

An Overview of Current Trends in Terrorism and Illicit Finance

Lessons from the Islamic State in Iraq and Syria and Other Emerging Threats

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An Overview of Current Trends in Terrorism and Illicit Finance: Lessons from the Islamic State in Iraq and Syria and Other Emerging Threats

Testimony of Colin P. Clarke¹
The RAND Corporation²

Before the Committee on Financial Services
Subcommittee on Terrorism and Illicit Finance
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At the height of its territorial control in 2015, Islamic State in Iraq and Syria (ISIS) generated over \$6 billion—the equivalent of the gross domestic product of Liechtenstein.³ This raises the question: In a post-9/11 environment in which governments and the private sector are more aware than ever of the importance of countering terrorist financing, how was ISIS able to develop a war chest of this magnitude? While ISIS’s territorial control has declined, it still retains financial power; ISIS’s surviving leadership is alleged to have smuggled as much as \$400 million out of Iraq and Syria and used it to invest in legitimate businesses—hotels, hospitals, farms, and car dealerships—throughout the region, including in Turkey, where some militants have also reportedly made large purchases of gold.⁴ ISIS’s financial holdings and funding model have made it the wealthiest insurgent group in history, and its diversified funding portfolio and ability to raise money through criminal activities provides it with an opportunity to survive and even make a comeback in Iraq and Syria over the next several years.⁵

The fact that ISIS was able to acquire such a vast financial reserve demonstrates that, despite laudable progress over the past decade and a half, the international community is still learning

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³ “Islamic State Has Been Stashing Millions of Dollars in Iraq and Abroad,” *The Economist*, February 22, 2018.

⁴ Renad Mansour and Hisham al-Hashimi, “ISIS Inc.,” *Foreign Policy*, January 16, 2018.

⁵ Phil Williams and Colin P. Clarke, “Iraqi and Syrian Networks,” in Kim Thachuk and Rollie Lal, eds., *Terrorist Criminal Enterprises*, Santa Barbara, Calif.: ABC-CLIO, 2018.

how to combat terrorist financing. To that end, we must review exactly what we mean by terrorist financing, explore how terrorist groups generate income, analyze how ISIS might seek to use its funds to regenerate, and, finally, understand current and emerging trends in this area.⁶

In this testimony, I define terrorist financing and place it in its proper historical context. Second, I analyze how terrorists generate income and how their methods have changed over time and identify current trends in the financing of terrorism, including the crime-terror nexus. Third, I describe what I see as the most significant threat to international security—ISIS—and how this group may attempt to finance a renewed campaign of terror. I conclude with an assessment of the current campaign to counter ISIS finances and the implications for U.S. national security.

Defining Terrorist Financing

Terrorist financing is the raising, storing, and movement of funds acquired through licit or illicit methods for the purpose of committing terrorist acts or sustaining the logistical structure of a terrorist organization.⁷ Terrorists and insurgents are always seeking innovative means to evade law enforcement, and security officials must be dogged in their pursuit of countermeasures to deny, destroy, detain, and disrupt these networks. In the contemporary global security environment, these challenges are further complicated by the cross-border movement of people, goods, and money. Considering the already complex landscape of weak states and poorly governed territories, those tasked with “following the money” have an immensely difficult task.⁸

Even though, by definition, violent nonstate actors exist largely outside of the formal economy, their illicit activities are connected to it in a variety of ways. Terrorist and insurgent organizations are relentless in their use of the tools of globalization, comingling their money with the trillions of dollars of capital transfers that occur each day.⁹ These groups have learned how to combine their resources and profits with legitimate funds, compounding the challenge of identifying where criminal funds end and legitimately earned funds begin.¹⁰

Financing is used to augment militant groups’ ability to execute attacks and fund organizational components aimed to increase group cohesion.¹¹ Terrorist organizations must generate significant levels of income just to survive, much less sustain operational capabilities and funding day-to-day activities. Unlike states, terrorist organizations lack the ability to legally

⁶ For a comprehensive overview of the evolution of the threat posed by al-Qaeda and ISIS, see Ali Soufan, *Anatomy of Terror: From the Death of Bin Laden to the Rise of the Islamic State*, New York: W. W. Norton, 2017.

⁷ Kevin D. Stringer, “Tackling Threat Finance: A Labor for Hercules or Sisyphus,” *Parameters*, Vol. 41, No. 1, Spring 2011, pp. 101–119.

