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# Islamic State Financing and U.S. Policy Approaches

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April 10, 2015

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

R43980

## Summary

Countering the financial resources of the Islamic State, which has seized significant territory in Iraq and Syria and threatened to conduct attacks against the United States and its citizens, has become a significant national security priority for policymakers, including Members of Congress. By undermining the financial strength of the group, also known as ISIL or ISIS, policymakers seek to reduce its capability to conduct terrorist attacks, as well as to ultimately “degrade and ultimately destroy” the group. This effort includes a comprehensive look at how the group generates revenue.

While IS funding streams remain fluid, the group’s largest revenue sources appear (based on open-source information) to include oil sales, taxation and extortion, and the sale of looted antiquities. Oil sales initially provided the majority of the group’s revenue, but gradually declined as a percentage of overall IS profits due to an extensive campaign of airstrikes by the United States and coalition partners against oil and gas facilities used by the group.

U.S. officials have noted that the Islamic State’s financial strength depends not only on its income but also on its expenses, and the extent to which it is able to devote its resources to military operations. U.S. officials have stated that the Islamic State’s decision to hold and govern territory is a financial burden for the group, and thus a vulnerability that the United States could potentially exploit by diminishing the group’s ability to generate and utilize revenue. If the Islamic State cannot afford the expenses associated with governing its territory, some argue that the resulting public backlash would undermine its ability to rule.

Along with military strikes, the United States, in cooperation with regional allies, has implemented a series of financial measures designed to block the Islamic State’s access to the international financial system. Without such access, the Islamic State will likely struggle to fund external operations, including facilitating the movement of foreign fighters. However, significant challenges remain, as the Islamic State has thus far been able to limit its direct exposure to the international financial system by generating and spending money largely within territory under its control. U.S. efforts are centered on identifying new ways to target the group’s finances by focusing both on the Islamic State and on others who conduct business with the group.

To date, the Administration has not requested new authorities specifically to counter IS financing. As the 114<sup>th</sup> Congress continues to consider and evaluate U.S. policy responses to address the Islamic State, a focus of concern may center on whether U.S. counterterrorist financing tools are capable of diminishing IS sources of funds. Key questions may include whether current U.S. efforts are effective, sufficiently resourced, or require new legislative authorities to respond to the financial threat that the Islamic State presents.

For additional information on the Islamic State and the U.S. response, see CRS Report R43612, *The “Islamic State” Crisis and U.S. Policy*, by Christopher M. Blanchard et al.

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## Introduction

The Islamic State, also known as ISIL or ISIS, has been described by senior U.S. officials as one of the best-funded terrorist organizations. Its wealth has contributed to the group's ability to finance sophisticated military operations across parts of Iraq and Syria. It also seeks to use its revenue to administratively control and govern the territory it has seized. In several respects, the Islamic State presents a unique policy challenge to combating terrorist financing. Its financial strength lies in its ability to secure large amounts of funding from primarily internal sources, its lack of reliance on international sources of funds, and its exploitation of ungoverned spaces and porous borders to move funds with impunity. These characteristics often place the organization's finances beyond the reach of some of the most common counterterrorist financing policy tools.

The Islamic State controls a variety of public resources and infrastructure in parts of Iraq and Syria, enabling it to assemble a "diverse financial portfolio."<sup>1</sup> Some of these resources, such as oil and antiquities, can be smuggled and sold for considerable profit. Others—agriculture and energy and water utilities—generate limited revenue and require a significant investment in inputs or technical expertise, but help the group portray itself as exercising the functions of a legitimate government. Activities such as kidnapping for ransom or the looting of state banks in Iraq are profitable in the near-term but not necessarily sustainable. In other cases, IS control over a set of resources is notable not solely for the revenue the group derives from it, but also for the extent to which it limits the ability of the Iraqi and Syrian governments to conduct trade, provide utility services, or feed its citizens.

Targeting the Islamic State's finances is one of five core lines of effort to degrade and defeat the terrorist organization. General John Allen, the U.S. Special Presidential Envoy for the Global Coalition to Counter ISIL, stated in early 2015 that the United States cannot defeat ISIL through military efforts alone, and highlighted the need to deprive the group of access to financial resources.<sup>2</sup> U.S. policy to counteract IS financing has concentrated on three primary areas: disrupting the group's main sources of funding, restricting its access to the international financial system, and imposing sanctions on its senior leadership and financial facilitators. The United States also has sought to collaborate with international partners, including through cooperation on financial intelligence collection and analysis.

Although military airstrikes on IS-linked oil infrastructure and supply networks have already altered the organization's financial profile, counterterrorist financing policy responses remain nascent. Policymakers continue to grapple with how to develop quick and effective responses to combat IS financing. Some caution that counter-finance tactics may need to be balanced with consideration of the economic harm such actions may inflict on civilian populations in IS-controlled territory. In the absence of alternatives, particularly for key resources such as oil, utilities, and agriculture, efforts to counter IS-financing could damage local economies and services and contribute to an expanding humanitarian crisis in the region.

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<sup>1</sup> Muhammad al-'Ubaydi et al., *The Group That Calls Itself a State: Understanding the Evolution and Challenges of the Islamic State*, Combating Terrorism Center at West Point, December 2014.

<sup>2</sup> Gen. John Allen, Special Presidential Envoy for the Global Coalition to Counter ISIL, statement submitted for the conference "Taking the Fight to ISIL: Operationalizing CT Lines of Effort Against the Islamic State Group," Washington Institute for Near East Policy, February 2, 2015.

Early international efforts to address IS financing have focused on gathering information and generating a common understanding of the organization's financial capabilities. As part of the international Counter-ISIL Coalition, the United States, Italy, and Saudi Arabia are co-leading the Counter-ISIL Finance Group (CIFG), which met for the first time in March 2015. Several United Nations Security Council Resolutions have authorized international action against IS financing, most recently in resolution 2199 (2015), and, in an initiative co-led by the United States and Turkey, the Financial Action Task Force issued a report in February 2015 that describes IS financing typologies.

U.S. officials have sought to reduce expectations regarding the pace of efforts to combat the sources of IS revenue, emphasizing that counter-IS financing is a work in progress, requires further refinement, and is unlikely to result in immediate success. To date, the Obama Administration has not requested new authorities from Congress specifically to counter IS financing. As part of broader efforts to evaluate the Administration's counter-IS response, Congress also has an interest specifically in evaluating U.S. efforts to target IS financing and to combat terrorist financing generally. In November 2014, the U.S. House Committee on Financial Services held a hearing on "Terrorist Financing and the Islamic State." More recently, in March 2015, the Committee on Financial Services established a six-month bipartisan "Task Force to Investigate Terrorism Financing" in order to conduct hearings and investigations related to U.S. responses to terrorist financing issues.

## **What is the Islamic State?**

The Islamic State organization is the successor to Al Qaeda in Iraq (AQI). Established in 2004, AQI pledged loyalty to Al Qaeda and targeted U.S. and coalition forces in Iraq. In 2006, AQI changed its name to the Islamic State of Iraq (ISI). Following the outbreak of unrest in Syria in 2011, ISI leader Abu Bakr al Baghdadi tasked Muhammad al Jawlani with establishing Al Nusrah Front (ANF) in Syria to fight the Asad government.<sup>3</sup> ISI provided Jawlani with funding, manpower, and guidance, although ANF did not publicly acknowledge its ties to Al Qaeda. In April 2013, Baghdadi unilaterally announced a merger of ISI and ANF, under the name Islamic State in Iraq and the Levant (ISIL or ISIS). ANF and Al Qaeda leadership both rejected the merger, and Al Qaeda leader Ayman al Zawahiri ordered Baghdadi to confine his operations to Iraq. Baghdadi refused, and ISI began fighting in Syria under the name ISIL, eventually coming into direct confrontation with ANF and other Syrian opposition forces. In February 2014, Zawahiri publicly severed ties with ISIL, citing the group's brutal tactics, infighting with other Sunni groups, and refusal to cede Syria operations to ANF. In June 2014 Baghdadi declared the establishment of an Islamic caliphate and changed ISIL's name to the Islamic State.

Headquartered in the eastern Syrian city of Raqqa, the Islamic State operates primarily in northeastern Syria and northwestern Iraq. Through an extended military campaign against both government and opposition forces, the group gradually gained control over a roughly contiguous area along the Tigris and Euphrates rivers spanning hundreds of miles. In February 2015 congressional testimony, U.S. Director for National Intelligence James Clapper reconfirmed the intelligence community's estimate that the Islamic State can muster "somewhere in the range between 20 and 32,000 fighters" but noted that there has been "substantial attrition" and the group

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<sup>3</sup> "Senior Administration Officials on Terrorist Designations of the al-Nusrah Front as an Alias for al-Qaeda in Iraq," Special Briefing via teleconference, December 11, 2012.

has been turning to conscription in some areas. IS militants in 2014 beheaded three Americans captured in Syria; a fourth U.S. citizen was also killed while held by the group. The Islamic State has encouraged followers to conduct lone-wolf attacks in Europe and the United States. For additional information on the Islamic State and the U.S. response, see CRS Report R43612, *The “Islamic State” Crisis and U.S. Policy*, by Christopher M. Blanchard et al.

## History of IS Financing

The Islamic State’s system of financing is likely shaped by the experiences of the group’s predecessor organizations, the Islamic State of Iraq (ISI) and Al Qaeda in Iraq (AQI). Captured battlefield documents and media reports provide the basis for what researchers know about how precursors to the Islamic State were funded. For example, documents describing ISI operations in Sinjar reveal a group that was reliant on incoming foreign fighters for funds, internal transfers from other areas under ISI’s control, local donations, and conflict loot.<sup>4</sup> Other areas under ISI’s control were reportedly funded through oil revenue, agricultural production, ransom payments, and external donors.

Based on other captured financial records, a RAND study analyzed the finances of AQI in Anbar province during the group’s peak power and influence in 2005 and 2006.<sup>5</sup> The RAND study concluded that regional financial managers wielded significant autonomy in budgetary decisionmaking. This was due partly to the preponderance of locally sourced revenue streams, including the theft and resale of local high-value goods, such as construction equipment, generators, electrical cables, and cars, as well as extortion. Notably absent from the financial records analyzed by RAND was data to suggest that the group profited primarily from oil smuggling or relied on wealthy foreign donors. The RAND study found that transfers of funds were conducted primarily through cash couriers, rather than the formal financial sector, and that the group was sufficiently profitable to redistribute some its wealth to other provinces and to other countries, including possibly to senior Al Qaeda leadership in Pakistan. Yet, the study also found the group to lack substantial cash reserves and thus to be dependent on consistent cash flows in order to keep pace with outlays for daily operations, particularly salaries.

Another battlefield document captured in 2008 appears to highlight the centrality of effective financial management for AQI’s operations. In this document, ISI fighters compiled a list of lessons learned, based on what they perceived as Al Qaeda’s failures in Iraq.<sup>6</sup> Among them was a critique of its use of financial resources, describing a failure to distribute funding among local cells effectively and the lack of a regular funding source, particularly a foreign state sponsor.

U.S. and Iraqi forces to date have captured a limited number of internal Islamic State documents, which have not been publicly released. In June 2014, Iraqi special forces recovered a trove of documents on memory sticks and hard drives during a raid that killed Abdul Rahman al Bilawi, the Islamic State’s military chief of staff for Iraqi territory. Some media outlets were permitted to

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<sup>4</sup> Muhammad al-Ubaydi et al., *The Group That Calls Itself a State: Understanding the Evolution and Challenges of the Islamic State*, Combating Terrorism Center at West Point, December 2014.

