



**NIP IT IN THE BUD:
DISRUPTING INSURGENT FINANCIAL
NETWORKS BEFORE THEY TAKE HOLD**

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The rapid rise of Islamic State¹ has galvanised the international community to take action to contain it. One issue in particular – financing – has drawn increasing attention from policy-makers. As U.S. Secretary of Defense Chuck Hagel noted in August 2014, "ISIL is as sophisticated and well-funded as any group that we have seen. They're beyond just a terrorist group... they are tremendously well funded."² He elaborated on this further in a September testimony to the U.S. Senate Armed Services Committee, stating that the United States would work with international partners "to cut off ISIL's funding" and that "the Department of Treasury's Office of Terrorism and Financial Intelligence is working to disrupt ISIL's financing and expose their activities."³ This decision by international partners to jointly focus on finance disruption has resulted in a bombing campaign partly targeting oil refineries (a major source of funds for Islamic State) and in a UN Security Council Resolution that exhorts the international community to inhibit foreign terrorist fighter travel and otherwise disrupt financial support.⁴

But will it work? This article will give necessary broader context on this key question by exploring in more general terms the importance of financing for terrorist and insurgent groups and the extent to which disrupting their funding can reduce the security threat posed by such groups. Specifically considering the evolution of Islamic State, this article will first review the importance of financing in conflict, then assess the way in which funding models develop. It will argue that, once groups move from a reliance on externally sourced funding to generating sufficient internal financing – a path several groups have now followed – disruption becomes significantly more challenging and complex. The international community consistently fails to prioritise the early disruption of terrorist and insurgent financing – an attitude that needs to change.

The challenge of financing in conflict is as old as conflict itself. In his series of Philippic speeches, the Roman orator Marcus Tullius Cicero (106 BC – 43 BC) observed that "The sinews of war [are] a limitless supply of money."⁵ During the Cold War, states sponsored violent insurgents via funding and supporting proxies. For instance, the U.S. provided significant financial support to opponents of Chilean President Allende in the early 1970s and the Afghan Mujahedeen in the 1980s. The Soviet Union (primarily via satellite states such as Czechoslovakia, Cuba, and Bulgaria) supplied training and weapons to Western European Marxist groups such as the Red Brigades in Italy, as well as groups in Western colonial outposts such as Mozambique and Rhodesia/Zimbabwe.⁶

Whilst state sponsorship was important during this period of political proxy violence, terrorist groups also sourced funding from their diaspora, criminal activities, and both legal and black market businesses. For example, the Provisional IRA in Northern Ireland raised money via an empire of legitimate businesses such as mini-cabs, shops, construction firms, and pubs; criminal activity such as tax fraud, smuggling, and kidnapping; as well as from supporter organisations such as Irish Northern Aid Committee (NORAI) and FOSF (Friends of Sinn

¹This article uses the term Islamic State for the group known variously as the Islamic State of Iraq and Al-Sham (ISIS), the Islamic State of Iraq and the Levant, or its Arabic acronym Da'esh.

²Ackerman, Spencer (2014), 'Apocalyptic' ISIS Beyond Anything We've Seen, Say US Defence Chiefs (The Guardian) <http://www.theguardian.com/world/2014/aug/21/isismilitaryiraqstrikesthreatapocalyptic>

³Hagel, Chuck (2014), Transcript: Hagel Testifies to the Senate Armed Services Committee on the Islamic State http://www.washingtonpost.com/world/national-security/transcript-hagel-testifies-to-the-senate-armed-services-committee-on-the-islamic-state/2014/09/16/a4909e26-3dab-11e4b0ea-8141703bbf6f_story.html

⁴United Nations Security Council (2014), <http://www.un.org/News/Press/docs/2014/sc11580.doc.htm>

⁵Manuwald, Gesine (ed) (2007), Marcus Tullius Cicero, "Orationes Philippicae III-IX" p202-203, (Walter de Gruyter & Co: Berlin)

⁶Adams, James (1986), *The Financing of Terror* (Sevenoaks: New English Library)

Féin), the Irish-American fundraising bodies.⁷ The end of the Cold War and the concerted use of UN Security Council Resolutions against countries such as Libya and Sudan⁸ saw a dramatic decline in state-sponsored terrorism, and whilst organisations such as Hezbollah continue to operate with state-backing, most of the terrorist organisations that have emerged since the Cold War, such as Al-Qaeda, have not been able to rely on state sponsorship, thus needing to source their own financing.⁹

As Dennis M. Lormel, who at the time of 9/11 was the Chief of the FBI's Counter-Terrorist Financing Operations Section, has noted, "Funding is both the lifeblood of a terrorist organisation and one of its most significant vulnerabilities."¹⁰ Securing and maintaining reliable funding is the key to moving from fringe radical group to recognised terrorist organisation, from a hand-to-mouth existence to a more planned and organised model.¹¹ As we are seeing in many current terrorist and insurgent theatres, in the light of waning state-sponsorship and strengthened Counter-Terrorist Finance (CTF) regulations, successful groups are often defined as much by their skills as financial managers as they are by their military expertise.

