Terrorist Financing', *Foreign Affairs*, Volume 96: Number 4, July/August 2017, p.93.

⁶ IHS Markit, 'Press Release: Islamic State Territory Down 60 Percent and Revenue Down 80 Percent on Caliphate's Third Anniversary', June 29, 2017.

⁷ Heißner, Stefan., Neumann, Peter., Holland-McCowan, John., Basra, Rajan. 'Caliphate in Decline: An Estimate of Islamic State's Financial Fortunes', *International Centre for the Study of Radicalisation*, 2017, p.9.

operations. The Washington understanding of 'kinetic' is "active...dropping bombs and shooting bullets,⁸ whereas "more high-tech means of warfare, such as...wiping out its bank accounts"⁹ are non-kinetic. Critically, while non-kinetic operations such as sanctions, asset freezing, and cutting individuals off from banks and money exchanges are explicitly CTF measures, kinetic operations such as aerial bombardments are military measures which may or may not explicitly target sources of funding.

Recently, the debate within academia relating to the efficacy of CTF measures has returned to the forefront. Peter Neumann has noted the futility of non-kinetic CTF operations, suggesting that "15 years later, the war on terrorist financing has failed...instead of continuing to look for needles in a haystack, governments should overhaul their approach",¹⁰ shifting their focus away from the financial sector towards a strategy prioritising military, diplomatic and law enforcement options. Neumann draws attention here to a unique problem faced in CTF: if terrorist financing is so frequently the inversion of money laundering, where legally obtained money is used to fund illegal activity, then looking for terrorist financing is looking for transactions against a backdrop of legality. It is looking for hay in a haystack. Matthew Levitt has since responded to Neumann, rejecting the futility of non-kinetic attacks, reminding Neumann that "private-sector financial data...[has] helped identify financial targets for those military strikes."¹¹ Crucially, however, Levitt admits that non-kinetic policies aren't designed to fundamentally weaken IS but assist in a broader strategy. By doing so, Levitt inadvertently underscores Neumann's assertion that these policies cannot fundamentally weaken IS, and consequently kinetic operations are essential when combatting terrorist organisations.

Argument

This essay shall outline the key sources of IS revenue, emphasising their unique nature as funding operations are explicitly tied to their control of territory. Secondly, the non-kinetic and kinetic measures to combat this funding and weaken IS shall be assessed, concluding that non-kinetic measures were fundamentally unable to target

⁸ Noah, Timothy. 'Birth of a Washington Word: When warfare gets "kinetic"', *Slate*, November 20, 2002.

⁹ *Ibid.*

¹⁰ Neumann, 'Don't Follow the Money', p.93.

¹¹ Levitt, Matthew and Bauer, Katherine. 'Can Bankers Fight Terrorism: What You Get When You Follow the Money', *Foreign Affairs*, October 16, 2017.

the key sources of IS revenue because they focus principally on IS’s relationship to the international financial community, rather than their local sources of funding. Contrastingly, kinetic operations *did* specifically target key sources of IS funding, as they were designed to reduce territorial control and expansion, and were therefore decidedly effective in weakening IS. As a result, this paper will conclude that actually attacking the sources of IS’s funding operations did fundamentally contribute to the weakening of IS.

The Sources of IS Revenue

The self-sufficient fundraising method of IS, tied to their territorial control and expansion, is visible in *Table 1*. The principal sources of revenue for IS between 2014-2016¹² were:

1. Looting: the exploitation of newly captured territory. For example, the capture of Mosul and its central bank in 2014 “probably generated between \$500m-\$1bn.”¹³
2. Taxes: the exploitation of people within their territory. IS implemented passage fees, charging between \$200 to \$1,000 to move goods into IS territory; business taxes where companies pay between 10-35% of their earnings to the organisation; utility taxes which saw business owners in Raqqa pay \$20 every two months;¹⁴ a 5-10% tax on all cash withdrawals and *jizya* taxes on religious minorities.¹⁵
3. Oil: the exploitation of natural resources in their territory. IS produced 80,000 barrels of oil per day in 2014, selling petroleum products to individuals within their own territory, as well as the Syrian government and criminal organisations in Turkey.¹⁶

	2014 (in \$m)	2015 (in \$m)	2016 (in \$m)
Looting (Banks and Confiscations)	500-1,000	200-350	110-190
Taxes and Fees	300-400	400-800	200-400

¹² These dates were used due to the *relatively* complete sets of data for the period.