<sup>5</sup> Benjamin Bahney et al., *An Economic Analysis of the Financial Records of al-Qa’ida in Iraq*, RAND National Defense Research Institute, 2010.

<sup>6</sup> Brian Fishman, *Dysfunction and Decline: Lessons Learned from Inside Al Qa’ida in Iraq*, Combating Terrorism Center at West Point, Harmony Project, March 16, 2009.

review a selection of the material, which reportedly included details of the group's leadership structure as well as expenditure lists.

## Sources of Revenue

According to congressional testimony by Patrick Johnston of the RAND Corporation in late 2014, the key difference between the financial activities of the Islamic State's predecessors and its current financial profile is not the types of revenue sources, but the scale of activities.<sup>7</sup> Between August 2008 and January 2009, ISI's master financial ledgers in Mosul reportedly showed the group generating slightly less than \$1 million in fundraising per month. In 2014, the Islamic State was able to generate the same amount—or more—per day. This section surveys specific IS revenue sources, some of which were initially cultivated by AQI and ISI.

## Oil and Natural Gas

### Syrian Oil Sector

Before protests against the Syrian government began in March of 2011, the oil sector played an important role in the national economy and government accounts. Although not a large oil producer or exporter in the world market, Syria produced approximately 400,000 barrels per day of crude oil from its oil fields in the eastern part of the country, near the Iraqi border, while exporting approximately 150,000 barrels per day of crude oil, virtually all to Europe, including Turkey. The oil sector provided 25% of Syrian government revenues, and about 45% of total Syrian exports.

The escalating combat in Syria since 2011 has damaged the oil sector on both the demand and supply sides of the market. Demand for Syrian exports has evaporated as sanctions imposed by the United States and others, including, critically, the European Union, took effect. Fighting in Syria has damaged oil facilities, causing oil production to fall to approximately 20,000 barrels per day, or less, only 5% of average production before 2011. As a result, official exports have fallen to zero, and Syria has become a net importer of petroleum products. Syrian oil export facilities remain largely under government control while oil producing areas remain under rebel control, so exports are unlikely to resume without a political settlement even if facilities were physically repaired. In addition, combat conditions have caused international oil companies to suspend operations in Syria, leading to a shortage of trained personnel and compounding the effects of a shortage of equipment and parts due to the international sanctions.<sup>8</sup>

### Syrian Oil and the Islamic State

Much of the physical and economic damage to the Syrian oil sector took place between March 2011 and June 2014, when IS forces expanded their control of oil producing regions in northeast

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<sup>7</sup> Patrick B. Johnston (RAND Corporation), testimony on "Countering ISIL's Financing" before the U.S. House Committee on Financial Services, November 13, 2014.

<sup>8</sup> This section is based on the Energy Information Administration, *Country Analysis Brief, Syria*, available at <http://www.eia.gov/countries/cab.cfm?fips=SY>.

Syria. The Islamic State organization needs and uses oil for a variety of purposes. Refined oil is needed to fuel ISIS vehicles as well as for civilian use within areas under IS control. Crude oil can be sold for cash to finance the group, or traded for refined products.

Selling IS oil is technically difficult because the group has no traditional export facilities or access to the open market. As a result, the group must ship its oil by truck to the Turkish border where oil brokers and traders buy the oil and make cash payments, or payments in kind of petroleum products. Because the Syrian government considers IS oil to be stolen contraband and because international sanctions limit the markets the oil can legally enter, IS oil trades at a steeply discounted price. Reliable, documented oil quantity and price data for IS transactions are unavailable due to their illegal nature. It has been reported that IS oil might have been selling for as little as \$18 per barrel at the Turkish border, when Brent, a world price reference crude oil was selling for about \$107 per barrel.<sup>9</sup> Recently, the price of Brent has declined to about \$65 per barrel, a decrease of over 50% since June 2014. The fall in world oil prices has likely further reduced the net price received by IS leaders for the oil they sell.

### **Iraqi Oil and the Islamic State**

The status of the oil fields in northern Iraq, and of the Baiji refinery further south, have been in a state of flux since the summer of 2014. The situation is complicated by the existence of three organized military forces in the region; the Iraqi army, the Islamic State, and the Kurdish peshmerga forces, as well as other groups fighting the Iraqi government.

The Islamic State has been in control of a number of relatively small oil fields in northern Iraq, selling volumes of oil through Turkey in essentially the same manner as their sales of Syrian oil. In June 2014 the group captured the Baiji refinery which, with its production capacity of 170,000 barrels per day, supplied petroleum products for northern Iraq.<sup>10</sup> While in IS hands, the refinery produced only a fraction of its rated capacity due to lack of both personnel and a secure oil supply. Iraqi forces retook the refinery five months later, although control of the city remained contested.

The Turkish border region also is a conduit for the sale of illicit Iraqi oil, both by the Islamic State, which holds several small fields in Iraq, and by the Kurds.<sup>11</sup> In theory, Turkey could close the border to these activities, reducing the volume of contraband oil entering the world market. However, beyond the physical difficulty in closing the large and porous border, Turkey also faces the risk of retaliation by the Islamic State inside Turkish territory.

While IS forces are not in control of a modern operating oil refinery, the group has refined oil in crude, small, mobile refineries with capacities of about 300 to 500 barrels per day of petroleum products. Refined products may be more useful to the group than crude oil because these products (gasoline and diesel fuel) can be directly used to fuel IS military movements. Petroleum products may also be easier to sell to Turkish brokers because they can enter retail markets directly, avoiding the documentation attendant with processing at a legitimate refinery.

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<sup>9</sup> See Ma'ad Fayad, *ISIS in Control of 60 Percent of Syrian Oil*, ASHARQ AL-AWSAT, July 11, 2014, available at <http://www.aawsat.net/2014/07/article55334174>.

<sup>10</sup> Borzou Daragahi, *Iraqi Forces Retake Key Oil Refinery from ISIS*, Financial Times, November 28, 2014.

<sup>11</sup> The Iraqi government and the Kurdish Regional Government (KRG) agreed to an oil export deal in December 2014.

## **Natural Gas and the Islamic State**

While crude oil can be moved using a variety of transportation modes, natural gas (used largely to fuel electric power generation) has more limitations. In Syria and northern Iraq, the only way to move natural gas is in the existing pipeline system. Due to the difficulty in capturing and selling natural gas, as well as the Islamic State's interest in governing the areas it controls—most of Syria's natural gas is used for power generation<sup>12</sup>—the natural gas system has suffered relatively little damage compared to the oil sector. It has been estimated that Syrian natural gas production has declined by about 32% from 2011 to 2013.

U.S. airstrikes in Syria have targeted oil facilities because of their importance to IS financing. It has been estimated that by early October 2014, U.S. airstrikes had destroyed about 50% of IS refining capacity.<sup>13</sup> Oil production facilities are also very vulnerable to airstrikes. In addition, reports suggest that since October 2014, Turkey might be acting to limit IS oil sales, and some claim that oil sales might have declined by 80%.<sup>14</sup> However, others have noted that while the United States has targeted refineries, it has generally avoided strikes on oil wells because of the potential impact on civilians and because it seeks to preserve key oil infrastructure for the post-conflict period.<sup>15</sup>

Under Secretary of the Treasury for Terrorism and Financial Intelligence David Cohen in a November 2014 hearing reported that the Islamic State's revenue from oil sales had dropped from \$1 million a day to several million dollars a week.<sup>16</sup> In January 2015, U.S. Secretary of State John Kerry stated that coalition strikes had destroyed nearly 200 oil and gas facilities used by the Islamic State.<sup>17</sup> The resulting loss of revenue, Kerry said, was restricting the group's operations and in some cases limiting its ability to pay salaries. In February 2015, a Pentagon spokesperson stated that money from illicit oil sales was no longer the Islamic State's primary source of revenue, but did not say what had replaced it.<sup>18</sup> It is difficult to assess which of the Islamic State's revenue streams is the largest, in part because of the limited financial details that are publicly available, the group's adaptation to shifting circumstances and opportunities, and the different ways that observers combine or disaggregate individual revenue streams when calculating their share of the group's overall income.

## **Antiquities**

Some analysts claim that the second largest source of revenue for the Islamic State is the sale of antiquities looted from areas under the group's control.<sup>19</sup> This includes items stolen from national

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<sup>12</sup> "Syria: the struggle over electricity," *Economist Intelligence Unit*, October 3, 2014.

<sup>13</sup> Keith Johnson, *Has the U.S. Turned Off the Islamic State's Oil Spigot?* *Foreign Policy*, October 7, 2014.

<sup>14</sup> *Ibid.*

<sup>15</sup> "Islamic State keeps up Syrian oil flow despite U.S.-led strikes," *Reuters*, October 24, 2014.

<sup>16</sup> House Financial Services Committee hearing on Terrorist Financing and the Islamic State, November 13, 2014.

<sup>17</sup> Remarks by Secretary of State John Kerry at a joint press conference with UK Foreign Secretary Hammond and Iraqi Prime Minister Abadi, January 22, 2015.

<sup>18</sup> Department of Defense Press Briefing by Rear Adm. Kirby in the Pentagon Briefing Room, February 3, 2015.

<sup>19</sup> See for example, "Terrorist Financing and the Islamic State," testimony of Matthew Levitt, Director, Stein Program on Counterterrorism and Intelligence, Washington Institute for Near East Policy, to the House Committee on Financial Services, November 13, 2014.

museums, storage depots, or private collections, as well as those newly excavated from among the hundreds of archeological sites in the area. One archeologist from the Iraqi government's Department of Antiquities stated that a third of Iraq's archaeological sites are now under IS control.<sup>20</sup> Items from these sites are sold in neighboring states or smuggled into Europe. As of early 2015, nearly a hundred Syrian artifacts looted by the Islamic State reportedly had been smuggled into Britain for sale, including Byzantine coins and Roman pottery and glass.<sup>21</sup>

Some maintain that the Islamic State collects a tax on antiquities excavated and smuggled out of its territory.<sup>22</sup> In some sites along the Euphrates River in Syria, the Islamic State reportedly grants licenses to excavation crews and oversees their work.<sup>23</sup> In the city of Manbij, the Islamic State reportedly has established an office to handle looted antiquities and a market for digging equipment such as metal detectors. Artifacts are sold to IS-approved dealers, who complete the transaction in U.S. dollars, and are then granted safe passage through IS territory.<sup>24</sup>

The group's revenue from the sale of antiquities likely depends in part on the stage in the supply chain in which IS members are most involved, which may vary by locality. In some cases the Islamic State reportedly imposes a tax of 20-50% on the excavation teams, which themselves only receive a small percentage of the items' ultimate market price. In other cases, the group reportedly has established a direct relationship with buyers, likely netting a higher profit. Some U.S. estimates have placed the total volume of illicit trade at more than \$100 million a year.<sup>25</sup> While government officials say that the majority of the trade is run by the Islamic State, reports suggest that many groups, including portions of the Syrian government, Free Syrian Army, other Islamist militias, criminal networks, and even foreign forces, also smuggle or trade in antiquities.<sup>26</sup>

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<sup>20</sup> "How Does ISIS Fund Its Reign of Terror?" *Newsweek*, November 14, 2014.

<sup>21</sup> "Islamic State Is Selling Looted Syrian Art in London to Fund Its Fight," *Washington Post*, February 25, 2015.

<sup>22</sup> "ISIS Antiquities Sideline," *New York Times*, September 2, 2014.

