

October 2016

CASH TO CHAOS: DISMANTLING ISIS' FINANCIAL INFRASTRUCTURE

HOUSE HOMELAND SECURITY COMMITTEE MAJORITY STAFF REPORT



HOMELAND SECURITY
COMMITTEE

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I. Methodology

The House Homeland Security Committee Majority Staff conducted the investigation over ten months. This final report is based on briefings, meetings, official and open-source document analysis, as well as press reporting. Committee staff also spoke with current and former federal officials throughout the national security community and consulted with think tank experts, as well as private sector and relevant industry associations. Where practicable, publicly available sources are cited. However, due to the fact that many of the Committee's briefings were closed to the public some material is cited anonymously in cases where the individuals were assured confidentiality to discuss issues more freely.

It is important to note that this report takes a historical look at the beginning, apogee and emerging Islamic State of Iraq and Syria (ISIS) fundraising methods which were and are inextricably tied to its success governing, maintaining operational control of territory,

and ability to carry out internal and external attacks. U.S. and coalition military efforts undertaken since the beginning of this review are having a real impact on ISIS kinetically as well as financially, however the systemic issues regarding ISIS' flexibility in raising funds and U.S. efforts to stem them are likely to continue into the foreseeable future. Regardless, the report will show how ISIS has broken the mold of terrorist fundraising and important lessons to be learned for how to combat terror financing today and in the future.

II. Executive Summary

Despite battlefield losses, ISIS continues to operate its own terrorist pseudostate and claims a growing global footprint. At least 34 radical Islamist groups have pledged their allegiance to ISIS.¹ As of this printing, the organization has managed to expand its presence to dozens of countries and territories—in addition to recruiting tens of thousands of fighters from over 120 nations.² Most alarmingly, ISIS is driving an unprecedented surge of terror plots against the West and poses a persistent and grave threat to the U.S. homeland.

Their explosive growth stems in part from its ability to control territory and generate massive revenue flows from diverse sources. ISIS is unique in comparison to other terror groups in that it runs a state-like infrastructure designed to raise revenue and support government functions, such as providing social welfare services and waging war. While the United States has made progress in blunting the group's momentum in Iraq and Syria, ISIS has proved to be a flexible and determined enemy that will regenerate and spread unless its revenue streams are cut off decisively.

Given the severity of the threat, the House Homeland Security Committee launched a review to examine ISIS' financial infrastructure and U.S. Government's efforts to dismantle it. The Committee's Majority Staff reviewed the group's revenue streams, examined U.S. Government activities to counter its finances, and developed findings and recommendations related to the issue.

Results of the Committee's Review

This report is divided into two primary sections. First, it outlines the pillars of ISIS' financial infrastructure. Second, it makes **14 key findings** and provides accompanying recommendations. Overall, the Committee finds that:

- The U.S. Government lacks a national strategy to counter ISIS and similar terror groups' fundraising tactics.
- Despite recent setbacks, ISIS' rapid global expansion and its diverse revenue sources continue to strain the U.S. Government's ability to disrupt the group's financial flows.
- The Obama Administration has weakened America's no-negotiation stance toward terrorist groups who kidnap U.S. persons, and it has failed to take meaningful action to deter foreign governments from making ransom payments to ISIS and other terror groups.

- The U.S. Government lacks clarity about the extent to which terrorist groups like ISIS are using online fundraising platforms to generate income.
- The U.S. Government has largely failed to develop a comprehensive government-wide approach to help foreign partners build the capacity to combat terror financing.
- Efforts by foreign partners to crack down on ISIS's cross-border smuggling and facilitation networks have so far been inadequate.
- Too few countries have effective financial intelligence units to connect the dots and disrupt terrorist transactions.
- ISIS has been able to withstand targeted sanctions because few countries enforce them.
- Many foreign countries rely on a patchwork system to share expertise and prosecute terror-related financial crimes, increasing the odds that terror financiers will slip through the cracks.
- Domestic and international law enforcement agencies have not put high-enough priority on tracking black market sales of cultural artifacts and antiquities, which have become a significant source of terrorist revenue.
- The U.S. Government does not have standardized internal controls in place across federal departments and agencies to prevent terrorists from using charities, non-governmental organizations, non-profits, and humanitarian groups to raise and move money covertly.
- Gaping weaknesses in reporting and oversight standards for hawala transactions hamper efforts to identify ISIS financiers and hold financial institutions accountable.
- ISIS has been able to adapt to battlefield setbacks and generate new sources of revenue to support the group's mission.
- ISIS continues to receive financial assistance from supporters in permissive Gulf State countries.

III. ISIS's Financial Infrastructure

The Financial Action Task Force (FATF)—an independent inter-governmental body made up of countries that develop and promote policies to protect the global financial system—has concluded that: “ISIL represents a new form of terrorist organization where funding is central and critical to its activities.”³ In contrast to groups like al-Qa’ida and Hizballah that rely primarily on external patrons and state-sponsors to bankroll the groups’ activities, ISIS largely self-funds operations, particularly through diverse revenue sources such as taxation and black market transactions. ISIS has also sought to maximize control of state assets, (e.g., oil, gas, and electricity) in Iraq and Syria to finance its expansion.

