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Islamic State's Financing: Sources, Methods and Utilisation

Patrick Blannin

This paper examines multiple sources of Islamic State (IS) terrorist group's funding and some counter-mechanisms deployed by the global anti-IS coalition. The paper analyses: a) how IS exploits the volatile political situations and security vulnerabilities across the Middle East and North Africa to generate funding, and b) exposes the dichotomy between the terrorist group's religious rhetoric and its criminal enterprises. The paper aims to help counter-terrorism practitioners and scholars generate counter-narrative responses to enhance the efficacy of a state's counter terrorism (CT) and counter violent extremism (CVE) strategies against IS.

Introduction

This paper explores several elements of the Islamic State's (IS) criminal operations in an attempt to situate the terror group within the field of Terrorism Studies. IS control of territory, its robust use of information communication technology (ICT) and its shockingly brutal methods make it a unique terrorist entity. However, typologically, it is one among many contemporary terrorist groups to adopt a network organisational structure.

In the 21st century, the rise of the networked terrorist organisation has blurred the lines between terrorism and conventional crimes, and in some cases merged to create a crime-terror nexus. Scholars, practitioners and policymakers have theorised and discussed this 'nexus' over the past two decades.¹ This

¹ John Arquilla & D. Ronfeldt, *Networks and Netwars: The Future of terror, crime and militancy*, (Santa Monica, CA: RAND Corporation, 2001); Tamara Makarenko, 'The Crime-Terror Continuum: Tracing the Interplay between Transnational Organised Crime and Terrorism', *Global Crime* 6(1) (2004), pp. 129-145; Louise I. Shelley, et al, *Methods and Motives: Exploring*

paper follows these intellectual footprints, with the objective of complementing those who have come before and contributed to this area of research. This paper has also highlighted how the US and its allies are correlating defeat on the battlefield with a "death blow to IS bottom line."²

IS, like its predecessor Al Qaeda in Iraq (AQI or the Islamic State in Iraq (ISI), is relatively self-sufficient, and not reliant on or beholden to either external state(s) or wealthy individual donors.³ Patrick Johnston states that "by 2008—well before Abu Bakr al-

Links between Transnational Organized Crime & International Terrorism, (Washington D.C: US Department of Justice 2005), pp. 1-115; Perri, et al, *Evil Twins: The Crime Terror Nexus*, *The Forensic Examiner*, (Winter 2009), pp. 16-29; Reyes, L. E. and S. Dinar, 'The Convergence of Terrorism and Transnational Crime in Central Asia', *Studies in Conflict & Terrorism* 38(5) (2015), pp. 380-393; Basra, R., et al, *Criminal Pasts, Terrorist Futures: European Jihadists and the New Crime-Terror Nexus* (The Hague, International Center for the Study of Radicalization and Political Violence, 2016); Gallagher, M, 'Criminalised' Islamic State Veterans – A Future Major Threat in Organised Crime Development?', *Perspectives on Terrorism* 10(5), (2016), pp. 51-67.

² Matthew Levitt, Katherine Bauer & Lori Plotkin Boghardt, 'Defeating the Islamic State: The Economic Campaign', The Washington Institute, (February 24 2014), available at <http://www.washingtoninstitute.org/policy-analysis/view/defeating-the-islamic-state-the-economic-campaign>;

For more detail see: Arquilla, J. and D. Ronfeldt, *Networks and Netwars: The Future of terror, crime and militancy*, (Santa Monica, CA, RAND Corporation, 2001), pp. 1-380; Makarenko, T. "The Crime-Terror Continuum: Tracing the Interplay between Transnational Organised Crime and Terrorism," *Global Crime*, Vol. 6, no. 1, (2004), 129-145. Basra, R., Neumann, P & Brunner, C. *Criminal Pasts, Terrorist Futures: European Jihadists and the New Crime-Terror Nexus*, (The Hague: International Center for the Study of Radicalization and Political Violence, 2016), pp. 1-56.

³ Funding ISIL (Infographic), The Washington Institute, September 12 2014; Lori Plotkin Boghardt, 'Saudi Funding of ISIS', Policy Watch 2275, *The Washington Institute for Near East Policy*, June 23, 2014.

Baghdadi became the IS leader, ISI funded itself in Mosul by exploiting the same local revenue sources which ISIS currently exploits.”⁴ Baghdadi’s predecessor, Abu Mus’ab al-Zarqawi—the founder of Tawhid Wal Jihad or Al-Qaeda in Iraq (AQI), and Abu Omar al-Baghdadi (ISI) were part of several smuggling rackets in Iraq’s north-western Anbar province. Reportedly, they earned US\$70-200 million annually from oil smuggling and US\$36 million from kidnapping for ransom.⁵ Burns and Semple presciently stated this amount of capital would allow an organisation like IS to be self-sufficient and could be used to support other terrorist organisations outside Iraq.⁶

Aymenn Jawad al-Tamimi estimates that IS is spending as much as US\$5.6 million per month or about US\$70 million annually, in the eastern Syrian province of Deir az-Zor alone. Unsurprisingly, the largest budgetary item is salaries of the fighters, accounting for 43.6 percent of the budget or about US\$30 million a year. IS intelligence apparatus, *the Emni*, receives a significant share of the budget, which is used for propaganda and paying intelligence agents and informants. Counter financing operations have not impacted *Emni* operations as it, until recently, appears to have sufficient cash balance.”⁷

The rest of IS budget covers maintaining encampments, which amounts to 19.8 percent of total expenditures; media, 2.8 percent; Islamic Police, 10.4 percent; the Services Department, 17.7 percent; and aid to families 5.7 percent.⁸ Conservative

estimates of IS monthly expenditure across its area of control total US\$80 million.⁹ Therefore, the question that needs to be asked is how does IS fund itself and remain solvent?