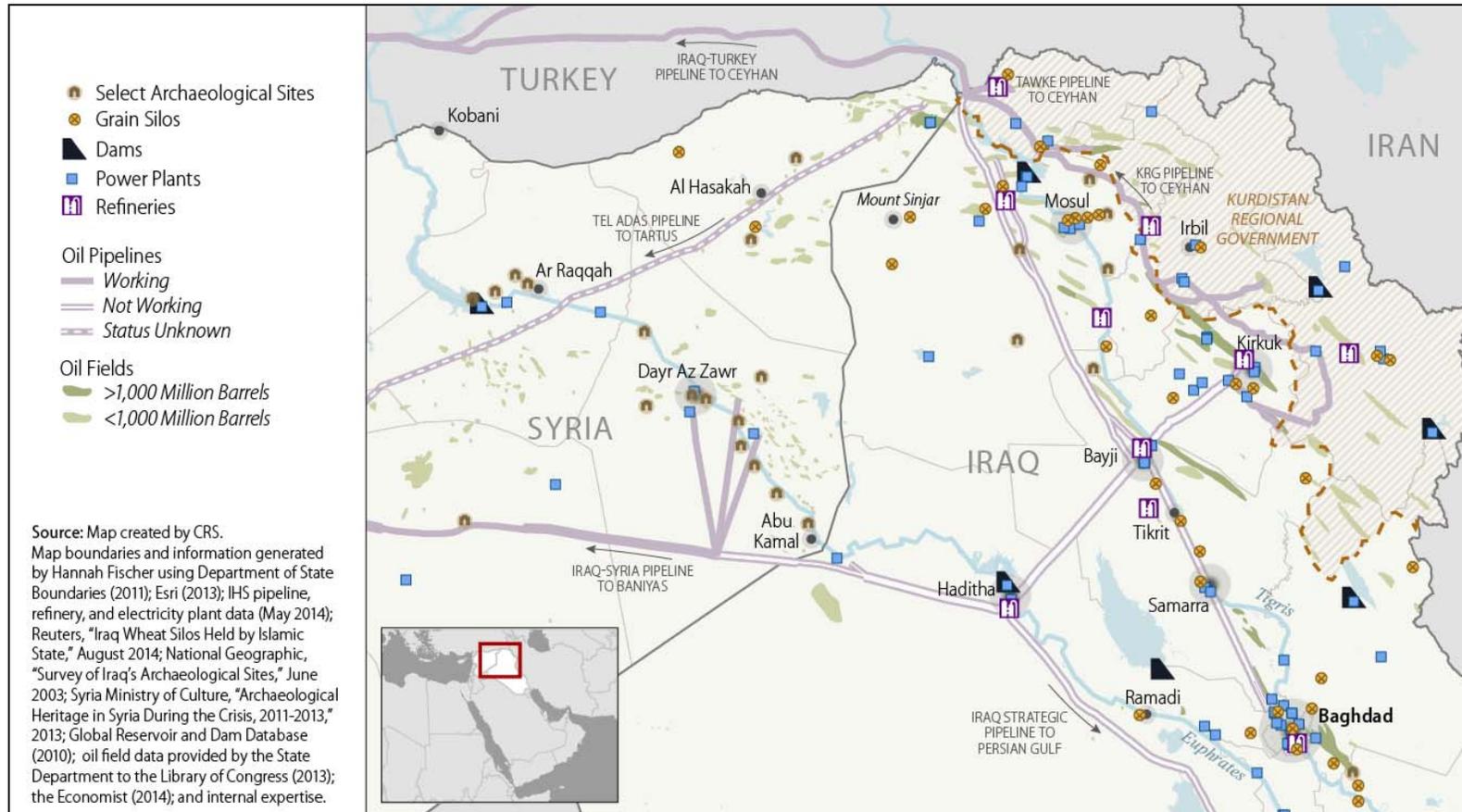
<sup>23</sup> *Ibid.*

<sup>24</sup> "Syrian 'Monuments Men' Race to Protect Antiquities as Looting Bankrolls Terror," *Wall Street Journal*, February 10, 2015.

<sup>25</sup> *Ibid.*

<sup>26</sup> Samuel Hardy, "The Lure of Antiquities in the New York Times and the Trap of Poor Evidence in War Zones," *Conflict Antiquities*. <https://conflictantiquities.wordpress.com>.

**Figure 1. Infrastructure and Resources in IS Areas of Operation**



**Notes:** This map depicts resources and infrastructure in and around IS areas of operation. Not all areas depicted above are under the control of the Islamic State.

## Taxes, Extortion, and Asset Seizure

In a February 2015 report, the Financial Action Task Force (FATF), an international body focused on combatting money laundering and terrorism financing, found that the Islamic State finances itself largely through extortion rackets in its areas of operation. The report notes, “while ISIL frames its activities as ‘taxation’ or ‘charitable giving,’ it in fact runs a sophisticated protection racket where involuntary ‘donations’ purchase momentary safety or temporary continuity of business.”<sup>27</sup> Another study estimates that the Islamic State generates up to \$360 million per year through taxation and extortion.<sup>28</sup>

**Bank looting.** The U.S. Treasury Department estimates that the Islamic State in 2014 gained access to at least a half billion dollars in cash by seizing control of state-owned banks’ branches in the Iraqi provinces of Ninevah, Al-Anbar, Salah Din, and Kirkuk.<sup>29</sup> The Islamic State approached private Iraqi banks differently, choosing instead to levy a tax of 5% on all customer cash withdrawals.<sup>30</sup> More than twenty banks operating in Syria have branches in territory controlled by the Islamic State, but it is unclear whether they continue to function, and if so in what capacity.

**Customs tax and passage fees.** The Islamic State’s control of select border checkpoints has enabled the group to collect passage fees from those seeking to transport goods in or out of IS-held areas. Drivers moving goods from Jordan into IS-held parts of Iraq, for example, must pass through both Iraqi military and Islamic State checkpoints. Drivers have reported paying anywhere from \$200 to \$1,000 in fees and bribes to move goods into IS territory in Iraq.<sup>31</sup> Once paid, IS militants provide drivers with a receipt to expedite passage through further checkpoints. A similar process exists for the smuggling of persons across the Turkey-Syria border. For a fee, Turkish smugglers reportedly “rent” a specific portion of the border in half-hour segments from an Islamic State official in order to facilitate the movement of people.<sup>32</sup>

**Business tax.** The Islamic State requires individuals wishing to do business in its territory to pay a percentage of their earnings to the group. Pharmacies in Mosul are taxed 10% to 35% of the value of drugs sold. Even before the Islamic State’s rapid territorial expansion in the summer of 2014, mobile phone companies in Mosul reportedly were required to pay the group in order to keep transmission facilities running.<sup>33</sup> The Islamic State also taxes farmers and shopkeepers, describing the fees as *zakat*, or religious alms.<sup>34</sup> The Iraqi Human Rights Ministry has claimed

<sup>27</sup> FATF Report, *Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)*, February 2015.

<sup>28</sup> Jean-Charles Brisard and Damien Martinez, *Islamic State: The Economy-Based Terrorist Funding*, October 2014.

<sup>29</sup> Jennifer L. Fowler, Deputy Assistant Secretary of Terrorist Financing and Financial Crimes, the Treasury Department. Statement submitted for the conference, “Taking the Fight to ISIL: Operationalizing CT Lines of Effort Against the Islamic State Group,” Washington Institute for Near East Policy, February 2, 2015.

<sup>30</sup> FATF Report, *Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)*, February 2015.

<sup>31</sup> See for example, “Can Islamic State Feed the People It Conquers?” *Bloomberg News*, December 10, 2014; “Islamic State Issues Fake Tax Receipts to Keep Trade Flowing,” *McClatchy*, September 3, 2014; and “A Dangerous Road Ahead,” *Washington Post*, November 30, 2014.

<sup>32</sup> “All It Takes to Cross from Turkey to ISIS-held Syria is \$25,” *World Post*, February 26, 2015.

<sup>33</sup> “Al Qaeda Sinks Roots in Mosul,” *Al Monitor*, October 24, 2013.

<sup>34</sup> “ISIS Imposes Tax on Agricultural Production,” *Syria Report*, June 9, 2014; “How ISIS Rules,” *New York Review of Books*, February 5, 2015.

that the Islamic State imposes monthly taxes on students in Mosul and other cities under its control—\$22 for elementary school students, \$43 for secondary school students, and \$65 for university students.

**Utilities tax.** The Islamic State’s partial control over energy infrastructure in some cases has enabled the group to demand payment for utility services. In Raqqa, the Islamic State reportedly collects \$20 every two months from business owners in exchange for electricity, water, and security.<sup>35</sup> One Syrian analyst claimed that the Islamic State charged residents for services that the Syrian government provided, such as telecommunications.<sup>36</sup> However, the group has also tried to repair and administer utility infrastructure in areas under its control (see “Expenditures”) and likely taxes any additional services it is able to provide.

**Religious tax.** The Islamic State has imposed a protection tax, known as *jizyah*, on some Christian communities. Christians in Iraq reported that IS militants threatened them with death if they did not convert to Islam or pay *jizyah*. Reports conflict over the precise amount of the tax—some reports state that the Islamic State demanded that Christians pay half an ounce of pure gold to secure their protection,<sup>37</sup> while other reports describe the tax as a few dollars per month.<sup>38</sup> However, the Islamic State does not present all religious minorities with the option of paying the *jizyah* tax, especially if it considers a group to be polytheist. The Yazidis, whose faith incorporates elements of both Christianity and Islam, are viewed as polytheist by the Islamic State. In the Islamic State’s English language magazine *Dabiq*, the group defends its enslavement of Yazidis stating, “unlike the Jews and the Christians, there was no room for *jizyah* payment.”<sup>39</sup>

## Kidnapping for Ransom

The Islamic State has generated significant income through the use of kidnapping for ransom. The United Nations estimates that the Islamic State collected \$35-\$45 million in ransom fees in 2014 alone—a higher annual yield than both Al Qaeda in the Arabian Peninsula (an estimated \$20 million in ransom between 2011 and 2013) and Al Qaeda in the Islamic Maghreb (an estimated \$75 million since 2010).<sup>40</sup> A 2014 U.N. report on the Islamic State and the Al Qaeda-affiliated Nusra Front states that the victims are mostly local residents, but also include a smaller number of foreign aid workers and journalists. However, the report also assesses that the group’s high level of fundraising from kidnappings for ransom is not likely to be sustainable.<sup>41</sup>

Reported ransoms amounts have varied. The Islamic State reportedly demanded a ransom of \$100 million euros (\$132.5 million USD) from the family of U.S. journalist James Foley, who was

<sup>35</sup> “Life in a Jihadist Capital: Order with a Darker Side,” *New York Times*, July 23, 2014.

<sup>36</sup> “The Islamic State is Failing at Being a State,” *Washington Post*, December 25, 2014.

<sup>37</sup> “Iraqi Christians Flee After ISIS Issue Mosul Ultimatum,” *BBC*, July 18, 2014.

<sup>38</sup> “Life in a Jihadist Capital: Order with a Darker Side,” *New York Times*, July 23, 2014.

<sup>39</sup> Islamic State, *Dabiq*, Issue 4, October 2014, p. 14-5.

<sup>40</sup> Statement by Ms. Yotsana Lalji, 1267 Al-Qaida Monitoring Team, November 24, 2014. Some of these figures appear to be based on estimates from unnamed Member states (see S/2014/770, paras.50-51 at [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2014/770](http://www.un.org/ga/search/view_doc.asp?symbol=S/2014/770)). Other estimates are higher—see, for example, “Paying Ransoms, Europe Bankrolls Qaeda Terror,” *New York Times*, July 29, 2014.