ISIS seeks to portray itself as a legitimate Muslim nation-state in Iraq and Syria, which serves as a key propaganda tool to recruit foreign fighters and foster loyalty among the Sunni population.⁴ Indeed, the group relies on the perceived legitimacy of its so-called “caliphate” to raise funds and finance its terrorist activities. But even beyond waging jihadist warfare, ISIS aspires to have long-term and absolute control over the daily lives of inhabitants in its territory—from social services and governance to military service, a proposition that is especially costly.⁵

ISIS’ total revenue was “approximately \$1 billion dollars in 2015...\$500 million of which came from the sale of oil.”⁶ The group’s overall strength rests on seven key funding pillars: black market oil and gas; black market commodities; antiquities; extortion, taxation, and robbery; kidnapping for ransom; assistance from supporters in permissive Gulf State countries; and emerging fundraising tactics (e.g., criminal activities, online donations, crowdfunding, and charities). This report examines each pillar below.

Many Islamist terror groups, including ISIS, rely on *hawalas* as an integral tool to move money around the world to support affiliate groups and carry out external attacks. In the *hawala* system, one party deposits cash at a money-exchange office and another party withdraws the same amount of cash at a separate money-exchange office. The transfers are quick, leave no paper trail, and often operate outside the view of regulators. According to U.S. and European officials, *hawalas* are a “[critical] part of the ISIS financial infrastructure.”⁷



PILLAR 1: BLACK MARKET OIL AND GAS

Recognizing the importance of extractive resources as a reliable revenue source, ISIS has placed a high priority on securing energy assets, especially oil and gas. The group depends on these resources to power vehicles that deliver fighters to the battlefield and to run generators and tractors that support its population. ISIS fighters have even used oil as a battlefield weapon by setting fire to oil wells as cover while under attack.⁸ Black market oil and gas sales also help fund internal military efforts and external terror operations.

ISIS oversees a vast—but shrinking⁹—network of oil and gas facilities and infrastructure in eastern Syria and western and northern Iraq.¹⁰ Although ISIS’ oil output has been diminished by airstrikes and ground operations, at the beginning of this year the group was still believed to be operating more than half of Syria’s overall oil production.¹¹ Similarly, ISIS as of late last year reportedly controlled nearly 10 percent of Iraq’s oil production, which at one point included about 300 oil wells stretched across a quarter million square miles.¹²

Despite the collapse of global oil prices, ISIS has generated substantial revenue from black market sales. Public reporting suggests that ISIS oil production capacity peaked last year between 80,000 and 120,000 barrels per day, generating \$2-\$4 million in daily profits.¹³ ISIS brought in \$500 million from oil and gas sales in 2015 alone, although that number has likely fallen in 2016 due to coalition targeting of its supply lines.¹⁴

ISIS exercises tight control over its oil portfolio. Publicly released information from last year’s United States-led raid on Abu Sayyaf—ISIS’ deputy emir for oil operations—suggests that the group dedicated 125 members to run oil operations, who in turn managed another 1,600 oil workers.¹⁵ The group scrutinizes resource allocation and profit margins, and roots out potential corruption.¹⁶ ISIS also conducts audits, flags discrepancies, and reconciles accounting differences—similar to standard business practices.¹⁷

The terror outfit sells unrefined crude oil—or in some cases, makes use of prefabricated mobile refineries to produce gasoline—directly from oil wells to black market oil traders.¹⁸

These traders load the product straight from the well to trucks in order to transport it to end customers.¹⁹ Truckers use well-known criminal smuggling routes, where ISIS members levy additional “fees” as transporters pass through checkpoints, to deliver the product.²⁰ Finally, oil brokers and traders either pay in cash or exchange goods for the oil.²¹

ISIS has used its smuggling routes to reach customers across Syria, Iraq, Turkey, and even into Europe.²² Turkish civilians on several occasions have even laid plastic pipelines across the Syrian border to pump fuel directly into trucks waiting to transport the product to local markets.²³ As a result of informal trading structures and ad hoc business practices, ISIS’ petroleum products have been easy to sell and difficult to track, entering retail outlets directly before disappearing into the wider marketplace.²⁴

ISIS at one point reportedly also sold oil to the Assad regime,²⁵ suggesting that the group—in some cases—prioritizes business interests above security concerns. The regime likely depends on ISIS for goods in areas where it is surrounded by the group,²⁶ particularly in places like eastern Syria where ISIS controls local infrastructure and commodities. ISIS also taxed convoys transiting goods to the Assad regime and negotiated deals to exchange services.²⁷ For example, in Deir ez-Zor, ISIS in late 2015 brokered a deal with the government to provide natural gas to Syrian regime-held territory in exchange for electricity.²⁸

PILLAR 2: BLACK MARKET COMMODITIES

ISIS has gained access to various local commercial and industrial manufacturing facilities, presumably to manage or operate, likely in an attempt to establish a reliable source of production for goods that the group can sell on the black market. For example, as of late 2015 the group had seized control of numerous phosphate and sulfuric acid manufacturing plants and Syria’s main salt mine, as well as several cement plants in Syria and Iraq,²⁹



Photo Source: AP

although the group probably abandoned some facilities in the wake of battlefield setbacks earlier this year. ISIS could reportedly generate hundreds of millions of dollars from these sales annually.³⁰

The group also controls a large percentage of Iraq's overall food production. When ISIS swept through northern Iraq in 2014, for example, it commandeered wheat stockpiles, local farms, and a series of grain silos.³¹ According to UN and Iraqi Government estimates, ISIS confiscated thirty percent of Iraq's wheat production and forty percent of the country's barley production in 2014.³² As a result, ISIS can tap into its own food supply to feed fighters while at least 400,000 Iraqi farmers in ISIS-held territory will almost certainly never see any compensation for their pillaged crops.³³ According to one study, black market wheat and barley sales could generate two hundred million dollars annually.³⁴

