

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES  
POLICY DEPARTMENT



**The financing of  
the 'Islamic State'  
in Iraq and Syria (ISIS)**

AFET



## IN-DEPTH ANALYSIS

# The financing of the 'Islamic State' in Iraq and Syria (ISIS)

### ABSTRACT

Threatening both its caliphate project and its sources of funding, the series of military setbacks that the so-called Islamic State group (IS) has suffered for several months have called into question the group's very existence. That is not to say that its offensive capabilities will be neutered – the organisation will remain able to employ 'low-cost' terrorist attacks to target civilians throughout the Middle East, Africa, Europe, America or Asia.

In mobilising Member States to fight against terrorism, the European Parliament's role is crucial. Individually, Member States have an important part to play in effectively implementing common decisions. Their varying levels of engagement, as well as the progress they have made in confronting the financing of terrorism and especially IS, should be considered. An annual reporting framework should be put into place to better evaluate the measures taken by both Member States and the Commission in this area.

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Authors: Agnès LEVALLOIS, Associate researcher, FRS, France; Jean-Claude COUSSERAN, Associate researcher, FRS, France; Cartographical support: Lionel KERRELLO, Owner, Geo4I, France

Official Responsible: Jérôme LEGRAND.

Editorial Assistant: Ifigeneia ZAMPA.

Feedback of all kind is welcome. Please write to: [jerome.legrand@europarl.europa.eu](mailto:jerome.legrand@europarl.europa.eu).

To obtain copies, please send a request to: [poldep-expo@europarl.europa.eu](mailto:poldep-expo@europarl.europa.eu)

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## Executive summary

Following Iraqi army's recapture of Mosul from IS, which brought to light the extremist organisation's weakened state and loss of territory, the question of the group's very existence has come to the fore. It would appear that a project aiming to establish and maintain a 'caliphate' straddling the Iraqi-Syrian border will buckle under the international coalition's bombing campaign. That is not to say that it will be destroyed – the withdrawal of its fighters to Raqqa, IS' 'capital' in Syria, proves its desire to continue to fight to achieve its objectives.

Since 2014, when it took Mosul, IS has made use of its considerable financial means to invest in infrastructure. Considered the world's richest terrorist organisation, the group's wealth allows it to control territories acquired by force, allowing it to pursue its expansionist agenda. Unlike previous organisations such as al-Qaeda, the group has been able to establish a 'state'. IS' territory provides it with access to natural resources such as oil, wheat and cotton, the sale of which is achieved through longstanding smuggling networks including illegal trafficking in antiquities.

Yet, to pursue its project, a group such as IS needs funding to continue to exist and attract young would-be members. But its sources of funding have considerably decreased across the board, whether because of the oil income lost through the bombing of oil wells and the drop in oil prices, reduced revenues from taxes levied on an increasingly destitute local population, or due to measures taken by the international community to hinder its financing. These various factors have the additional effect of hampering financial transfers and donations. Lastly, IS' finances will be hurt by the loss of Mosul, the organisation's 'commercial capital'.

The international community has an essential role to play in the fight against IS, a cause the United Nations and most of its constituent countries have taken up ever since it took stock of the danger the group posed not only to local populations, but to those struck by attacks perpetrated beyond the Middle East.

IS' decreased resources could compel it to demand that its followers strike their home turf, whether Europe, Turkey or Lebanon. These operations can be carried out with limited resources while having a considerable effect on public opinion.

The United Nations has established a binary mechanism to counter the financing of terrorism, the first under the authority of the Security Council and the second under the General Assembly. Since 1999, the UN has taken up the issue of private contributors through the Security Council through resolutions [1267 \(1999\)](#), [1989 \(2011\)](#) and [2253 \(2015\)](#) pertaining to IS, al-Qaeda's network and the persons, groups, companies and various bodies that are linked to the two groups. The aforementioned resolutions also foresee the implementation of sanctions imposed by the United Nations Security Council (UNSC).

The European Union is also active in the fight against IS, especially in terms of adopting measures aiming to sever the terrorists' financial networks. The circulation of cash and the transfer of funds are both heavily regulated in order to increase the traceability of financial flows, all the while keeping an eye on digital platforms through which virtual currency can be exchanged.

