

Funding the Islamic State: Sources of Revenue, Financing Requirements and Long-Term Vulnerabilities to Counter-Measures

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The funding of the Islamic state has been key to its territorial expansion and research shows that its revenue sources are diverse and mainly located within territory the group controls - but probably unsustainable over time. The Islamic State diverges from comparable insurgent and terrorist groups firstly through its extensive sources of revenue, which are mainly located within territory that the organization controls. Internal IS documents furthermore strongly indicate that the group is hierarchically organized, has a bureaucratic division of labor and closely monitors how economic assets are generated and distributed. Specifically, this implies that the organization has been able to generate resources in calmer regions of Iraq and distribute them to more contested regions.¹ This gave IS a distinct advantage in the competition over territorial control in Syria during 2013-2014, and partly explains its swift expansion.² Furthermore, these revenue streams - which are mainly generated locally, often in cash or valuable goods, and only to a limited extent dependent on external sponsors and the formal financial system - implies that the ability to impact the funding of IS through financial sanctions is limited.³ However, through its territorial expansion and attempts to create a pseudo-state in eastern Syria and western Iraq, IS has also taken on sizeable financing requirements such as an extensive military, security and propaganda apparatus and a social welfare system. Beyond this, several of the initial sources of revenue which IS have exploited - bank robberies, looting of private and public goods, and forced "taxation" of civilians, to name a few - are either one-time revenue sources, or prone to be depleted over time. Likewise, a coordinated campaign is rapidly decreasing its income from oil smuggling.⁴ Taken together, this suggests

1 Benjamin Bahney et al (2010) *An Economic Analysis of the Financial Records of al-Qa'ida in Iraq* Santa Monica: RAND Corporation.

2 Michael Jonsson (2014) *Following the Money: Financing the Territorial Expansion of Islamist Insurgents in Syria* FOI Memo 4947, Stockholm: FOI.

3 FATF (2015) *Financing of the Terrorist Organization Islamic State in Iraq and the Levant* (ISIL) FATF/OECD: Paris, 6; Matthew Rosenberg, Nicholas Kulish and Steven Lee Myers (2015) "Predatory Islamic State Wrings Money From Those It Rules" *New York Times*, November 30 2015.

4 *Jane's Intelligence Weekly* (2015) "Greater Co-operation over Targeting Islamic State Financing is Likely to be More Significant than Escalation of Syria Airstrikes" November 18 2015.

that the long-term ability of IS to effectively govern areas it currently controls is doubtful.⁵ Any measures taken to counter IS financing however need to be weighed against the consequences for the civilian population, and fit into a broader strategy aimed at breaking the territorial control of IS. Simply inhibiting financial flows to IS-controlled territory, and degrading local infrastructure is unlikely to be successful, and may prove counterproductive.

SOURCES OF REVENUE AND FINANCIAL MONITORING

Compared to other insurgent and terrorist organizations, there is a broad and empirically well-founded literature regarding the financing of IS. Based on existing research, the primary sources of IS funding - in a rough order of importance - are "taxation" levied in regions the organization controls; looting and theft of public and private property; oil- and natural gas smuggling; and to a lesser degree donations from foreign sponsors, ransom for hostages, and sales of looted antiquities⁶, as well as abuse of charitable organizations and self-funding through legal means such as loans.⁷ The relative importance of various revenue streams has varied over time, as illustrated by the decreasing importance of oil smuggling, and IS will likely continuously search for new sources of income, as old ones are depleted or cut off.⁸

The total budget of IS, and any "war chest" the organization may have accumulated, are for obvious reasons difficult to verify and estimates differ between analysts. The highest figures - which likely over-estimate IS revenue - range around \$2 billion annually⁹, which coincides with the budget IS itself presented for 2015.¹⁰ There are however

5 Erik Bergin (2015) "Utpressning och olja finansierar IS" *Svenska Dagbladet* November 21 2015.

6 Carla E. Humud, Robert Pirog och Liana Rosen (2015) *Islamic State Financing and U.S. Policy Approaches*. Congressional Research Service Report R43980, CRS: Washington DC, 4-12; FATF (2015) *Financing of the Terrorist Organization Islamic State*, 12-26.

7 Matthew Levitt (2015) "Status Report on Countering Terrorist Financing" Testimony before the Canadian Parliament, May 11 2015;

8 Levitt (2015) "Status Report on Countering Terrorist Financing".

9 Martin Chulov "How an Arrest in Iraq Revealed Isis's \$2 billion jihadist network" *The Guardian* 15 juli 2014.

10 Andrew V. Pestano (2015) "Islamic State Prepares \$2 billion budget, opens bank" *UPI January* 5 2015.



strong reasons to question this claim. Firstly, it relies on non-transparent sources rather than careful calculations¹¹ and exaggerating its total budget may well be part of IS propaganda campaign.¹² Furthermore, the partial, primary sources which are publicly accessible are difficult to square with the \$2 billion number. For instance, in data over IS funding in Deir az-Zoor – which is the most oil-rich region in Syria and home to approximately 1/8 of the population living under its control – the monthly income of IS was a little over \$8.4 million for January 2015.¹³ Likewise, initial estimates of IS incomes from oil smuggling of \$1 million or more per day¹⁴ have since been tempered, taking into account the decreasing production of oil wells under its control, and the discount at which the oil is being sold.¹⁵ That said, even detailed estimates put IS funding at well over \$1 billion annually, primarily from “taxation”.¹⁶ Whereas the total budget is hard to estimate, the broader points – that IS is very well-funded, and that crippling its financial support network should be an intrinsic component to any strategy aimed at degrading the organization – are broadly agreed.¹⁷

