

The Financing of Terrorism and the threat posed by the Islamic State of Iraq and Levant

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Introduction

The aim of this article is to identify the funding streams that have been exploited by the Islamic State of Iraq and Levant.¹ Since that time, ISIL has emerged as the largest terrorist group in the Middle East² and it has been described as “the wealthiest terrorist organisation”.³ In his evidence before the US House Committee on Financial Services, Matthew Levitt stated that “estimates put ISIL’s daily income at around \$3m, giving its total value of assets between \$1.3bn and \$2bn, making it the world’s best-funded terrorist group. By this standard, ISIL draws more income than many small nations”.⁴ These figures were supported by Duhaime who noted that “by September 2014, ISIL had revenues of at least \$2bn from internal and external sources”.⁵ It has also been suggested ISIL’s total assets exceed \$2tn, with an annual income totaling \$2.9bn.⁶ Furthermore, Humud *et al* stated that ISIL “approved a \$2bn budget” for 2015.⁷ Therefore, an essential question that needs to be considered is how was ISIL able to access and control such vast sums of capital and income?

¹ Patrick Cockburn, *The rise of Islamic State – ISIS and the new Sunni Revolution* (Verso Books, 2015), p. xv. Hereinafter ‘ISIL’.

² Institute for Economics and Peace, *Global Terrorism Index 2014* (Institute for Economics and Peace, 2014), p. 51.

³ Lander, M. ‘In U.N. Speech, Obama Vows to Fight ISIS Network of Death’, September 24 2014, available from http://www.nytimes.com/2014/09/25/world/middleeast/obama-syria-un-isis.html?_r=0, accessed November 19 2014).

⁴ Levitt, M. ‘Terrorist financing and Islamic State – Testimony submitted to the House of Committee on Financial Services’, November 13 2014, available at <http://www.washingtoninstitute.org/policy-analysis/view/terrorist-financing-and-the-islamic-state>, accessed November 16 2015).

⁵ Duhaime, C. ‘Terrorist financing and the Islamic State’, available at <http://www.duhaimelaw.com/wp-content/uploads/2015/04/White-Paper-Terrorist-Financing-Methods1.pdf>, accessed November 17 2015.

⁶ Brisard, J. and Martine, D. ‘Islamic State: the economy-based terrorist funding’ (Thompson Reuters, 2014), p. 3.

⁷ Humud, C., Pirog, R. and Rosen, L. *Islamic State Financing and US policy approaches* (The Congressional Research Services, 2015), p. 13. Hereinafer ‘Humud *et al*’.

There is a clear answer to this question; ISIL is able to manipulate and abuse an unprecedented array of funding opportunities: the control of oil reserves, kidnapping for ransom, foreign and private benefactors and criminal activities.⁸

Funding Stream 1: The Control of Oil Reserves

One of the most distinctive and innovative financing streams used by ISIL involves “selling what they have captured. This includes oil sales to local consumers, the Syrian regime and black marketers as well as exporting crude oil to Turkey”.⁹ It appears that ISIL “has consolidated its grip on oil supplies in Iraq and presides over a sophisticated smuggling empire with illegal exports going to Turkey, Jordan and Iran”.¹⁰ ISIL has used the same smuggling methods and routes that were used by Saddam Hussein during the 1990s when the international community imposed sanctions that prevented the sale and purchase of oil by Iraq.¹¹ Indeed, the Institute for Economics and Peace reported that ISIL manages dozens of oil fields and refineries in both Syria and Iraq that generate daily revenues between \$1m and \$3m.¹² Conversely, it has been suggested that ISIL has been unable to maintain these revenues from the oil fields because it has lost control of two of the largest oil fields in Iraq, Kirkuk and Baiji.¹³ Furthermore, Humud *et al* noted that it would be extremely difficult to ISIL to sell oil on the open market and if they were to sell, it would be at a heavily discounted price.¹⁴ For example, it has been reported by Iraqi intelligence officials that ISIL has been

⁸ Financial Action Task Force *Financing of the terrorist organisation Islamic State in Iraq and the Levant* (Financial Action Task Force, 2014). pp. 12-18.

⁹ Lander above, n 3.

¹⁰ Hawramy, F., Mohammed, S. and Harding, L. ‘Inside Islamic State’s oil empire: how captured oilfields fuel Isis insurgency, November 19 2014, available from <http://www.theguardian.com/world/2014/nov/19/-sp-islamic-state-oil-empire-iraq-isis>, accessed November 19 2014.

¹¹ Levitt above, n 4.