Moreover, Iraq's public distribution network—government-provided subsidies for necessities such as flour, sugar, and other goods—has broken down in territory held by ISIS and other militant groups.³⁵ Public reporting suggests that a quarter of Iraqis living in rural areas were dependent on government-subsidies before ISIS took over large swaths of territory in western and northern Iraq.³⁶ ISIS' ability to control at least some aspects of Iraq's food production, however, ensures that it retains influence and receives funds from local population centers.³⁷

In Syria, ISIS has disrupted a similar government-run distribution network—the Assad-regime provided subsidies for necessities such as wheat and barley—and devastated Syria's overall food production.³⁸ ISIS once controlled or heavily contested areas that produce about three quarters of Syria's wheat crop.³⁹ This has exacerbated food shortages in the country and driven up costs; for example, the price of bread has risen 87 percent in some areas in the past few years.⁴⁰ Overall, the UN-backed Food Security Cluster in July estimated that 9.4 million Syrians were food insecure or at risk of food insecurity.⁴¹

ISIS also extracts significant concessions from convoys carrying various commodities that transit its territory. In some cases, the group requires up to a quarter of a shipment as payment for passage.⁴² It then uses such payments to feed fighters, distribute as patronage to loyal supporters, and generate profit on the black market.⁴³

PILLAR 3: ANTIQUITIES

ISIS's rapid expansion has contributed to the widespread destruction of historical artifacts and cultural sites across Iraq and Syria. For instance, the group has systematically raided United Nations Educational, Scientific and Cultural Organization (UNESCO)-protected sites such as Palmyra, Nimrud, Apamea, and Nineveh. In these places, priceless relics have either been ruined for propaganda or plundered to finance the terror outfit's activities.

ISIS and other groups have ransacked archaeological sites to obtain valuable items such as gold and silver—and to sell those items on the black market. Based on a 2015 review of satellite imagery of 1,200 archaeological sites and monuments in Syria, more than twenty



Photo Source: ISIS Propaganda Video

five percent have been looted since the Syrian civil war began in 2011.⁴⁴ According to an expert on Iraqi antiquities, “tablets, manuscripts and cuneiforms are the most common ...and, unfortunately, [there is an appetite for these goods] in Europe and America.”⁴⁵ According to one forensic archaeologist, dealers and conservators often work together to create a paper trail for plundered artifacts to legitimize future sales at auction houses from London to New York.⁴⁶ For example, a police raid in Bulgaria in early 2015 revealed an expansive black market in these antiquities in Europe and the United States, including 19 classical statues and other artifacts.⁴⁷

Black-market buyers are also known to purchase Iraqi and Syrian antiquities in markets in Turkey, Lebanon, and Jordan.⁴⁸ A single artifact from Iraq can draw hundreds of thousands of dollars,⁴⁹ and Syrian antiquities have been surfacing in well-known auction houses in London in recent years.⁵⁰ In fact, recent U.S. Government data indicates that Syrian antique imports to the United States spiked in 2013, the same year ISIS formally emerged and the conflict in Syria began worsening.⁵¹

Before the rise of ISIS, Syria’s antiquities and cultural heritage industry generated more than \$6.5 billion annually and accounted for 12 percent of the country’s gross domestic product; thus, even if ISIS captured only a fraction of the market, it could have seen a windfall well into the tens of millions.⁵² In one region in Syria, ISIS reportedly generated \$36 million in revenue, partly attributed to its peddling of black-market antiquities.⁵³ At one point, U.S. officials judged that ISIS was probably reaping over \$100 million a year from such illicit trading.⁵⁴

The group also generates significant revenue from excavators, smugglers, and other personnel working on the antiquities trade in ISIS-held territory.⁵⁵ Rather than assigning personnel to local excavations, ISIS grants licenses to experienced excavation crews, or

even unemployed civilians, and oversees their work.⁵⁶ ISIS then levies a *khums*—“spoils of war”—tax based on the type of object recovered, the value of the find, and the location. For example, in Aleppo, ISIS charges a 20 percent *khums* tax.⁵⁷ In Raqqa, the group has charged up to 50 percent.⁵⁸



PILLAR 4: EXTORTION, TAXATION, AND ROBBERY

ISIS generates substantial revenue from extortion, taxation, and robbery, which have far outpaced black market oil and gas sales, especially as coalition airstrikes have increased.⁵⁹ ISIS relies on *zakat*—sharia-based almsgiving—to levy heavy taxes on locals, reportedly as much as 10 percent of their earnings.⁶⁰ The group defends this practice by arguing it is a “nation in a time of war.”⁶¹ Overall, ISIS brings in roughly \$360 million annually from taxing local populations under its control.⁶²

“I don’t think we’ve ever seen a terrorist organization that had the ability to command, to draw from its own internal territory these kinds of resources. It’s truly unprecedented, the resources that ISIS can derive just from the territory they control.”⁶³

DANIEL GLASER

Assistant Secretary for Terrorist Financing
U.S. Department of the Treasury
July 23, 2015

As noted, ISIS has seized goods and infrastructure as it has captured territory. It then sets up and operates “war spoils” offices that assess the value of the loot and—based on those assessments—makes associated payments to ISIS fighters.⁶⁴ ISIS also sells stolen non-military goods, such as televisions and generators, at local “loot markets.”⁶⁵ The group regularly expropriates valuables from local citizens, including jewelry, livestock, and furniture.⁶⁶

