A New Era for Countering Terrorist Finance? Reassessing Traditional Approaches in Light of the Rise and Fall of the Islamic State

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Introduction

The recognition of finance as an integral component of armed conflict is certainly not novel. As early as Ancient Rome, Cicero acknowledged this in his Philippic speeches: 'The sinews of war (are) a limitless supply of money'.[1] Until the turn of the twentieth century, state sponsorship functioned as the primary source of financing for armed non-state actors.[2] The end of the Cold War however, marked a significant milestone in the field of terrorist financing, as the 'great powers' (UN Security Council) announced their desire to halt funding 'terror', thereafter initiating traditional Countering Terrorist Finance (*hereinafter CTF) measures.[3] These measures included the introduction of anti-terrorist finance legislation, (culminating in the adoption of the UN Regulation 1999), and the establishment of organisations tasked primarily with tackling money laundering and terrorist financing.[4] Yet, ironically, such measures encouraged

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[1] Marcus Tullius Cicero, *Political Speeches*, trsl. by D.H. Berry (Oxford World's Classics, 2009); also, and James Adams, *The Financing of Terror* (New English Library, 1986).

[2] Shima Baradaran, Michael, Baradaran, et al., 'Funding Terror', in *The University of Pennsylvania Law Review*, Vol. 162, No. 3 (February 2014), pp. 478-479, 488-490.

[3] As clarified in the literature, 'traditional' methods of Countering Terrorist Financing were characterised by relying mainly either on the use of 'soft-power', such as diplomatic efforts encouraging and incentivising countries to cooperate on CTF-related issues, or measures such as adopting anti-money laundering and 'anti-terrorist' legislation. For the ineffective nature of 'traditional' CTF action today, *see* Michael Freeman & Moyara Ruehsen, 'Terrorism Financing Methods: An Overview', in *Perspectives on Terrorism*, Vol. 7, No. 4 (August 2013), pp. 6-10.

[4] Ibid., e.g., the Financial Action Task Force and Egmont Group. Also, Jonathan M. Winer, 'Countering Terrorist Finance: A Work, Mostly in Progress', in *The Annals of*

terrorist groups to look for alternative, more stable sources of financing. Today, in order to financially sustain themselves, terrorist groups rely on the hijacking of charities, private sponsorship, coordinated crime networks, and, most recently, sources of revenue derived from occupation of territory.[5] In particular, in June 2014, the Islamic State captivated global attention. With a historically unparalleled level of efficiency, the Caliphate relied upon controlled territory to establish sources of income, and in turn, initiate a self-sustaining quasi-state in the Levant.[6]

The swift and unexpected rise of the Islamic State (*hereinafter IS) demonstrated the potential of a lucrative war-booty economy that relied upon sources of revenue linked to occupied territory.[7] At its apex in 2014, the Caliphate had established a financially independent quasi-state with roughly 8 million inhabitants.[8] By relying upon sources of revenue linked to the territory it controlled, and by enforcing strategies characterised by extreme brutality and financial pragmatism, the Islamic State awe-inspiringly became 'the richest terrorist organisation in the world' by 2014.[9] Traditional CTF strategies relied either on the use of 'soft-power'[10] or on the introduction of legislation to hinder terrorist financing, and as such, these measures were ill-equipped with countering so called 'self-sufficient' insurgency groups such as the Islamic State.[11]

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the American Academy of Political and Social Science, Vol. 618, (July 2008), pp. 112-132

5 Ibid.

6 Jamie Hansen-Lewis & Jacob Shapiro, 'Understanding the Daesh Economy' in *Perspectives on Terrorism*, Vol. 9: Special Issue on the Islamic State, no. 4, 1 (August 2015), pp. 142–155.

7 To the question of sustainability of a specific source of source of financing; this is relative: once territory was lost, this plummeted.

8 Seth G. Jones et al., *Rolling Back the Islamic State* (RAND 2017), pp. 19-21. See also Audrey Kurth Kronin, 'ISIS is not a Terrorist Group', in *Foreign Affairs*, 23 February 2015, online. (Here and subsequently, all references to online sources were last accessed on 10 October 2018.)

9 Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155.

10 A list of traditional CTF tools include anti-terrorist legislation and the introduction of economic sanctions upon states who refuse to comply with such legislation. Also, diplomatic, social and political tools of encouragement (soft-power), so that governments share intelligence on terrorist financing and adopt strategies such as those spearheaded by FATF. See Winer, 'Countering Terrorist Finance', and Freeman & Ruehsen, 'Terrorism Financing Methods'.

11 IS is self-sufficient in that it relies upon territory within its control to generate income by deriving novel sources of revenue linked to its control thereof.