¹² Institute for Economics and Peace above, n 12 at 51.

¹³ CNN ‘ISIS’ struggle to control its oil riches, September 4 2014, available from <http://edition.cnn.com/2014/09/03/business/defterios-oil-isis/>, accessed November 21 2014. It has also been reported that the UK has conducted tactical air strikes on ISIL held oil files near Deir al-Zour in Syria. See BBC News ‘Syria air strikes: RAF Tornado jets carry out bombing’, December 3 2015, available from <http://www.bbc.co.uk/news/uk-34992032>, accessed January 5 2016.

¹⁴ Humud *et al* above, n 7 at p. 5.

selling barrels of crude oil between \$10 and \$35.¹⁵ The international community has threatened to impose sanctions on countries that purchase oil from ISIL. However, the effectiveness of sanctions on this funding stream must be questioned. If ISIL are able to freely smuggle oil into several neighbouring countries using the well-established smuggling routes and sell the oil below market prices, who will the sanctions be imposed on and will they have their desired impact? The ineffectiveness of sanctions has resulted in nation states abandoning imposing financial sanctions and replacing them with targeted missile strikes on ISIL's oil infrastructures. It is likely that the use of targeted missile strikes will continue on ISIL's facilities following the terrorist attacks in Paris in November 2015.¹⁶

Funding Stream 2: Kidnapping for Ransom

Another funding avenue utilised by ISIL is kidnapping for ransom which has been described as the “most significant source of terrorist financing because it has proven itself to be frighteningly successful”.¹⁷ This has seen many nation states paying ISIL between \$20m and \$45m for the release of their citizens.¹⁸ The Congressional Research Services estimated that ISIL has amassed between \$35m and \$45m in ransom fees in 2014.¹⁹ It has even suggested ISIL has regularly earned \$10m per month from ransom payments from foreign states and insurance companies.²⁰ Therefore, kidnapping for ransom has become a major source of income for ISIL with “tens of millions of dollars paid by some European governments and

¹⁵ Osborne, S. ‘ISIS earns \$50million month from oil sales’, October 24 2015, available from www.independent.co.uk/news/world/middle-east/isis-earns-50m-a-month-from-oil-sales-a6707146.html, accessed January 1 2016.

¹⁶ BBC News ‘Paris attacks: France to intensify air strikes against IS’, November 23 2015, available at <http://www.bbc.co.uk/news/world-europe-34899174>, accessed November 23 2015.

¹⁷ Department of Treasury ‘Remarks of Undersecretary David Cohen at Chatham House on Kidnapping for Ransom: The Growing Terrorist Financing Challenge’, October 5 2012, available from www.treasury.gov/press-center/press-releases/pages/tg1726.aspx, accessed January 5 2016.

¹⁸ Department of Treasury ‘Remarks of Deputy Assistant Secretary for Terrorist Financing Jennifer Fowler at the Washington Institute for Near East Policy on US Efforts to Counter the Financing of ISIL’, February 2 2015, available from www.treasury.gov/press-center/press-releases/Pages/j19755.aspx, accessed November 20 2015.

¹⁹ Humud *et al* above, n 7 at p. 10.

²⁰ Duhaime above, n 5.

wealthy relatives of the kidnap victims over the past two years. The low end of the estimate range is well above \$25m”.²¹ It is interesting to note that the countries that have paid ransoms include Germany, France,²² Italy and Spain.²³ Conversely, the making of such payments violates the criminal law in both the United States of America²⁴ and the United Kingdom.²⁵ It is important to note that the UK government has not brought a successful prosecution against families or third parties for paying a ransom since the court ruled that a ransom payment was not illegal.²⁶ Kidnapping for ransom payments have been made despite the approval of UN Security Council Resolution 2133 which stated that ransom payments to terrorists are counter-productive.²⁷ The impact of Resolution 2133 on the ability of ISIL to obtain monies from kidnappings for ransom will be negligible. The position is further complicated as some of the countries permitted to make ransom payments under domestic legislation.

Funding Stream 3: Foreign and Private Financial Benefactors

ISIL are also able to acquire finances from foreign investors and private benefactors. The Financial Action Task Force stated that ISIL receives funding from private donations or via non-profit organisations, thus adopting a similar funding strategy as al Qaeda.²⁸ The US

²¹ NBC News ‘ISIS Terror’, n/d, available from <http://www.nbcnews.com/storyline/isis-terror/deep-pockets-dark-goals-how-will-isis-keep-funding-terror-n187296>, accessed September 22 2015.