According to the U.S. Department of Treasury, IS earns a substantial amount of its income from criminal activities: extortion in the form of ‘taxation’, kidnapping, robbery, counterfeiting-pharmaceuticals and currency, racketeering, charging for protection from the violence that they themselves inflict, and smuggling of oil, weapons, people and antiquities.¹⁰ These activities raise revenues second only to their black market oil operations. Keith Crane from the RAND Corporation testified before the U.S. Senate “total annual funding in 2015 of as much as US\$1.2 billion.”¹¹

Matthew Levitt, Aymenn al-Tamimi, and Jacob Shapiro are among researchers who argue that IS “does not have a sustainable economic model (because) none of its

⁴ Patrick Johnston, ‘Countering ISIL’s Financing’, Testimony before the Committee on Financial Services United States House of Representatives, November 13, 2014, RAND Corporation, p. 2, available at http://www.rand.org/content/dam/rand/pubs/testimonies/CT400/CT419/RAND_CT419.pdf; For more details, see Combating Terrorism Center at West Point, “Analysis of the State of ISI (English translation), p. 23, available at <https://www.ctc.usma.edu/posts/analysis-of-the-state-of-isi-english-translation-2>.

⁵ Christina Schori Liang, ‘The Criminal-Jihadist: Insights into Modern Terrorist Financing’, op.cit, p. 8.

⁶ J.E. Burns & K. Semple, “US Finds Iraq Insurgency Has Funds to Sustain Itself”, *New York Times*, 26 November 2006,

⁷ Anne Speckhard, & Ahmet S. Yayla, ‘The ISIS Emni: The Inner Workings and Origins of ISIS Intelligence Apparatus’, *The International Center for the Study of Violent Extremism (ICSVE)*, December 2016, available at <http://www.icsve.org/2016/12/>

⁸ Aymenn Jawad al-Tamimi, “Unseen Islamic State Financial Accounts for Deir az-Zor Province,”

Jihadology.net, October 5, 2015 available at <http://jihadology.net/2015/10/05/the-archivist-unseen-islamic-statefinancial-accounts-for-deir-az-zor-province/>
⁹ “Islamic State Monthly Revenue Totals \$80 million, IHS Says,” *IHS Newsroom*, December 7, 2105 available at <http://press.ihs.com/press-release/aerospace-defense-security/islamic-state-monthly-revenuetotals-80-million-ihs-says>

¹⁰ See Mark Hanna, ‘Transnational Organized Crime in an Era of Accelerating Change’, In William Mendel & Peter McCabe (eds.), *SOF Role in Combating Transnational Organized Crime*, (Florida: Joint Special Operations University, 2016), p. 41; Celina Realuyo, “Leveraging the Financial Instrument of National Power to Counter Illicit Networks,” Congressional Hearing entitled “A Dangerous Nexus: Terrorism, Crime, and Corruption,” before the Task Force to Investigate Terrorist Financing, Committee on Financial Services, U.S. House of Representatives, May 21, 2015, p. 3, available at <http://financialservices.house.gov/uploadedfiles/hhrq-114-ba00-wstate-crealuyo-20150521.pdf> ; “The Revival of Slavery Before the Hour,” *Dabiq* 4, July 2014, available at <http://media.clarionproject.org/files/islamic-state/islamic-state-isis-magazine-issue-4-the-failed-crusade.pdf>; Orlando Crowcroft, “ISIS: People Trafficking, Smuggling, and Punitive Taxes Boost Islamic State Economy,” *International Business Times*, June 16, 2015, available at <http://www.ibtimes.co.uk/isis-people-trafficking-smuggling-punitive-taxes-boost-islamic-state-economy-150647>

¹¹ Keith Crane, ‘The Role of Oil in ISIL Finances’, Testimony presented before the Senate Energy and Natural Resources Committee, RAND Office of External Affairs, (December 10, 2015), p. 3.

sources of income are renewable.”¹² In October 2015, the Deputy Director for Politico-Military Affairs at the U.S Joint Staff, J-5 Rear Admiral Michael Dumont stated that:

“IS doesn't have anything to back up their governance. Their resources are stolen and pilfered and taken at the end of a gun. So, their margins are razor thin, and I think that at times they'll be holding on by a thread. Our challenge, as a military, a government and as a coalition will be identifying where they're vulnerable and taking action.”¹³

This paper does not test the validity of these assessment's but seeks to highlight how the counter-financing strategy impacts the various components of IS criminal network.

Multiple Levels of IS Funding

IS oil revenue

According to a 2015 study, IS has prioritised the hydrocarbon sector in the Middle East, attacking, holding, operating and/or targeting infrastructure in Libya, Iraq, Egypt and Syria.¹⁴ Crane calculated that “IS revenues from the sale of oil and refined oil products ran at US\$40 million” per month in 2015.¹⁵ IS

directly controls petroleum infrastructure in parts of Iraq, Syria and Libya, whilst any investment in them also requires allegiance to Baghdadi. However, no such allegiance is required for someone to purchase oil from IS and then refine or sell the oil inside or outside IS territories. IS operates oil refineries of various sizes and output capacities, and earns revenue from the sale of refined petroleum products.¹⁶

IS sells oil at substantially discounted prices to a variety of traders or intermediaries in domestic markets in Iraq and Syria, including adversaries such as the Kurds in Iraq, the Assad regime in Syria, as well as agents in Turkey, who then transport the oil to be resold into legitimate markets.¹⁷ One report (2015) estimates daily revenue of US\$ 1.5 million from oil based on ranges given for number of barrels of oil produced per day (34,000-40,000) and price per-barrel (US\$ 20-45).¹⁸ However, other reports indicate these production rates and prices are inflated, showing oil is sold well below US\$ 20 per barrel.¹⁹ Regardless of the per-barrel price and the sustainability of their production capacity, the revenue raised has been significant.