This paper seeks to provide an analytical account of IS's financing during the time period 2014-2016. In doing so, I shall also address: (i) the challenges inherent to quantifying IS finances; (ii) roughly what IS's economic model and finances consisted of; and (iii) whether IS financing may be tackled through a new approach towards CTF. To that end, this paper argues that the success of traditional CTF measures is limited, exactly because they fail to take into account and address the changing nature of terrorist financing. Thereafter, this study proposes a new approach towards Countering Terrorist Finance whereby measures may be incorporated as part of a wider military and political campaign to retake territory and undermine assets (as exemplified by the success of the Global Coalition in Autumn 2015).

Problems with Data and Reliability of Sources

It would be remiss to launch into the field of terrorist financing without acknowledging the major barriers that exist to finding reliable sources and accurate information.[12] Data and figures quantifying and narrating IS finances are almost completely obtained through the following: insider testimony (defected IS fighters or prisoners); journalist work; official figures provided by either the Global Coalition, specific governments, intelligence agencies or NGO's; governmental leaks; and official figures provided by IS itself, through either its monthly magazine *Dabiq* or affiliated media outlets such as *Al Hayat* news. Due to the clandestine nature of IS, the reliability of such information is doubtful.[13] Matters have been exacerbated by the discrepancy that exists amongst accounts as to the significance of different sources of financing and precise figures of financial profit. This has presented a major challenge to scholars and political strategists alike, who have concluded that it is impossible to ascertain precisely how much money the Islamic State has at its

[12] The success of CTF measures relies upon a conclusive evaluation of how important a certain source of finance was to IS. An inconclusive assessment of this leads inherently undermines CTF methods.

[13] Stefan Heißner, Peter R. Neumann, John Holland-McCowan, & Rajan Basra, *Caliphate in Decline: An Estimate of Islamic State's Financial Fortunes*, Report for The International Centre for the Study of Radicalisation and Political Violence (ICSR, 2017).

disposal.[14]

Jacob Shapiro and Jamie Hansen-Lewis for example contend that this is perhaps why CTF strategies with respect to IS have been either limited or non-existent. These epistemic challenges have caused the failure of such strategies, as traditional CTF measures hence mistakenly either: (i) avoid relying on data altogether; (ii) rely too much on one questionable source of data;[15] or (iii) do not use a systematic approach towards evaluating sources of IS financing.[16]

To overcome such barriers, this paper adopts a comprehensive approach, whereby conclusions surrounding IS financing are derived from common trends, reasonable estimates that have been corroborated by as many sources as possible, and those that seem strategically plausible.[17] In adopting this approach, this paper contends that although these results are necessarily imperfect, one may rely upon estimates, trends, significant coinciding military events and ranges to provide a reasonable and plausible evaluation of the Islamic State's financing.[18]

I. Practices used by IS to organise its economy

Despite the major barriers that hinder pinpointing specific figures of IS financing, the Islamic State's brutal and swift rise inspired scholars, journalists and political commentators to dissect IS's

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14 Ibid., p.6.

15 Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155. Hansen-Lewis contends that this is Global Coalition's biggest mistake. This paper corroborates this by highlighting the Global Coalition's mistaken assessment of the sale of Antiquities as a source of financing, further evidenced in Matthew Levitt's retracted testimony to the Treasury. See Yeganeh Torbati, 'Islamic State Yearly Oil Revenue halved to $250 million: U.S. Official', in *Reuters,* 11 May 2016, online; Matthew Levitt, *Countering ISIL Financing: A Realistic Assessment*, Report (The Washington Institute for Near East Policy, 2 February 2015); and Idem, *Testimony submitted to the House Committee on Financial Services on Terrorist Financing and the Islamic State* (The Washington Institute for Near East Policy, 13 November 2014).

16 Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155.

17 This paper takes an approach similar that of Heißner et al., *Caliphate in Decline*. Hansen-Lewis and Shapiro note that this approach, working with estimates is most reliable as it acknowledges the epistemic challenges in quantifying IS financing. Heißner et al., *Caliphate in Decline*, pp. 6, 10.

18 I have chosen to use the terms 'reasonable' and 'plausible' because the term 'accurate' is not appropriate when working with ranges and estimates. Conclusions are inevitably tentative.

ideology[19] and operational tactics. Analysis of IS manifestos lead to the development of the term '*Takfir*-economics' to characterise key components of their financial and organisational system.[20] In a slightly similar manner to previous insurgency groups, IS's economic system and organisation is based on an assessment of volume, risk, convenience, simplicity, cost, and speed.[21] This account provides an overview of how IS organised its economy, prior to theorising IS's financial strategies through three components.