<sup>41</sup> “The Islamic State in Iraq and the Levant and the Al-Nusra Front for the People of the Levant: report and recommendations submitted pursuant to resolution 2170,” U.N. Analytical Support and Sanctions Monitoring Team, November 3, 2014.

eventually killed, and requested the same amount from the families of two other American hostages.<sup>42</sup> In contrast, France may have paid \$18 million for four of its captured journalists in April 2014,<sup>43</sup> and locals are said to be ransomed for anywhere between \$500 and \$200,000 each.<sup>44</sup> While the U.S. and British governments refuse to pay ransom as a matter of policy, other European governments reportedly have paid to secure the release of their citizens, working through proxies and sometimes masking the money as development aid.<sup>45</sup>

## External Support

The Islamic State receives financial support from individuals in Gulf and European countries, but observers generally agree that these amounts are modest in comparison to what the group generates internally. Analysts estimate that the Islamic State in 2013-14 accumulated up to \$40 million from donors in Saudi Arabia, Qatar, and Kuwait.<sup>46</sup> While the United States has worked with partner states in the Gulf to pass legislation curbing the flow of funds to the areas, implementation remains irregular. In October 2014, David Cohen, Under Secretary of the Treasury for Terrorism and Financial Intelligence stated that Kuwait and Qatar were still “permissive jurisdictions” for terrorism financing.<sup>47</sup>

The Islamic State also obtains a limited amount of funding from foreign fighters who travel to IS territory carrying hard currency. Some of these fighters continue to receive funds from abroad, which are wired to banks or financial companies located near IS territory.<sup>48</sup>

## Agriculture

Through its seizure of land across the Euphrates and Tigris river valleys, the Islamic State gained control of a wide swath of the arable land on which a significant portion of Syria’s and Iraq’s staple crops are produced. IS control over these key agricultural areas has heightened concerns over food security, which had already been disrupted by ongoing civil conflicts. It is unknown exactly how much profit the Islamic State derives from the sale of agricultural goods. One study estimated that trading wheat and barley on the black market could generate an annual income of roughly \$200 million for the Islamic State, assuming the group sells the goods at a 50% discount.<sup>49</sup> FATF has described efforts by the Islamic State to “launder” crops by mixing stolen crops with harvests from other areas, in order to obscure their origin and facilitate their sale. On a

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<sup>42</sup> “Foley Case Lays Bare Debate over Paying Ransom,” *Associated Press*, August 21, 2014.

<sup>43</sup> Matthew Levitt, “Countering ISIL Financing: A Realistic Assessment,” statement submitted to the Washington Institute for Near East Policy, February 2, 2015.

<sup>44</sup> “How Does ISIS Fund its Reign of Terror?” *Newsweek*, November 14, 2014.

<sup>45</sup> “Paying Ransoms, Europe Bankrolls Qaeda Terror,” *New York Times*, July 29, 2014.

<sup>46</sup> Matthew Levitt, “Countering ISIL Financing: A Realistic Assessment,” statement submitted to the Washington Institute for Near East Policy, February 2, 2015.

<sup>47</sup> Remarks by Under Secretary (Treasury) for Terrorism and Financial Intelligence David Cohen at the Carnegie Endowment for International Peace, “Attacking ISIL’s Financial Foundation,” October 23, 2014.

<sup>48</sup> FATF Report, *Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)*, February 2015.

<sup>49</sup> Jean-Charles Brisard and Damien Martinez, *Islamic State: The Economy-Based Terrorist Funding*, October 2014.

smaller scale, the group also has profited by seizing agricultural machinery from local farms, and renting the machinery back to its original owners.<sup>50</sup>

The Islamic State has subsidized the cost of bread in areas under its control, most likely for propaganda purposes. IS recruitment materials emphasize the availability of food and in particular bread. To sustain this practice, the Islamic State would most likely need to reinvest much of its agricultural wealth in its territory or earmark crops for domestic consumption. Over time, the group's need to sustain agriculture in its territory may result in a net drain on its resources, given the many inputs needed to sustain agriculture (fertilizer, seeds, pesticides) that were previously provided by the Iraqi and Syrian governments.

**Syria.** Roughly two-thirds of Syria is too arid to support agriculture; food crop cultivation is limited to areas along the northern border with Turkey and parts of western Syria.<sup>51</sup> The northeastern provinces of Ar Raqqa, Al Hasakah, Dayr az Zawr and Aleppo traditionally have produced 74% of Syria's wheat crop, according to the Syrian Ministry of Agriculture,<sup>52</sup> but these provinces are now controlled or heavily contested by the Islamic State.

IS control over Syria's breadbasket region has severely affected the state's centralized food distribution system—on which civilians across the country traditionally relied—by impeding the transport of domestic wheat stores from areas of cultivation in the northeast to the major urban centers in the west. Prior to the war, the central government maintained over 140 collection centers where state representatives purchased most of the wheat harvest at above market prices. By 2014, only 31 collection centers were still operational,<sup>53</sup> and many farmers were unwilling to risk the journey to a center to sell their harvests. This has exacerbated the food shortage in the country, where the U.N. Food and Agriculture Organization (FAO) estimates that 6.8 million Syrians face severe food insecurity.<sup>54</sup>

IS territorial gains also have limited the central government's ability to produce bread, Syria's primary food staple. Many of Syria's flour mills—concentrated in Aleppo in the north<sup>55</sup>—now fall in areas of IS or opposition control.

**Iraq.** The FAO estimates that about one-third of Iraq's wheat and nearly 40% of Iraq's barley is grown in areas currently controlled by the Islamic State.<sup>56</sup> IS fighters moved into northern and western Iraq in the summer of 2014, just after the wheat harvest. Farmers had deposited their wheat crop in government silos in preparation for purchase by the Iraqi Grain Board. Many of these silos were instead taken over by the Islamic State,<sup>57</sup> enabling militants to acquire an estimated 1.1 million tons of wheat—one-fifth of Iraq's reported annual wheat consumption.<sup>58</sup>

<sup>50</sup> FATF Report, *Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)*, February 2015.

<sup>51</sup> "Syria: 2012 Wheat Production Outlook Is Favorable Despite Ongoing Conflict," USDA Foreign Agricultural Service, June 12, 2012.

<sup>52</sup> *Ibid.*, p4.

<sup>53</sup> "Syria Plans to Import 1 Million Tonnes of Wheat as War Rages," *Hellenic Shipping News*, October 23, 2014.

<sup>54</sup> Food and Agriculture Organization of the U.N. (FAO), *Crop Prospects and Food Situation*, No.4, December 2014.

<sup>55</sup> "Syria's War Halves Wheat Harvest, Erodes State Share," *Reuters*, July 25, 2013.

<sup>56</sup> GIEWS Country Briefs –Iraq, FAO, October 15, 2014. <http://www.fao.org/giews/countrybrief/country.jsp?code=IRQ>.

<sup>57</sup> "For Islamic State, Wheat Season Sows Seeds of Discontent," *Reuters*, January 20, 2015.

<sup>58</sup> Jean-Charles Brisard and Damien Martinez, *Islamic State: The Economy-Based Terrorist Funding*, October 2014.

## Expenditures

The Islamic State has established a network of ministries to govern the territory it controls and has sought able administrators. IS leader Abu Bakr al Baghdadi in a July 2014 audio recording called for “scientists, scholars, preachers, judges, doctors, engineers and people with administrative expertise of all domains” to move to the Islamic State, which required their expertise.<sup>59</sup> In December 2014, the IS Office of Zakat—a finance ministry equivalent—announced that it would give a series of assessment tests to recruit new staff. The office said it was seeking candidates with PhDs in Islamic law and economics, as well as those with high school diplomas.<sup>60</sup> The Islamic State in late 2014 also announced plans to mint its own currency out of gold, silver, and copper,<sup>61</sup> but as of early 2015 this had not materialized. Iraqi sources in January 2015 stated that the Islamic State had established its own bank in Mosul, which granted loans and accepted deposits.<sup>62</sup>

The Islamic State approved a \$2 billion dollar budget for the year in early 2015, including a projected \$250 million dollar surplus,<sup>63</sup> designed to cover the costs of operations in both Iraq and Syria. Some have argued that despite this budget, the group does not generate enough revenue to fully cover all of its expenses. In addition to the cost of military operations, the Islamic State must also provide salaries, maintain and repair infrastructure, and fill other state functions, such as the provision of social services.

## Salaries

One significant expenditure is salaries, the provision of which may also be an incentive for potential recruits. At the beginning of the uprising in 2011, the monthly minimum wage for public sector employees in Syria ranged between 9,765 and 14,760 Syrian pounds (\$176-\$266).<sup>64</sup> By 2013, the steep drop in the value of the Syrian pound reduced public sector wages by about 60% to an equivalent of \$68-\$103.<sup>65</sup> By contrast, the Islamic State is estimated to pay approximately \$400-\$600 monthly to each fighter, with married fighters receiving an extra stipend per wife and child.<sup>66</sup> Some Nusrah Front fighters reportedly claimed in 2013 that their siblings and cousins fought for the Islamic State because the pay was better.<sup>67</sup>

Both the Syrian and Iraqi governments continue to pay the salaries of state employees in IS-held areas, and this may offset some of the group’s expenses. While the Iraqi government has taken

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<sup>59</sup> “Baghdadi Vows Revenge in Announcing ‘Islamic State,’” *Al Monitor*, July 3, 2014.

<sup>60</sup> “ISIS Announces New Job Openings, Enforces Cleanliness and Order on Its Streets,” *Syria Report*, December 8, 2014.

<sup>61</sup> “Islamic State to Mint Gold Coins,” *Wall Street Journal*, November 14, 2014.

<sup>62</sup> “Islamic State Group Sets Out First Budget, Worth \$2bn,” *Al Araby al Jadeed*, January 4, 2015.

<sup>63</sup> *Ibid.*

<sup>64</sup> *Country Reports on Human Rights Practices* (Syria), U.S. Department of State, 2011.

<sup>65</sup> *Country Reports on Human Rights Practices* (Syria), U.S. Department of State, 2013.

<sup>66</sup> “In Northeast Syria, Islamic State Builds a Government,” *Reuters*, September 4, 2014; “How the Islamic State Buys Power,” *Haaretz*, September 1, 2014.

<sup>67</sup> “My Captivity: Theo Padnos, American Journalist, on Being Kidnapped, Tortured and Released in Syria,” *New York Times Magazine*, October 29, 2014.

steps to prevent the transfer of hard currency into IS-held areas, it sends employee salaries to neighboring cities, such as Kirkuk. Government employees travel to these areas to withdraw their salaries in cash, and the Islamic State then taxes the salaries at rates of up to 50%.<sup>68</sup> FATF contacts in Iraq estimate that the Islamic State could receive the equivalent of hundreds of millions of dollars annually from taxing state employee salaries.