As Crane, Levitt and others have noted, the revenue generated from oil was recognised and actively targeted early in Operation Inherent Resolve, the ongoing US-led

¹² Matthew Levitt, Katherine Bauer & Lori Plotkin Boghardt, 'Defeating the Islamic State: The Economic Campaign', *The Washington Institute*, op.cit; Jacob Shapiro, A Predictable Failure: The Political Economy Of The Decline Of The Islamic State, *CTC Sentinel*, Vol. 9, no.9, (September 2016), pp. 28-32 available at <https://www.ctc.usma.edu/posts/a-predictable-failure-the-political-economy-of-the-decline-of-the-islamic-state>; Aymenn Al-Tamimi, "A Caliphate Under Strain: The Documentary Evidence," *CTC Sentinel*, Vol. 9, No. 4, (April 2016), pp. 1-8, available at <https://www.ctc.usma.edu/posts/a-caliphate-under-strain-the-documentary-evidence>

¹³ Paul Cruickshank & Brian Dodwell, A View From the Foxhole": An Interview with RDML Michael Dumont, BG Michael Kurilla, and COL Stephen Michael, *CTC Sentinel* Vol. 8 (10), October 2015, p. 10

¹⁴ Geoff D. Porter, Terrorist Targeting of the Libyan Oil and Gas Sector, *CTC Sentinel*, February 25, 2015, pp. 8-10, available at <https://www.ctc.usma.edu/posts/terrorist-targeting-of-the-libyan-oil-and-gas-sector>; Stephen Starr, Attacks in the Suez: Security of the Canal at Risk?, *CTC Sentinel*, January 15, 2013.

¹⁵ Keith Crane, 'The Role of Oil in ISIL Finances', Testimony presented before the Senate Energy and Natural Resources Committee, op.cit, p. 3; Daniel Glaser, Assistant Secretary of Treasury, *Aspen Security Forum*, (July 15, 2015), available at

<http://aspensecurityforum.org/wp-content/uploads/2015/07/Iraq-or-Syria-Worse-Now-Than-Before.pdf>

¹⁶ Aymenn Al-Tamimi, "A Caliphate Under Strain: The Documentary Evidence," op.cit, pp.1-8.

¹⁷ Anne Speckhard, & Ahmet S. Yayla, 'The ISIS Emni: The Inner Workings and Origins of ISIS Intelligence Apparatus', *The International Center for the Study of Violent Extremism (ICSVE)*, December 2016, available at <http://www.icsve.org/2016/12/>; Anne Speckhard, 'ISIS revenues include sales of oil to the al-Assad regime. ICSVE Brief Reports, (April 27, 2016), available at <http://www.icsve.org/brief-reports/isiss-revenues-include-sales-of-oil-to-the-al-assad-regime/>

¹⁸ Erika Solomon, Guy Chazan, and Sam Jones, "ISIS Inc: How oil fuels the jihadi terrorists," *Financial Times*, (October 14, 2015), available at <https://www.ft.com/content/b8234932-719b-11e5-ad6d-f4ed76f0900a>; See also Celina Realuyo, 'Leveraging the Financial Instrument of National Power to Counter Illicit Networks,' Congressional Hearing entitled "A Dangerous Nexus: Terrorism, Crime, and Corruption".

¹⁹ "Archive of Islamic State Administrative Documents," Specimens 5T & 5U; "Archive of Islamic State Administrative Documents" Specimens 13Z, 14A, & 14B in Aymenn Al-Tamimi, A Caliphate Under Strain: The Documentary Evidence, op.cit, pp 6-7.

coalition campaign in Iraq. Just as IS relies, in part, on new models to fund its terrorist operations, anti-IS forces are also adapting their tools and techniques to combat its financial activities. Matthew Levitt claimed that a series of targeted strikes against IS oil production and distribution capabilities brought down IS oil production roughly by 33% in January 2016 alone.²⁰ Among the many 'departments' within IS bureaucracy is the *Diwan al-Rikaz* (Department of Precious Resources), an administrative body for overseeing resources in the so-called caliphate. The *Diwan al-Rikaz* oversees the petroleum sector, as well as antiquities and thus plays a significant role in managing the group's ability to tap into these funding streams.

IS is also engaged in other forms of smuggling, including human trafficking. Christina Schori Liang mapped Trans-Saharan smuggling routes, which demonstrated IS manipulation of ideological linkages with violent non-state actors in Nigeria, the Sahel, Libya, Egypt, Iraq and Syria.²¹ Prior to a concerted campaign by the Libyan Government of National Accord in mid to late 2016,²² IS controlled 260 kilometres stretch of the Mediterranean coastline around Sirte, Libya. It taxed those involved in facilitating the movement of at least 250,000 people travelling into Europe through the Mediterranean Sea in 2016, according to the International Organisation for Migration. The 2016 *Global Terrorism Index* cites instances where IS "orchestrated attacks on civilians in the refugee camps to increase the flow of migrants and subsequently profit from the taxation."²³ Although IS activity and access to refugee populations across this region has been affected by counter-IS operation in 2017, these trafficking channels will remain a

viable source of funding, manpower, equipment, etc.²⁴

Illicit antiquities trading

IS criminal involvement in the antiquities trade covers the entire gamut from extraction through to the collector in varying levels of automation and precision.²⁵ John Pipkins claims that "IS profits from the illicit sale of antiquities through two primary methods; IS run excavation and looting operations and the taxation of any non IS-run excavation, looting, or smuggling operations."²⁶ IS also recruits experts in this field to identify where and what items to extract as well as how and whom to sell these items.²⁷