The Caliphate ran its economy through a bureaucratic system, structurally similar to its predecessors such as Al Qaeda in Iraq and the Islamic State of Iraq.[22] All finances and the implementation of economic policies were managed by a committee and overseen by a Finance Minister, under the jurisdiction of *Bayt Al Mal* (a Finance Ministry equivalent). Within *Bayt Al Mall*, IS created departments such as *Diwan al-Khadamat* (Services Department in Raqqa) whereby armed militants within the ministry would ensure the strict enforcement of policies, such as the taxation system, if necessary through force.[23]

From an organisational perspective, another important contributing factor to the efficiency of IS's economic system was its use of human capital.[24] Through its slick, well-filmed propaganda machine and recruitment strategy, IS ensured the steady flow of foreign fighters who, in turn, supplied ample labour for state enterprise and military activities. This meant that the organisation benefitted from the experiences of a diverse background of international recruits. It is estimated that by 2014, around 11,000 foreign fighters had joined, from roughly 74 countries. This rose to over 20,000 by 2015.[25] The experience of these recruits, as well as seasoned former Ba'athist party members, operating at the echelons

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[19] For an excellent current academic treatment of IS's ideology see Shiraz Maher, *Salafi-Jihadism: The History of an Idea* (Penguin Books, 2017), pp. 4-7.

[20] Michael Weiss & Hassan Hassan, *ISIS: Inside the Army of the Terror* (Regan Arts, 2016) pp. 210-214.

[21] Freeman & Ruehsen, 'Terrorism Financing Methods', pp. 6-10.

[22] John Gray, *Al Qaeda and What it Means to be Modern* (Faber and Faber, ed. 2007), p. 23, and Howard J. Shatz & Erin-Elizabeth Johnson, *The Islamic State we Knew: Insights before the Resurgence and their Implications* (RAND, 2015) pp. 9-11.

[23] Weiss & Hassan, *ISIS: Inside the Army of Terror*, pp. 194-195, 207.

[24] Shatz & Johnson *The Islamic State we Knew*, p. 10.

[25] Hamed el-Said & Richard Barrett *Enhancing the Understanding of the Foreign Fighters Phenomenon in Syria*, Report (United Nations Office of Counter-Terrorism, July 2017), pp. 2-4, 16-18.

of the insurgency's management, undoubtedly bolstered IS's organisational capabilities.[26] This was also facilitated by IS's advanced bureaucratic model and system of mobility, which ensured the flexibility of management, thereafter allowing *Bayt Al Mall* to be run in the most efficient way possible.

The Islamic State's business model implemented financial strategies characterised by the co-option of three components. First, the innovative use of religion to justify the reintroduction of outdated practices (mainly of exploitation). In keeping with the Islamic State ideology of 'rejectionist *Salafi-jihadism'*, IS leadership conveniently used the tenet of 'progression through regression'[27] to re-introduce practices such as the obligatory religious taxation of 'non-Muslims', the *Jizyah* ('protection tax' on non-Muslims: Christians, Shi'ites); the enslaving so-called 'apostates' (Yazidi girls)[28]; and the obligatory *Zaka*t (charity) system on all privately-owned property, businesses, and agricultural produce. These practices were an efficient, theologically-justified method of providing stable financial profit.[29] The conflict in both Iraq and Syria had destroyed most economic infrastructures, throwing both countries centuries into the past. According to World Bank figures (2017), the Syrian civil war caused the wholesale 'deindustrialisation' of the economy and had eliminated roughly 40% of the Syrian GDP.[30] Hence, reverting to otherwise outdated practices tailored to a barely industrialised, weak Arab economy was an effective means of providing new sources of income.[31]

Second, IS's economic strategy entailed the systematic exploitation of all public-possessions to provide a steady source of profit. This is typical to a war-booty economy, and yet IS's method remained distinct from its predecessors' methods (such as those of Al

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[26] Fawaz A. Gerges, *ISIS: A History* (Princeton University Press, 2017), pp. 145-147.

[27] Maher, *Salafi-Jihadism: The History of an Idea*, p. 7.

[28] *Dabiq*, the Islamic State's monthly magazine, 4th edition, in its article 'The Revival of Slavery before the Hour', stated that the 'Yazidis are unfit for jizya', the tax levied on Christians and Jews, so 'they should be taken as slaves'. See also Weiss & Hassan, *ISIS*, pp. 233-234.

[29] Ibid.

[30] 'Deindustrialisation' is accurate here, as the country's core industries (mining, manufacturing, construction, internal trade, transport and communications, and finance and real estate services) have been almost completely destroyed. Staff of The World Bank, *The Toll of War: The Economic and Social Consequences of the Conflict in Syria*, UN-sponsored Report (The World Bank Group (2017), p. vii.

[31] Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155.

Qaeda in Iraq).[32] The Caliphate's leadership had realised that the arduous task of seizing all civilian assets would be ultimately detrimental to them and would eventually alienate civilians. Instead, they chose to enforce a theologically 'justified'[33] system of exploitation, which entailed taxing all civilian assets, produce and goods in an organised manner, under the pretext of *Sharia* law.