ISIS also tracks and taxes all goods transiting its territory, including food, medicine and electronics.⁶⁷ The group extracts fees for automobiles—reportedly as much as \$200 per vehicle in tolls—and charges truck drivers \$800 to pass through “customs” checkpoints on their way into Iraq from Syria and Jordan.⁶⁸ ISIS managed at least one sophisticated taxation scheme along the main highway from Anbar into Baghdad, using it to undermine the Iraqi Government by offering more competitive rates.⁶⁹ This arrangement has deepened a wedge between local Sunnis and the Shia-led Iraqi Government because ISIS charged less than the government and offered the tribes an independent opportunity to make a living.⁷⁰

Overall, ISIS has attempted to tap into almost every commercial enterprise in Iraq and Syria. The group imposes fees on small businesses such as grocery stores and appliance repair shops, and squeezes money from large companies in what can best be described as mafia-style extortion methods.⁷¹ For example, ISIS threatened to blow up cell phone towers, electricity substations, and utility poles unless local companies paid protection money to the group.⁷²

At one point in late 2014, ISIS reportedly raised \$8 million in taxes and extortion fees in Mosul per month,⁷³ in part by taxing Iraqi Government salary and pension payments up to 50 percent.⁷⁴ Overall, the group generated hundreds of millions of dollars from taxing Iraqi Government employees.⁷⁵ Despite this moneymaking scheme, Baghdad continued to pay government workers’ wages for almost a year after ISIS overran parts of northern Iraq.⁷⁶ Eventually, the Iraqi government in Baghdad stopped making payments. According to the deputy head of Iraq’s parliamentary finance committee, “There was no other alternative than to cut the salaries... we couldn’t find another way [to stop ISIS from taking money from employees].”⁷⁷

ISIS has also seized hundreds of millions of dollars in high profile bank robberies and operated through some of the dozens of Iraqi bank branches located in ISIS-held territory.⁷⁸ The Central Bank of Iraq has issued instructions to prevent wire transfers to and from these banks to deny them access to the international financial system.⁷⁹ But in Syria, numerous financial institutions as of last year were continuing to operate in ISIS-held territory.⁸⁰ Many of these banks maintain ties to Damascus, though sanctions have cut them off from international markets. Nevertheless, ISIS continues to find work arounds, and is able to transfer money to areas bordering and beyond its territory.⁸¹ According to U.S. officials, “these transfers were often [sent to]...known [terrorist] funding, logistical, and smuggling hub[s].”⁸²

ISIS also levies a *jizya* tax on non-Muslims living in its territory. The *jizya* tax—like *zakat*—is another mechanism to raise funds and bolster the group’s Islamist bona fides. In February 2014, ISIS publicly announced that Christians who wished to remain in the “caliphate” must abide by the group’s subjugation terms and pay \$720—presumably per head—for protection.⁸³ ISIS fighters reportedly went door to door when they took control of one Syrian town in 2015 and forced Christian residents to pay a tribute to remain living there.⁸⁴

PILLAR 5: KIDNAPPING FOR RANSOM

ISIS also relies on kidnapping for ransom (KFR) to raise funds for the group. ISIS collected \$35 to \$45 million in ransom fees in 2014—a higher annual yield than al-Qa’ida in the Arabian Peninsula and al-Qa’ida in the Lands of the Islamic Maghreb.⁸⁵ Terrorist groups continue to view KFR as a profitable source of revenue, and the tactic is extremely challenging to combat.⁸⁶ According to CIA Director John Brennan, “[ransom payments create a] vicious circle—fueling the very criminality, violence and terrorism that we seek to stop.”⁸⁷

The UN and the EU have denounced KFR and rejected—as a matter of policy—ransom payments to terrorist groups. Despite these pronouncements, however, some countries, such as France,⁸⁸ Belgium,⁸⁹ Italy,⁹⁰ and Spain,⁹¹ appear to continue to negotiate backroom deals with foreign terrorist organizations. European Governments typically interact with terror groups through cutouts such as private donors or victims’ families, almost certainly to minimize potential blowback.⁹²

Although ISIS can reportedly earn up to \$2.7 million for a Western hostage,⁹³ the group almost certainly earns more money from KFR payments for local Syrians and Iraqis, in part because payments are more frequent. According to the UN, more than 90 percent of KFR cases involve kidnappings of nationals of the same country as the kidnappers, yet these cases tend to attract less attention than high-profile international cases.⁹⁴ Human Rights Watch has reported that many KFR cases in Syria involve targeting local Assyrian Christians, Yazidis, and other religious minorities.⁹⁵ In one case, the Assyrian Church and local businessmen worked together to free a group of kidnapped Assyrian Christians from ISIS.⁹⁶

Weighing the Long Term Impact of the Ransom Payment to Iran

In January, the Obama Administration announced that it had reached a \$1.7 billion dollar settlement with Tehran “to resolve a decades-old legal dispute traced back to the final days of Iran’s last monarch, Shah Mohammed Reza Pahlavi.”⁹⁷ According to the Wall Street Journal, the Administration tied the delivery of the first cash payment of the settlement—\$400 million dollars—to the release of three American prisoners.⁹⁸ Despite the Administration’s initial attempts to push back against the ransom narrative,⁹⁹ the U.S. Department of State later admitted that it delayed making the payment “to retain maximum leverage and ensure that three American prisoners were released the same day.”¹⁰⁰ Tehran appears to have received the message; the State Department issued a new travel warning in late August that “highlight[s] the risk of arrest and detention of U.S. citizens” in Iran.¹⁰¹ It is too soon to gauge whether the Administration’s highly publicized payment will have long term impact on the safety and security of U.S. citizens worldwide. At a minimum, the mere perception of a quid pro quo with the world’s leading state sponsor of terrorism—“cash for hostages”—introduces inherent risks to Americans’ safety abroad.