The Iraqi Intelligence services revealed in June 2014 that the group made as much as US\$36 million from the sales of antiquities raided from al-Nabuk, an area located in the Qalamoun Mountains.²⁸ By early 2015, IS controlled more than 4,500 archaeological sites in Iraq, many listed as UNESCO World Heritage sites. By mid-2015, it took control of museums, private collections and archaeological sites, such as the 9th century B.C. grand palace of Assyrian king Ashurnasirpal II. This gave IS group an

²⁴ Joseph Siegle, 'ISIS in Africa: Implications from Syria and Iraq', *Africa Center for Strategic Studies*, (March 17, 2017), available at

<http://africacenter.org/spotlight/islamic-state-isis-africa-implications-syria-iraq-boko-haram-aqim-shabaab/>

²⁵ Peter B. Campbell, "The Illicit Antiquities Trade as a Transnational Criminal Network: Characterizing and Anticipating Trafficking of Cultural Heritage," *International Journal of Cultural Property*, (2013), p. 116. Campbell points out that there are more party's complicit in these transactions than just the terrorists. pp. 116-7; Brigadier General (Ret.) Russell Howard, Marc Elliott, and Jonathan Prohov, "Digging In And Trafficking Out: How The Destruction Of Cultural Heritage Funds Terrorism," *CTC Sentinel Vol. 8, Issue 2*, (February 2015), pp. 14-17,

<https://www.ctc.usma.edu/wp-content/uploads/2015/02/CTCSentinel-Vol8Issue27.pdf>

²⁶ John Pipkins, 'ISIL and the Illicit Antiquities Trade', *International Affairs Review*, Vol. XXIV, (Spring 2016), p. 102.

²⁷ Remarks by Andrew Keller, Deputy Assistant Secretary for Counter Threat Finance and Sanctions, Bureau of Economic and Business Affairs, Metropolitan Museum of Art, New York, NY, September 29 2015, 'Documenting ISIL's Antiquities Trafficking' available at <http://www.state.gov/e/eb/rls/rm/2015/247739.htm#OrgChart>

²⁸ Joris D Kila, 'Protecting the World's Cultural Heritage from Destruction', *Newsbrief*, Royal United Services Institute, September 25, 2015 available at <https://rusi.org/publication/newsbrief/protecting-world%E2%80%99s-cultural-heritage-destruction>

²⁰ Matthew Levitt, Katherine Bauer & Lori Plotkin Boghardt, 'Defeating the Islamic State: The Economic Campaign', *The Washington Institute*, op.cit.

²¹ Christina Schori Liang, 'The Criminal-Jihadist: Insights into Modern Terrorist Financing', op.cit, pp. 1-15.

²² Meir Amit Intelligence & Terrorism Information Center, *Spotlight on Global Jihad* (December 1-7, 2016), pp. 12-14 available at http://www.terrorism-info.org.il/Data/articles/Art_21105/E_222_16_20252325_1.pdf

²³ Institute for Economics and Peace, 'Global Terrorism Index', p. 85 available at <http://economicsandpeace.org/wp-content/uploads/2016/11/Global-Terrorism-Index-2016.2.pdf>

expansive supply of precious art and historical artefacts. Early in 2017, the group still had at least 4,500 cultural sites under its control.²⁹

The previously mentioned '*Diwan al-Rikaz*' grants licenses for the excavation of ancient sites.³⁰ *Al-Rikaz* "refers to anything that can be extracted from the ground" and al-Tamimi states *al-Rikaz* strictly regulates the extraction and movement of antiquities and precious metals in Iraq and Syria with the General Supervisory Committee of '*al-Rikaz*' ensuring "that only those with permits issued by the *Diwan al-Rikaz* can excavate antiquities."³¹

Apart from direct confrontation to expel IS from areas of historical significance such as Palmyra in Syria, legislation has been drafted which directly targets IS bottom-line. For example, the UN Security Council Resolution (UNSCR) 2199, adopted in February 2015, along with the previously mentioned oil related provisions, explicitly criminalises the trade in antiquities from Iraq and Syria.³² UNSCR 2199 "Notes with Concern" that IS:

"are generating income from engaging directly or indirectly in the looting and smuggling of cultural heritage items from archaeological sites, museums, libraries, archives, and other sites in Iraq and Syria, which is being used to support their recruitment efforts and

strengthen their operational capability to organise and carry out terrorist attacks."

Additionally, the US Justice Department, using information obtained from documents seized during a US Special Forces counter-terrorism raid in Syria in May 2015, filed a lawsuit against IS in December 2016 which noted the terrorist organisation profited from archaeological sites under its control.³³

Taxation in the Caliphate

Notwithstanding recent gains by anti-IS forces, IS still controls territory across Iraq and Syria where it levies taxes on the businesses and locals. Some of these taxes are like normal state taxes; others are religious taxes (involving fines and penalties for not following IS extremist social and political codes) or extortion. Reportedly, IS imposed a 10% income tax, 10-15% tax on business revenues, 2% Value Additional Tax (VAT) as well as road and customs tolls for vehicles crossing IS-held territory and taxes for smuggling drugs and weapons. IS also levies "departure taxes of up to US\$1,000 from those able to pay to leave ISIS territory."