⁸ Nick Vaughan-Williams, *Border Politics: The Limits of Sovereign State Power*, Edinburgh: Edinburgh University Press, 2012.

⁹ Sidney Weintraub, “Disrupting the Financing of Terrorism,” *Washington Quarterly*, Vol. 25, No. 1, Winter 2002, pp. 53–60.

¹⁰ Louise I. Shelley and John T. Picarelli, “Methods Not Motives: Implications of the Convergence of International Organized Crime and Terrorism,” *Police Practice and Research*, Vol. 3, No. 4, 2002, p. 308.

¹¹ Colin P. Clarke, “The Financing of Armed Groups in Conflict,” International Institute for Strategic Studies Armed Conflict Survey, 2018.

tax citizens, although such groups as the Liberation Tigers of Tamil Eelam in Sri Lanka and the Taliban in Afghanistan taxed and extorted civilians for gain, activities that the Taliban continues today.

In Iraq and Syria, ISIS generated the lion's share of its vast fortune by mimicking the actions of an actual nation-state. It collected taxes and tariffs from the population in the territory it controlled and ran state-owned businesses and trading entities, including the oil trade, while extorting individuals, ethnic groups, private companies, local businesses, and the Iraqi government. While ISIS's actions could be a historical anomaly in the financing of terrorist groups, they could also serve as a model for militants to emulate. Yet before looking to the future of terrorist financing, it is crucial to analyze how terrorists have raised funds in the past and how this phenomenon has evolved over time.

Evolution of Terrorist Financing

Throughout the Cold War, both sides of the conflict funded proxy groups that engaged in civil wars and insurgencies and committed acts of terrorism. In the immediate aftermath of the dissolution of the Soviet Union and the end of the Cold War, great-power geopolitical competition came to a temporary halt—as did the sponsorship of terrorist and insurgent proxy groups throughout the world, from Africa to the Middle East to Latin America. Several high-profile groups no longer benefited from the largesse of state sponsorship, which included not only funding but, in many cases, training and equipment.¹² Around the same time, inexpensive weapons flooded the global arms market, fueling the civil wars and insurgencies that raged throughout the 1990s and enabling terrorists to seek to replace funding from external patrons with money gained from criminal activity, such as armed robbery, extortion, and kidnapping for ransom.¹³ There were changes in the frequency and strength of cooperation among terrorists and criminals, who were forced into a marriage of convenience to survive.¹⁴

In addition, many terrorist groups underwent radical changes to their command and control structures, as vertically aligned, top-down organizations grew more networked and decentralized. This organizational change was accompanied by another shift, as some terrorist groups, including al-Qaeda, sought to move beyond local grievances to transnational agendas that included attacks across the globe. Inevitably, the desire to establish a transnational presence brought these groups into contact with terrorist and criminal enterprises in other parts of the world, and this contact sometimes acted as a force multiplier.¹⁵

¹² Colin P. Clarke, *Terrorism, Inc.: The Financing of Terrorism, Insurgency and Irregular Warfare*, Santa Barbara, Calif.: ABC-CLIO, 2015.

¹³ Stathis N. Kalyvas and Laia Balcells, "International System and Technologies of Rebellion: How the End of the Cold War Shaped Internal Conflict," *American Political Science Review*, Vol. 104, No. 3, 2010, pp. 415–429.

¹⁴ Steve Hutchinson and Pat O'Malley, "A Crime-Terror Nexus? Thinking on Some of the Links Between Terrorism and Criminality," *Studies in Conflict and Terrorism*, Vol. 30, No. 12, 2007, pp. 1095–1107.

¹⁵ Chris Dishman, "The Leaderless Nexus: When Crime and Terror Converge," *Studies in Conflict and Terrorism*, Vol. 28, No. 3, 2005, pp. 237–252.