ISIS typically abducts victims on the street and reaches out almost immediately to their families to demand thousands of dollars for their safe return.¹⁰² In Iraq, ISIS has reportedly demanded anywhere from \$500 to \$200,000 for kidnapped locals.¹⁰³ Perhaps more troubling, abducted women and children from religious minority communities are often distributed to ISIS fighters as spoils of war, or traded on the sex slave market and subjected to horrendous acts of physical and sexual abuse.¹⁰⁴

ISIS has a cadre of operatives, spies, informers, and kidnappers—called the “Intelligence Apparatus”—dedicated to carrying out kidnappings, some of whom target foreigners near Syria’s border.¹⁰⁵ Victims’ families are rarely able to decipher fact from fiction, which has generated a cottage industry of charlatan middlemen and lawyers who claim to know information about the whereabouts of victims.¹⁰⁶ One Syrian woman whose son disappeared at a checkpoint in Aleppo in September 2012 sold her car and spent 300,000 Syrian pounds simply to glean information on his whereabouts—desperation that conmen are keen to exploit.¹⁰⁷

“Kidnapping for ransom is one of the most significant terrorist financing threats today.”¹⁰⁸

DAVID S. COHEN

CIA Deputy Director & Former Under Secretary for
Terrorism and Financial Intelligence
U.S. Department of the Treasury
November 6, 2014

As long as KFR remains a low-risk, high-reward enterprise, terror groups like ISIS will continue to employ the tactic to raise large sums of money. Recent high-profile kidnappings by ISIS have refocused attention on KFR policies and highlighted the need for international consensus on this issue.¹⁰⁹ The White House in June announced Presidential Policy Directive 30 to respond to the threat¹¹⁰—including declaring that the United States will no longer prosecute American families who make ransom payments to terror groups; ISIS has already claimed credit for Washington’s policy reversal.¹¹¹ While the Administration strongly denies any changes to America’s longstanding refusal to avoid paying ransom to terrorist kidnappers, the policy change effectively allows the government to broker negotiations with terrorists who might in turn be paid by families—a controversial arrangement that may incentivize further hostage-taking.



PILLAR 6: GULF STATE SUPPORT

ISIS has received financial assistance from supporters in permissive Gulf State countries, but it is a small fraction of the group’s overall funding, and much less than al-Qa’ida received before 9/11. Former NATO Supreme Allied Commander Europe Admiral James Stavridis in 2014 assessed that ISIS’s donor network provided “seed money” to help the group get on its feet.¹¹² In the past several years the United States has worked more closely with partner governments to track down financiers and disrupt their efforts in the Gulf, though often with mixed results. As the State Department’s *Country Reports on Terrorism 2015* makes clear, numerous entities and individuals within the Gulf States including Saudi Arabia, Kuwait, and Qatar continue to serve as a source of financial support for terrorism and violent Islamist groups.¹¹³

Individuals within Kuwait remain a funding source for terrorist groups and the Kuwaiti Government continues to struggle with combating terror financing, according to the State Department’s *Country Reports on Terrorism 2015*.¹¹⁴ United States and allied partners have worked together to freeze several Kuwaitis’ bank accounts and restrict their travel,

reportedly for providing financial support to Nusra Front, al-Qa'ida's affiliate in Syria, and ISIS.¹¹⁵ CIA Deputy Director Cohen publicly called Kuwait “the epicenter of fundraising for terrorist groups in Syria” for diverting “humanitarian donations” to jihadists in Syria.¹¹⁶ A Treasury official described some of the charitable fundraising efforts as “outright frauds—what purports to be a charity is really just funneling money” to extremist groups.¹¹⁷

Probably in response to public criticism and closed-door pressure from Washington, Kuwait established the Kuwaiti Financial Intelligence Unit (KFIU) in 2013 and has worked to close legal loopholes that allowed online extremist fundraising and facilitation.¹¹⁸ Though it has detected 80 violations of illegal charitable fundraising to extremist groups, U.S. officials continue to raise concerns about KFIU's capabilities and poor oversight of money transfer businesses¹¹⁹ including if the KFIU's actions have “[even triggered successful] investigations or criminal proceedings.”¹²⁰

U.S. officials in both the Executive and Legislative branches have also publicly admonished the Qatari Government for refusing to take a more activist approach to tackling terror financiers.¹²¹ Doha has seemingly taken some positive steps in the right direction, as the government has: (1) passed several terror financing laws, (2) stood up a terrorism committee, (3) created a financial intelligence unit, (4) renewed its public commitment to conduct regulatory oversight of its charitable sector, and (5) frozen assets and imposed travel bans on Qatari citizens designated by the UN as terrorism financiers.¹²² However, Qatar does not appear to pursue financiers to the full extent of the law.¹²³ According to a U.S. Treasury official, the Qatari attitude is often that “a law has been passed, and therefore the problem has been solved,” when it was never really implemented or enforced.¹²⁴

PILLAR 7: EMERGING ISIS FUNDRAISING TACTICS

ISIS and its supporters outside of the conflict zone are engaged in criminal activities—including tax, banking, and loan fraud, misuse of government benefits, and petty robbery—to help pay for travel to the frontlines.¹²⁵ A UN report on foreign terrorist fighters concludes that jihadists often have to pay their own way to ISIS territory, creating an incentive to pursue criminal moneymaking schemes.¹²⁶ ISIS online propaganda also encourages sympathizers to engage in criminal activity as a mechanism to finance terror operations in the West.¹²⁷