The Member States, taken individually, have a major responsibility to implement and enforce common decisions. In this respect, the European Parliament could request information on the different levels of commitment and progress Member States have realised in the fight against terrorism and, notably, efforts made to stem IS' financing. It is evident that Member States cannot all muster the same level of engagement given their varying financial means, as well as the differing historical development of their administrations and police forces. However, it remains possible to build a common foundation, not only supported by EU institutions, but by those Member States that are most developed.

The European Parliament could also request an annual reporting mechanism regarding the measures taken by the various Member States and the Commission pertaining to the fight against the funding of terrorism.

## Introduction

This paper's aim is to analysis IS' origins, the way in which it operates and finances itself, as well as its future prospects following the likely fall of Raqqa and that of Mosul.

The Islamic caliphate's violent expansion, which appears as Islamic extremism's latest iteration in the Middle East after Hezbollah and al-Qaeda's various offshoots, has stunned both decision-makers and public opinion alike. IS marks both a continuation with and break from al-Qaeda. A shift has occurred from terrorism carried out by organisations that are small, mobile, poorly financed and dispersed, to that perpetrated by groups that are centralised, armed and exert control over territory rich in resources and host to a taxable population – all factors which allow the implementation of an ambitious financial strategy. Similarly to Hezbollah, IS is structurally complex. The organisation concurrently brings to bear significant administrative capabilities, combined with a financial framework, an internationalised military apparatus as well as a sophisticated communications and propaganda body.

The organisation is presently weakened and threatened at the very heart of its territory by the concerted efforts of coalitions which seek its destruction. That said, its ability to resist, as well as its capacity to wage war and endure, presents the international community with several questions.

These questions are first and foremost linked to the past, regarding the processes and dynamics by which IS has been able to finance itself as an organisation that has had a significant impact within the disorder that characterised Syria and Iraq in 2014.

Others concern the present – how should we gauge the nature of IS' current funding, and how should we measure the impact of recent combat operations and IS' consequent strategic retreat? What about the targeted measures taken by both the coalition and regional states to target the organisation's funding?

Moreover, IS' loss of territory will force the organisation to evolve, to change beyond its original project. What consequences will this have on the Middle East and Europe?

How should we currently evaluate the organisation's future? How will it react to the likely fall of Mosul and Raqqa? How will it be able to adapt its finance system, whether in terms of protecting certain sources of funding, compensating budget cuts and losses in petrol revenue, or bypassing international operations targeting its network and supporters? How would an IS that is more limited in scope, yet able to maintain its leadership structure, be able to maintain its attractiveness and capacity to launch terror attacks?

What can Europe do against this organisation which, even while weakened, will continue to pose a significant threat?

## 1 IS, a radical form of jihadism with a complex identity

### 1.1 History

Given the speed with which it took over territory without encountering resistance, the emergence of IS in Iraq and Syria in the summer of 2014 represented a substantial challenge.

At its largest, IS' controlled territory straddling two countries, Syria and Iraq, stretched from north to south, from Palmyra to the Turkish border, and from east to west, starting as far East as Kobane (known as Ayn al-Arab before the conflict).

IS fills an ever-increasing vacuum in these two failed states, which explains the ease with which it was able to implant itself first in Iraq, then in Syria<sup>1</sup>. The group built on the jihadist movement embodied by al-

<sup>1</sup> Harling P., 'L'Etat islamique occupe un vide qui ne cesse de grandir dans la région', in Médiapart, 15 June 2015.

Qaeda, differing insofar as it managed to anchor itself territorially. Indeed, following its creation in the mountains of Peshawar by Osama bin Laden in 1988, al-Qaeda, 'the base' in Arabic, did not seek to implant itself geographically. Instead, the organisation strove to attack the 'far enemy', that is 'the United States, Zionists and crusaders'. Attacks were consequently launched against the American embassies in Tanzania and Kenya (1998), the American destroyer USS Cole in the Yemeni port of Aden (2000), followed by that of 9/11. Osama bin Laden, born into a Saudi family with Yemeni roots, funded such operations through his personal fortune.