²² It has been suggested that between 2010 and 2013 the French government paid \$40.4m for the release of four French nationals. See Callimachi, R. ‘Paying Ransoms, Europe Bankrolls Qaeda Terror’, July 29 2014, available from <http://mobile.nytimes.com/2014/07/30/world/africa/ransoms-citizens-europe-becomes-al-qaedas-patron.html?refer=&r=0>, accessed January 5 2016.

²³ See generally Gander, K. ‘Isis hostage threat: Which countries pay ransoms to release their citizens?’, September 3 2014, available from <http://www.independent.co.uk/news/world/politics/isis-hostage-threat-which-countries-pay-ransoms-to-release-their-citizens-9710129.html>, accessed November 17 2015 and Lennox-Gentle, T. ‘Piracy, sea robbery, and terrorism: enforcing laws to deter ransom payments and hijacking’ (2010), *The Transportation Law Journal*, 37(3), 199-218.

²⁴ 18 U.S. Code § 2339B - Providing material support or resources to designated foreign terrorist organizations

²⁵ Such payments have been criminalised in the UK by the Terrorism Act 2000, s. 17A.

²⁶ See *Masefield AG v Amlin Corporate Members* [2011] EWCA Civ 24.

²⁷ United Nations ‘UN Security Council Resolution 2133 Calling upon States to Keep Ransom Payments, Political Concessions from Benefiting Terrorist’, January 27 2014, available at <http://www.un.org/press/en/2014/sc11262.doc.htm>, accessed November 18 2015.

²⁸ Financial Action Task Force above, n 8 at p. 18.

Department of the Treasury has described Kuwait as the “epicentre of fundraising for terrorist groups in Syria”.²⁹ Sympathetic supporters in other countries including Jordan, Syria and Saudi Arabia have also provided ISIL with financial support.³⁰ David Cohen of the Department of Treasury took the view that ISIL “derives some funding from wealthy donors”³¹ and it been estimated that ISIL has collected up to \$40m from private donors in Saudi Arabia, Qatar and Kuwait.³² However, it has been suggested that the amount of funding provided by private sponsors from has “diminished and is at most only a tiny percentage of the total income that flows into ISIL coffers in 2014”.³³

Funding Stream 4: Criminal Activities

The final funding stream exploited by ISIL also includes criminal activities. For example, this includes the imposition of illegal taxation measures which raises approximately \$360m per year.³⁴ Furthermore, one of the largest funding avenues exploited by ISIL has been the sale of antiquities.³⁵ It has been noted that almost a third of Iraq’s archaeological sites are controlled by ISIS and the sale of artefacts has become ISIL’s second largest funding stream. The Wall Street Journal estimated that the sale of antiquities provides ISIL with approximately \$100m per year.³⁶ Duhaime concluded that “the persons financing ISIS ... are art dealers from the UK, Switzerland and Germany, who buy several antiquities in bulk ...

²⁹ United States Department of Treasury, ‘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, available from <https://www.treasury.gov/press-center/press-releases/Pages/j12308.aspx>, accessed January 5 2016.

³⁰ Laub, Z. and Masters, J. ‘ISIL in Iraq and Syria’, August 8 2014, available from <http://www.cfr.org/iraq/islamic-state-iraq-syria/p14811>, accessed September 22 2014.

³¹ Department of Treasury ‘Remarks of Under Secretary for Terrorism and Financial Intelligence David S. Cohen at The Carnegie Endowment For International Peace, ‘Attacking ISIL’s Financial Foundation’, October 23 2014, available from <http://www.treasury.gov/press-center/press-releases/Pages/j12672.aspx>, accessed November 16 2015.

³² Levitt above, n 4.

³³ BBC News ‘ISIL: Where does jihadist group get its support?’, September 1 2014, available from at <http://www.bbc.co.uk/news/world-middle-east-29004253>, accessed September 16 2014.

³⁴ Brisard and Martine above, n 6 at p 5.

³⁵ Humud *et al* above, n 7 at p. 6.