IS also profited from the agriculture sector. Previous assessments from the UN Food and Agriculture Organisation estimated IS controlled "over 40 per cent of Iraq's wheat cultivating land."³⁴ Moreover, IS levied taxes on utilities such as electricity and water, telecommunications, cash withdrawals from bank accounts, employee salaries, and trucks entering IS-controlled territory at checkpoints.³⁵ Some estimates calculate this system of extortion/taxation generated "as

²⁹ Loveday Morris, 'Islamic State isn't just destroying ancient artifacts — it's selling them', The Washington Post, June 8, 2015, available at https://www.washingtonpost.com/world/middle_east/islamic-state-isnt-just-destroying-ancient-artifacts--its-selling-them/2015/06/08/ca5ea964-08a2-11e5-951e-8e15090d64ae_story.html?utm_term=.8b7cc52612c3; Matthew Levitt, Terrorist Financing and the Islamic State', Testimony submitted to the House Committee on Financial Services November 13, 2014, The Washington Institute for Near East Policy available at <http://www.washingtoninstitute.org/uploads/Documents/testimony/LevittTestimony20141113.pdf>

³⁰ Aymenn Jawad Al-Tamimi, 'The Islamic State's Diwan al-Rikaz in Mosul', Aymenn Jawad Al-Tamimi's Blog, (July 6, 2015), available at <http://www.aymennjawad.org/2015/07/the-islamic-state-diwan-al-rikaz-in-mosul>

³¹ Aymenn Jawad Al-Tamimi, 'Unseen Documents from the Islamic State's Diwan al-Rikaz', *Middle East Forum*, (October 12, 2015), available at <http://www.meforum.org/5735/unseen-documents-from-the-islamic-state-diwan-al>

³² United Nation Security Council, 7379TH Meeting (AM), SC/11775 February 12, 2015 available at <http://www.un.org/press/en/2015/sc11775.doc.htm>

³³ Jessica Gresko, 'Lawsuit details Islamic State profits from antiquities' sale', *The Associated Press*, (December 15, 2016), available at <http://www.militarytimes.com/articles/lawsuitdetailsislamicstateprofitsfromantiquitiessale>; Spencer S. Hsu, *The Washington Post*, (December 15, 2016), available at https://www.washingtonpost.com/local/public-safety/us-steps-up-fight-to-cut-islamic-state-financing-and-trade-in-looted-antiquities/2016/12/15/77a7b40e-c2e1-11e6-9578-0054287507db_story.html?utm_term=.ff8b95ecafac

³⁴ Financial Action Task Force, *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant*, (February 2015), p. 15 available at <http://www.fatf-gafi.org/documents/documents/financing-of-terrorist-organisationisil.html>

³⁵ Patrick Johnston, 'Countering ISIL's Financing', op.cit, p. 6.

much as \$360 million per year for the terrorist organisation.”³⁶

IS also levies taxes on the businesses involved in the group's previously mentioned petroleum distribution and antiquities smuggling racket. This taxation conforms to traditional religious taxation of *khums*, which along with *zakat* (compulsory tax) is an obligation for business and individuals respectively.³⁷ *Khums* usually represents a 20% tax on all businesses operating in a certain territory; however, some reports indicate IS charges up to 50%.³⁸ For example, US counter-terrorism expert Jessica Stern notes “at some sites IS outsources digging jobs to locals and collects a 20 to 50 percent Islamic *khums* tax, historically levied on the spoils of war, on artefacts that are excavated.”³⁹ IS, therefore, has the alleged religious justification to maintain its commercial taxation. IS also deploys its religious police or ‘*Diwan al-Hisbah*’ (Ministry of Accountability) officers to, at times brutally, assist people to obediently follow IS interpretation of proper standards of morality. Pecuniary punishments can be handed out for infringements such as smoking, drinking alcohol or not conforming to dress regulations.⁴⁰ The ‘*rijaal al-hisbah*’ (men who guard against infringements) have a particular role to play in businesses, ensuring that businesspersons and their customers conduct their business transactions in proper,

fair, and ethical manner and extract payment for non-compliance.⁴¹

However, IS strict enforcement of their particular brand of Salafism has had a twofold impact on their ability to draw upon the religious taxation stream. First, Syrians, Libyans, and Iraqis living in IS-controlled territories have been fleeing or dying, thereby diminishing the pool of taxpayers. To offset this, IS has attempted to maintain the perception of ‘normalcy’ in areas under its influence or control, encouraging businesses to remain open and targeting blue collar skillsets in its migration promotions. Second, the Iraqi government stopped paying employees in IS-controlled territory in mid-2015, denying them access to personal income.⁴² This reduction of personal income has reduced the amount of revenue raised through *zakat*. *Zakat*, is an obligation for any Muslim with the financial means to do so as an act of pious giving. Azim A. Nanjii states that the paying of *zakat* is invariably linked by the Qur'an to the performance of prayer, accentuating its ritualistic role as well as preserving social equilibrium.”⁴³ The *zakat* is collected and distributed among the Muslim community and there is no credible evidence indicating that IS has used *zakat* for any other purpose than for what it is intended.

However, as Reza Aslan has noted, “at the height of the Caliphate, it was common practice to use *zakat* to fund the army, a practice that caused uproar from many in the Muslim community.”⁴⁴ Even so, if the *zakat* is contributing less to the Muslim communities in Iraq, Libya and Syria, then the short-fall will need to be made up for by the governing entity, IS. The terrorist group could possibly accrue revenue from taxing the *Dhimmi* (people of the book) with the *jizyah*

³⁶ Anan Swanson, ‘How the Islamic States makes its money’, *The Washington Post*, (November 18, 2015), available at https://www.google.com.sg/?gfe_rd=cr&ei=GM39WJPsOliFogQa7q3oCg&gws_rd=ssl#q=Anan+Swanson,+%E2%80%98How+the+Islamic+States+makes+its+money%E2%80%99,+The+Washington+Post

³⁷ Reza Aslan, ‘No God But God: The Origins, Evolution and Future of Islam’, (London: Arrow Books, 2005) p. 147; The *zakat* is collected and distributed among the Muslim community and there is no indication that ISIS is using *zakat* for any other purpose than for what it is intended.