While the 9/11 attack gave al-Qaeda an international audience, it was not able to launch any further attacks on such a large scale. This led to jihadi ideologues such as Abu Musab al-Suri<sup>2</sup> calling the organisation's strategy into question, arguing that the focus should be on carrying out attacks on European soil, where large Muslim communities lived. Abu Musab Al-Zarqawi, founder of al-Qaeda, followed by its current leader al-Baghdadi, have both cited al-Suri's doctrines. The organisation also distinguished itself by targeting Shiite Muslims. Its aim was to create clandestine, isolated cells overseen by a centralised command structure in order to prevent their detection. Gilles Kepel called this the restructured, 'grassroots' jihad, which he described as *nizam la tanzim* (a system and not an organisation) while adding: 'al-Suri uploaded, in January 2005, his book 'The Global Islamic Resistance Call' which described Europe as targeted by a form of grassroots jihad whose foot soldiers would be recruited from the ranks of 45 million European Muslims'.

Such theoreticians recognised that a form of 'shock-and-awe' terrorism, engaging in tactics of mass destruction, had become impossible. They thus strove to play their enemies off against each other, creating a societal rift between the local population and Muslims in order to incite them to leave the country in which they resided and make their way to lands where they could live in harmony with Islam's precepts.

## 1.2 The Caliphate project: a territory, a population, a project

IS' project aims to establish a caliphate within which the world's Muslims can settle. Its objective is to establish such a caliphate on territory from which it can wage an international jihad. This project thus differs from al-Qaeda's and was first implemented in Iraq, due to the country's profound destabilisation as a result of successive foreign military interventions. The last such intervention, in 2003, ravaged the country. IS continued by expanding into Syria, taking advantage of Bashar al-Assad's lack of control over the entirety of his territory, to establish its 'capital' as Raqqa.

Another element must be considered in order to better understand IS' expansion and its ability to attract numerous individuals into its ranks. Unlike al-Qaeda, which is fundamentally elitist in nature, IS is a 'catch-all' organisation which recruits also those who are inexperienced, naïve and unwitting as well as many women as possible. Following the American intervention in Iraq and the implementation of a political project aiming to achieve a better representation of Iraqis within the political sphere, the Shiite majority, long suppressed by the Sunni minority under Saddam Hussein, took power. The Sunnis were thus marginalised, excluded from the political process by a vengeful minority that had been relegated to the side-lines for decades. Spurred by their total exclusion from the political sphere, a number of Sunnis began to gravitate towards Salafist movements, despite a period in which they hoped to have their voice heard. Even this period, known as the *Sahwa* ('awakening') tribal movement of 2007-2008, was but a flash in the pan<sup>3</sup>.

<sup>2</sup> Abu Musab al-Suri, whose real name is Mustafa Setmariam Nasar, was born in Aleppo (Syria) in 1958, is a jihadist theoretician with links to al-Qaeda. He has striven to encourage immigrant Muslim youths to wage war in Europe, leading to islamophobic reactions which would in turn push European Muslims to join jihadist groups.

<sup>3</sup> Benraad M., 'Peut-on vaincre Daesh?', *Politique internationale*, n° 148, summer 2015.

This exclusion provoked a widespread feeling of political frustration accompanied by a heightened state of insecurity resulting from a number of abuses committed by Iraq's security forces. This facilitated the rise to power of radical groups, fuelled by the Baghdad government's anti-Sunni behaviour. This resulted in ex-Baathists<sup>4</sup> joining IS' ranks without necessarily adhering to the organisation's radical ideology from the outset.