³⁶ Wall Street Journal ‘Syrian ‘Monuments Men’ Race to Protect Antiquities as Looting Bankrolls Terror’, February 10 2015, available from <http://www.wsj.com/articles/syrian-monuments-men-race-to-protect-antiquities-as-looting-bankrolls-terror-1423615241>, accessed November 16 2015.

for €500,000 or €1m”.³⁷ Levitt stated that “while it is nearly impossible to estimate the total profits of selling these artefacts, it is known that one lion sculpture from the region sold for more than \$50 million in New York in 2007. Most of ISIS’s captured historical gems have not been publicized, but could fetch similarly hefty sums”.³⁸ In February 2015, the United Nations Security Council passed Resolution 2199, which prohibited the trade of artefacts illegally removed from Syria (since 2011) and Iraq (since 1990).³⁹ The Department of Treasury stated that ISIL has gained a significant amount of revenue from criminal activities including robbery and extortion.⁴⁰ They added that ISIL has been able to “generate a portion of its extortion-derived proceeds from Iraqi and Syrian oil resource”.⁴¹ Indeed, it has been suggested that ISIL receives most of its funding from “extortion ... and the group extorted taxes from businesses ... netting upwards of \$8m a month”.⁴² Further evidence that supports the contention that ISIL obtains its funding from criminal enterprises was afforded by Levitt who stated that “unlike al Qaeda, ISIS has been financially self-sufficient for at least eight years by virtue of engaging in tremendously successful criminal activity enterprises ... ISIS engages in a wide range of criminal activities”.⁴³ Another criminal activity used by ISIL was illustrated in June 2014 when it “raided Mosul’s central bank and other smaller banks ... [and it] made off with as much as \$400m in currency and gold bullion”.⁴⁴ It has been reported that since the ISIS takeover of Mosul in June 2014, they have stolen an estimated \$425m from its Central Bank. At the time of writing this article, it has been suggested that banks operating

³⁷ Duhaime above, n 5.

³⁸ Levitt above, n 4.

³⁹ This Security Council Resolution extended the scope of UN Security Council Resolution 1483.

⁴⁰ Department of Treasury above, n 18. A comparison can be drawn here between the extortion carried out by ISIL and the protection rackets undertaken by the Mafia in New York. According to Charles Lister who interviewed individuals living in Raqqa, ISIL may be earning as much as \$600million annually by levying taxes. 50% on government paid employees, 3-5% on all local businesses, 10-15% on commercial trucks travelling through their territory. See Lister, C. ‘Cutting off ISIS’ Cash Flow’, October 24 2014, available from <http://www.brookings.edu/blogs/markaz/posts/2014/10/24-lister-cutting-off-isis-jabhat-al-nusra-cash-flow>, accessed January 5 2016.

⁴¹ Department of Treasury above, n 29.

⁴² Laub and Masters above, n 30.

⁴³ Levitt above, n 4.

⁴⁴ NBC News above, n 21.

in the Nineveh province, which ISIL, have a cumulative cash balance exceeding \$1bn.⁴⁵ However, it has been noted that the speculative claims about the amount of money ISIL seized are untrue.⁴⁶ Other illegal activities that have been used by ISIL include material support provided by foreign terrorist fighters⁴⁷ and through modern communication networks.⁴⁸ The unprecedented evolution of the funding streams of ISIL is also illustrated by the creation of its own currency.⁴⁹ Duhaime noted that “ISIL has issued its own currency in two gold coins, three silver coins and two bronze coins, minted with Islamic State with approved imagery”.⁵⁰ The aim of the currency is to enable ISIL to “emancipate itself from the satanic global economic system”.⁵¹ The development of a currency by a terrorist group is an unparalleled development in the financing of terrorism.

Lessons Learnt

ISIL is an extremely well-funded terrorist group that has become reminiscent of al Qaeda in the late 1990s and early 2000s.⁵² However, its financial position belittles that of al Qaeda and other terrorist groups and that it has now become “a profitable multinational criminal organisation and terrorist group”.⁵³ Indeed, ISIL is not only the best equipped terrorist group, but also the best funded terrorist group. It has more financial wealth than al Qaeda ever

⁴⁵ BBC News ‘Militants seize Iraq's second city of Mosul’, June 10 2014, available from <http://www.bbc.co.uk/news/world-middle-east-27778112>, accessed November 16 2015.

⁴⁶ Saltman, E. and Winter, C. *Islamic State: the changing face of modern jihadism* (Quillam Foundation, 2014), p. 55.

⁴⁷ Financial Action Task Force above, n 8 at p. 18.

⁴⁸ Ibid. For a more detailed discussion see Bensted, G. ‘Terrorist financing and the internet: dot com danger’ (2012) *Information and Communications Technology Law*, 21(3), 237-256 and Stokes, R. ‘Virtual money laundering: the case of Bitcoin and the Linden dollar’ (2012) *Information and Communications Technology Law*, 21(3), 221-236.

⁴⁹ Freeman, C. ‘Islamic State mints its own 'Islamic Dinar' coins’ June 23 2015), available from <http://www.telegraph.co.uk/news/worldnews/islamic-state/11694838/Islamic-State-mints-its-own-Islamic-Dinar-coins.html>, accessed November 18 2015.