Terror financing experts assess that criminality¹²⁸ and Islamist extremism are increasingly interconnected; ISIS actively seeks recruits with skills such as robbery and drug-dealing,¹²⁹ that assist the group's overall mission.¹³⁰ One expert on Islamist radicalization has described jihadists' connections to criminality as “an operational aspect of the Islamic State.”¹³¹ According to European officials, the Paris and Brussels attackers were linked to a local gang that robbed tourists and stole items from local shops, suggesting that at least some of the criminal activities help fund ISIS operations.¹³² Similar Islamist gangs operate across Europe, including one in Germany that stole from churches and schools in order to fund jihadists groups in Syria.¹³³

Ayoub El Khazzani, the Moroccan national who attempted a mass casualty attack aboard a Thalys high-speed train in August 2015, had been under local surveillance in Algeciras because of his past criminal activities.¹³⁴ Syed Farook, one of the two shooters responsible for the December 2, 2015, attacks in San Bernardino, California, took out a loan online with no intent to repay it, possibly to purchase guns, bullets, and explosives used in the attack.¹³⁵

ISIS has also increasingly turned to the Internet to encourage donations and crowdsource funding. Some fundraisers in Qatar and Kuwait have been described as “bundlers” for their ability to gather funds online and transfer them together to the frontlines in Syria.¹³⁶ One Qatar-based campaign called for donations to “arm the mujahedeen” via Twitter, providing contact names, phone numbers, and wire transfer instructions for international donors.¹³⁷

ISIS supporters have used a combination of online crowdsourcing tools such as Paypal, GoFundMe, and CASHU, as well as social media communications platforms like Facebook, Twitter, and Skype, to circumvent formal financial system controls and preserve anonymity.¹³⁸ ISIS has solicited public donations on Twitter and quickly transitioned potential donors to secure communications on Skype.¹³⁹ One common tactic is to offer discounted rates on prepaid cards in exchange for cash.¹⁴⁰ The funds are then wired to private accounts, or in some cases carried across the border, where ISIS has used WhatsApp or Kik messenger applications to coordinate drop-off points for cash or in-kind payments.¹⁴¹

17 individuals located in the U.S. have been charged with providing material support to ISIS, all of which included a potential nexus with terror finance. For example, Ali Shukri Amin, a 17-year old arrested in northern Virginia in March 2015 for providing material support to ISIS, illustrates the nexus between social media and ISIS-fundraising. Amin used Twitter to provide guidance to several thousand followers on how to use Bitcoin and Dark Wallet to mask donations to ISIS, and helped other people travel overseas to commit jihad. Amin also supported various online platforms—such as ask.fm—“to proselytize his radical Islamic ideology, and justify and defend ISIS’s violent practices.”¹⁴²

Another example includes a group of Bosnian refugees and legal permanent residents charged for using Western Union and PayPal to transfer money to Turkey and Saudi Arabia, where third parties sent the funds on to ISIS fighters in Syria and Iraq.¹⁴³

In some cases, ISIS has laundered humanitarian aid through unregistered charities in order to raise and move funds. Charities provide a veil of legitimacy and can mask the ultimate recipient of funds, personnel, military supplies, and other resources.¹⁴⁴ Terror groups and their supporters also use charities to provide funds or otherwise dispense critical social or humanitarian services to vulnerable populations in an effort to radicalize communities and build local support.¹⁴⁵ Extremists can also use charities to fund schools, religious institutions, and hospitals that help reinforce the population's ties to their organization.

Gulf-based charitable fundraising networks that have collected hundreds of millions of dollars through “regular fundraising events held at homes or mosques and through social media pleas. These networks then use couriers, wire transfers, hawalas, and exchange houses to move those funds to Syria, often to extremists.”¹⁴⁶ A prime example of this is Treasury-designated terrorist financier, Abd al-Rahman bin ‘Umayr al-Nu’aymi, a Qatari who promoted humanitarian causes in European capitals while surreptitiously providing money and material support to groups in Syria, Iraq, Somalia, and Yemen.¹⁴⁷

IV. Key Findings and Recommendations

This report includes **14 key findings** and associated recommendations to bolster America's efforts to counter ISIS fundraising and ensure foreign countries are doing the same.

U.S. GOVERNMENT STRATEGY AND PLANNING TO COMBAT THE THREAT

Since 9/11, the U.S. Government, particularly the Treasury Department, has taken the lead in cutting off terror financiers from the international financial system. As a result, the United States and its allies have been successful against groups like al-Qa'ida, in part by cracking down on supporters in permissive Gulf State countries and tracking wire transfers and suspicious activity reports. However, ISIS has broken the mold when it comes to raising funds for the group's long term viability.

Today, ISIS operates as a pseudostate with widespread access to commodities and natural resources, as well as a modern online infrastructure that can be used to raise large sums of money. The group is constantly changing its fundraising tactics. If left unchecked, the group's financial resiliency will allow it to recover from battlefield losses, regenerate, and expand. More importantly, ISIS supporters will have more opportunities to self-fund operations, potentially increasing the number of attacks at home and abroad.