## **Infrastructure**

The group must also maintain—and in many cases repair—key infrastructure in areas it controls in both countries, particularly to provide electricity and water. In Syria, both the government and opposition groups have targeted power plants and substations since the onset of unrest in 2011. In December 2014, the Syrian Minister of Electricity stated that Syria’s electricity production was less than a quarter of pre-unrest levels.<sup>69</sup> The Islamic State, through its Projects Directorate of the Public Services Authority in Raqqah, issued three tenders in late November 2014 for the installation of aerial cables between several power substations in eastern Syria.<sup>70</sup>

The Islamic State may partially control water infrastructure, though it lacks the technical expertise needed to keep key facilities operational. For example, when the Islamic State seized control of the hydroelectric Euphrates dam in Raqqah, it decreed that the dam should operate at full capacity, despite the fact that Syrian government engineers had previously assessed that the dam only had the capacity to serve as a strategic reserve of water. While electricity spiked in the IS capital of Raqqah, the dam’s reservoir saw a record six-meter drop, creating water levels too low for the operation of pumps used to funnel drinking water to 5 million people in the dam’s vicinity.<sup>71</sup> As the breakdown in water sanitation and distribution networks forces residents to procure water from untreated sources, reports from IS-controlled towns describe the spread of waterborne diseases such as Hepatitis A and typhoid. The World Health Organization in February warned that poor sanitation in Syria was likely to produce a cholera outbreak.

## **Social Welfare**

IS leaders have emphasized services to civilians as a core part of the group’s mission, and the IS budget is expected to cover monthly subsistence expenses for the poor, disabled, orphans, and widows, in addition to payment to families of those killed in coalition airstrikes. Within its territory, the group runs schools, an Islamic court system, a Consumer Protection Authority, and local police forces. IS members distribute produce to families, run a food kitchen in Raqqah, and maintain an Office for Orphans to help place children with families.<sup>72</sup> The group’s recruitment strategy depends in part on its ability to portray life in IS-held areas favorably, leading it to dedicate funds to a range of social projects unrelated to military objectives.

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<sup>68</sup> FATF Report, *Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)*, February 2015.

<sup>69</sup> “Syria’s Electricity Output at a Quarter of Pre-uprising Level—official,” *Syria Report*, December 22, 2014.

<sup>70</sup> “ISIS Issues Tender to Carry Electrical Works in Raqqa,” *Syria Report*, November 11, 2014.

<sup>71</sup> “‘Water War’ Threatens Syria Lifeline,” *Al Jazeera*, July 7, 2014.

<sup>72</sup> “The Islamic State of Iraq and Syria has a Consumer Protection Office,” *Atlantic*, June 13, 2014.

## Policy Tools and Issues

In addition to military strikes against revenue-generating targets like oil facilities, as part of the Obama Administration's strategy to "degrade and ultimately defeat" the Islamic State, the U.S. Department of the Treasury leads U.S. government efforts to apply financial measures that will undermine the group's finances. These financial measures include a mix of targeted financial and economic sanctions, as well as enhancements to the international financial regulatory system.

In October 2014 remarks at the Carnegie Endowment for International Peace, David Cohen, Under Secretary of the Treasury for Terrorism and Financial Intelligence, outlined the three key prongs in the U.S. government's strategy to combat IS financing as follows:

disrupt its main sources of funding;

restrict its access to the international financial system; and

block access to assets and resources of its senior leadership and financial facilitators.<sup>73</sup>

U.S. efforts have prioritized collaboration with international partners, including cooperation on financial intelligence collection and analysis.<sup>74</sup> One goal of such ongoing information sharing is to improve the international community's understanding of how the group raises, moves, and uses funds and other assets.<sup>75</sup>

## Status of U.S. Responses by Sector

This section surveys U.S. policy efforts to combat IS financing in several key sources of funds, including oil sales, kidnapping for ransom, local criminal and extortion activities, and foreign donors, including donations and other financial support provided by foreign fighters. The section also describes U.S. policy efforts to block two key conduits for the movement and administration of IS funds, including IS-affiliated financial facilitators and the exploitation of local bank branches and other financial institutions.

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<sup>73</sup> David Cohen (Under Secretary of the Treasury for Terrorism and Financial Intelligence), "Attacking ISIL's Financial Foundation," remarks at the Carnegie Endowment for International Peace, October 23, 2014. See also Cohen's prepared testimony for a hearing on "Terrorist Financing and the Islamic State" before the U.S. House Financial Services Committee, November 13, 2014.

<sup>74</sup> On October 17, 2014, for example, the Departments of State and Treasury co-hosted a meeting of the "International Working Group on Sanctions Targeting ISIL, al-Nusra Front (ANF), and the Assad Regime," a group of more than 20 countries and international organizations, to identify measures to financially isolate and undermine the Islamic State. U.S. Department of the Treasury, "Readout of the International Working Group Meetings on Sanctions Targeting ISIL, Al-Nusra Front, and the Assad Regime," press release, October 17, 2014.

<sup>75</sup> The U.S. government, along with the Turkish government, spearheaded one such effort through the Financial Action Task Force (FATF) to develop a "common understanding" of the Islamic State's financing situation. Jennifer Fowler (Deputy Assistant Secretary of the Treasury for Terrorist Financing), *U.S. Efforts to Counter the Financing of ISIL*, remarks, Washington Institute for Near East Policy, February 2, 2015. Financial Action Task Force, *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant*, February 2015. See also Financial Action Task Force (FATF), "FATF Action on the Terrorist Group ISIL," October 24, 2014, <http://www.fatf-gafi.org/documents/documents/fatf-action-isil.html>.

**Oil Sales.** Although coalition military operations against the Islamic State are not primarily conducted for the purpose of combating IS financing, airstrikes on IS-linked oil infrastructure and supply networks in Syria and Iraq have contributed to the U.S. government's counter-financing efforts. The United States also has sought cooperation with Turkey and the Kurdistan Regional Government in northern Iraq to prevent oil products believed to have originated in IS-held territory from crossing their borders. Turkish and Kurdish authorities have begun to take steps along their borders to seize shipments of oil suspected to have links to the Islamic State, although reports suggest that a wide range of illicit goods continues to be smuggled.<sup>76</sup> As part of these efforts, the Treasury Department has sought to identify brokers in the oil supply chain who are purchasing IS oil. Although acknowledging that black market oil sales often involve transactions outside the formal financial system, Treasury officials claim that U.S. financial sanctions could reach oil facilitators involved at other points along the oil supply chain.<sup>77</sup>

Coalition airstrikes have targeted mobile refineries in the region, some of which are controlled by the Islamic State and some of which are privately owned. The destruction of mobile refineries has reduced the availability of refined oil products and increased the price of fuel in the region. Some analysts suggest that the removal of mobile refining capabilities in IS-controlled areas has caused the group to sell crude oil elsewhere, which may slow but not eliminate its ability to generate funds through the black market sale of crude oil. Observers note, however, that although airstrikes may pressure the Islamic State financially and may afford coalition members time and space to maneuver, airstrikes alone are unlikely to prove decisive in the group's financial defeat.<sup>78</sup>

**Kidnapping for Ransom.** In order to prevent the Islamic State from generating funds through kidnapping for ransom operations, the U.S. government has sought to redouble its efforts to develop an international consensus against the payment of ransoms to terrorist groups and to ensure that such policies are implemented in practice.<sup>79</sup> The Treasury Department has committed to applying sanctions against those who demand or receive ransoms on behalf of the Islamic State. With respect to U.S. citizens, the U.S. government aims to prevent kidnappings from occurring and, at the President's direction, to apply any military, intelligence, law enforcement, and diplomatic capabilities to secure the release of American hostages.<sup>80</sup>

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<sup>76</sup> See for example Desmond Butler, "Turkey Cracks Down on Oil Smuggling Linked to IS," Associated Press, October 6, 2014; Barbara Slavin, "U.S. Official Claims Gains in Curtailing IS Oil Smuggling," *Al-Monitor*, December 8, 2014; Jonathan Schanzer and Merve Tahiroglu, *Bordering on Terrorism: Turkey's Syria Policy and the Rise of the Islamic State*, Foundation for Defense of Democracies, November 2014; Constanze Letsch, "To the Wire: The Smugglers Who Get People into Syria for Islamic State," *The Guardian*, March 12, 2015.

<sup>77</sup> Jennifer Fowler (Deputy Assistant Secretary of the Treasury for Terrorist Financing), *U.S. Efforts to Counter the Financing of ISIL*, remarks, Washington Institute for Near East Policy, February 2, 2015.

<sup>78</sup> Muhammad al-'Ubaydi et al., *The Group That Calls Itself a State: Understanding the Evolution and Challenges of the Islamic State*, Combating Terrorism Center at West Point, December 2014; Rebecca Shabad, "Treasury Official Outlines Plan to Bankrupt ISIS," *The Hill*, October 1, 2014.

<sup>79</sup> See for example United Nations (U.N.) Security Council Resolutions 2133 (2014), 2160 (2014), 2161 (2014), 2170 (2014), and 2195 (2014), which express the U.N. Security Council's determination to prevent terrorist-perpetrated kidnapping and hostage-taking incidents and secure the safe release of victims without ransom payments or political concessions. See also Global Counterterrorism Forum, *Algiers Memorandum on Good Practices on Preventing and Denying the Benefits of Kidnapping for Ransom by Terrorists*, April 2012; and Group of Eight Leaders' Summit, *Communique*, Lough Erne, UK, June 18, 2013. U.S. policy on concessions is outlined in U.S. Department of State, *Foreign Affairs Manual*, Vol. 7, Sec. 1823.

<sup>80</sup> David Cohen (Under Secretary of the Treasury for Terrorism and Financial Intelligence), "Attacking ISIL's Financial Foundation," remarks at the Carnegie Endowment for International Peace, October 23, 2014.

In October 2014, the Under Secretary of the Treasury for Terrorism and Financial Intelligence noted that “there is obviously more work to be done” with respect to galvanizing international commitments against kidnapping concessions.<sup>81</sup> Media reports indicate that several foreign governments have paid ransoms to the Islamic State in order to secure the freedom of its kidnapped citizens. Several U.S. citizens have been taken and subsequently killed by the Islamic State, inciting public concerns regarding the U.S. government’s policy position against paying ransoms and extending political concessions in exchange for the release of U.S. hostage victims.<sup>82</sup> Although hostage rescue operations in other parts of the world have proven successful, the Obama Administration has acknowledged that its effort in mid-2014 to rescue several U.S. citizens held by the Islamic State had been unsuccessful.<sup>83</sup> The families of several IS victims have continued to criticize the U.S. no-concessions policy.<sup>84</sup>

**Local Criminal and Extortion Activities.** The Treasury Department has acknowledged that its counterterrorism finance tools are “not particularly well-suited to the task” of disrupting revenue that the Islamic State generates from extortion and other local criminal activities.<sup>85</sup> Treasury officials have acknowledged publicly that a key counter-financing challenge centers on how to address the ongoing use of transport vehicles operating through the region, which are suspected of continuing to smuggle supplies and cash into IS-held territory as well as contraband goods, including antiquities, out of IS-held territory for sale.<sup>86</sup> Some observers see the Islamic State’s ability to benefit from local criminal activities as fundamentally connected to its ability to control territory—and suggest, in turn, that military efforts to reverse the Islamic State’s territorial gains are complementary to efforts to combat IS finances. In the long term, many view the response to local criminal activity as a responsibility of local law enforcement. Although the U.S. government has expressed interest in identifying and designating for economic sanction IS members who oversee the group’s extortion and criminal rackets, observers widely speculate that such efforts may have minimal effect on the group’s finances while the Islamic State continues to control territory. When applied unilaterally, U.S. tools to combat the financing of terrorism historically have been most effective in targeting funds as they flow internationally and intersect with financial institutions that may fall within U.S. jurisdiction.