The importance of finance is also underlined by the actions of the international community as it attempts to systematically target the financial resources of those seeking to conduct terrorism. September 11 jump-started the global use of Counter-Terrorist Finance in the form of Executive Order 13224 signed on 23 September 2001, which was the first step in President George W. Bush's so-called 'War on Terror'. Announcing the signing of the EO, he defiantly announced, "Today, we have launched a strike on the financial foundation of the global terror network... We will starve the terrorists of funding..."¹²

Therefore as financing is so important to successfully sustaining an insurgent or terrorist campaign, it should be the case that disrupting funding and thereby cutting off the lifeblood of these organisations should lead to their demise. The answer, however, is inevitably more nuanced as is revealed by a review of the financing of opposition groups fighting the Assad regime in Syria. Two starkly different models exist, often dependent on the maturity of the group: those that rely on funds from international supporters and those that benefit from the war economies generated by their territorial expansion.

Many of the groups that took up arms in 2011 and 2012 relied almost entirely on donations received from supporters across the Gulf region. The provision of funds to these 'start-up' groups was in most cases initially motivated by a humanitarian imperative and a desire to relieve suffering.¹³ However, in actuality donor funds were often diverted and, knowingly or not, misused to eventually 'super-empower' more radical groups, which exacerbated sectarianism, and undermined much of the international community's effort to influence the conflict's outcome. As one analyst put it, donor funding has helped to create "a self-sustaining dynamic that is totally independent of all the strategic and diplomatic games that are happening and

⁷Horgan, John & Max Taylor (1999), 'Playing the Green Card': Financing the Provisional IRA – Part 1', *Terrorism and Political Violence*, Vol. 11, No. 2, pp1-38

⁸Dalyan, Sener (2008), 'Combating the Financing of Terrorism: Rethinking Strategies for Success', *Defence Against Terrorism Review*, Vol. 1, No. 1, pp137-153.

⁹There is evidence that Iran provides some support and sanctuary to elements of Al-Qaeda although this is not meaningful in the context of the financial operations of Al-Qaeda and Islamic State-related groups.

¹⁰Garry, Tom (2013), 'Would the 9/11 Hijackers' Money Trail Raise Red Flags in Today's System?' (Foreign Policy Association) <http://foreignpolicyblogs.com/2013/09/06/would-the-911-hijackers-money-trail-raise-red-flags-in-todays-system/>

¹¹Adams, James (1986), *The Financing of Terror* (Sevenoaks: New English Library).

¹²US Department of the Treasury (2002), *Contributions by the Department of the Treasury to the Financial War on Terrorism: Fact Sheet*, p2 <http://www.treasury.gov/press-center/press-releases/Documents/2002910184556291211.pdf>

¹³Dickinson, Elizabeth (2013), *Playing With Fire: Why Private Gulf Financing for Syria's Extremist Rebels Risks Igniting Sectarian Conflict at Home*, Analysis Paper No 16 (Brookings).

being led by states."¹⁴

It is worth pausing for a moment to note that alongside the humanitarian imperative, the Qur'an has been interpreted by some as encouraging such private donations, emphasising the importance of giving generously to the cause of violent Jihad, thus linking voluntary, charitable contributions to a war effort.¹⁵ The most common method of contribution is 'Tajheez Al-Ghazi,' simply defined as fitting or arming a soldier. This allows those who cannot, or will not, join the Jihad physically for whatever reason to achieve the honour and heavenly reward of waging Jihad by financial proxy. Donations and sponsorship are encouraged, for "Whoever arms a Ghazi then he would be considered a Ghazi, and whoever looked after the family of an absent Ghazi, he will too be considered a Ghazi."¹⁶