¹³ Neumann, ‘Don’t Follow the Money’, p.99.

¹⁴ Humud, Carla., Pirog, Robert., and Rosen, Liana. ‘Islamic State Financing and US Policy Approaches’, *Congressional Research Service*, April 2015, p.9-10.

¹⁵ Shostak, ‘Striking at their Core’, p.44

¹⁶ *Ibid.*

Natural Resources (Oil)	150-450	435-550	200-250
Foreign Donations and Charities ^{17a}	5-50	5-50	Not known
Kidnap for Ransom	20-40	25-50 ^{17b}	10-30
Total	975-1,940	1,065-1,800	520-870

Table 1 - Islamic State Revenue Between 2014-2016¹⁷

Together, these three local sources of revenue generated 95-97% of their revenue in 2014, 94-95% of their revenue in 2015, and 96-98% of their funding in 2016. While these percentages do not include the totality of IS’s revenue streams, due to incomplete data concerning their exploitation of agriculture or the smuggling of antiquities, research conducted by the International Centre for the Study of Radicalisation (ICSR) has found that their corresponding value is limited in scope.¹⁸ As such, it is unlikely that their inclusion in *Table 1* would significantly change the relative contribution of funding tied to the aggressive expansion and control of territory.

Non-Kinetic Operations

The non-kinetic measures attempting to attack IS finances can be understood at a national, regional and international level. The principal and unified aim of these measures was to prevent IS’s use of the international financial system; cutting the group off from banks, money exchanges and transfer companies, while also sanctioning individuals, denying funding from abroad, and rejecting the facilitation of ransom payments.¹⁹

United Kingdom

In the UK, the 2015 National Risk Assessment focused the domestic CTF approach on reducing terrorist fundraising domestically; reducing the movement of terrorist finance into and out of the UK; and reducing fundraising and the movement of

¹⁷ Heißner, Neumann, Holland-McCowan, and Basra. ‘Caliphate in Decline’, p.9.

^{17a} Bindner, Laurence and Poirot, Gabriel. ‘ISIS Financing’, *Center for the Analysis of Terrorism*, May 2016, p.20.

^{17b} Fanusie, Yaya and Entz, Alex. ‘Islamic State Financial Assessment’, *Center on Sanctions and Illicit Finance*, March 2017, p.9.

¹⁸ Heißner, Neumann, Holland-McCowan, and Basra. ‘Caliphate in Decline’, p.8.

¹⁹ Counter ISIL Finance Group, ‘Fact Sheet: Taking Stock of The Counter Isil Finance Group’s Achievements in Its First Year’, April 9, 2016, p.1-3.

terrorist assets overseas.²⁰ These measures are implemented through the Terrorist Act 2000 (TACT), and the Terrorist Asset Freezing Act 2010 (TAFAs). TACT, under sections 15-18, makes illegal the inviting, providing, making, receiving, use or intention to use money or other property for the purposes of terrorism.²¹ TAFAs, on the other hand, meets obligations placed on the UK by United Nations Security Council Resolutions 1267 and 1373 to impose sanctions on individuals, prohibiting them from making or dealing with any funds or economic resources they control.²² Between September 2001-June 2014, there were 17 convictions for terrorist financing under TACT,²³ and as of December 31, 2014, £117,000 was frozen across 80 accounts of those designated under TAFAs, averaging at £1462.5 per account.²⁴ While many more convictions have occurred,²⁵ proceeding under different penalties, these figures remain insignificant. This is because in general, terrorists use the banking sector to a lesser extent than alternative remittance systems (i.e. cash couriers). Moreover, even when the transfer of money from foreign terrorist fighter transfers or foreign donations is successfully prevented, these are largely inconsequential sources of IS funding.

United States

Within the trilateral US strategy to disrupt IS's "main sources of funding; restrict its access to the international financial system; and block access to assets and resources of its senior leadership and financial facilitators",²⁶ two measures are non-kinetic while the third emphasises military intervention. Firstly, and similarly to the UK, the US has targeted sanctions against IS foreign financiers. Dissimilarly to the UK, however, the US realise that these donations currently constitute an insignificant proportion of IS revenue. The belief is that "in the long run, these donations will grow in importance as the economic and military capacity of ISIS both decline."²⁷ Correspondingly, this measure was not seen as crucial in weakening IS in the short-

²⁰ HM Treasury, 'UK National Risk Assessment of Money Laundering and Terrorist Financing', October 2015, p.89.

