

The Evolution of Terrorist Financing Methodologies and Responses

Katherine Bauer

Blumenstein-Katz Family Fellow
The Washington Institute for Near East Policy,
Washington DC

Although the cost of an individual terrorist attack may be small, terrorist organizations rely on a steady flow of funds to support operational costs, including salaries, training, transportation, recruitment and even propaganda. Terrorist organizations are funded in a variety of ways including by wealthy backers, through crime – whether fraud, extortion or narcotics trafficking—as well as state sponsorship. As jihadist terrorist organizations, such as al-Qaeda and more recently the so-called Islamic State (IS), have established global networks of affiliates, their methods of financing have also diversified. A number of dynamics underlie these changes, including counterterrorism efforts broadly and counterterrorist financing efforts specifically, but also the breakdown of political systems and the proliferation of weak and ungoverned spaces that have allowed terrorist organizations to increasingly hold territory, tax and extort the local population, and even control natural resource extraction and sales.

The Islamic State

When the Islamic State took over vast swaths of territory in Syria and Iraq in the spring and summer of 2014, it posed an unprecedented and nontraditional counterterrorist financing challenge, due both to the size of its budget—reportedly close to \$2 billion in 2014—and its ability to derive the vast majority of its

revenues from the territory it controls. The Islamic State did not develop this expertise overnight. Over a decade, its predecessors, al-Qaeda in Iraq (AQI) and the Islamic State in Iraq, developed a sophisticated system of financial management, even taking the strategic decision in 2009, according to documents recovered in Iraq¹, to derive revenues locally to avoid foreign dependence and direction. During the second part of the last decade, AQI resembled an organized-crime organization, engaging in sales of stolen goods, black market fuel sales and later, large scale extortion.

In Iraq and Syria, the Islamic State effectively took advantage of multiple preexisting dynamics to enrich itself quickly after taking territory. These included a high concentration of natural resources and established smuggling networks needed to monetize them; a sizable population and sufficient economic activity to tax and extort; and opportunities to loot valuable goods, including machinery and weapons, as well as bank branches, from which it is reported to have taken as much as \$500 million.

Despite the Islamic State's early prosperity, its considerable expenses created vulnerabilities that the US-led Counter ISIS Coalition, along with the government of Iraq, have effectively exploited. For example, in August 2015, the Iraqi government cut off salaries to employees in ISIS-controlled territories, thereby cutting ISIS revenue from the taxation of the salaries and reducing liquidity in IS-controlled territory. In late 2015, the Coalition also began to use airstrikes to target and degrade ISIS-controlled oil extraction, refining and transportation. However, perhaps the greatest impact on IS's bottom line has been, and will continue to be, territorial losses which

¹ JOHNSTON, Patrick B.; Jacob N. SHAPIRO; Howard SHATZ; Benjamin BAHNEY; Danielle F. JUNG; Patrick RYAN and Jonathan WALLACE. *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005–2010*. Santa Monica, CA: RAND Corporation, 2016. www.rand.org/pubs/research_reports/RR1192.html.

mean fewer local resources—including people—under its control to tax and extort.

As the Islamic State in Syria and Iraq loses additional territory and reverts to an insurgency, it will likely return to many of the fundraising methodologies deployed by AQI, including potentially a renewed focus on kidnapping for ransom as journalists and humanitarian workers return to recently liberated areas. Likewise, as IS backs away from the mantra of “remaining and expanding,” it encourages followers to undertake attacks locally rather than travelling to fight in the Levant. Small cells, like foreign terrorist fighters, often self-fund through legitimate sources such as employment income, social assistance or family support as well as through illicit sources such as fraudulent bank loans or other forms of fraud. Despite recognizable typologies, such transactions can be hard for law enforcement to spot with specific intelligence due to the relatively small amount of funds being moved. Likewise, exploitation of related financial intelligence can be a valuable source for network analysis.

Islamic State Provinces

The Islamic State’s recognition of franchises in eight countries across the Middle East, Africa, and Asia in November 2014, raised concerns that the so-called IS core in Syria and Iraq would share both its wealth and its fundraising expertise with its new affiliates. The groups that pledged allegiance to the Islamic State, most of which were preexisting organizations, already had pre-existing funding mechanisms. The provinces’ forerunners were primarily locally financed through crime, smuggling, extortion, and kidnapping for ransom; they generated significant revenue but were unable to support and sustain a state-building project like that of the Islamic State.

Some of the IS provinces were undoubtedly motivated to affiliate themselves with the Islamic State based on the perception (and sometimes the promise) of additional resources. There is limited public evidence that IS in Syria and Iraq has been able to share funds with such provinces. What is available points to the

important role of the IS province in Libya in acting as a regional hub, prior to IS being pushed out of Sirte in December 2016. Notably, Abdelhamid Abaaoud, a suspected organizer of IS attacks in France and Belgium, is reported to have had contacts with IS members in Libya related to financial and travel issues on behalf of the “Verviers cell,” which was disrupted by Belgian police in early 2015.²

Al-Qaeda

The Taliban in Afghanistan was an important source of support and safe haven for al-Qaeda in the late 1990s. Prior to the 9/11 attacks, al-Qaeda’s primary source of funds was external donations funnelled largely through charitable fronts. While external donations continue to play a role in financing for a number of al-Qaeda affiliates, most have pursued more diverse funding streams and are increasingly deriving funds locally. Al-Qaeda in the Islamic Maghreb, for example, is estimated to have received close to \$100 million in ransoms through kidnapping for ransom between 2008 and 2014.³