**Foreign Donors.** Although the Islamic State is not currently dependent on foreign donors for fundraising, there are indications that the Islamic State continues to receive external donations. To this end, the Treasury Department has argued that a key component of the U.S. government’s strategy against the Islamic State should include long-standing efforts to prevent the group from accessing external funding sources, particularly those from wealthy Gulf State donors. U.S. officials have sought to increase cooperation on combating terrorist financing with the governments of Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.<sup>87</sup> “Even though ISIL

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<sup>81</sup> Ibid.

<sup>82</sup> The four U.S. citizens known to have been kidnapped and killed while in IS custody as hostages included: James Foley, Steven Sotloff, Abdul-Rahman Peter Kassig, and Kayla Mueller.

<sup>83</sup> Nigel Duara and W.J. Hennigan, “Kayla Mueller Was Among Hostages U.S. Commandos Tried to Rescue,” *Los Angeles Times*, February 10, 2015.

<sup>84</sup> See for example Marisa Schultz, “Kayla Mueller’s Dad: Bergdahl Swap Dashed Hopes of Daughter’s Survival,” *New York Post*, February 22, 2015.

<sup>85</sup> David Cohen (Under Secretary of the Treasury for Terrorism and Financial Intelligence), “Attacking ISIL’s Financial Foundation,” remarks at the Carnegie Endowment for International Peace, October 23, 2014.

<sup>86</sup> Jennifer Fowler (Deputy Assistant Secretary of the Treasury for Terrorist Financing), *U.S. Efforts to Counter the Financing of ISIL*, remarks, Washington Institute for Near East Policy, February 2, 2015.

<sup>87</sup> For a discussion of the challenges in implementing counterterrorism finance laws and regulations in certain Gulf (continued...)

does not currently rely heavily on the traditional donor model for terrorist financing, that is no reason to relax our efforts in this area,” a Treasury official remarked. “Particularly as we make progress in disrupting ISIL’s current sources of income, and as ISIL gains additional prominence in the global terrorist movement, we must be prepared for the possibility that wealthy extremists will increasingly seek to fund it.”<sup>88</sup>

**Foreign Fighter Fundraising.** Although not widely considered to be a major source of IS funds, donations provided by foreign fighters may also present a resource to the Islamic State. They are also a logistical and international cooperation challenge for analysts to track and stem, representing some tens of thousands of possible funding streams from nearly 100 countries worldwide.<sup>89</sup> According to a Financial Action Task Force report, foreign fighters may contribute financially to the Islamic State in several ways: they can self-fund their travel expenses to the region, carry cash overseas for the benefit of the group, and contribute funds toward IS operations.<sup>90</sup> Some observers have encouraged the U.S. Department of Justice to focus on prosecuting IS supporters through existing U.S. terrorist financing and material support statutes (e.g., 18 U.S.C. 2339A, 2339B, and 2339C).<sup>91</sup> According to Justice Department press releases, more than a dozen defendants have been charged in the United States with offenses related to the foreign fighter threat in Syria—at least two of whom have pled guilty to attempting to provide material support to the Islamic State.<sup>92</sup>

**IS-Affiliated Financial Facilitators.** The Obama Administration continues to view targeted economic sanctions as “an effective tool for... helping to dismantle criminal and terrorist networks.”<sup>93</sup> The United States designates the Islamic State as a foreign terrorist organization (FTO) and specially designated global terrorist (SDGT), and also targets several associated individuals as specially designated individuals (SDNs) (who engage in or support acts of international terrorism) pursuant to multiple authorities, including Section 219 of the Immigration and Nationality Act, as amended (8 U.S.C. 1189), and Executive Order (EO) 13224 (“Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism”).<sup>94</sup> To date, the Treasury Department has reported having imposed sanctions

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State jurisdictions, see Matthew Levitt (Washington Institute for Near East Policy), prepared testimony for a hearing on “Terrorist Financing and the Islamic State” before the U.S. House Financial Services Committee, November 13, 2014.

<sup>88</sup> David Cohen (Under Secretary of the Treasury for Terrorism and Financial Intelligence), “Attacking ISIL’s Financial Foundation,” remarks at the Carnegie Endowment for International Peace, October 23, 2014.

<sup>89</sup> Jennifer Fowler (Deputy Assistant Secretary of the Treasury for Terrorist Financing), *U.S. Efforts to Counter the Financing of ISIL*, remarks, Washington Institute for Near East Policy, February 2, 2015.

<sup>90</sup> Financial Action Task Force, *Financing of the Terrorist Organization Islamic State in Iraq and the Levant*, February 2015.

<sup>91</sup> See for example Jimmy Gurulé (Notre Dame Law School), prepared testimony for a hearing on “Terrorist Financing and the Islamic State” before the U.S. House Financial Services Committee, November 13, 2014.

<sup>92</sup> See U.S. Department of Justice press releases: “Two Minnesotans Charged with Conspiracy to Provide Material Support to the Islamic State of Iraq and the Levant,” November 25, 2014; “North Carolina Man Pleads Guilty to Attempting to Aid International Terrorist Organization,” October 30, 2014; and “Colorado Woman Sentenced for Conspiracy to Provide Material Support to a Designated Foreign Terrorist Organization,” January 23, 2015.

<sup>93</sup> White House (Obama Administration), *National Security Strategy*, February 6, 2015.

<sup>94</sup> FTOs are designated pursuant to Section 219 of the Immigration and Nationality Act (8 U.S.C. 1189), as added by Section 302 of the Antiterrorism and Effective Death Penalty Act of 1996 (P.L. 104-132) and subsequently amended. On May 14, 2014, the U.S. Department of State updated its FTO designations to revise AQI’s listing by adding the alias “Islamic State of Iraq and the Levant (ISIL)” as the group’s primary name. On May 14, 2014, the Treasury Department updated its list of Specially Designated Global Terrorist (SDGT) entities to include the “Islamic State of (continued...)”

on some two dozen individuals affiliated with the Islamic State or its predecessor, AQI.<sup>95</sup> Since the U.S. government formally recognized a distinction between the Islamic State and Al Nusrah Front (ANF) in May 2014, more individuals linked to ANF have been targeted for sanction than the Islamic State. This has raised questions among some observers regarding the pace and capacity of the Treasury Department to identify key actors associated with the Islamic State.<sup>96</sup> It is possible that the low number of public designations reflects the Islamic State's limited reliance of international financial facilitators.

The U.N. Security Council also requires its member states to block assets, deny visas, and prohibit arms trade with the Islamic State and its associates. On May 30, 2013, the U.N. Security Council updated its Al Qaeda sanctions list to include the Islamic State and ANF as among the aliases for AQI.<sup>97</sup> This update allowed the U.N. Security Council's Al Qaeda sanctions committee to list and sanction Islamic State-affiliated individuals.<sup>98</sup> Several U.N. Security Council resolutions in 2014 urged member states to continue to contribute information pertinent to the listings of Islamic State-affiliated individuals.<sup>99</sup> On February 12, 2015, the U.N. Security Council unanimously adopted resolution 2199, which reaffirmed and clarified the applicability of U.N. sanctions on IS-related individuals and entities that provide active and passive financial support to the Islamic State, ANF, and others associated with Al Qaeda.

See **Appendix** for a list of U.N.- and U.S.-sanctioned individuals publicly described as affiliated with AQI, the Islamic State, or ANF.

***Exploitation of Local Bank Branches and Other Financial Institutions.*** Through cooperation with Iraqi authorities and the international financial community, the Treasury Department also is seeking to limit the Islamic State's ability to conduct international financial transactions through local bank branches located throughout IS territory. Some 90 Iraqi bank branches reportedly are located in IS-controlled or contested territory.<sup>100</sup> For its part, the Iraqi government has reportedly issued national directives to its banks to prevent wire transfers to and from bank branches in

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(...continued)

Iraq and al-Sham," the "Islamic State of Iraq and Syria," and the Islamic State of Iraq and the Levant" as aliases for AQI. Also on May 14, 2014, the U.S. Departments of State and Treasury disassociated al-Nusrah Front (ANF) from AQI. See U.S. Department of State, "Terrorist Designations of Groups Operating in Syria," press release, May 14, 2014 and U.S. Department of the Treasury, Office of Foreign Assets Control, *Terrorism: What You Need to Know about U.S. Sanctions*, <http://www.treasury.gov/resource-center/sanctions/Programs/Documents/terror.pdf>.

<sup>95</sup> David Cohen (Under Secretary of the Treasury for Terrorism and Financial Intelligence), "Attacking ISIL's Financial Foundation," remarks at the Carnegie Endowment for International Peace, October 23, 2014. See also Cohen's prepared testimony for a hearing on "Terrorist Financing and the Islamic State" before the U.S. House Financial Services Committee, November 13, 2014.

<sup>96</sup> See for example testimony by Jimmy Gurulé (Notre Dame Law School), for a hearing on "Terrorist Financing and the Islamic State" by the U.S. House Financial Services Committee, November 13, 2014.

<sup>97</sup> United Nations, "Security Council Al-Qaida Sanctions Committee Amends Entry of One Entity on Its Sanctions List," press release, May 30, 2013.

<sup>98</sup> The full name of the Al Qaeda sanctions committee is the "Security Council Committee Pursuant to Resolutions 1267 (1999) and 1989 (2011) Concerning Al-Qaida and Associated Individuals and Entities."

<sup>99</sup> See for example U.N. Security Council Resolutions 2161 (2014), 2170 (2014), 2178 (2014), 2192 (2014), and 2195 (2014). See also U.N. Security Council Presidential Statements S/PRST/2014/14 (July 28, 2014) and S/PRST/2014/23 (November 19, 2014).

<sup>100</sup> Financial Action Task Force, *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant*, February 2015.

territory where the Islamic State operates, as well as the sale of hard currency to these banks.<sup>101</sup> The Mosul Development Bank, headquartered in Mosul, also reportedly moved its center of operations to Baghdad.<sup>102</sup> Central to such efforts are private sector reports filed with the Treasury Department on suspicious activity and currency transactions, as well as the implementation of regulatory compliance systems, pursuant to provisions of the Bank Secrecy Act (BSA; 31 U.S.C. 5311 et seq.), including the USA PATRIOT Act of 2001 (P.L. 107-56), which amended the BSA in parts. Where there are indications of IS financing, the Treasury Department shares such financial intelligence with appropriate authorities.<sup>103</sup> Several Syria-based banks, including more than 20 Syrian financial institutions, may continue to operate in IS-occupied territory and may continue to maintain links with the international financial system. Existing sanctions and special measures on financial institutions in Syria—pursuant to the Treasury’s sanctions program against the government of Syria, which began in 2004—have at least partially limited the Islamic State’s ability to exploit bank branches in parts of Syria where the group operates.<sup>104</sup>

The Treasury Department is also working with foreign counterparts to conduct enhanced due diligence on financial activity from IS-controlled territory. In congressional testimony, the Under Secretary of the Treasury for Terrorism and Financial Intelligence reported that financial activity in areas where the Islamic State operates has declined and banks under IS influence are losing access to the international financial system. The Treasury and other financial regulators face the challenge of preventing the Islamic State from exploiting banks in its controlled area while ensuring that financial restrictions do not unintentionally hamper civilian populations from local commerce. Although the extent to which the Islamic State relies on banks remains unclear, observers suggest that efforts to restrict local banks from access to the international financial system may not affect the Islamic State’s ability to leverage and exploit banks within IS-controlled territory.<sup>105</sup> A further policy challenge includes how to identify and prevent unregulated money services businesses in the region from providing support to the Islamic State. According to a recent report by the Financial Action Task Force, information known about the role of financial institutions and money and value transfer services in IS-occupied territory remains too “sensitive” to be publicly disclosed.<sup>106</sup>

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<sup>101</sup> Jennifer Fowler (Deputy Assistant Secretary of the Treasury for Terrorist Financing), *U.S. Efforts to Counter the Financing of ISIL*, remarks, Washington Institute for Near East Policy, February 2, 2015.