²¹ *Ibid.*

²² *Ibid.* p.90.

²³ *Ibid.*

²⁴ *Ibid.* p.91.

²⁵ *Ibid.* p.90.

²⁶ Cohen, David. 'Attacking ISIL's Financial Foundation,' *Carnegie Endowment for International Peace*, October 23, 2014.

²⁷ Shostak, 'Striking at their Core', p.47-48.

term, but useful in ensuring revenue remains limited when IS no longer self-fundraise through exploiting territory; a point which could only be reached by militarily disrupting their local sources of funding.

Secondly, the US enforced a ban on wire transfers to and from approximately 90 banks within IS territory in Iraq, isolating them from the international financial system.²⁸ Unfortunately, once again in line with the UK, this strategy is ineffective in combatting alternative transfer methods and fails to disrupt local sources of funding, which contributed more than 95% of IS revenue. As of March 2017, there were at least 20 banks within IS territory in Syria. These banks could not be cut off from the international system, with suggestions that the Syrian government used them to purchase oil and gas from IS-affiliated refineries through middlemen.²⁹ However, in line with Levitt's reminder to Neumann, US intelligence used bank records linked to many of these oil facilities to strike at IS's energy infrastructure in 2015.³⁰ Nevertheless, this financial data only helped to identify military targets, emphasising once again the necessity of kinetic operations in targeting the key sources of IS funding.

In addition to this, US cooperation with Iraq to combat IS funding has been highly effective, and there are two notable examples of non-kinetic measures in July 2015 which *were* able to target key IS sources of revenue. Firstly, the US pushed the Iraqi government to stop sending public sector wages and pensions to individuals in IS territory, due to fears of racketeering and taxes. This may have reduced IS revenue almost \$200m.³¹ Secondly, the US paused shipments of dollars to Iraq's Central Bank in order to prevent the potential that IS was profiting from currency trading.³² These measures were effective in tackling IS finances, however this was only the case because they were able to target key sources of revenue within IS territory, as opposed to focusing on IS's relationship to the global financial system. Predominantly, domestic CTF measures are only able to disrupt international sources of funding such as foreign donations and the transfer of funds through the formal banking system. Due to the unique nature of IS funding, these strategies are largely unfit for purpose.

²⁸ Ibid.

²⁹ Fanusie and Entz, 'Islamic State Financial Assessment', p.4.

³⁰ Ibid.

³¹ Coles, Isabel. 'Despair, hardship as Iraq cuts off wages in Islamic State cities', *Reuters*, October 2, 2015.

³² Glazer, Emily., Malas, Nour., and Hilsenrath, Jon. 'U.S. Cut Cash to Iraq on Iran, ISIS Fears,' *The Wall Street Journal*, November 3, 2015.

European Union and Financial Action Task Force

The FATF's nine recommendations are the international standards by which domestic CTF policies are set; it is the responsibility of legislative bodies such as the EU to enshrine these standards into law, and the role of domestic agencies like HM's Treasury to enforce these laws. However, it remains difficult to assess "whether the aforementioned measures have had 'a significant impact on terrorists' ability to carry out attacks"³³; and this is because the criteria for success are all imperfect measures. The amount of terrorist funds frozen is an imperfect standard due to the small financial sums necessary for lone actor attacks and the ability of terrorists to use alternative remittance systems to transfer their money. Correspondingly, a large quantity of suspicious transaction reports (STRs) filed is a flawed indicator of success because "private actors tend to file an excessive amount of STRs"³⁴ due to the difficulty and subjectivity in spotting terrorist financing transactions combined with the heavy penalties of non-compliance. What remains, therefore, is an incredibly expensive infrastructure designed to restrict terrorist financing without any indication of its own value-for-money.