⁵⁰ Duhaime above, n 5.

⁵¹ Ensor, J. ‘Islamic State announces its own currency’ November 14 2014), available from <http://www.telegraph.co.uk/news/worldnews/islamic-state/11230324/Islamic-State-announces-its-own-currency.html>, accessed November 18 2015.

⁵² Ibid.

⁵³ Duhaime above, n 5.

had.⁵⁴ The Department of Treasury stated that “ISIL is a different terrorist financing challenge. It has amassed wealth of an unprecedented pace, and its revenue sources are different from those of many other terrorist organisations”.⁵⁵ Saltman and Winter took the view that “ISIL is light years ahead of other jihadist groups ... this is most true with regards to the means by which the group is financed”.⁵⁶ If these reports are accurate, and that ISIL earns approximately \$1m per day, this terrorist organisation has the financial capability to operate for many years and it can be regarded as the “richest terrorist group on the planet”.⁵⁷ It is extremely important to note that ISIL’s funding model is extremely flexible and adaptable. For example, it has been suggested that ISIL have actively sought *not* [authors emphasis] to repeat the mistakes made by al Qaeda.⁵⁸ Humud *et al* stated that ISIL “compiled a list of lessons learned, based on what they perceived as al Qaeda’s failures in Iraq ... [there] was a critique of its use of financial resources, describing a failure to distribute funding among local cells effectively and the lack of a regular funding source, particularly, a foreign state sponsor”.⁵⁹ There is no clear answer to how much funding ISIL has or even if the statistical data provided above is accurate. It is only when ISIL’s controlled economies has been regained that we are likely to see a marginal impact on the funding streams of this terrorist organisation.

Conclusion

ISIL can be classified as a self-sufficient non-state terrorist organisation that has thrived on the political uncertainty and insecurity in Iraq and Syria. The impact of the counter-terrorist financing measures and the ‘Financial War on Terrorism’ on the funding activities of ISIL

⁵⁴ Carey, G., Habboush, M. Viscusi, G. ‘Financing jihad: why ISIL is a lot richer than al-Qaeda’, June 26 2014, available from <http://www.bloomberg.com/news/2014-06-26/looted-banks-fund-iraq-fighters-eyeing-wealth-al-qaeda-never-had.html>, accessed September 16 2014.

⁵⁵ Department of Treasury above, n 31.

⁵⁶ Saltman and Winter above, n 46 at 55.

⁵⁷ Patrick Johnston and Benjamin Bahney ‘Hitting ISIS where it hurts – disrupt ISIS’s cash flow in Iraq’, August 13 2014, available from <http://www.nytimes.com/2014/08/14/opinion/disrupt-isis-cash-flow-in-iraq.html>, accessed September 22 2014.

⁵⁸ Humud *et al* above, n 7 at p. 3.

⁵⁹ *Ibid.*

will be limited. For example, how would it be possible for national states to prosecute the financiers of ISIL? Only one person has been convicted of attempting to provide funding for ISIL in the UK.⁶⁰ The UN has imposed sanctions and travel restrictions on a number of named individuals linked to ISIL.⁶¹ However, how will sanctions limit the ability of a private financier to financially support ISIL? In order to tackle the funding avenues of ISIL, it is essential that the international community and all nation states fully implement the 'Financial War on Terrorism' and attempt to ascertain an improved understanding of how this terrorist entity operates. All financial institutions should redouble their efforts to ensure that they do not act as conduits in the movement of finances associated with ISIL. This is heavily dependent on how nation states draft, implement and enforce their domestic counter-terrorist financing laws, an area that needs to be consistently monitored by the Financial Action Task Force. Local nation states must also increase their efforts to limit the smuggling of oil through the well-established smuggling routes used by ISIL. ISIL is the largest threat to the 'Financial War on Terrorism' its financial infrastructure is significantly more advanced than any other known terrorist organization. Therefore, the existing counter-terrorist financing measures and the 'Financial War on Terrorism' is not fit for purpose and is unable to limit the funding avenues of ISIL.

⁶⁰ *R v. Amal El-Wahabi* T20147025, November 13 2014.

⁶¹ United Nations, 'Security Council Adopts Resolution 2170 Condemning Gross, Widespread Abuse of Human Rights by Extremist Groups in Iraq, Syria', August 15 2014, available from <http://www.un.org/press/en//2014/sc11520.doc.htm> (accessed November 21 2014).