IS's economic model was also characterised by its unique welfare system that sought to 'provide for the *Ummah*' (citizens of the Caliphate). This was distinct to all other previous insurgency groups.[34] The financial implications of this welfare system are two-fold: first, the daily running of businesses prompted the regeneration of the economy, (by providing profit) through regular commercial transactions and economic activities; second, this 'welfare' system mustered either the support of civilians or their compliance. By ensuring that all submissive law-abiding citizens were cared for at the bare minimum, IS incentivised citizens to continue operating their businesses and work.[35]

Finally, the Caliphate's Welfare state provided for some of the basic needs of the population under their control. An example of these welfare services was Al Baghdadi's version of the 'Affordable Care Act'[36] whereby any IS member could apply for and receive free health care, provided that 'need' was established. Through this welfare system, IS addressed common, surmounting civilian grievances. Indeed, any form of a welfare system was sorely lacking in the Levant. Previously, the Iraqi government had failed to provide financial stability and accessible welfare services. The Caliphate, by contrast, sought to provide order, albeit through a warped juxtaposition of a basic welfare state and nefarious practices.

In sum, the Islamic State based its financial system on the convenient co-option of pragmatism, ruthless organisational tactics,

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32 Ibid. See also and Winer, 'Countering Terrorist Finance', and Freeman & Ruehsen, 'Terrorism Financing Methods'. Conversely, Al Qaeda in Iraq primarily relied on state funding and the hijacking of charities. Unlike IS, AQI did not control land and taxable population that could thereafter be exploited or incentivised to work. AQI's methods of financing have been accordingly characterised as 'traditional' methods of terrorist finance.

33 Justified by a 'rejectionist *Salafi-jihad*i' interpretation of the Shari'a. See Maher, *Salafi-Jihadism*, pp. 8-10.

34 Gerges, *ISIS*, p. 178.

35 Weiss & Hassan, *ISIS*, p. 45.

36 Ibid., p. 341.

and innovative, theologically-rooted practices.[37] Through this strategy, the more territory IS claimed, the richer it became, either through traditional war-booty tactics typical to insurgency groups (such as seizing all privately-owned land, resources, and livestock) or by the process itself of setting up a quasi-state, whereby IS policies could provide steady sources of revenue. Therefore, the positive correlation between capturing territory and financial profit was established through this system of organised exploitation.

II. Sources of Islamic State Financing

a) 'Unreliable' Sources

Having outlined IS financial practices, one turns to assessing the importance of particular sources of financing and how a new, successful a CTF approach may incorporate this. Sources of IS financing fall into roughly six categories: donations; the sale of antiquities; kidnapping and human trafficking; natural resources; looting, confiscation and fines, and; taxes and fees.[38] Through applying the comprehensive method proposed earlier in this study, these sources may be categorised as either 'reliable' or 'unreliable'.[39] The rough criteria for ascertaining whether a source is 'reliable' and how it may be successfully incorporated within this new Countering Terrorist Financing approach are: (i) how far evidence across a vast range of accounts demonstrates the significance of this source of financing to IS, and; (ii) whether and how this source can be undermined.[40]

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[37] Ibid. Also, Gerges, *ISIS*, pp.140-143.

[38] Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155.

[39] Sources may be classed into two categories: those of doubtful impact significance on IS financing and significant sources that may be incorporated into CTF. I have chosen the terms 'reliable' and 'unreliable' to characterise the former and the latter respectively. By 'reliable' I mean 'reliable' from a CTF perspective, and vice versa for 'unreliable'.

[40] This paper argues that one may rely upon a conclusive, realistic assessment of each source to ascertain its importance and develop an effective CTF strategy. It is both realistic and plausible that a said source accounts for a considerable portion of IS financing. A source is unreliable if all data indicating its importance comes from a sparse and haphazard approach which takes at face value the importance of specific sources of finance.

b) Donations

Through this approach, the most problematic source of IS financing from a CTF perspective is donations. This is primarily because one does not have sufficient evidence to quantify donations from private individuals or fringe organisations. Insider testimony and journalist accounts commonly corroborate the tight grip both IS leaders and security forces (such as *Amniyat)* have on the stringently managed *Bayt Al Mal*.[41] Donations to IS were frequently facilitated through the dubious *Hawala* system, whereby money was transferred without 'money movement', through networks of peer-to-peer insurance (money brokers, known as *hawaladars).* For decades, *hawalas* have been an enigma for the Financial Action Task Force, the Federal Bureau of Investigation, and other agencies which enforced CTF policies.[42] Through networks of currency exchange offices and agents, *hawaladars*, distributed throughout the MENA region, allowed IS to send and receive non-monetised transfers instantly (notably for private donations).[43] This system allowed IS to circumvent FATF safety nets and continue its financial transactions and external trade on the black market. Nonetheless, this system is also extremely difficult to address from a CTF perspective as it is deeply enshrined within the system of Iraqi banking.[44] By 2007, *Hawal*a transfers accounted for over 50% of Iraqi banking**.[45]** Since *hawala* transfers cannot be easily traced by money-laundering and intelligence agencies, the Caliphate and its predecessors relied on this as a stable source of money movement. In short, due to how deeply enshrined the *Hawala* system was in the Levant, the success of CTF strategies in tracing IS's money movement was inevitably compromised.[46]

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[41] Jürgen Todenhöfer, *My Journey into the Heart of Terror: Ten Days in the Islamic State,* (Greystone Books, 2016); Weiss & Hassan, *ISIS,* p. 338.