Key Finding 1: *The U.S. Government lacks a national strategy to counter ISIS and similar terror groups' fundraising tactics.*

Recommendation: The Executive Branch should, in coordination with all relevant government agencies, provide a comprehensive National Strategy for Combating Terror Financing to Congress. Such a strategy should provide an overarching strategic framework to guide top-level decision-making that impacts policy, funding, and programmatic considerations. The Strategy should outline the scope of the threat, priorities and objectives for mitigating the threat, and detail outcome-related goals with milestones and performance metrics to measure progress. The strategy should also identify and detail the roles and responsibilities of each Executive Branch agency and department responsible for combating terror financing, as well as a comprehensive list of every U.S. Government training and technical assistance program related to terror financing provided to partner nations, non-governmental organizations, and international bodies. The Committee is supportive of the approach taken in [H.R. 5594](#) (Rep. Michael Fitzpatrick [R-PA]), the "*National Strategy for Combatting Terrorist, Underground, and Other Illicit Financing Act*," and urges the Senate to pass this bipartisan measure as soon as possible.

Key Finding 2: *Despite recent setbacks, ISIS' rapid global expansion and diverse revenue sources continue to strain the U.S. Government's ability to disrupt the group's financial flows.*

Recommendation: The Departments of Treasury, State, Justice, and Homeland Security, in coordination with the Intelligence Community, should establish a working group on emerging terror financing threats and vulnerabilities. The working group should meet on a regular basis to share information and intelligence related to trends and vulnerabilities, as well as links between criminal activity and terror financing. The working group should compile regular assessments and reports to be shared with financial institutions, state and local law enforcement entities, fusion centers, and relevant private sector and industry stakeholders in order to streamline and accelerate efforts to crack down on emerging terror-finance tactics.

Recommendation: The Department of State should take more aggressive steps to implement the Rewards for Justice Program, including targeting facilitators that support ISIS's financial networks. This could increase the frequency of the program's successes and lead to more information on terror financiers that support ISIS.

Recommendation: The Office of the Director of National Intelligence should include in its Annual Threat Assessment a combating terror finance section, highlighting the state of the evolving threat, trends, government or private sector successes, and deficiencies.

Key Finding 3: *The Obama Administration has weakened America's no-negotiation stance toward terrorist groups who kidnap U.S. persons, and it has failed to take meaningful action to deter foreign governments from making ransom payments to ISIS and other terror groups.*

Recommendation: The U.S. Government should recommit to, and enforce, a strict policy of not paying ransoms, or engaging in prisoner swaps, in exchange for the release of any person held by a designated foreign terrorist organization. Moreover, the White House should make clear to families whose loved-ones have been taken hostage that it will not broker negotiations in order to facilitate ransom payments and that doing so can put other lives in danger. The Treasury Department's Office of Foreign Assets Control should also designate individuals and entities and impose controls on transactions and asset freezes against any insurance company, charity, third-party negotiator, or others determined to have facilitated the transfer of funds to members of foreign terrorist organizations or designated individuals as part of a ransom payment.

Key Finding 4: *The U.S. Government lacks clarity about the extent to which terrorist groups like ISIS are using online fundraising platforms to generate income.*

Recommendation: The Department of the Treasury, working with social media companies and the technology industry, should lead an interagency task force to determine the prevalence of terrorists' use of social media applications, as well as Internet-based crowdfunding platforms and payment technologies, to raise funds. At the conclusion of the task force's work, the Treasury Department should compile a comprehensive, unclassified report with findings, recommendations, and industry best practices and make the report available to the public. Such a report would help improve collaboration between various stakeholders and raise public awareness about terror financing.

IMPROVING FOREIGN PARTNER ENGAGEMENT

The U.S. Government has struggled to pull together a whole-of-government approach to foreign training programs and partner engagement to crack down on terror finance tactics. As a result, U.S. Government officials often send mixed messages to foreign interlocutors, duplicate efforts, and waste resources. It is critical to gain a better understanding of these programs to ensure that they are effective. The United States would also benefit from better financial intelligence and information-sharing partnerships with foreign counterparts to combat terror fundraising.

Key Finding 5: *The U.S. Government has largely failed to develop a comprehensive whole-of-government approach to help foreign partners build the capacity to combat terror financing.*

Recommendation: The White House should, in coordination with relevant agencies, produce a comprehensive plan to streamline foreign development assistance and training programs that coordinate efforts to combat terror financing, and submit the plan to Congress. The plan should include a list of all current technical and assistance programs for foreign partners designed to combat terror financing. The plan should also discuss the Executive Branch's recommendations to streamline various programs, reduce duplication, and establish benchmarks for each program's success.

Key Finding 6: *Efforts by foreign partners to crack down on ISIS' cross-border smuggling and facilitation networks have so far been inadequate.*

Recommendation: The Department of Homeland Security (DHS), through U.S. Immigration and Customs Enforcement (ICE) and U.S. Customs and Border Protection (CBP), should institute a comprehensive training program to work with EU and coalition partners to enhance targeting of terrorist and criminal organizations involved in the smuggling of large quantities of currency, drugs, weapons, or persons. DHS officials should model the training program on

previous successes, such as Operation Firewall, which targeted methods to smuggle bulk cash, including commercial and private passenger vehicles, commercial airline shipments and passengers, and pedestrians crossing international borders. DHS, in conjunction with other relevant agencies, should also set up quarterly meetings with EU member states to share evolving trends and best practices for tracing smuggling routes from the Middle East and Africa into Europe, and examine investigative techniques for law enforcement partners.