³⁸ Brigadier General (Ret.) Russell Howard, Marc Elliott, and Jonathan Prohov. “Digging In And Trafficking Out: How The Destruction Of Cultural Heritage Funds Terrorism,” op.cit, p. 16.

³⁹ Jessica Stern, ‘ISIL and the Goal of Organizational Survival’, Center for Complex Operations, US Department of Defence, October 25, 2016. p. 198

⁴⁰ Mona Mahmood, ‘Double-layered veils and despair ... women describe life under Isis’, *The Guardian*, February 17, 2015, available at <https://www.theguardian.com/world/2015/feb/17/isis-orders-women-iraq-syria-veils-gloves>

⁴¹ Mohammad al-Dairi, ‘Mohammad al-Dairi’, *Institute for War & Peace Reporting*, March 4, 2015, available at <https://iwpr.net/global-voices/islamic-state-crackdown-syrias-deir-al-zor>

⁴² Aymenn Al-Tamimi, A Caliphate Under Strain: The Documentary Evidence, op.cit, p. 3; Erika Solomon & Sam Jones ISIS Inc: Loot and taxes keep jihadi economy churning, *Financial Times*, December 15, 2015, available at <https://www.ft.com/content/ae89a00-9ff1-11e5-beba5e33e2b79e46#axzz3uOWe0OFn>

⁴³ Azim A. Nanjii, Ethics and Taxation: The perspective of the Islamic tradition’, *The Journal of Religious Ethics*, Vol. 13, no. 1, (Spring, 1985), pp. 161-178 available at https://www.jstor.org/stable/40015005?seq=1#pagescan_tab_contents

⁴⁴ Reza Aslan, *No God but God: The origins, Evolutions and Future of Islam*, (London: Arrow Books, 2006), p. 147

(protection tax)⁴⁵ although IS has so far demonstrated little tolerance for people of any faith who do not subscribe to their extremist worldview.⁴⁶

Hacking, identity theft & cyber-jacking

IS has a substantial online presence and its 'United Cyber Caliphate' (UCC) rivals its physical Caliphate in many respects. The former US Director of National Intelligence James Clapper warned "IS is by far the most capable, most sophisticated user of the cyber domain."⁴⁷ The UCC's *raison d'être* is to build a cyber-army and create forums to enable followers to wage cyber-terror campaigns. The UCC has called supporters to conduct "Electronic Jihad" by hacking into energy networks. It coaches its followers on using anonymous browsers such as ZeroNet network technology which makes IS websites difficult to remove, as well as providing instructive security manuals.⁴⁸

IS Twitter, YouTube and Telegram accounts, its 24/7 official news channel *Amaq* and its online magazines (Dabiq and Rumiya) which are released in multiple languages are all well-known and have been extensively researched.⁴⁹ IS is among a growing list of

nefarious entities which use the 'world's greatest open space,' the 4th dimension to secure a percentage of the estimated US\$70 billion and US\$140 billion annually extracted from the US alone through cybercrime and cyber espionage.⁵⁰ For example, IS cyber-jihadis openly advise their online supporters how to use Dark Wallet, an anonymous bitcoin transfer application, as well as "how to set up an anonymous donations system to send money, using bitcoin, to the mujahedeen."⁵¹ Whilst providing a communication channel with mass reach, IS online forums serve as virtual marketplaces for "cybercrime tools such as malware and ransom-ware, as well as for skilled hackers, who can be hired for criminal services."⁵²

The Islamic State Hacking Division (ISHD) is one of IS unofficial cyber-battalions which regularly publish hit lists of US and other Western military personnel, including photos, postal and email addresses, phone numbers, among others.⁵³ The ISHD encourages supporters to carry out lone-wolf attacks in Western countries targeting both hard and soft targets. One of IS 'electronic soldiers' declared: "Go ahead oh lone lions and kill those crusaders and those who support them, and especially the soldiers and military officers, these are their addresses so don't let them get away."⁵⁴

The Internet has globalised fraudulent schemes, giving fraudsters access to millions of potential victims. British IS supporters

⁴⁵ Financial Action Task Force, *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant*, February 2016, p. 10 available at <http://www.fatf-gafi.org/documents/documents/financing-of-terrorist-organisationisil.html>

⁴⁶ Natana, J. Delong-Bas, *Wahhabi Islam: From Revival and Reform to Global Jihad*, (London: Oxford University Press, 2004), p. 62

⁴⁷ Jeff Seldin, 'Cyber War Versus Islamic State 'Work in Progress'', *Voice of America*, May 18, 2016, available at <http://www.voanews.com/content/cyber-war-versus-islamic-state-work-in-progress/3336773.html>

⁴⁸ Schori Liang, C., 'Cyber-Jihad: Understanding and Countering Islamic State Propaganda', *GCSP Policy Paper* 2015/2, February, 2015 available at <http://www.gcsp.ch/NewsKnowledge/Publications/Cyber-Jihad-Understanding-andCountering-Islamic-State-Propaganda> See also 'Use of the ZeroNet Network by the Islamic State', Institute for Counter Terrorism, IDC, The Cyber Desk, October 9, 2016, available at <https://www.ict.org.il/Article/1790/use-of-the-zeronet-network-by-the-islamic-state>