[42] Anne L. Clunan, 'The Fight against Terrorist Financing', in *Political Science Quarterly,* Vol. 121, No. 4 (Winter 2007), pp. 569-596.

[43] Ibid.

[44] Jonathan M. Winer, 'Countering Terrorist Finance: A Work, Mostly in Progress', in *The Annals of the American Academy of Political and Social Science,* Vol. 618 (July 2008), pp. 112-132.

[45] Laurence Bindner & Gabriel Poirot, *ISIS Financing*, Report for the Center for the Analysis of Terrorism (Cat, May 2016), p. 23; also, Margaret Coker, 'How Islamic State's Secret Banking Network Prosper', in *The Wall Street Journal*, 24 February 2016, online.

[46] Ibid. To the point above on the importance of the 'hawala system, Coker notes

c) Antiquities

The second source of IS financing of uncertain significance *vis-à-vis* the proposed criteria is income from the illegal sale of antiquities.[47] While antiquities were claimed to be IS 'second-largest revenue stream' by Matthew Levitt during his testimony before the Treasury Department in 2014, there is little, if any, empirical evidence to corroborate this. Levitt famously claimed that the artefacts captured by IS 'have not been publicised but could fetch hefty sums'.[48] Although this was taken for granted at the time, roughly a year later Levitt retracted this claim, demonstrating that the weakness of the initial unsupported assertion.[49] Even if IS did have plenty of artefacts from one third of Iraqi heritage sites (as Levitt claimed), this is not confirmed by any empirical evidence or reasonable estimates. Indeed, there is little evidence that allows us to quantify these figures using the proposed method, indicating that income from the sale of antiquities is most probably marginal in the scale of IS's revenue streams.[50]

d) Kidnapping

The Caliphate also used kidnapping and human trafficking to obtain ransom money.[51] While the most famous cases of kidnapping are those of Western journalists and aid workers[52], IS also kidnapped locals in exchange for sizeable sums of money from their relatives.

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that a currency exchange bureau operating in the province of Al-Anbar was handling $500,000 weekly in the summer of 2014, with as much as $100,000 being exchanged in a single transaction. *See also* Clunan, 'The Fight against Terrorist Financing', pp. 569-596.

47 Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy' pp. 142–155.

48 Levitt, *Testimony Submitted*; and subsequently, Idem, *Countering ISIL Financing*.

49 Yeganeh Torbati, 'Islamic State Yearly Oil Revenue'. Levitt's retracted testimony demonstrates that evaluating the importance of a source of revenue based on one set of figures alone, or indeed individual testimony, is an unreliable method.

50 This evaluation of antiquities is confirmed by Bindner & Poirot, *ISIS Financing*, p. 19, and Heißner et al., *Caliphate in Decline*, p. 8. Both classify antiquities as a 'marginal' source of income for IS. Using the comprehensive method proposed by this paper, sources of financing claimed to be significant by no more than the individual testimony of one government official can hardly be considered a major source of IS financing.

51 Shatz & Johnson *The Islamic State we Knew*.

52 Weiss & Hassan, *ISIS*, pp. 233-236.

The most notable local case was the kidnapping of roughly 200 Assyrian Christians in Hasakah, Syria, in exchange for several million dollars[53]. Additionally, IS notoriously kidnapped Yazidi women and children, sexually abused them, and enslaved them as 'spoils of war', under the justification of being 'apostates'. These 'spoils of war' were used as the biggest reward for IS fighters, whereby the price of a female slave ranged between $40-165.[54] Estimates suggest that IS obtained some $100 million in 2015 through kidnapping and human trafficking, although this remains difficult to empirically corroborate.[55]

Furthermore, the majority of high-value kidnapping cases primarily involved Western journalists. These cases were opportunistically used by the Caliphate to terrorize the global audience and humiliate foreign governments (as opposed to obtaining large sums of money).[56] In these instances, high-value kidnapping cases formed an integral part of IS's media campaign to promote their brand of global terrorism through the spread of polished yet horrifying propaganda videos.

In short, although it is challenging to determine how much money IS obtained from kidnapping, such activities did not constitute a major source of income for IS during the time period under consideration.[57] In most high-value kidnapping cases, financial profit was secondary to the act itself, which played an integral role of the Caliphate's wider 'terror' campaign. Additionally, preventing IS from engaging in such activities could be achieved by re-establishing control over swathes of land and protecting local citizens, a task that is *de facto* part of any military campaign (as opposed to an individual CTF strategy).