Key Finding 7: *Too few countries have effective financial intelligence units to connect the dots and disrupt terrorist transactions.*

Recommendation: The Obama Administration should immediately convene an interagency working group to map out a strategy to establish and formalize financial intelligence units in key countries in the Middle East and Africa. The interagency coordination process should result in an action plan that includes resource needs, and should be shared with Congress. More broadly, these units should work with foreign partners to develop expertise, intelligence-sharing capabilities, and investigatory resources to take the fight to ISIS on the ground.

GAPS IN GLOBAL ENFORCEMENT

America's overseas partners have struggled to keep up with ISIS' fundraising tactics and have not adequately enforced existing financial restrictions to keep money out of the hands of terrorists. In particular, online fundraising platforms and payment methods will evolve faster than governments can take action. However, the United States should take the lead in partnering with other countries to stay on top of trends, including helping them establish the necessary institutions, training expertise, and resources to implement targeted sanctions.

In this environment, it is important to build close relationships with foreign law enforcement and counterterrorism authorities, and work with them to close gaps. Properly trained law enforcement personnel and investigators can spot broader trends and know local communities and businesses, which can help U.S. officials combat cross border crime in areas such as trafficking in cultural antiquities. More importantly, the United States and foreign partners must work together to combat ISIS's global reach.

Key Finding 8: *ISIS has been able to withstand targeted sanctions because few countries enforce them.*

Recommendation: The Treasury Department should submit an annual report to Congress that outlines foreign countries' efforts to enforce U.S., EU, and UN financial sanctions. The report should detail each country's attempts to freeze funds, and designate and sanction individuals and entities, as well as flag any delays in, or barriers to, sanctions implementation or enforcement.

Key Finding 9: *Many foreign countries rely on a patchwork system to share expertise and prosecute terror-related financial crimes, increasing the odds that terror financiers will slip through the cracks.*

Recommendation: The U.S. Government should work with EU and FATF member-states to maximize the use of their existing legal authorities to create a framework for enhancing the lawful exchange of financial information—while at the same time ensuring privacy—to convert data into actionable intelligence to identify, disrupt, and prosecute cases against ISIS financiers. With thousands of known foreign fighters traveling back and forth from their home countries to ISIS safe havens, this actionable financial intelligence will also allow coalition and European partners to better connect the dots, track terrorists, and prevent attacks. The European Union and the United States could improve collective action through the EU and U.S. Terrorist Finance Tracking Program Agreement, including identifying and freezing foreign fighters’ bank accounts, cancelling debit and credit cards, and criminalizing fund transfers.

Recommendation: The United States and the European Union should work more closely to coordinate international and domestic sanctions policies and aggressively implement targeted financial sanctions against jihadists that have traveled to Syria or Iraq, or elsewhere, to fight with ISIS.

Key Finding 10: *Domestic and international law enforcement agencies have not put high-enough priority on tracking black market sales of cultural artifacts and antiquities, which have become a significant source of terrorist revenue.*

Recommendation: The Departments of State, Justice, and Homeland Security should, in coordination with INTERPOL and other relevant international organizations, as well as auction houses, spearhead a new initiative to crack down on illegal trade and trafficking in cultural property and antiquities in the United States and abroad. As part of this effort, various stakeholders should strengthen regulations that restrict the movement of artifacts smuggled out of warzones and take aggressive action to recover and return items to their respective countries of origin. The Committee is supportive of the approach taken in [H.R. 2285 \(Rep. William Keating \[D-MA\]\)](#), the “*Prevent Trafficking in Cultural Property Act*,” and urges the Senate to act on this bipartisan House-passed measure as soon as possible.

Key Finding 11: *The U.S. Government does not have standardized internal controls in place across federal departments and agencies to prevent terrorists from using charities, non-governmental organizations, non-profits, and humanitarian groups to raise and move money covertly.*

Recommendation: The U.S. Government should provide better guidance and best practices to non-profits operating in warzones or areas where designated terror groups operate to spot signs of potentially criminal and terrorist-related

financial activity. The U.S. Government should further encourage NGOs and charity-based entities that receive federal funds and who operate in warzones or areas where designated terror groups are present to enhance compliance and auditing capabilities to help ensure that funds are not unwittingly used to support foreign terrorist organizations.

Key Finding 12: *Gaping weaknesses in reporting and oversight standards for hawala transactions hamper efforts to identify ISIS financiers and hold financial institutions accountable.*

Recommendation: The Treasury Department should work with FATF member-states—and other FATF-Style Regional Bodies—to improve financial regulatory reporting and oversight standards for processing hawala payments.

Key Finding 13: *ISIS continues to receive financial assistance from supporters in permissive Gulf State countries.*

Recommendation: The Department of State, in coordination with other relevant agencies, should include in its annual Country Reports on Terrorism a section detailing the full range of current terror finance assistance programs to all relevant countries. The section of the report should include a classified annex, if appropriate. The terror finance assistance programs section should include the number of prosecutions and convictions for terror-related financial crimes by each country of assistance, current terror financiers in each country and the amount of suspected support to terror groups, the senior government officials in charge of terror-related finance issues in each country, actions undertaken by each country in the past year to stem the flow of cash to terrorists, and an assessment of the levers of influence in each country which would encourage additional cooperation and action on terror financing issues.

Key Finding 14: *ISIS has been able to adapt to battlefield setbacks and generate new sources of revenue to support the group's mission.*

Recommendation: The Department of Defense, in coordination with other relevant agencies, should conduct a full legal, intelligence, and policy review of current efforts to target ISIS financial infrastructure in Iraq and Syria and recommend options to expand the pace and scope of operations. Executive agencies taking part in the review should work together to provide an update to the appropriate committees in Congress.

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