Closer examination of the FATF's 2015 *Emerging Terrorist Financing Risks* is helpful in providing some explanation for the misguided emphasis of international, regional and domestic CTF policies. Within the report's summary of how terrorist groups generate revenue, the author outlines "private donations, abuse and misuse of non-profit organisations, proceeds of criminal activity, extorting local and diaspora populations and businesses, kidnapping for ransom, legitimate commercial enterprise, and state sponsorship."³⁵ This fails to consider the unique nature of IS, who exploit not only populations and businesses, but territory. Failing to underscore this disproportionately emphasises the remaining sources of revenue, underestimating the true nature of the threat. Interestingly, the report does recognise that IS earn money from selling oil, noting that "ISIL is paid mostly in cash for the oil it sells, making the transactions underlying its oil trade difficult to track and disrupt."³⁶ However, this is the only sentence directly pertaining to IS's exploitation of natural resources in a report concerning emerging terrorist financing risks published a year

³³ Council of the European Union, 'The Fight Against Terrorist Financing', Brussels, December 14, 2004. p.3.

³⁴ Shostak, 'Striking at their Core', p.47.

³⁵ Financial Action Task Force, 'Emerging Terrorist Financing Risks', *FATF Report*, October 2015, p. 13-20.

³⁶ *Ibid.* p.40.

after IS earned between \$150-\$450 million from selling petroleum products. The report effectively changes the subject here, stating that “the exploitation of oil and gas also takes place in other regions of the world”³⁷ before looking at Nigerian and Columbian examples.

The FATF fails to issue any recommendations about how the exploitation of natural resources can be mitigated by CTF regulations. This is understandable as the local nature of the funding requires a kinetic counter-measure, however the FATF obscures this inadequacy by discussing Columbian cases where, incidentally, military operations were eventually instrumental in resolving the terrorist financing threat. Ultimately, the report concludes that “FATF Recommendations provide the necessary AML/CFT framework to address the TF risks identified in this report”,³⁸ but this is clearly false, because the report does not recommend how the terrorist financing risk of exploiting natural resources can be combatted; solely noting that in past case studies, military intervention has been decisive.

Summary

Non-kinetic CTF measures were largely ineffective because they were unable to attack the key sources of IS funding operations, instead focusing principally on IS’s relationship to the international financial system. It does not follow, however, that IS could not be substantially weakened by attacking their key sources of funding. Rather, non-kinetic CTF measures were ill-fit for purpose, and key sources of IS funding were largely untouched by their implementation.

Kinetic Operations

The kinetic measures designed to attack IS finances focused principally on limiting revenue from natural resources by air strikes on the supply chain, as well as reducing liquidity in IS territory through targeted strikes on cash depositories.³⁹ These missions were conducted by coalition task forces focusing on the overall military campaign against IS, not specifically the counter IS-finance campaign which is part of a grander strategy. The Combined Joint Task Force – Operation Inherent Resolve, set up by the US-led coalition against IS, constitutes US military forces and

³⁷ Ibid.

³⁸ Ibid. p.43.

³⁹ Counter ISIL Finance Group, ‘Fact Sheet’, p.2.

personnel from over 30 countries.⁴⁰ This US-led coalition is joined by the French-led coalition, supporting the Iraqi government with military assistance, the Russia-led coalition in support of the Syrian government, and the Muslim states' coalition coordinating 34 countries in the fight against Muslim extremism.⁴¹

The military campaign against IS has been substantial. Between August 2014-July 2015, the US Air Force (USAF) flew nearly 44,000 sorties, and the British Army dropped 11 times more bombs in 2016 than they did at their peak in the war in Afghanistan.⁴² On a more specific note, in January 2016 USAF bombed an IS cash depository destroying tens of millions of dollars in a day; this single action did more to cripple IS finances than the entire FATF campaign.⁴³ In the same month, IS reduced their fighters' salaries by 50% reinforcing the notion that although attacking IS finances may not immediately destroy the organisation, it forces them to make decisions which negatively impact their day-to-day existence. Most critically, Operation Tidal Wave II is the US-led kinetic operation launched on 21 October 2015 against IS oil refining and distribution infrastructure, of which most was not previously targeted.⁴⁴ By late December 2015, this operation had destroyed 90% of IS's oil production⁴⁵ and IS have since been unable to repair their extraction infrastructure "due to a lack of skilled technicians within their territory."⁴⁶ It is worth noting, however, that the impact of these airstrikes remains limited due to the importance of retaining Iraqi oil infrastructure in repowering the country after the government resumes control.