To insulate their organizations from shocks similar to those like losing an external sponsor, terrorist groups moved to insource the bulk of their financing.¹⁶ Phil Williams, a professor at the University of Pittsburgh and one of the world's leading scholars of transnational organized crime, recognized this shift and subsequently characterized it as "do-it-yourself organized crime."¹⁷ Other scholars, including Tamara Makarenko, have referred to this phenomenon as "the crime-terror nexus."¹⁸

In its quest to fund its organization, ISIS has embraced the notion of the crime-terror nexus, going to great lengths to recruit members from the criminal underworld and even peppering their propaganda with slogans along the lines of one used by a British jihadist group, Rayat al-Tawheed—"Sometimes people with the worst paths create the best futures."¹⁹ Terrorism expert Magnus Ranstorp has dubbed this grassroots phenomenon "micro-financing the Caliphate," in which jihadists engage in various types of fraud, petty theft, and other low-level criminal activities.²⁰ Sometimes these jihadists use their criminal skills to make them more effective attackers.²¹ This hybridization, sometimes called "gangster jihad" refers specifically to individuals who drift from the world of crime towards jihadism, perhaps as a way to redeem a lifestyle characterized by sin and illegal acts.²²

ISIS: The Wealthiest Terrorist Group in History

ISIS is different from previous terrorist groups because the territory it controlled provided extremely lucrative resources, such as oil, and a renewable funding source in the form of a taxable population. As former Assistant Secretary for Terrorist Financing at the Department of the Treasury Daniel Glaser has noted, ISIS generated its wealth from three primary sources: oil and gas, which generated about \$500 million in 2015, primarily through internal sales; taxation

¹⁶ Chris Dishman, "Terrorism, Crime and Transformation," *Studies in Conflict and Terrorism*, Vol. 24, No. 1, 2001, pp. 43–58.

¹⁷ Phil Williams, "Terrorist Financing and Organized Crime: Nexus, Appropriation or Transformation?" in Thomas Biersteker and Susan Eckert, eds., *Countering the Financing of Terrorism*, London: Routledge, 2008, pp. 126–149.

¹⁸ Tamara Makarenko, "The Crime-Terror Continuum: Tracing the Interplay between Transnational Organized Crime and Terrorism," *Global Crime*, Vol. 6, No. 1, 2004, pp. 129–145.

¹⁹ Rajan Basra and Peter R. Neumann, "Criminal Pasts, Terrorist Futures: European Jihadists and the New Crime-Terror Nexus," *Perspectives on Terrorism*, Vol. 10, No. 6, 2016.

²⁰ Magnus Ranstorp, "Microfinancing the Caliphate: How the Islamic State is Unlocking the Assets of European Recruits," *CTC Sentinel*, May 25, 2016; Elisabeth Braw, "Foreign Fighters Financing," *Foreign Affairs*, October 25, 2015; and Joby Warrick and Greg Miller, "New ISIS Recruits Have Deep Criminal Roots," *Washington Post*, March 23, 2016.

²¹ Rajan Basra and Peter R. Neumann, "Crime as Jihad: Developments in the Crime-Terror Nexus in Europe," *CTC Sentinel*, Vol. 10, No. 9, October 2017. As Basra and Neumann point out, these skills include the ability to access weapons, forged documents, safe houses, vehicles, and other logistical necessities of a terrorist plot. The authors add familiarity with violence as an enabling "psychological skill."

²² Kacper Rekawek, Stanislav Matejka, Martina Babikova, Tomas Nagy and Jakub Rafay, *From Criminals to Terrorists and Back?* Bratislava: GLOBSEC, December 2017, p. 7.

and extortion, which garnered about approximately \$360 million in 2015; and the 2014 looting of Mosul, during which ISIS stole about \$500 million from bank vaults.²³

To put ISIS financing in perspective, it is useful to consider not only ISIS's similarities to other group but its differences as well. Indeed, there are far more differences than similarities, as ISIS is unique in the scale and scope of its financing activities. Like many other terrorist groups in the contemporary era, ISIS relies on a range of criminal activities, including but not limited to extortion, kidnapping for ransom, robbery and theft, and antiquities smuggling. ISIS may also have been involved with narcotics trafficking.²⁴ There is little evidence to suggest that foreign donations from nation-states have been a significant funding source for ISIS, although wealthy individuals from the Gulf have been accused of financing terrorists in Syria.²⁵

In addition to funding its organization from the bottom up, through petty criminality, ISIS also relied on a top-down funding structure from a range of sources associated with its control of territory. As mentioned in the introduction, ISIS is unique in recent history as one of the few terrorist groups to generate most of its funding from the territory it held—revenue amassed from taxation and extortion, the sale of oil and various oil-related products, looting, confiscation of property and cash, and fines levied against the population by the religious police for a litany of offenses.²⁶ ISIS's reputation as incorruptable, a defining characteristic inherited from its predecessors, al-Qaeda in Iraq (AQI) and Islamic State of Iraq (ISI), helped boost popular support.²⁷