As a result, IS' structure is particularly hybridised. On the one hand, the organisation's Iraqi component is largely made up of ex-soldiers who had served under Saddam Hussein and then fought against the Shiite-dominated power-centre in Baghdad, as well as of Sunni tribes which had been discriminated against by the Shiite elite. On the other, it is composed of universalist jihadists<sup>5</sup> from the al-Zarqawi school (who have a greater presence in Syria), embodied by Abu Bakr al-Baghdadi<sup>6</sup>. Also going by either his real name, Ibrahim Awad Ali al-Badri, as well as such monikers as al-Husseini and al-Qurashi, or even Caliph Ibrahim among his supporters, he was born in 1971 in Iraq. He is said to have become radicalised during the American invasion of Iraq, having been subsequently imprisoned. He rubbed shoulders with al-Qaeda leaders during his incarceration, joining Islamic State of Iraq when the organisation was founded in 2006. He became leader of al-Qaeda in Iraq in 2010 but ended up by breaking ties with the organisation's leader, Ayman al-Zawahiri, by refusing to pledge allegiance to him. He declared the Islamic State of Iraq and the Levant in 2014.

IS' existence, as well as its ability to mobilise, concerns the Sunni community's representation. Who can now represent it in Iraq?

### 1.3 Administration, financial management, communications, and an internationalised militia

The Caliphate project, as espoused by its leader Abu Bakr al-Baghdadi, requires, to be viable, infrastructure and superior means to those mustered by al-Qaeda to carry out its operations. In its territorial approach (which concerns law, public order, currency, taxes and economic concerns), IS sees itself as a nascent state. It rules over the territory under its control, enacts laws, punishes and rewards, raises taxes and mints currency (the golden dinar). Its publications stress how well its territory is managed, highlighting how well it keeps the peace and how the primary needs of the population are met.

Since it established itself territorially, IS has striven to implement a system of governance that meets its subjects' expectations. This runs the gamut from making war-torn zones secure, implementing a judicial system and repairing the basic infrastructure required to run a state, such as water, electricity and waste management. While essential to daily life, the Baghdad government had eschewed the provision of such basic services.

According to Myriam Benraad, 'the quest for security and justice is particularly pronounced among Arab Sunnis, repressed by those in power and stripped of their citizenship. In 2013, immediately preceding the offensive, 60% of Iraqi Sunnis did not trust the judicial system, while 80% of Mosul's inhabitants, confronted by army checkpoints set up in every street, did not feel safe in their neighbourhoods'. In Mosul, the Iraqi state was first and foremost seen as an instrument of Shiite dominance. It was not thought of as a structure which attends to all of its citizens' needs, regardless of their communitarian or sectarian affiliation. This resentment set the stage for the arrival and widespread acceptance of IS, and helps explain how the

<sup>4</sup> During the Saddam Hussein era, the Baath Party was all-powerful in Iraq. Following the American intervention, the Party and the army were dissolved, its members stripped of their positions. A number of them joined IS' ranks.

<sup>5</sup> IS promotes a universalist narrative which it stresses whenever it encounters difficulties on its home turf in Iraq and Syria. It thus alternates between localist and universalist rhetoric.

<sup>6</sup> Daguzan J.-F. and Valter S., 'L'Etat islamique (DAESH), une menace militaire relative pour une menace politique majeure', in *Les armées du Moyen-Orient face à Daesh*, MA Editions, Paris, 2016, p.136.



organisation was able to take over such a city as Mosul in June 2014 and hold it, despite the harsh nature of its laws and the ultraviolent actions which are its trademark.

The organisation derives its strength from the fact that its fighters are Iraqis, locals who know the lay of the land and its familial, clan-based, communitarian or sectarian networks. Al-Qaeda, on the other hand, differs insofar as its members were in Afghanistan, exiled far from their homelands. Finally, IS' funding does not depend on an outside state as has usually been the case in the Middle East with for example Abu Nidal, Ahmed Jibril or Fatah al-Islam<sup>7</sup>; it makes do with its own resources, gathered through a system it implemented and manages itself. The organisation thus benefits from a degree of autonomy, as it does not have to adapt its interests to secure funding. This is the reason why, unlike al-Qaeda, IS is less dependent on foreign donors and therefore harder to bankrupt.

Are these different elements such that we can talk of a state, or would it be more accurate to describe IS as a proto-state or rather as a group? IS has a certain number of attributes that could lead to it being described as a state: it collects taxes, mints its own currency, carries out justice, administers a territory of approximately eight million people<sup>8</sup> and implements its own school curriculum. However, it lacks both borders and relations with other states. The debate on how to refer to IS does not, however, prevent it from establishing its own economy, which has allowed it to subsist for three years.