Today, this support takes the form of money, paid to individuals aspiring to make their way to jihadi theatres or raised to buy weapons for those already fighting. For example, the New York Times reported a campaign run by a Syria-based Saudi sheikh close to Al-Qaeda, called "Wage Jihad With Your Money" in which donors were told that they would earn "silver status" by giving US\$175 for fifty sniper bullets, or "gold status" by giving twice as much for eight mortar rounds.¹⁷ The concept of financial Jihad encourages rebel groups to emphasise their Islamic credentials, thus shaping these groups' strategies to maximise their appeal to those for whom the ideology of the recipient is important and making private donors the power brokers between rebel groups.¹⁸

This externally-funded model has, however, proven to have some weaknesses. Al-Qaeda in Iraq (AQI), as it then was, learnt valuable lessons about financing in the period following the U.S.-led invasion of Iraq in 2003, at a time when it was funded primarily by donors. Amongst the documents discovered and declassified by the U.S. Department of Defense for review in the Harmony Database is a 'lessons learned' analysis believed to have been drawn up by an AQI commander in light of the destruction of the group at the hands of the Iraqi 'Sunni Awakening' and U.S. military support during 2006-2007. Included in the list of nine lessons, along with such reasons as failure to understand the Iraqi people, tensions between foreign fighters and AQI members, and suicide bombers reneging, is a reference to the "poor use of financial resources."¹⁹ In the view of this commander, AQI did not distribute funding effectively, paid out funding without properly analysing the proposed use and, critically, did not have regular funding sources.

Unfortunately, as AQI has evolved over the past decade through various incarnations to become Islamic State, the group appears to have learnt from its mistakes, developing a

¹⁴Hubbard, Ben (2013), Private Donors' Funds Add Wild Card to War in Syria, (New York Times) http://www.nytimes.com/2013/11/13/world/middleeast/private-donors-funds-add-wild-card-to-war-in-syria.html?_r=2&

¹⁵See, for example, '... and wage Jihad with your wealth and your lives in the cause of God,' Qur'an 9:41; 'The ones who have believed, emigrated and striven in the cause of Allah with their wealth and their lives are greater in rank in the sight of God. And it is those who are the recipients of his reward,' Qur'an 9:20

¹⁶More about the concept of financial jihad can be found in Dean, Aimen, Edwina Thompson & Tom Keatinge (2013), 'Draining the Ocean to Catch one Type of Fish: Evaluating the Effectiveness of the Global Counter-Terrorism Financing Regime' in Perspectives on Terrorism (Vol 7, No 4).

¹⁷Hubbard, Ben (2013), Private Donors' Funds Add Wild Card to War in Syria, (New York Times) http://www.nytimes.com/2013/11/13/world/middleeast/private-donors-funds-add-wild-card-to-war-in-syria.html?_r=2&

¹⁸Warrick, Joby (2013), Private Donations Give Edge to Islamists in Syria, Officials Say, (Washington Post) http://www.washingtonpost.com/world/national-security/private-donations-give-edge-to-islamists-in-syria-officials-say/2013/09/21/a6c783d2-2207-11e3-a358-1144dee636dd_story.html

¹⁹Fishman, Brian (2009), Dysfunction and Decline: Lesson Learned From Inside al Qa'ida in Iraq (Combating Terrorism Center at West Point) <https://www.ctc.usma.edu/wp-content/uploads/2010/06/Dysfunction-and-Decline.pdf>

financial model that allows it to operate with significant financial independence. In contrast to the reliance placed on external financing by the new groups established since the start of the conflict, Islamic State now operates almost entirely from internally generated financial sources built up over recent years. It has garnered funds from territorial expansion and the war economy: control of key financial nodes such as arterial roads and commerce districts allows it to raise taxes from businesses and charge transportation tolls. For example, vehicles travelling along the busy highway from Baghdad to Jordan are charged US\$800, US\$20 is collected from businesses in Raqqa every two months for water, security, and electricity, and a 5% tax is collected for social welfare and other public purposes from all salaries.²⁰ Islamic State also controls oil fields in northern Syria and Iraq from which it is estimated to earn up to US\$1.6 million per day²¹ through smuggled trade with brokers in Turkey as well as trade with the Assad regime itself.

Although steps can be taken to cut off the limited amount of donor funding flowing to Islamic State, the ability of the international community to disrupt internally-generated funding is mixed. Whilst a report in November by the International Energy Agency indicates that “the coalition’s targeting of ISIS-held oil infrastructure has knocked crude production down to around 20,000 barrels per day (bpd) from a high of about 70,000 bpd,”²² disrupting other sources of internal financing such as taxation and transport tolls is challenging. The ability of Islamic State to rely on these other income channels remains to be seen as the coalition aerial bombardment campaign continues.