Most concerning, however, is that ISIS continues to make money from oil to this very day, despite the drastic reduction in its territorial holdings. In late June, four members of ISIS's Oil and Gas Network were killed during Coalition operations in the central Euphrates River Valley in Syria.²⁸ According to a United Nations Security Council report from just a few weeks ago,

²³ Daniel L. Glaser, "The Evolution of Terrorism Financing: Disrupting the Islamic State," in Matthew Levitt, ed., *Neither Remaining Nor Expanding: The Decline of the Islamic State*, Washington Institute for Near East Policy, Counterterrorism Lectures 2016–2017, August 2018, pp. 43–47; Daniel L. Glaser, testimony before the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade and House Committee on Armed Services Subcommittee on Emerging Threats and Capabilities, June 9, 2016; and Center for the Analysis of Terrorism, *ISIS Financing 2015*, Paris, May 2016.

²⁴ Colin P. Clarke, "Drugs & Thugs: Funding Terrorism Through Narcotics Trafficking," *Journal of Strategic Security*, Vol. 9, No. 3, Fall 2016; for more on how involvement in narcotics trafficking impacts terrorist groups, see Svante Cornell, "Narcotics and Armed Conflict: Interaction and Implications," *Studies in Conflict and Terrorism*, Vol. 30, No. 3, 2007.

²⁵ Scott Bronstein and Drew Griffin, "Self-Funded and Deep-Rooted: How ISIS Makes its Millions," CNN, October 7, 2014.

²⁶ Stefan Heibner, Peter R. Neumann, John Holland-McCowan, and Rajan Basra, "Caliphate in Decline: An Estimate of Islamic State's Financial Fortunes," London: The International Centre for the Study of Radicalisation and Political Violence, 2017; see also Rukmini Callimachi, "The Case of the Purloined Poultry: How ISIS Prosecuted Petty Crime," *New York Times*, July 1, 2018.

²⁷ Patrick B. Johnston, Jacob N. Shapiro, Howard J. 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, Calif.: RAND Corporation, RR-1192-DARPA, 2016.

²⁸ U.S. Central Command, "Coalition Kills Daesh Criminal Leader, Followers," Combined Joint Task Force – Operation Inherent Resolve Public Affairs Office, June 19, 2018.

ISIS has regained control of oil fields in northeastern Syria and continues to extract oil, both for its own use, but also for sale to locals.²⁹ So while significant progress has been made in combating ISIS's ability to raise money through oil, this revenue source has yet to be completely eradicated and likely never will be. Even when ISIS's predecessors did not control large swaths of territory in Iraq between 2006 and 2009, they were similarly able to raise substantial sums of money from oil, including by extorting local and regional distribution networks.

Countering the Return of the Caliphate

Despite major victories in countering terrorist financing since 9/11, the struggle against ISIS has proven that, even with enhanced tools, continued progress in this area will remain fraught with serious challenges. Since fall 2015, forces from Combined Joint Task Force – Operation Inherent Resolve have regularly conducted targeted, intelligence-driven strikes on the group's oil infrastructure and bulk-cash storage sites in Iraq and Syria.³⁰ To mitigate the prospects of an ISIS revival, these operations must continue well into the foreseeable future. There are already indications that, even with ISIS's substantial loss of territory, smaller cells of ISIS fighters are regrouping and engaging in fundraising and recruitment.³¹

As ISIS's stranglehold on territory is further reduced, it might attempt to compensate for losses in certain revenue streams by increasing revenue generation in other areas.³² Accordingly, every potential facet of ISIS revenue should be nominated for targeting or sanctioning, with the most difficult areas to counter—taxation and extortion of the local population—a longer-term objective more closely tied to postconflict reconstruction. This is especially important given ISIS's (and before it, AQI and ISI's) penchant for extorting construction companies. Reconstruction aid to newly liberated cities, while well intentioned, would provide an attractive target and potentially facilitate ISIS's ability to make significant sums of money even without holding large swaths of territory.