Beyond its revenue streams, IS has proven to be remarkably adept at monitoring, storing and redistributing economic assets which it has acquired. From analysis of captured financial records, it is evident that IS relies on a logistical facilitation network which is hierarchically organized, with a bureaucratic division of labor, and subject to detailed monitoring.¹⁸ This has facilitated the expansion of the organization, i.a. by generating incomes in calmer regions and channeling these to contested areas.¹⁹ Furthermore, IS has long been known to pay wages to its recruits, ranging around \$400-600 per month. Whilst this

11 The fact that even major studies on IS financing abstain from estimating its total budget is arguably a testament to the difficulty and the manifold potential sources of errors inherent to this task. C.f. Humud et al (2015) *Islamic State Financing*; FATF (2015) *Financing of the Terrorist Organization Islamic State*.

12 Bergin (2015) “Utpressning och olja finansierar IS”

13 Aymenn Jawad al Tamimi (2015) “The Archivist: Unseen Islamic State Financial Accounts for Deir az-Zor Province” *Jihadology* 5 oktober 2015.

14 Deb Riechmann (2014) “Islamic State Earning \$1 million per day in black market oil, US says” *PBS Newshour* October 23, 2014.

15 Onur Burcak Belli et al (2014) “The Business of the Caliph” *Die Zeit*, December 4 2014. Similarly, in January 2015 IS made a modest \$2 million from the oil-rich Deir az-Zor region. C.f. Tamimi (2015) “The Archivist”. However note estimates of oil incomes around \$500 million in Rosenberg et al (2015) “Predatory Islamic State”.

16 Rosenberg et al (2015) “Predatory Islamic State”.

17 Matthew Levitt (2015) “Countering ISIL Financing: A Realistic Assessment” Washington Institute for Near East Policy, February 2 2015.

18 Bahney et al (2010) *An Economic Analysis of the Financial Records of al-Qa’ida in Iraq*

19 Jonsson (2014) *Following the Money*

facilitated operations in Iraq against US forces through “paid-for” attacks, today this may represent an even more potent incentive in Syria given the rapidly deteriorating humanitarian situation, even for recruits who have a lukewarm commitment to the ideological aim of IS.²⁰ This is especially so as IS fosters dependence on the organization and suppresses the economic activities of non-members.²¹

This organizational structure however entails some drawbacks. The close monitoring implies that large amounts of data is accumulated amongst a small set of commanders. Hence, raids such as the one against financier Abu Sayyaf in June may generate a wealth of intelligence, including sources of funding, clues to locating top commanders and the identities of business partners.²² This is vital, since operations that target IS as an organization – rather than the territory it controls – are key to weakening and breaking its control over the Sunni population. What is so far not known is whether centralized control of financial records also implies an accumulation of financial assets among top commanders, which could prove a vulnerability.

FINANCING REQUIREMENTS AND ECONOMIC VULNERABILITIES

Shortly following the terrorist attacks in Paris on November 13, US combat aircraft destroyed more than 100 trucks waiting to transport oil that IS had extracted. Analysts however note that while these operations can significantly decrease the revenue IS derives from oil smuggling, they simultaneously impact civilians who need fuel for vehicles and power generators.²³ This illustrates the dilemma facing the US-led strategy to degrade the financing of IS. Firstly, the limited reliance of IS on foreign donors and the formal financial system means that financial sanctions have a limited ability to cut off its funding.²⁴ Secondly, many if not most conceivable efforts to combat IS funding – short of dislodging its territorial control – risk inadvertently impacting the Sunni population.²⁵ This may be unavoidable, but since

20 Humud et al (2015) *Islamic State Financing*, 13.

21 Joanna Paraszczuk (2015) “The ISIS Economy: Crushing Taxes and High Unemployment” *The Atlantic* September 2 2015.

22 Eric Schmitt (2015) “A Raid on ISIS Yields a Trove of Intelligence” *New York Times* June 8 2015.

23 *Jane’s Intelligence Weekly* (2015) “Greater Co-operation over Targeting Islamic State Financing”

24 Riechmann (2014) “Islamic State Earning \$1 million”; Rosenberg et al (2015) “Predatory Islamic State”.

25 This is true of operations against oil- and natural gas infrastructure, restricting access by Syrian banks to the international financial system, limiting transfers through alternative remittance systems or humanitarian NGOs, or the recent decision by the Iraqi state to stop paying wages to