⁴⁹ J. M Berger & J. Morgan, 'The ISIS Twitter Census: Defining and describing the population of ISIS supporters on twitter. The Brookings Project on U.S. Relations with the Islamic World. Washington, D.C., Center for Middle East Policy at Brookings, (2014). pp.1-68; Steven Stalinsky and R. Sosnow, "Hacking In The Name Of The Islamic State," *MEMRI-Inquiry & Analysis Series Report No. 1183*, August 21, 2015, available at <https://www.memri.org/reports/hacking-name-islamic-state-isis>; Michael Barak, The Telegram Software as an Arena of Activity to Encourage the 'Lone

Wolf' Phenomenon, International Institute for Counter-Terrorism, May 24, 2016, available at <https://www.ict.org.il/Article/1673/the-telegram-chat-software-as-an-arena-of-activity-to-encourage-the-lone-wolf-phenomenon>

⁵⁰ Mark Hanna, 'Transnational Organized Crime in an Era of Accelerating Change', In William Mendel & Peter McCabe (eds.), *SOF Role in Combating Transnational Organized Crime*, (Florida: Joint Special Operations University, 2016), p. 39.

⁵¹ Financial Action Task Force, 'Emerging Terrorist Financing Risks', op.cit, p. 36.

⁵² Mark Hanna, 'Transnational Organized Crime in an Era of Accelerating Change', p. 40

⁵³ "ISIS Supporters Publish Hit-List Of 100 US Military Personnel, With Pictures And Addresses," *MEMRI Jihad & Terrorism Threat Monitor*, March 22, 2015, available at <https://www.memri.org/jtm/isis-supporters-publish-hit-list-100-us-military-personnel-pictures-and-addresses>

⁵⁴ 'ISIS Supporters Publish Hit-List Of 100 US Military Personnel, With Pictures And Addresses'; Steven Stalinsky and R. Sosnow, 'Hacking In The Name Of The Islamic State', The Middle East Media Research Institute, (August 21, 2015), pp. 9, 32-33.

committed a large-scale fraud by pretending to be police officers and targeting the UK pensioners for their bank details, earning more than US\$1.8 million.⁵⁵ Magnus Ranstorp has found that IS operatives have used fake identities and payslips to apply for funds through online applications. They have used these identities to secure soft bank loans, quick loans (SMS loans), government and private welfare schemes as well as lease motor vehicles, such as the ubiquitous Toyota Hilux SUV for reselling purposes.⁵⁶ Supporters have also established shadow or shell companies for importing and exporting goods with profits being transferred to the group as well as using these shell companies to commit tax fraud, receiving tax credits and VAT payments before dissolving the company.⁵⁷

Ranstorp states intelligence officials have flagged crowd funding as an emerging source of financing for IS, combining “clever social media and emotional telethons with the fundraising power of a multitude of individuals” under the guise of a charitable non-profit organisation.⁵⁸ Establishing such organisations can attract funding through diverse social media sites.⁵⁹ According to Treasury and Counter Terrorism agency's reports, there are numerous cases where the appeals for supply and equipment were quickly matched and specific instructions

were given over encrypted platforms about where to direct the funds.⁶⁰

Cyber-jacking (an under-researched area) is another element of IS funding with the potential to raise billions of dollars.⁶¹ Cyber-jacking can occur at the individual and corporate level.⁶² Obviously, attacking individual personal computers can be a relatively simple process and the outcome would be generally favourable for the cyber-jacker (as long as the ransom demand was not exorbitant).

IS virtual network will be attracted to cyber-jacking given the simplicity of the process coupled with its limited reporting to law enforcement. The lack of reporting also makes it difficult to gather data on the prevalence of this activity and its attribution to IS specifically. Cyber-jacking a commercial entity requires a greater level of skill; however, the reward is also increased. In May 2015, the FBI Director James Comey noted that that IS was “waking up” to the idea of initiating a cyber-attack with sophisticated malware, saying: “Logic tells me it's coming.”⁶³ One report indicates that as of December 2016 “there is no indication that terrorist organisations are using ransomware to attain financing for terrorist activity...the wide use of these malware and their media exposure is likely to encourage terrorist organisations to adopt these tools.”⁶⁴

⁵⁵ Magnus Ranstorp, “Microfinancing the Caliphate: How the Islamic State is Unlocking the Assets of European Recruits,” *CTC Sentinel*, Vol. 9, no. 5, (May 2016), p.13, available at <https://www.ctc.usma.edu/posts/microfinancing-the-caliphate-how-the-islamic-state-is-unlocking-the-assets-of-european-recruits>; See also Jonathan Owen, “British pensioners targeted in scam by extremists raising funds for Isis,” *Independent*, (March 5, 2015), available at <http://www.independent.co.uk/news/uk/crime/british-pensioners-targeted-in-scam-by-extremists-raising-funds-for-isis-10086277.html>

⁵⁶ Magnus Ranstorp, “Microfinancing the Caliphate: How the Islamic State is Unlocking the Assets of European Recruits,” op.cit, pp. 11-15; see also Peter Dominiczak, Tom Whitehead, & Christopher Hope, “Jihadists funded by welfare benefits, senior police officer warns,” *Daily Telegraph*, (November 26, 2014), available at <http://www.telegraph.co.uk/news/uknews/terrorism-in-the-uk/11256882/Jihadists-funded-by-welfare-benefits-senior-police-officer-warns.html>

⁵⁷ Magnus Ranstorp, “Microfinancing the Caliphate: How the Islamic State is Unlocking the Assets of European Recruits,” op.cit, p. 13.

⁵⁸ Ibid, pp. 13-14.

⁵⁹ Financial Action Task Force, ‘Emerging Terrorist Financing Risks’, op.cit, pp. 1-50.