Al-Shabaab in Somalia also offers an instructive case study in the success these groups can enjoy with internal funding models. The longevity and success of Al-Shabaab can be substantially attributed to its impressive financial management, minimising its reliance on external sources of funding such as diaspora and donor financing whilst building a highly effective domestic funding system based on taxation and trade. Al-Shabaab has developed a highly diversified and innovative funding model²³ that relies on the “financial control and surveillance of cashflows,”²⁴ and involves sources that are, on the whole, internal to Somalia, not heavily reliant on third parties, and thus within the group’s control. According to the UN in 2011, Al-Shabaab’s annual revenue was in the region of US\$70-100 million per year stemming from “duties and fees levied at airports and seaports, taxes on goods and services, taxes in kind on domestic produce (such as charcoal), checkpoints and various forms of extortion justified in terms of religious obligations, or zakat.”²⁵

And despite military pressure, the loss of key financing nodes such as Bakara Market in Mogadishu and the ports of Kismayo and Barawe, and calls by the UN for those that facilitate Al-Shabaab’s trade (particularly the trade in charcoal) to desist, the group continues to control large swathes of territory. This allows it to earn revenue from the taxation of people, businesses, and transportation and offer a form of proto-government across much of South Central Somalia that contrasts favourably with the instability and corruption of the national government.²⁶

²⁰Brisard, Jean-Charles & Damien Martinez (2014), *Islamic State: The Economy-Based Terrorist Group*, p5 (Thomson Reuters Accelus).

²¹United Nations (2014), *The Islamic State in Iraq and the Levant and the Al-Nusra Front for the People of the Levant: Report and Recommendations*, p21.

²²<http://english.alarabiya.net/en/business/energy/2014/10/14/IEA-ISIS-oil-production-reduced-by-air-strikes.html>

²³Zarate, Juan (2013), *Treasury’s War: The Unleashing of a New Era of Financial Warfare* (New York: Public Affairs).

²⁴Vilkko, Valter (2011), *Al-Shabaab: From External Support to Internal Extraction*, p17 (Uppsala Universitet).

²⁵United Nations (2013), *Report of the Monitoring Group on Somalia and Eritrea 2012: Somalia*, p27.

²⁶United Nations (2013), *Report of the Monitoring Group on Somalia and Eritrea 2012: Somalia*, p12.

The relative stability terrorist groups achieve by establishing an internal funding model takes time. Thus, whilst targeting financing is clearly an important element of any counter-terrorism strategy, this will be most effective when groups are in their 'start-up' phase, when disruption is easier given the reliance groups place on donors and other forms of external finance in their nascent form. As already noted, one of the main reasons AQI attributed to its failure was its lack of regular and reliable funding sources. And going further back, the history of Al-Qaeda itself might have been very different if it had not successfully attracted significant funding from its "golden chain" of donors.²⁷ Once groups move from a hand-to-mouth financial existence and build reliable and sustainable internal sources of revenue (as illustrated by the case of Al-Shabaab and Islamic State), disruption becomes much more challenging for the international community. Early action against financial sources is key before groups' self-sustainability is achieved.

In sum, building a resilient financing framework is demonstrably an existential factor for terrorist and insurgent groups and thus targeting their different financing channels can have a meaningful impact on their operations and survival. But the international community's ability to disrupt these groups in this manner is substantially hindered by two fundamental flaws. First, money flows like water and will exploit systemic weaknesses. The lack of commitment by certain states to curtail terrorist financing flows severely undermines international efforts to disrupt funding – these states are "holes" through which money will leak to insurgents. Witness the extent to which funds in support of groups fighting in Syria, some of which are designated terrorist organisations, flowed from donors in Kuwait. Secondly, despite the global recognition that targeting financing is a strategically important element of the global counter-terrorism effort underpinned by the long menu of national and international laws and resolutions, the international community is consistently too slow to act. Whilst CTF regulations and global financial control systems exist in theory, the coordinated application of these tools is still far from reality. The result is that, as we now see in Syria and Iraq, by the time action is taken against a group's finances, it has often moved from being vulnerable as a start-up to having the financial strength and resources of a mature and well-established organisation. By this point, a group's destiny is more likely to lie (as Al-Qaeda in Iraq discovered) with its ability to maintain financial relationships with the population it now controls than with the disrupting efforts of the international community.

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²⁷9/11 Commission Report (2004), p55 "Bin Laden eventually enjoyed a strong financial position in Afghanistan, thanks to Saudi and other financiers associated with the Golden Chain."