<sup>102</sup> Financial Action Task Force, *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant*, February 2015.

<sup>103</sup> David Cohen (Under Secretary of the Treasury for Terrorism and Financial Intelligence), “Attacking ISIL’s Financial Foundation,” remarks at the Carnegie Endowment for International Peace, October 23, 2014.

<sup>104</sup> For an overview see Office of Foreign Assets Control, *Syria Sanctions Program*, updated August 2, 2013, <http://www.treasury.gov/resource-center/sanctions/Programs/Documents/syria.pdf>. See also Financial Crimes Enforcement Network, “Amendment to the Bank Secrecy Act Regulations—Imposition of Special Measure Against Commercial Bank of Syria, Including its Subsidiary, Syrian Lebanese Commercial Bank, as a Financial Institution of Primary Money Laundering Concern, final rule, published in the Federal Register, Vol. 71, No. 50, March 15, 2006, pp. 13260-13267.

<sup>105</sup> Patrick B. Johnston (RAND Corporation), prepared testimony for a hearing on “Terrorist Financing and the Islamic State” before the U.S. House Financial Services Committee, November 13, 2014.

<sup>106</sup> Financial Action Task Force (FATF), *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant*, February 2015.

### **U.N. Al Qaeda Sanctions Committee Recommendations**

On August 15, 2014, the United Nations Security Council passed resolution 2170, to, among other provisions, require its Al Qaeda sanctions committee to prepare a report with recommendations on how to mitigate the threat posed by the Islamic State and Al-Nusrah Front. The report, released on November 14, 2014, included a detailed review of Islamic State financing trends and concluded with the following recommendations for further action within the U.N. system:<sup>107</sup>

Member states, especially those most directly affected by the terrorist threat posed by the Islamic State, should be encouraged to propose further listings under the Al Qaeda sanctions regime, including IS financiers, companies and smuggling networks that trade in Islamic State-sourced commodities, and other terrorists groups and non-profit organizations that facilitate, assist, or otherwise materially support the Islamic State.

Member states, particularly Iraq, Syria, and their immediate regional neighbors, as well as countries from which the Islamic State draws recruits, financing, or arms, should be encouraged to fully implement the measures in place under the Al Qaeda sanctions regime against the Islamic State.

U.N. and other multilateral entities should be encouraged to rapidly identify capacity gaps among member states in the implementation of the Al Qaeda sanctions regime, and address such gaps by providing technical assistance and supporting capacity-building projects.

Member states should be encouraged to ensure that heightened vigilance and enhanced due diligence by financial institutions subject to their jurisdiction are in effect for banking relationships and transactions involving banks in IS-controlled territory. Member states, through their financial regulators, should also be urged to ensure that financial institutions with subsidiaries or branches in IS-controlled territory have adequate measures in place to mitigate the terrorist financing risks that may arise in the course of doing business in the region.

Member states bounding IS-controlled territory should be mandated to promptly seize all oil tanker-trucks and their loads that depart or seek entry into IS- controlled territory. Moreover, Member states should be mandated to report to the Al Qaeda sanctions committee on the details of any such seizures.

The Security Council should mandate an international moratorium on the trade of antiquities from Iraq or Syria that lack clear, certified provenance.

Member states should be mandated to impose a preventive embargo on flights destined to land in or take off from IS-controlled territory. Prior to implementation, a procedure should be in place to manage exceptions to the flight embargo, including for humanitarian flights, among others.

If any newly recommended measures were to be adopted, the sanctions committee should be mandated to conduct a formal impact assessment that would track progress on implementation, identify challenges, and consider adjustments to the sanctions regime.

The Team also offered two non-sanctions related recommendations, including one on improving information sharing, particularly through INTERPOL, on known and suspected foreign terrorist fighters. A second focused on improving national and multilateral actions to address Islamic State propaganda, including ideology and imagery.

Source: Analytical Support and Sanctions Monitoring Team, *The Islamic State in Iraq and the Levant and the Al-Nusrah Front for the People of the Levant: Report and Recommendations Submitted Pursuant to Resolution 2170 (2014)*, United Nations Security Council, S/2014/815, November 14, 2014.

## **Conclusion: Implications for U.S. Policy**

The Islamic State's ability to draw on multiple sources of funding poses a challenge to U.S. and international efforts to contain and degrade the group's strength. The diverse sources of revenue may well safeguard the group, at least in the short term, from shocks that could result from the

disruption of any single revenue stream. For example, although some observers have expressed hope that recent reductions in the global price of oil may disrupt the Islamic State's financial base, the group seems to have found viable alternative fundraising opportunities, including local extortion, kidnap for ransom schemes, increased import duties, and receipt of donations from foreign benefactors.<sup>108</sup> In several respects, however, the Islamic State depends on controlling territory in order to finance its operations; if the group loses or fails to seize additional territory, its financial strength may not be sustainable in the long term.

The Islamic State's appropriation of illicit trafficking networks for its financial gain is a testament to the enduring nature of cross-border smuggling in the region, which the Saddam Hussein regime used in the 1990s to evade U.N. sanctions against Iraq and exploit the U.N. Oil-for-Food program. The existence of long-standing smuggling routes in the region also suggests that dismantling the smuggling routes will be difficult. Researchers suggest that the diversity of the Islamic State's funding sources necessitate a counter-finance response that is similarly diverse.<sup>109</sup>

Moreover, the U.N. Security Council's Analytical Support and Sanctions Monitoring Team cautions that the international community's success or failure at stemming IS resources could have implications for the long-term threat posed by the Al Qaeda movement:

The importance of the significant financial assets—and the potential for continuing revenue—of ISIL should not be underestimated. Should the leader of ISIL, or individuals within the network with access to funds, choose to fund Al-Qaida core or other parts of the Al-Qaida movement, the potential for a revived (and well-funded) transnational terrorist architecture will grow.<sup>110</sup>

Many observers recognize that a strategy focused on counter-finance may weaken, but not destroy, the Islamic State. For its part, the Department of the Treasury has cautioned against expectations that efforts to combat the Islamic State's finances will bear fruit quickly. In remarks to the Carnegie Endowment for International Peace, Under Secretary Cohen warned that “efforts to combat its [Islamic State] financing will take time. We have no silver bullet, no secret weapon to empty ISIL's coffers overnight. This will be a sustained fight, and we are in the early stages.”<sup>111</sup>

Even if efforts to eliminate the Islamic State's external sources of funding are unequivocally successful, the Islamic State will likely continue to benefit from local donations and extortion schemes within the territory it controls. To this end, some have emphasized the importance of developing the capacity of local and regional partners to target IS financial facilitators and local revenue sources that are not within U.S. reach.<sup>112</sup> Such efforts, however, may inflict hardship on local populations where the Islamic State operates and some suggest that counter-finance tactics

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<sup>108</sup> Geoff D. Porter, “The Impact of Crude's Collapse on the Islamic State,” Combating Terrorism Center at West Point, blog post on *CTC Perspectives*, January 13, 2015.

<sup>109</sup> Muhammad al-'Ubaydi et al., *The Group That Calls Itself a State: Understanding the Evolution and Challenges of the Islamic State*, Combating Terrorism Center at West Point, December 2014.

<sup>110</sup> Analytical Support and Sanctions Monitoring Team, *Sixteenth Report of the Analytical Support and Sanctions Monitoring Team Submitted Pursuant to Resolution 2161 (2014) Concerning Al-Qaida and Associated Individuals and Entities*, United Nations Security Council, S/2014/770, October 29, 2014.

<sup>111</sup> David Cohen (Under Secretary of the Treasury for Terrorism and Financial Intelligence), “Attacking ISIL's Financial Foundation,” remarks at the Carnegie Endowment for International Peace, October 23, 2014.

<sup>112</sup> Patrick B. Johnston (RAND Corporation), prepared testimony for a hearing on “Terrorist Financing and the Islamic State” before the U.S. House Financial Services Committee, November 13, 2014.

should be balanced with a consideration of the suffering that such actions may cause. Moreover, some caution that the Islamic State, known for its sophisticated propaganda skills, may blame the international community for any economic distress that local populations may experience.<sup>113</sup>

Nevertheless, some observers argue that international pressure against the Islamic State's revenue streams, particularly oil-related revenue, has contributed to the group's declining financial prospects. Many observers also foresee vulnerabilities in the organization's longer-term financial stability. Replenishing battlefield resources, including equipment repairs and salaries for fighters, along with other costs associated with administering territory under its control, may ultimately stress its financial capabilities. According to a Treasury official, the long-term trajectory of the Islamic State's financial profile may already be toward decline:

While we are actively working to disrupt ISIL's financial activities, it is important to note that the sources of ISIL's wealth—notably the money stolen from banks and revenues from oil sales—are either no longer replenished or diminish over time, we expect ISIL will increasingly struggle to finance its operations. Just like any commercial enterprise whose income is less than its expenses, ISIL's financial strength will diminish unless it is able to find alternative sources of revenue or take additional territory.<sup>114</sup>

Some observers have criticized the Treasury Department's response to the Islamic State for closely resembling the counter-terrorist financing campaigns of years past—despite recognition that the Islamic State, in key respects, presents a unique financial profile. U.S. officials, too, have acknowledged the Islamic State's unique financial capabilities, and note that the U.S. government, particularly the Treasury Department, faces an urgent challenge to adapt existing counter-terrorist financing tools and techniques to respond to the Islamic State.<sup>115</sup> Policymakers may choose to evaluate the effectiveness of the Treasury Department's efforts to combat IS financing and assess whether its current resources and capabilities are sufficient to meet the challenge that the Islamic State presents.

## **Congressional Outlook**

As the 114<sup>th</sup> Congress continues to consider and evaluate U.S. policy responses to address the Islamic State, a focus of concern may center on whether U.S. counterterrorist financing tools are capable of diminishing IS sources of funds. Key questions may include whether current U.S. efforts are effective and sufficiently resourced, or require new legislative authorities, to respond to the Islamic State's ability to accumulate and distribute funds.

Although Congress has been active in evaluating U.S. policy responses and options to address the Islamic State, particularly the military response and prospects for congressional authorization for the use of military force, legislative proposals to stem the Islamic State's access to and use of funds have been limited.

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<sup>113</sup> Muhammad al-'Ubaydi et al., *The Group That Calls Itself a State: Understanding the Evolution and Challenges of the Islamic State*, Combating Terrorism Center at West Point, December 2014.

<sup>114</sup> Jennifer Fowler (Deputy Assistant Secretary of the Treasury for Terrorist Financing), *U.S. Efforts to Counter the Financing of ISIL*, remarks, Washington Institute for Near East Policy, February 2, 2015.

<sup>115</sup> David Cohen (Under Secretary of the Treasury for Terrorism and Financial Intelligence), "Attacking ISIL's Financial Foundation," remarks at the Carnegie Endowment for International Peace, October 23, 2014.