All in all, this comprehensive approach towards evaluating IS financing, indicates that revenues resulting from donations, the sale of antiquities, and kidnapping are unlikely to have been primary

[53] Ibid.
[54] Ibid.
[55] Bindner & Poirot, *ISIS Financing*, p. 19.
[56] Cases include James Foley, John Cantile, Steven Sotloff, Kayla Mueller as well as a Jordanian pilot, Mu'ath Kasasbeh. The latter two in particular were propaganda foils for IS as part of their attempt to mock America's 'We don't negotiate with terrorists' stance and divide the Global Coalition. Kasasbeh was burnt alive a month prior to the 'bid for ransom' and the release of 'Healing of the Believers' Chests'. See Weiss & Hassan, *ISIS*, pp. 235-238.
[57] Ibid.

sources of income for the Caliphate.[58] There is little evidence to quantify earnings from these sources, and addressing these sources is exceedingly challenging from a traditional CTF lens. Instead these sources ought to be incorporated as factors of consideration in a wider strategic campaign.[59]

Reliable Sources of Financing

Academics and political strategists alike observe that the Caliphate's most significant sources of revenue are closely tied to the territory it controls. Quite simply, these are sources that directly correlate to the possession of land. In IS's case natural resources were most often used to generate revenue, through illicit oil sales and production. Another similar method of financing linked to occupied territory was the opportunistic use of hegemony over taxable population centres to impose taxes, fees, fines, and conduct confiscations and looting.[60]

a) Natural Resources (Oil and Gas)

The consensus amongst the literature notes that oil and gas were IS's primary source of revenue.[61] As early as 2006, IS's forefathers (Abu Mus'ab Al Zarqawi and Al Masri, ISI) ensured that the first areas to be captured were the mineral rich areas, such as the small city of Kirkurk, an oil-rich cosmopolitan location (as opposed to a larger, more significant city).[62] Indeed, one of IS's first steps, following the declaration of the Caliphate, was seizing the Baji oil refinery, one of the most valuable oil refineries in the Levant.[63] Estimates suggest that the capture of Iraqi oil fields in the summer of 2014 bolstered IS's oil revenue to roughly \$150–450m in 2014,[64] crucially placing the

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[58] A similar of evaluation of the importance of kidnapping is endorsed by Bindner & Poirot, *ISIS Financing*, pp. 18-20, and Heißner et al., *Caliphate in Decline*, p. 8.
[59] *Ibid.*, and *The Islamic State We Knew*, (RAND, 2015).
[60] Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155; Shatz & Johnson *The Islamic State we Knew*.
[61] *Ibid.*
[62] Weiss & Hassan, *ISIS*, p. 66.
[63] Ibid., p. 60. See also Erika Solomon, Robin Kwong and Steven Bernard 'Inside Isis Inc: The Journey of a Barrel of Oil', in *Financial Times*, as updated on 29 February 2016, online.
[64] Heißner et al., *Caliphate in Decline*, pp. 5, 12. The report notes that 'these figures are "based on peak earnings estimates ranging from \$1–3m a day" subsequent to

Caliphate in a position of financial strength in the immediate aftermath of al Baghdadi's haunting announcement of IS *grandiose* expansionist agenda (28th June 2014). A year later, by March 2015, IS had seized almost all of Syria's major oil fields, as well as a number of those in Iraq, thereafter controlling Al Omar, Jafr and Jeribe in Syria, and Ajil and Baji in Iraq.[65] Estimates and ranges indicate that this strategy resulted in a net increase in oil revenue to $435–550m by 2015.[66] To generate income, IS either sold oil on the black market, (within controlled territory) or smuggled oil and gas across borders.[67]

Indeed, the significance of oil and gas to IS is confirmed by how deeply oil refineries were embedded into the group's strategic plans. In a similar manner, the Global Coalition ought to have considered these valuable areas early on. Even if the Global Coalition may have realised the importance of oil and gas, it was not until the launch of Operation Tidal Wave II in October 2015, that the Global Coalition translated this 'recognition' into 'strategic action'. During Operation Tidal Wave II, the Global Coalition led by the United States, targeted the entire chain of oil extraction locations through airstrikes (bombing both refineries and tanker trucks). The subsequent massive decline in revenues and production capabilities presented a major blow to IS, with reports estimating that this (coupled with the loss of control over regional markets) reduced revenues resulting from oil and gas by more than half, to an estimated $200–250m for 2016.[68] The dramatic decline in revenue as a result of Operation Tidal Wave II is an indication of how targeting IS's financial hubs may be successfully factored into a wider military strategy.

b) Looting, Confiscations, and Fines

IS also derived substantial revenues from looting, confiscations and the imposition of fines. Indeed, looting (in IS's terms, acquiring

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the seizure of key oil wells'.

65 Weiss & Hassan, *ISIS*, pp. 211-214.

66 Heißner et al., *Caliphate in Decline*, p. 8.

67 Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155.