As *Table 1* previously highlighted, the majority of IS revenue was generated through sources tied to their territory. Due to IS reliance on exploiting their territory to self-fund, military operations which push IS from oil reserves and population centres are likely to disrupt their finances, not only reducing the size of their caliphate, but their budget. These effects are therefore reciprocal. Moreover, because

⁴⁰ Operation Inherent Resolve, <http://www.inherentresolve.mil/About-Us/>, Accessed December 21, 2017.

⁴¹ Payne, Ed and Abdelaziz, Salma. 'Muslim nations form coalition to fight terror', *CNN*, December 22, 2015.

⁴² Hope, Christopher. 'RAF jets busiest for 25 years as they "pound" ISIL positions in Iraq and Syria', *The Telegraph*, December 11, 2016.

⁴³ Neumann, 'Don't Follow the Money', p.102.

⁴⁴ Gordon, Michael and Schmitt, Eric. 'U.S. Steps Up Its Attacks on ISIS-Controlled Oil Fields in Syria', *The New York Times*, November 12, 2015.

⁴⁵ Harress, Christopher. 'Amid Anti-ISIS Fight, 90% Of Islamic State Oil Destroyed By US-Led Coalition Airstrikes in Syria and Iraq', *International Business Times*, December 21, 2015

⁴⁶ Shostak, 'Striking at their Core', p.49.

IS generated such a significant proportion of their revenue from non-renewable acquisitions, such as looting bank vaults, they required permanent expansion for their business model to succeed. This rendered them far more vulnerable to a global military response; because not only could they not generate new revenue, they also failed to retain existing revenue.

	Size of territory (km²)
January 2015	90,800
January 2016	78,000
January 2017	60,400
June 2017	36,200
December 2017	4,000 ^{47a}

Table 1 - Islamic State Territory Between January 2015–Present⁴⁷

As *Table 2* further demonstrates, IS territory declined by 33.5% between January 2015-January 2017, while at the same time, their revenue declined by between 46.7-55.2% in the same period. More recently, IS's average monthly revenue has fallen from \$81 million in June 2015 to \$16 million in June 2017,⁴⁸ a reduction of 80% while their territory was reduced by 61% in the same duration. This statistical divergence underscores my earlier argument, because when IS territory declines, their revenue declines twofold as they lose the ability to exploit both new and existing territory. For IS annual revenue to have remained the same, the size of their caliphate would have needed to expand. Additionally, the resulting reduction in revenue and territory has weakened IS's ideological appeal,⁴⁹ as they had emphasised their theological authority through the existence of the caliphate. This in turn has triggered a reduction in foreign fighters,⁵⁰ further weakening IS in Iraq and Syria.

Summary

Kinetic operations which targeted key sources of funding, such as oil infrastructure and population centres, were highly effective in weakening IS. This is because, as

⁴⁷ IHS Markit, 'Press Release', June 29, 2017.

^{47a} McGurk, Brett. 'Update on the D-ISIS Campaign', Washington, DC, December 21, 2017.

⁴⁸ IHS Markit, 'Press Release', June 29, 2017.

⁴⁹ Neumann, 'Don't Follow the Money', p.100.

⁵⁰ *Reuters*, 'Fewer Foreign Fighters Joining Islamic State: Pentagon', April 26, 2016.

military operations, they were able to prevent IS from exploiting new and existing territory, whereas non-kinetic operations could mainly restrict IS's already limited links to the international financial system. It is necessary to reiterate that this essay is not correlating the military campaign against IS with the CTF campaign against IS. There were kinetic operations which explicitly targeted sources of funding, i.e. striking oil refineries, and kinetic operations which did not explicitly target sources of funding, i.e. training and supplying weapons to local militia groups. Ultimately, however, both contributed to the weakening of IS as they reduced IS's ability to exploit their territory and their population.

Conclusion

The global campaign against IS attempted to attack their funding by kinetic and non-kinetic operations. This paper has argued that non-kinetic policies attacked non-critical sources of IS funding, while kinetic operations attacked key sources of funding and were therefore instrumental in weakening IS. Fundamentally, *Table 1* and *2* highlight a clear correlation between the decline in IS territory and revenue. As kinetic operations were pivotal in reducing the size of IS territory as well as attacking key sources of funding which diminished their revenue; this essay concludes that kinetically attacking the sources of IS's funding operations decisively contributed to the weakening of the Islamic State.