IS rose to prominence in part by exploiting rage amongst Sunni Muslims against abuse committed by the Assad regime, measures to combat IS must thread a fine balance. Any blanket efforts to cut off all financial flows to IS-controlled territory or degrade infrastructure which is currently abused by the “Caliphate”, may worsen an already dire humanitarian situation and increase the dependence of local civilians on IS, regardless where their political loyalties lie.²⁶

In spite of its vast sources of income, there are however already initial signs that IS lacks the technical expertise needed to administer a state and may have over-extended itself financially. This is illustrated for instance by the Raqqah dam, which IS has used to generate electricity in the region. As a consequence, water levels have dropped, harming distribution of drinking water for an estimated 5 million people.²⁷ Several studies also report signs of financial strain inside the “Caliphate”. For instance, the organization is reportedly failing to deliver basic services such as electricity and garbage collection in Mosul,²⁸ may have cut the wages of its members²⁹ and is aggravating food shortages³⁰ and harming the economy in eastern Syria.³¹ More broadly, it is noteworthy that many of the initial sources that IS have exploited are non-replenishable or unsustainable over time. Hence, while IS may initially have amassed large resources, many analysts expect that over time it will deteriorate financially, as revenues dwindle, while the costs of maintaining its military, security and propaganda apparatus remain high.³² This can potentially undercut the allegiance of fighters and civilians currently under IS control. While IS in Deir az-Zor spent almost three quarters of its incomes on fighters’ wages (43.6%), bases (19.8%) and the religious police (10.4%)³³, a study found corruption and lack of material rewards to be two of four key motives for defections from IS.³⁴ Needless to say, civilians suffer much worse than fighters. Fully exploiting any popular discontent resulting from this would however require ground forces that can challenge IS militarily and provide a basic modicum of security and stability, with Shia militias scarcely fitting this mold.

civil servants in regions controlled by IS.

26 Paraszczyk (2015) “The ISIS Economy...”; Rosenberg et al (2015) “Predatory Islamic State”.

27 Humud et al (2015) *Islamic State Financing*, 12.

28 Orlando Crowcroft (2015) “Inside the struggling Islamic State economy in Iraq and Syria” *International Business Times* April 11 2015.

29 Bergin (2015) “Utpressning och olja finansierar IS”

30 Humud et al (2015) *Islamic State Financing*, 12.

31 Paraszczyk (2015) “The ISIS Economy...”.

32 Burcak Belli et al (2014) “The Business of the Caliph”; Humud et al (2015) *Islamic State Financing*, 23; Andrew Soergel “Financing Terror: Where Does the Islamic State Group Get Its Money?” *US News and World Report* November 23 2015.

33 Tamimi (2015) “The Archivist: Unseen Islamic State Financial Accounts”.

34 Peter R. Neumann (2015) “Victims, Perpetrators, Assets: The Narratives of Islamic State Defectors” *The International Centre for the Study of Radicalization and Political Violence*, 11.

Conclusions and implications for Western interests

Taken together, in spite of its extensive incomes, it seems unlikely that IS will be able to sustainably fund itself and effectively govern areas it currently controls for any extended period of time. There are already signs of financial strain, which will likely increase as military operations intensify. Losses of major population centers would exacerbate these problems. Given its financial dexterity, IS will likely continuously search for complementary sources of funding, including for instance increased contributions from foreign fighters or wealthy donors. As combatting terrorist financing is legally complex and resource intensive, this will likely remain an enduring challenge. Furthermore, even if the prospects of IS as a state-building endeavor are dubious, it still represents a formidable fighting force, capable of inflicting grievous harm in Syria and Iraq, neighboring countries and western Europe. While the funding of the Paris attacks is unknown, previous research shows that financing individual terrorist attacks is inexpensive.³⁵ Hence, even if IS may eventually find itself in dire straits financially, this will probably do little to hamper its terrorist capabilities in the short term.

Last but not least, current initiatives to combat IS financing need to be conducted with realistic expectations of what can be achieved, and with a long-term view of the possible second-order consequences. Firstly, whereas certain IS sources of funding can certainly be circumscribed³⁶ the international community cannot expect to cut off funding completely, given its mainly “domestic” sources. Furthermore, as IS has proven resilient, this is likely to be a drawn-out process at best. Consequently, the risk of inadvertently aggravating the dire humanitarian situation should be carefully considered, to avoid repeating previous mistakes.³⁷ Finally, while funding is an important source of IS influence which needs to be urgently countered, any long-term solution to the problem is contingent on resolving the seemingly intractable conflict in Syria and Iraq, and specifically the security dilemma faced by the Sunni population. Hence, the issue of IS financing and the threat that the organization presents will in all likelihood continue to plague international policy-makers for the foreseeable future.

35 Financial Action Task Force (2008) *Terrorist Financing* FATF/OECD: Paris, 7.

36 FATF (2015) *Financing of the Terrorist Organization Islamic State*, 33-37.

37 C.f. FATF (2015) *Financing of the Terrorist Organization Islamic State*, 38; and Christian Larson, Michael Jonsson and Nir Artzi (2010) “Tax Evasion. Dealing with the Shabab’s Financing.” *Jane’s Intelligence Review*, March 2010