68 A 'war booty' system is characterised primarily by the confiscation of all captive goods, or 'spoils of war'. Under IS, this system was labelled the 'lawful acquisition of '*ghanima*' (literally, 'war booty'). See Weiss & Hassan, *ISIS*, pp. 211-214.

ghanima) is the crux of a war-booty system.[69] Following IS's rise in 2014, estimates demonstrate that the organisation acquired between $500m to $1bn from looting, in particular from looting Mosul. By June 2014, Mosul had been appropriately named 'IS's commercial capital'.[70]

Yet, the importance of looting as a source of finance is directly linked to new territory captured by IS. As such, this source is rarely renewable, it is a source of 'diminishing returns'.[71] As territorial loss ensued in 2015-2016, looting and fines were no longer as important as a source of revenue for IS. Indeed, the presence of a taxable population is an essential pre-requisite to the success of looting.[72] Furthermore, estimates suggest that revenues provided by looting declined to roughly $200–300m in 2015 and $110–190m in 2016.[73] This decline in the success of looting directly correlates to the territorial loss that ensued- indicating how intrinsically linked the success of looting is to IS's fortunes on the battle-ground.

Therefore, even though looting brought a great deal of new income to the Caliphate, it is a source of one-time gain, as its success is intertwined with the Caliphate's new territorial acquisitions. As such, the efficacy of undermining this source of financing is invariably linked to the success of a military (ground) campaign against IS, offensive or defensive.

c) Taxes, Fees and Extortion

As part of establishing a legitimate quasi-state (and providing another stable source of income), the Islamic State imposed fees and gathers taxes from the population under its control. Taxes and fees were an omnipresent feature of IS's system of governance. From the perspective of religious taxation, IS imposed two main forms: *zakat*, that is, charity tax; and the 'protection tax' for non-Muslims, the *jizya*.[74] There are four other kinds of taxes prevalent in IS's system:

[69] Renad Mansour & Hisham Al-Hashimi, *ISIS and the New War Economy*, (Chatham House 'expert comment', 8 June 2017).

[70] Heißner et al., *Caliphate in Decline*, p. 8.

[71] Erika Solomon & Sam Jones. 'Isis Inc: Loot and Taxes keep Jihadi Economy Churning', in *Financial* Times, 14 December 2015, online.

[72] Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–15.

[73] Heißner et al., *Caliphate in Decline*, pp. 8-10.

[74] *Jizya* is 4.25 grams of gold for 'rich' Christians in IS territory and half of this for moderate-income individuals, as per *Dabiq*, Issue 2016, 'Testimony from Within' explaining *jizya*, quoted in Weiss & Hassan, *ISIS*, pp. 212-214.

taxes on the salaries of Iraqi and Syrian state employees; custom duties levied on all vehicles entering IS territory; taxes on all financial transactions and capital earned by all civilians (earnings from livestock & farming, as high as 2.5% on all capital); and agricultural tax on all crops and produce in IS-controlled territories (normally at the rate of 10% of all earnings). The latter, agricultural tax, includes wheat, barley, cotton and all other produce which may be taxed several times over, at IS's discretion.[75] Insider sources and civilian accounts outline that if such taxes were not paid in full, individuals were coerced, and their property confiscated. Likewise, IS also imposed fees for certain welfare services, and for civilians' ability to carry out some day-to-day activities (such as bank transfers).[76]

Ironically however, the taxation system that generated the most considerable revenue was derived from the Syrian and Iraqi government themselves. This is because they continued to pay the salaries of state employees in IS controlled areas.[77] The Caliphate coerced employees to pay taxes when they withdrew cash and when they collected their salaries. According to a UN report, this systematic exploitation and taxation system levied on almost all financial transactions could generate up to $900 million a year.[78] Although these figures may not be invariably correct, the consensus of available data and literature highlights the importance of taxes, extortion and fees levying as a reliable, stable and significant source of revenue to IS.

From the perspective of disrupting the flow of finance generated by taxes, a viable CTF strategy would entail preventing the Iraqi government from sending salaries to employees in IS controlled areas. In the immediate aftermath of IS's rise, this strategy was not considered due to its detrimental collateral effects on civilians' livelihoods. However, in August 2015, the Iraqi government realised the importance of taxation to the Caliphate and accordingly stopped paying government salaries. This strained IS revenues, albeit at a questionable human cost.[79]

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[75] Ibid.

[76] Ibid., pp. 338-341.

[77] Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155.

[78] Weiss & Hassan, *ISIS*, pp. 338-340.

[79] Shapiro and Hansen-Lewis suggest that a way to circumvent the civilian cost whilst ensuring that IS financing would be strained is to continue to pay state employees with goods less synonymous than cash, such as perishable foodstuffs.

In sum, *vis-à-vis* the criteria proposed by this study, and based on a consensus of data and reasonable estimates, IS's most significant sources of financing during the time period 2014-2016, in order of revenue size were: oil and gas sales; levying of taxes and fees, and extortion; and finally looting, confiscations and fines.[80] These three sources of revenue accounted for almost 70-80% of IS's economy, indicating the positive correlation between territorial gains and these 'reliable' sources of income. This is further evidenced by the progress made by the Global Coalition when targeting the institutions of financing in Autumn 2015, as part of their wider military strategy, notably through Operation Tidal Wave II. As the subsequent section argues, this Operation is an important milestone in the arena of Countering Terrorist Finance as it demonstrates the newfound success of incorporating CTF measures into a broader military strategy.[81]

Traditional CTF measures and a new approach?