Two bills introduced in the 113<sup>th</sup> Congress addressed Islamic State financing, including H.R. 5431, the Isolating ISIS Act; and H.R. 5463, the End Financing to ISIL Act. Islamic State financing is a topic that is often discussed in congressional hearings on broader topics, including U.S. counterterrorism strategy and regional responses to the situation in Iraq and Syria. The House Committee on Financial Services did, however, hold a hearing specifically on “Terrorist Financing and the Islamic State” on November 13, 2014.<sup>116</sup>

For FY2015, the 113<sup>th</sup> Congress appropriated \$112.5 million to the U.S. Department of the Treasury’s Office of Terrorism and Financial Intelligence in P.L. 113-235, the Consolidated and Further Continuing Appropriations Act, 2015 (up from \$102 million in FY2014). The Explanatory Statement accompanying the FY2015 bill additionally specified that the Treasury Department should “fully implement sanctions... applicable to the Islamic State of Iraq and the Levant” among others, and should “promptly notify the Committees on Appropriations of the House and Senate of any resource constraints that adversely impact the implementation of these sanctions programs.”<sup>117</sup> For FY2016, the Treasury Department requested \$109.6 million for its Office of Terrorism and Financial Intelligence and stated that its request supports efforts to combat IS finances.<sup>118</sup>

In August 2014, Senators Bob Casey and Marco Rubio sent a letter to Secretary of State John Kerry, urging the Obama Administration to designate the Islamic State as a “Transnational Criminal Organization” (TCO), pursuant to Executive Order (EO) 13581.<sup>119</sup> EO 13581 authorizes the establishment of a targeted financial sanctions regime against TCOs, similar to those already in place against SDGTs, pursuant to EO 13224.

“Although ISIS is already under both U.S. and international sanctions, we should employ all available tools to curtail these activities and disrupt its financial networks,” the letter to Secretary Kerry stated. “We believe the State and Treasury Departments should also consider designating ISIS as a TCO, which would send a strong signal to our partners in the region that we are prioritizing cutting off ISIS’s financial support.”

The 114<sup>th</sup> Congress may also address IS financing policy issues through the recently established Task Force to Investigate Terrorism Financing. On March 25, 2015, the U.S. House Committee on Financial Services passed a resolution to establish this six-month bipartisan task force, with the goal of conducting hearings and investigations related to U.S. responses to terrorist financing issues, including the issuance of possible reports to the committee that detail findings and policy recommendations to enhance U.S. responses.<sup>120</sup>

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<sup>116</sup> U.S. House of Representatives, Committee on Financial Services, “Terrorist Financing and the Islamic State,” hearing, November 13, 2014, <http://financialservices.house.gov/calendar/eventsingle.aspx?EventID=398424>.

<sup>117</sup> Title I, Department of the Treasury, of Division E, Financial Services and General Government Appropriations Act, 2015, in *Congressional Record* (House), Vol. 160, No. 151, Book II, December 11, 2014.

<sup>118</sup> U.S. Department of the Treasury, FY2016 Congressional Justification, <http://www.treasury.gov/about/budget-performance/Pages/cj-index.aspx>.

<sup>119</sup> Office of Senator Bob Casey, “Casey, Rubio Urge Administration to Take Steps to Cut Off ISIS Financing,” press release, August 26, 2014; White House (Obama Administration), Executive Order 13581: Blocking Property of Transnational Criminal Organizations, July 25, 2011.

<sup>120</sup> U.S. House of Representatives, Committee on Financial Services, “Task Force to Investigate Terrorism Financing Resolution of 2015,” resolution, [http://financialservices.house.gov/uploadedfiles/task\\_force\\_resolution\\_terrorism\\_financing.pdf](http://financialservices.house.gov/uploadedfiles/task_force_resolution_terrorism_financing.pdf).

# Appendix

**Table A-I. U.N. and U.S. Sanctions Designations**

List of Selected Designated Individuals Identified as Related to Al Qaeda in Iraq (AQI), the Islamic State (IS), or Al Nusra Front (ANF)

Designated Individual	Date of U.N. Sanctions	Date of U.S. Sanctions	AQI Related	IS Related	ANF Related	Notes
Zayn al-Abidin Muhammad Hussein	1/25/2001	1/23/2001	Y (U.N. only)			U.S. sanctions were applied without a public statement identifying the individual's relationship to AQI, the Islamic State, or ANF.
Omar Mahmoud Uthman	10/17/2001	10/12/2001	Y (U.N. only)			U.S. sanctions were applied without a public statement identifying the individual's relationship to AQI, the Islamic State, or ANF.
Ismail Abdallah Sbaitan Shalabi	9/23/2003	9/23/2003	Y (U.N. only)			U.S. sanctions were applied without a public statement identifying the individual's relationship to AQI, the Islamic State, or ANF.
Djamel Moustfa	9/23/2003	9/23/2003	Y (U.N. only)			U.S. sanctions were applied without a public statement identifying the individual's relationship to AQI, the Islamic State, or ANF.
Mohamed Ghassan Ali Abu Dhess	9/23/2003	9/23/2003	Y (U.N. only)			U.S. sanctions were applied without a public statement identifying the individual's relationship to AQI, the Islamic State, or ANF.
Aschraf al-Dagma	9/23/2003	9/23/2003	Y (U.N. only)			U.S. sanctions were applied without a public statement identifying the individual's relationship to AQI, the Islamic State, or ANF.
Hani al-Sayyid al-Sebai Yusuf	9/29/2005	9/29/2005	Y (U.N. only)		Y (U.N. only)	U.S. sanctions were applied without a public statement identifying the individual's relationship to AQI, the Islamic State, or ANF.
Hamid Abdallah Ahmad al-Ali	1/16/2008	12/7/2006	Y			

Designated Individual	Date of U.N. Sanctions	Date of U.S. Sanctions	AQI Related	IS Related	ANF Related	Notes
Jaber Abdallah Jaber Ahmad Al-Jalahmah	1/3/2014	12/7/2006	Y		Y (U.N. only)	
Mubarak Mushakhas Sanad Mubarak al-Bathali	1/16/2008	12/7/2006	Y			
Fawzi Mutlaq Al-Rawi		12/7/2007	Y			
Ghazy Fezza Hishan Al Mazidih	3/11/2010	2/28/2008	Y			
Akram Turki Hishan Al Mazidih	3/11/2010	2/28/2008	Y			
Badran Turki Hishan Al Mazidih		2/28/2008	Y			
Saddah Jaylut Al-Marsumi		2/28/2008	Y			
Redouane El Habhab	11/12/2008	11/20/2008	Y			
Sa'ad Uwayyid 'Ubayd Mu'jil al Shammari		5/14/2009	Y			
Muthanna Harith Al-Dari	3/25/2010	3/25/2010	Y			
Mustafa Hajji Muhammad Khan	3/14/2011	9/7/2011	Y			
Umid Muhammadi		7/28/2011	Y			
'Ali Hasan 'Ali al-'Ajmi		7/28/2011	Y			
Ibrahim Awwad Ibrahim Ali Al-Badri Al-Samarrai	10/5/2011	10/4/2011	Y	Y	Y (U.N. only)	Also known as Abu Dua and Abu Bakr al-Baghdadi, Al-Badri is the leader of the Islamic State, which helped establish ANF.
Ibrahim Suleiman Hamad al-Hablain	9/23/2014	11/22/2011			Y (U.N. only)	
Maysar Ali Musa Abdallah al-Juburi	9/23/2014	12/11/2012	Y (U.S. only)		Y	
Anas Hasan Khattab	9/23/2014	12/11/2012	Y		Y	
Abu Mohammed Al-Jawlani	7/24/2013	5/16/2013	Y		Y	
'Abd Al-Rahman Bin 'Umayr Al-Nu'Aymi	9/23/2014	12/18/2013	Y			

Designated Individual	Date of U.N. Sanctions	Date of U.S. Sanctions	AQI Related	IS Related	ANF Related	Notes
'Abd Al-Rahman Muhammad Mustafa Al-Qaduli	9/23/2014	5/14/2014	Y	Y		
Abdelrahman Mouhamad Zafir al Dabidi al Jahani	8/15/2014	5/14/2014			Y	
'Abd Al-Rahman Khalaf 'Ubayd Juday' Al-'Anizi	9/23/2014	8/6/2014	Y (U.N. only)	Y	Y (U.N. only)	The U.N. narrative summary states that Al-'Anizi has been a "well-known facilitator" for ANF since 2013 and has been "providing a wide range of support" to the Islamic State since early 2014.
Hajjaj bin Fahd al Ajmi	8/15/2014	8/6/2014			Y	
Shafi Sultan Mohammed al-Ajmi	9/23/2014	8/6/2014			Y	
Hamid Hamad Hamid Al-'Ali	8/15/2014	8/22/2014	Y (U.N. only)	Y (U.N. only)	Y	The U.N. narrative summary describes Ali as having "attempted to facilitate dialogue" between the leaders of the Islamic State and ANF.
Said Arif	8/15/2014	8/18/2014			Y	
Abdul Mohsen Abdullah Ibrahim al-Sharikh	8/15/2014	8/22/2014			Y	
Abou Mohamed Al Adnani	8/15/2014	8/18/2014	Y (U.N. only)	Y	Y (U.N. only)	The U.N. narrative summary describes Adnani as having been appointed as deputy in Syria to ANF leader al-Jawlani. Adnani was reportedly appointed emir of Islamic State forces in Syria at the beginning of 2013.
Emilie Konig	9/23/2014		Y	Y		
Kevin Guiavarch	9/23/2014				Y	
Oumar Diaby	9/23/2014				Y	
Ashraf Muhammad Yusuf 'Uthman 'Abd Al-Salam	1/23/2015	9/24/2014	Y		Y	
Tarkhan Tayumurazovich Batirashvili	1/23/2015	9/24/2014	Y (U.N. only)	Y		

Designated Individual	Date of U.N. Sanctions	Date of U.S. Sanctions	AQI Related	IS Related	ANF Related	Notes
'Abd al-Malik Muhammad Yusuf 'Uthman 'Abd al-Salam	1/23/2015	9/24/2014			Y	
Tariq Bin-Al-Tahar Bin Al Falih Al-'Awni Al-Harzi		9/24/2014		Y		
Fatih Hasar		9/24/2014			Y	
Hamad Awad Dahi Sarhan al-Shammari		9/24/2014			Y	
Denis Mamadou Gerhard Cuspert	2/11/2015	2/9/2015	Y (U.N. only)	Y	Y (U.N. only)	The U.N. narrative summary describes Cuspert as having initially joined Junus al-Sham in 2013, which had had relations with ANF and IS; later, he joined IS.
Aliaskhab Alibulatovich Kebekov	3/23/2015		Y		Y	The U.N. narrative summary describes Kebekov as leader of an armed group in Dagestan, Russia, which has pledged its allegiance to Al Qaeda.

**Sources:** United Nations Security Council Committee Pursuant to Resolutions 1267 (1999) and 1989 (2011) Concerning Al-Qaida and Associated Individuals and Entities, Narrative Summaries of Reasons for Listing, <http://www.un.org/sc/committees/1267/narrative.shtml>; U.S. Department of the Treasury, Office of Foreign Assets Control, Terrorism: What You Need to Know about U.S. Sanctions; U.S. Department of the Treasury press releases; and U.S. State Department press releases.

**Notes:** Designated individuals are listed in this table based on the earliest date of designation on U.N. or U.S. sanctions lists. Although the names of designated individuals on both U.N. and U.S. sanctions lists are publicly available, it cannot be assumed that U.N.- and U.S.-released biographical details of designated individuals are either comprehensive or current in the description of such individuals' affiliations to known terrorist groups and other militant organizations. Since both the Islamic State and ANF emerged from AQI, some designated individuals may have historic links to both the Islamic State and ANF. Reported links to AQI, Islamic State, or ANF may not indicate formal membership in any of the groups. All U.N. designations with links to the Islamic State also reference links to AQI because it considers the Islamic State an alias for AQI.

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