Al Qaeda in Iraq resembled an organized-crime organization, engaging in sales of stolen goods, black market fuel sales and later, large scale extortion

The primary exception is al-Qaeda’s Syrian affiliate Jabhat al-Nusra, also known as Fateh al-Sham or Hayat Tahrir al-Sham, which has likely become more reliant on external financing since its split with what was then the Islamic State of Iraq in April 2013 and lost access to oil fields in the east and northeast of Syria when they were taken over by the Islamic State in 2014. The group’s budget could be in tens of millions of dollars a year, according to the US Treasury,⁴ with as much as a few million dollars a year coming from private networks

² BRISARD, Jean-Charles and JACKSON, Kevin. “The Islamic State’s External Operations and the French-Belgian Nexus.” *CTC Sentinel* Vol: 9, Is: 11, November/December 2016.

³ CALLIMACHI, Rukmini. “Paying Ransoms, Europe Bankrolls Qaeda Terror.” *New York Times*, 29 July, 2014.

⁴ MAGNEY, Nicole and Paul CRUICKSHANK “A View from the CT Foxhole: Adam Szubin, Acting Under-Secretary for Terrorism and Financial Intelligence, U.S. Dept. of Treasury.” *CTC Sentinel* Vol.9, Is.8, August 2016.

in the Gulf. In recent years, Nusra has also received millions of dollars in ransom payments, with some payments reportedly facilitated by Qatar.

Iran, Hezbollah and Crime

Iran is considered the most active state sponsor of terrorism and is estimated to provide hundreds of millions of dollars a year in support to terrorist proxies, primarily in the Levant, but increasingly across the Middle East. One line of effort of the US-led financial constriction campaign against Iran beginning in the mid-2000s involved financially sanctioning Iran's state enterprises involved in terrorism support, including banks. In 2007, the US Treasury Department sanctioned Iran's state-owned Bank Saderat for transferring "\$50 million from the Central Bank of Iran through its subsidiary in London to its branch in Beirut for the benefit of Hezbollah fronts in Lebanon that support acts of violence."⁵ More recently, in February 2017, Beirut-based QF official Hasan Dehghan Ebrahimi was called out for facilitating millions of dollars' worth of cash transfers to Hezbollah, including through the US-designated Hezbollah construction firm Wa'ad Company.⁶

In addition to substantial Iranian support, Hezbollah has for decades helped fund its terrorist and social service initiatives through a diverse portfolio of criminal and commercial activities, relying on a worldwide network not only for financial, but also logistical and even operational support.⁷ This includes from large Lebanese diaspora communities, especially in West Africa and South America. In the tri-border area of Paraguay, Argentina and Brazil, for example, supporters have taken advantage of loosely regulated territory to engage in a range of illicit activities including fundraising and money laundering on behalf of Hezbollah. Separately, in 2016, the US Drug Enforcement Agency announced that, in cooperation with European authorities, it had un-

covered a dedicated Hezbollah unit for drug trafficking and drug proceed money laundering, resulting in the arrest of members of the network's European cell. The consequent proceeds were used to finance arms purchases for Hezbollah use in Syria.⁸

Responses

As terrorist financing typologies evolve, responses from the international community to counter such threats must also adapt. And as we take actions, the terrorists also adapt; like squeezing a balloon, it expands elsewhere. In the decade following the 9/11 attacks in the US, counterterrorist financing efforts focused on identifying and disrupting so-called "deep-pocket" donors, primarily located in the Arab Sunni states in the Gulf, and protecting charitable organizations from exploitation and diversion of funds to support terrorist causes. Considerable efforts were made to establish and gain adoption of international best practices designed to make the international financial system a hostile environment for terrorist support and other forms of illicit finance. Part of this effort involved raising awareness of the risks of terrorist financing and facilitation; bringing governments in high-risk jurisdictions around to implementing such standards despite concerns of retaliation. Furthermore, by sharing actionable information - either confidentially or through public notification of sanctioning actions - governments strove to disrupt terrorists' means to raise, store and move funds. The rise of the Islamic State and its almost complete reliance on funding derived locally has highlighted the need to not just disrupt terrorist access to the financial system, but also find ways to cut them off from their means of raising funds. Together with the trend towards criminal sources of funds, there is also a greater focus on the role of law enforcement in disrupting terrorist financing and even the role of military in blocking terrorists' access to revenue.

⁵ U.S. Department of the Treasury. "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," 25 October, 2007. www.treasury.gov/press-center/press-releases/Pages/hp644.aspx

⁶ U.S. Department of the Treasury "Treasury Sanctions Supporters of Iran's Ballistic Missile Program and Iran's Islamic Revolutionary Guard Corps – Quds Force," 3 February, 2017. www.treasury.gov/press-center/press-releases/Pages/as0004.aspx

⁷ LEVITT, Matthew. "Hezbollah's Criminal Networks: Useful Idiots, Henchmen, and Organized Criminal Facilitators." In: MATFESS, Hilary and MIKLAUCIC, Michael. ed., *Beyond Convergence: World Without Order*. Washington, DC.: Center for Complex Operations, Institute for National Strategic Studies, National Defense University.

⁸ U.S. Drug Enforcement Administration. "DEA and European Authorities Uncover Massive Hizballah Drug and Money Laundering Scheme. 1 February, 2016.