Thus far, so-called 'traditional' CTF measures were tailored to undermining terrorist groups who took a fundamentally different approach to financing their activities, relying primarily on state sponsorship and private donations.[82] In the aftermath of the Cold War, the nature of terrorist financing was radically transformed, as the international community sought to disentangle themselves from involvement with armed non-state actors. Today, state sponsorship of terror is no longer politically acknowledged, with the exception of Iran and Hezbollah.[83] In light of the changing face of global terror and terrorist financing, traditional CTF measures are simply no longer viable.[84]

During the time period 2014-2016, the Islamic States' rise proved that an insurgency group could establish a fairly self-sufficient quasi-state with a sophisticated business model. The

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80 Hansen-Lewis & Shapiro, 'Understanding the Daesh Economy', pp. 142–155.

81 Weiss & Hassan, *ISIS*, pp. 211-213; also, Heißner et al., *Caliphate in Decline*.

82 Clunan, 'The Fight against Terrorist Financing', pp. 569-596.

83 John Sawicki, 'Counter-Terrorist Financing', quoted in James K. Wither & Sam Mullins (eds.), *Combating Transnational Terrorism* (Procon, 2016), pp. 217–234.

84 Ibid. This paper has proposed that CTF ought to be incorporated as part of an existing military strategy as opposed to treating terrorist financing as an independent variable, in line with a traditional CTF view. *See* footnote 11.

Caliphate relied upon natural resources such as oil and gas, as well as looting, taxes, fines, and extortion to regularly and steadily generate revenue. Despite the global war against IS, the Global Coalition did not develop a strategy specifically geared at depleting institutions of IS financing until
Operation Tidal Wave II. In fact, as late as 2016, a report published by the House Homeland Security Committee noted that 'the United States lacks a national strategy to combat terror groups' fundraising tactics.'[85] Even more tellingly, this report did not entail a balanced evaluation of sources of IS financing.[86] If anything, the IS case study highlights that even though the nature of terrorist financing has evolved, strategies to successfully counter it lag far behind.

While focusing military efforts on depleting institutions of IS financing may have been an obvious strategic solution for the Global Coalition, such efforts were not undertaken due to considerations of civilian collateral damage and the strategic choice to combat the group as a whole. Nevertheless, Operation Tidal Wave II proved to be an integral turning point as the Global Coalition placed a great deal of effort into targeting institutions of IS financing, such as bombing oil and gas refineries.[87]

This Operation's success was invariably linked to its new, hybrid approach of integrating measures of countering terrorist finance into a wider military strategy. In fact, the rewards of this approach were soon apparent: between summer 2014 and January 2017 the Islamic State's revenues were more than halved.[88]

Accordingly, this paper contends that the success of Operation Tidal Wave II lays the groundwork for a new method of CTF along similar lines. This approach could be formed on a case-by-case basis, with a broad two-fold framework. First, it should entail a careful and realistic evaluation of significant sources of revenue for a given group; and second, it should entail incorporating recommendations of how to undermine each major revenue source, *within* a broader military strategy. In short, this new CTF approach would be characterised by a joint military-economic evaluation of the

[85] *Cash to Chaos: Dismantling ISIS's Financial Infrastructure*, House Homeland Security Committee Majority Staff Report (October 2016) p. 18.

[86] Ibid., p. 9. The report claims IS made 100 million on Antiquities and this source of revenue was key to IS fundraising. Such claims are not empirically founded and ought to be given less importance.

[87] Weiss & Hassan, *ISIS*, pp. 211-213.

[88] Torbati, 'Islamic State Yearly Oil Revenue'.

insurgency group's status, and would bring considerations of terrorist financing to the forefront of strategy formulation, providing a dynamic way forward.

Conclusion

Thus, the examination of the rise and fall of the 'world's richest terrorist organisation' demonstrates the necessity of adopting a comprehensive method towards Countering Terrorist Finance. Today, insurgency groups like the Islamic State rely primarily upon 'novel' sources of revenue that are sometimes linked to occupied territory. As this paper contends, this evolution in the nature of terrorist financing indicates the necessity of a new approach to counter it. Indeed, the first steps towards a new and reformed approach, (as this study proposes) should be undertaking an in-depth and realistic evaluation of a specific terrorist group's business model and sources of financing. Meanwhile, the second step of this approach ought to be weaving in methods of undermining major sources of financing into a wider operational model. As evidenced by the detrimental impact of Operation Tidal Wave II on Islamic State financing,[89] this new, hybrid approach which unites economic and military considerations, could mark a new era in the field of Countering Terrorist Finance.

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[89] Weiss & Hassan, *ISIS*, pp. 212-214.