At present, there are no law enforcement or security service entities capable of preventing ISIS from making large sums of money from reconstruction contract skimming. The policing assets that do exist are underfunded, and their resources are already strained. Based on observation of other conflict zones, nonstate armed groups present on the ground are more likely to seek profit in their own right than risk fighting ISIS to enforce laws on the behalf of a repressive regime. A related issue is that ISIS members meticulously collected personal information, including asset and income information and the addresses of extended family

²⁹ United Nations Security Council, "Twenty-Second Report of the Analytical Support and Sanctions Monitoring Team Submitted Pursuant to Resolution 2368 (2017) Concerning ISIL (Da'esh), Al-Qaida and Associated Individuals and Entities," New York, July 27, 2018, p. 8.

³⁰ Patrick B. Johnston and Colin P. Clarke, "Can the Islamic State Survive Financially?" *Lawfare*, May 14, 2017.

³¹ Seth G. Jones, "America's Counterterrorism Gamble," *CSIS Briefs*, July 26, 2018.

³² Colin P. Clarke, "How ISIS is Transforming," *Foreign Affairs*, September 25, 2017; for more on ISIS's resiliency, see Sune Engel Rasmussen and Nancy A. Youssef, "ISIS Remnants Fight On, Despite U.S. Campaign," *Wall Street Journal*, July 9, 2018; and Hassan Hassan, "Insurgents Again: The Islamic State's Calculated Reversion to Attrition in the Syria-Iraq Border Region and Beyond," *CTC Sentinel*, Vol. 10, No. 11, December 2017.

members, from the population within the territory it controlled. This information provides ISIS with more leverage in intimidating and extorting civilians in the future.

As the caliphate disappears, much of the counter-ISIS mission in Iraq should transition from military force to law enforcement, especially when elite Iraqi security forces can hamper ISIS's ongoing efforts to tax local populations. Intelligence will be essential for these forces to combat ISIS's renewed efforts to earn revenue through taxation and extortion. This means investing more resources in training Iraqi and other law enforcement entities, an effort that must be more comprehensive than simply supplying equipment. In Syria, the situation is far more difficult, since Bashar al-Assad remains in power and there is no semblance of state security services capable of policing large swaths of eastern Syria. There are, of course, nonstate armed groups operating throughout the country, including highly capable groups like the People's Protection Units of the Democratic Union Party, although it is not certain whether these groups would enforce the law, turn a blind eye to criminal activities not directly concerning their objectives, or collude with other terrorist groups.

As ISIS continues to evolve, its sources of revenue could change, with the group working to secure external funding from sympathetic donors throughout the Arab and Islamic world or from nation-states in the Middle East that view ISIS as a useful proxy in the region's ongoing internecine conflict.³³ I see this change as unlikely, as throughout its history ISIS has eschewed a reliance on outsiders, but it is still worth monitoring for signs of such a change. Given the current geopolitical dynamics in the Middle East, it is not entirely unreasonable to imagine Turkey or one of the Gulf states becoming a passive sponsor of terrorism.³⁴

Traditional counterterrorism financing tools must be used to continue to keep ISIS isolated from external patrons and state sponsors of terrorism. Many terrorist groups attempt to avoid the formal financial system, but even if they rely on *hawalas* or other informal value transfer systems, their transactions could potentially intersect with various touch points, including correspondent banks in the region. Therefore, bank regulators and financial intelligence units of partner nations must be intimately involved in monitoring and identifying suspicious transactions. In short, the coalition must continue to track financial flows into ISIS-held territory to monitor whether changes are occurring and closely monitor financial flows from countries where wealthy individuals have historically funded jihadist causes, including, but not limited to, countries throughout the Middle East and Persian Gulf.

³³ Colin P. Clarke, Kimberly Jackson, Patrick B. Johnston, Eric Robinson, and Howard J. Shatz, *Financial Futures of the Islamic State of Iraq and the Levant: Findings from a RAND Corporation Workshop*, Santa Monica, Calif.: RAND Corporation, CF-361, 2017.

³⁴ Passive support includes a state or regime knowingly allowing actors within its territory to assist or aid terrorist groups; a state or regime lacking the capacity to prevent this type of assistance or aid; or support provided by "political parties, wealthy merchants, or other actors in society" that do not have a formal affiliation with the government (Daniel Byman, "Passive Sponsors of Terrorism," *Survival*, Vol. 47, No. 4, 2005, p. 118). See also, Colin P. Clarke and Ahmet S. Yayla, "Erdogan's Fatal Blind Spot," *Foreign Policy*, February 15, 2018; and, Ahmet S. Yayla and Colin P. Clarke, "Turkey's Double ISIS Standard," *Foreign Policy*, April 12, 2018.