It is worth noting that IS is considered by recognised authors as a 'proto-state'<sup>9</sup>. This term was first used by anthropologists to describe a structure that is too primitive to be deemed a state<sup>10</sup>? That said, a proto-states share a certain number of characteristics with their modern counterparts (such as having a monopoly of violence, the ability to levy taxes and a judicial system) without displaying all of them or at the same level of sophistication. This concept can also be applied to nascent states<sup>11</sup>.

But, after months of a bombing campaign led by the international coalition<sup>12</sup> which aims to destroy it, how big a threat does IS pose today? In a report published in Washington last December entitled 'The Jihadist Threat', twenty international experts wrote 'IS' next move may be an '*inhiyaz ila al sahra*' or a retreat into the desert [...] The organization is certain to survive in altered physical form too, perhaps as a more traditional terrorist organization. Elimination of the group's territory may not fundamentally undermine its endurance. IS would still be able to exploit Sunni discontent and foment sectarian tension over the next five to ten years in Iraq, Syria, Libya, and potentially beyond'<sup>13</sup>.

## 2 Diversified, dispersed and controllable resources

Given that IS desires to manage the territory under its control, it has implemented a system allowing it to do so without depending on outside actors. While appearing before the French National Assembly's fact-finding mission, Bernard Bajolet, the director of the DGSE (France's external intelligence agency), put IS' budget at around USD 2 billion per year<sup>14</sup>. IS stands out as the world's richest terrorist group. While its leaders

<sup>7</sup> These different Palestinians groups existed (and were manipulated by) various countries, such as Syria and Iraq, throughout the Palestinian conflict's various stages.

<sup>8</sup> This figure was widely cited while the group was at its apogee but has since dropped.

<sup>9</sup> 'Bien que le mouvement manipule des symboles de la culture islamique, l'organisation prend des formes bureaucratiques classiques qui l'apparente à un proto-Etat ». Baczko A., Dorransoro G., Quesnay A., *Syrie, Anatomie d'une guerre civile*, CNRS Éditions, Paris, 2016, p. 234. « Dans son extension la plus grande, cette entité qui se considère comme un état en formation ». Daguzan J.-F. and Valter S., 'L'Etat islamique (DAESH), une menace militaire relative pour une menace politique majeure', in *Les armées du Moyen-Orient face à Daesh*, MA Editions, Paris, 2016, p.129

<sup>10</sup> Pierre Jacquemot, 'Le proto-Etat africain: quelques réflexions autour de l'histoire contemporaine du Mali', *Tiers-Monde*, t.24, n° 93, « Le rôle de l'Etat dans le Tiers Monde, sous la direction de Moïse Ikonicoff », janvier-mars 1983, p. 127-141

<sup>11</sup> Adrien Jaulmes, 'Ramallah, capital d'un proto-Etat', *Le Figaro*, 30 novembre 2012.

<sup>12</sup> The international coalition against IS led by the United States assembles over sixty countries. It began its aerial strikes in April 2014, striking targets in Iraq before widening its scope of operations to Syria.

<sup>13</sup> <https://www.usip.org/sites/default/files/The-Jihadi-Threat-IS-Al-Qaeda-and-Beyond.pdf>

<sup>14</sup> [http://www.assemblee-nationale.fr/14/rap-info/i3964-tll.asp#P1647\\_807307](http://www.assemblee-nationale.fr/14/rap-info/i3964-tll.asp#P1647_807307).

may currently be mafia-type actors, which influences the way in which they run the organisation, until when will the current model prove sustainable? IS largely draws its funds from natural and economic resources found in the territories it controls, as well as through bank raids, extortion, confiscating goods, donations from foreign fighters and pillaging antiques. A number of international organisations have tried to shed light on the origin of IS' financing. A [report published by the Financial Action Task Force \(FAFT\)](#) describes the different sources of funding saying that 'IS earns revenue primarily from five sources, listed in order of magnitude which are illicit proceeds from occupation of territory, such as bank looting, extortion, control of oil fields and refineries, and robbery of economic assets and illicit taxation of goods and cash that transit territory where IS operates; kidnapping for ransom; donations including by or through non-profit organisations; material support such as support associated with Foreign Terrorist Fighters (FTFs) and fundraising through modern communication networks. These revenue streams are inconsistent and shift based on the availability of economic resources and the progress of coalition military efforts against IS'.