⁶⁰ “Islamic State using social media as crowdfunding platform for terrorist activities, expert warns,” *ABC News*, November 17, 2015, available at <http://www.abc.net.au/news/2015-11-17/is-using-social-media-to-crowdfund-terrorist-activities/6948374>

⁶¹ Vinaya Deshpande, ‘Future of asymmetric warfare: Cyberjacking or ships as WMD?’, *Sunday Guardian Live*, (October 9, 2016), available at <http://www.sundayguardianlive.com/news/6875-future-asymmetric-warfare-cyberjacking-or-ships-wmd>

⁶² N/A, ‘DDoS attacks have gone from a minor nuisance to a possible new form of global warfare’, *Quartz*, (December 13, 2016), available at <http://qz.com/860630/ddos-attacks-have-gone-from-a-minor-nuisance-to-a-possible-new-form-of-global-warfare/>

⁶³ James B Comey, ‘Third Annual Cybersecurity Law Institute,’ Georgetown University, May 20, 2015, available at <https://www.law.georgetown.edu/news/press-releases/third-annual-cybersecurity-law-institute.cfm>

⁶⁴ ‘Analysis of Cyber Trends 2016’, ICT Cyber-Desk, International Institute for Counter-Terrorism, November 2016, p. 12

Conclusion

While researching the four funding areas discussed in this paper, the dichotomy between IS extremist ideology and their criminal practices to generate funds is obvious. However, the terrorist group has justified its criminal actions by providing an ideological justification, amending and sometimes re-writing its operational doctrines as and when necessary. In its flagship online English magazine *Dabiq*, IS sets out its reasoning for upholding slavery of women and girls who are bought and sold at 'slave auctions.' IS Research and Fatwa Department established guidelines for slavery in November 2014, releasing a lengthy 'how-to manual' justifying violence, and elevating sexual assault as spiritually beneficial.⁶⁵ While the prices of slaves are generally quite low, family members who are able to buy back their children and wives pay ransoms as high as US\$3,000.⁶⁶

IS opposes modernity and Western society to which attributes depravity, amorality, and secularity. Yet, it has managed to justify and manipulate Western tools such as affordable global travel and multiculturalism, mass communication and the Internet as weapons against it. The antipathy for idolatry in Islam is a fundamental principle and is central to the Kaa'ba in Mecca becoming the most sacred site in Islam.⁶⁷ Yet IS justifies profiting from the sale of these idols in black-market instead of destroying them. Ironically, while performing the so-called jihad, it is not *haram* (unlawful) for IS to sell antiquities to fund their pursuit of victory.

Due to IS self-reliant nature, traditional sanctions regime will not be as effective against the terror group as they have been against Al-Qaeda, Al-Shabaab, Boko Haram, and Lashkar-e-Taiba. However, the UN Security Council Resolutions have the necessary provisions to expose IS external and internal revenue sources, as do entities such as the UNESCO, UNODC, the FATF, and the Counter-IS Finance Group.

⁶⁵ Islamic State (ISIS) Releases Pamphlet On Female Slaves', MEMRI Jihad & Terrorism Threat Monitor, December 3 2014 <https://www.memri.org/itlm/islamic-state-isis-releases-pamphlet-female-slaves>

⁶⁶ Christina Schori Liang, 'ISIL INC.: A Portrait Of A Modern Terrorist Enterprise 2015', in Global Peace Initiative, *2015 Global Terrorism Index*, (2015), p. 78.

⁶⁷ Resa Aslan, 'No God but God', op.cit, pp. 23-49.

The recruitment and sustainability of IS, with membership ranging between 15,000 and 50,000, is more important than the operational aspect of counter-funding programs. Operational capacity naturally improves with the structural integrity of territorial governance and the associated steady stream of foot soldiers. Aymenn al-Tamimi found that IS documents obtained from pro- and anti-IS sources pointed to a "bureaucratic system with a level of complexity and professionalism that probably makes the terror group sustainable, even after facing territorial setbacks in Iraq, Syria and Libya."⁶⁸

Matthew Levitt confidently claims that IS will remain a threat "not only after the fall of Mosul but also after the fall of Raqqa ... (because) ... it maintains an online presence and produce(s) ideological justifications for its setbacks." This allows the terrorist group to survive the loss of its exalted Caliphate.⁶⁹ However, the importance of 'territory' for IS cannot be ignored. Territory is central for the survival of its Caliphate. The Caliphate is the dominant recruitment 'pull-factor' for IS and it generates the majority of its revenue from this territory. Although IS may be able to explain away its loss of territory as part of a broader grand narrative, without Iraq and Syria, and a depleted source of funding the group will need to rebrand.⁷⁰

The lessons learned in countering IS, just as they were in countering previous terrorist groups, should inform tactics and strategy of states, therefore enhancing the capacity to counter IS 3.0 and beyond.

⁶⁸ Aymenn Al-Tamimi, 'A Caliphate Under Strain: The Documentary Evidence', op.cit, p. 5.

⁶⁹ Matthew Levitt, Comments made at the 'The Salafi-Jihadi Movement Post 'Caliphate'', The Washington Institute, October 27, 2016, available at <https://www.youtube.com/watch?v=naw9t1t5tOA>

⁷⁰ Craig Whiteside, "Lighting the Path: the evolution of the Islamic State Media Enterprise (2003-2016)," ICCT Research Paper, November 2016, available at <https://icct.nl/wp-content/uploads/2016/11/ICCT-Whiteside-Lighting-the-Path-the-Evolution-of-the-Islamic-State-Media-Enterprise-2003-2016-Nov2016.pdf>; see also Patrick Tucker, 'Inside the US's New War with Brand ISIS', Defence One, June 9, 2016, available at <http://www.defenseone.com/technology/2016/06/navy-seal-isis-messaging/128938/>

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