In order to be as precise as possible, we will now take a closer look at data pertaining to several sources of funding. First, we have internal resources which are exploitation and smuggling. According to the Centre for the Analysis of Terrorism, the theoretical value of assets controlled by IS (such as oil reserves, gas reserves, minerals and monetary assets) was put at more than USD 2 billion by late 2015, 11 % more than by the end of 2014<sup>15</sup>. The territory controlled by IS benefits from a high concentration of natural resources, allowing a high degree of self-financing. IS created several ministers in order to better control the situation: respectively overseeing general management, detained individuals, security, social security, military counselling, finance, communication and resource distribution, and foreign and suicide fighters.

IS has managed to raise a large part of its funds from raids on Syrian and Iraqi banks; USD 500 million were taken from the coffers of Mosul's central bank when the city was taken in June 2014.

Oil revenues are thought to have increased in 2015, to as much as USD 250 to 600 million. During the summer of 2014, at the time of IS' expansion, experts were unanimous in contending that the organisation's production capacity fluctuated between 50 000 to 100 000 barrels per day (b/d). In early 2016, IS' output did not surpass 30 000 b/d. IS primarily uses oil as fuel for the various vehicles, armoured vehicles and tanks which form the organisation's military backbone. As a result, only a small percentage went on to be sold on international markets. Yet revenues have fallen for a number of reasons, such as the fall in the price of oil, which has plummeted by 60 % to 70 % since the summer of 2014, as well as the ageing of facilities and difficulties encountered in recruiting qualified personnel to maintain or repair them. Aerial strikes carried out by the coalition and especially Russia, which have hampered the transportation and sale of oil. Finally, IS has lost control over a number of oil fields in both Syria and Iraq, which has reduced its capacity to tap and sell oil. See annex for oil activity in February 2017 prepared by Géo4I. [https://mega.nz/#!505IXayY!nd0nQNbtg4InP\\_UOoEy1ncum3EncxdeGyrHA\\_MlIHR8](https://mega.nz/#!505IXayY!nd0nQNbtg4InP_UOoEy1ncum3EncxdeGyrHA_MlIHR8).

IS uses water resources as a strategic tool, due to the severity of the water crisis that has struck the country. The destruction of the Tabqa dam, which could drown a part of Iraq, is but one of the organisation's various means of blackmail should it find itself critically threatened<sup>16</sup>. In 2015, IS lost control of the Euphrates' Tishrin dam to the Syrian Democratic Forces. The dam contains six electricity generation units, which supply Aleppo province's eastern regions as well as other northern regions near Raqqa<sup>17</sup>.

<sup>15</sup>According to the May 2016 report published by the Centre for the Analysis of Terrorism <http://cat-int.org/wp-content/uploads/2016/06/Financement-El-2015-Rapport.pdf>.

<sup>16</sup> 'Un barrage sur l'Euphrate comme arme potentielle pour Daech', *Direct Matin*, 25 January 2016, <http://www.directmatin.fr/monde/2016-01-25/un-barrage-sur-leuphrate-comme-arme-potentielle-pour-daesh-721237>.

<sup>17</sup> Devarajan S., Mottaghi L., Do Q., Abdel Jelil M., 2016, 'Syria, Reconstruction for Peace', *Middle East and North Africa Economic Monitor*, April 2016, World Bank, Washington DC, p. 23.

While IS has profited from the energy-generating potential of the territory it holds, the extent to which it can profit from its exploitation varies according to the different forms of energy generated. According to the World Bank, Syria's water stocks and irrigation capacities have been struck by the conflict that ravages the country. That said, the group controls two thirds of the country's dams. 'Such is the case of the Baath dam which supplies Raqqa and represents 60% of Syria's water supplies, and especially of the Tabqa dam, the biggest in Syria which contains Lake Assad, supplying both water and electricity to Aleppo'<sup>18</sup>.

Thermal power plants (especially those in towns and cities) have been destroyed, or are controlled by the Syrian's conflict various actors. They are constantly disrupted by intended or accidental actions which affects the electricity supplied to the affected regions. 56.5 % only supply energy for three hours per day<sup>19</sup>. 'Since the conflict's outset in Syria on 15 March 2011, several regions have suffered intermittent electricity cuts caused by fighting and aerial raids; many are forced to rely on electric generators. In February [2016], the Minister of Electricity, Imad Khamis, affirmed that direct damages incurred on the electricity sector due to the conflict are thought to be as high as 3.75 billion dollars, and that 5 of the 13 large electricity plants were subject to attacks'<sup>20</sup>. When they are not managed by the conflict's parties according to their individual needs, the electricity plants constitute major strategic targets that are bitterly fought over<sup>21</sup>.

Regarding petrol and gas, IS controls 60 % of Syria's petrol production and 10 % of Iraq's. In 2014, a number of experts put both countries' total output at 70 000 to 100 000 b/d. The Financial Times spoke of an output of 35 000 to 40 000 b/d in mid-November 2015. In Syria, IS is thought to control 253 wells (of which 161 are active)<sup>2223</sup>.

It is striking to note that IS took up the traditional funding system which was already present in the region and already employed by its enemies – that is to say all manner of smuggling, especially that of petrol. The solidarity system has been adopted which increases its effectiveness<sup>24</sup>.

Throughout 2016, direct and indirect taxes, as well as the confiscation of goods, appear to have become important sources of revenue. IS has built up a sophisticated system to manage the confiscation of goods, as well as that of bank money. According to the United Nations Assistance Mission for Iraq, USD one billion in cash was taken from 90 bank branches located in Iraqi provinces under IS' control, with USD 675 million taken from Mosul alone. In addition, the organisation confiscates the homes of local notables and those who have left the territory, putting them up for sale on local markets, offering discounts to its members.

### 3 IS' financial management

IS benefits from considerable resources – money flows in from the areas under its control but also from abroad. The management of such resources is highly centralised, overseeing funds received from all manner of contributor. A determined international collaborative effort is thus required to prevent or at least limit the circulation of this money.

<sup>18</sup> Galland F., 'Les barrages, l'autre arme de Daech', *Les Echos*, 16 February 2016, <http://www.lesechos.fr/idees-debats/cercle/cercle-151944-les-barrages-lautre-arme-de-daech-1200574.php>.

<sup>19</sup> *Ibid.*, p. 23.

<sup>20</sup> 'Une panne générale d'électricité touche la Syrie', RTS info, 3 March 2016, <http://www.rts.ch/info/monde/7542989-une-panne-generale-d-electricite-touche-la-syrie.html>.

<sup>21</sup> Baczko A., Dorransoro G., Quesnay A., *Syrie, Anatomie d'une guerre civile*, CNRS Éditions, Paris, 2016, p. 304.

<sup>22</sup> According to a report published by the jihadist group's 'Minister of Finance', interviewed by the news agency Associated Press (AP), Bezat J.-M., 'Que sait-on de la production de pétrole contrôlée par l'EI et de ses destinations?', *Le Monde*, 3 December 2015.

<sup>23</sup> 'La 'Syrie utile': éléments pour des solutions de sortie de crise', 22 July 2016, Fondation pour la Recherche stratégique, <https://www.frstrategie.org/publications/observatoire-du-monde-arabo-musulman-et-du-sahel/>.

<sup>24</sup> The analysis of such smuggling routes, which have always existed in the Iraqi-Syrian region and have been employed by ISSI, was carried out by a French diplomat with substantial experience working in the Middle East.

IS taxes economic activity by extorting the eight million individuals who lived in the areas under its control at the height of the organisation's geographic expansion. It tries to legitimise this system by declaring such taxes to be of a religious nature, known as the 'zakat'<sup>25</sup>. The amount taxed can be as high as 2.5 % of the capital earned from businesses on goods and agricultural products such as wheat, barley, cotton and on profits produced by livestock farming; it is also levied on entrepreneurial and commercial services in the westernmost part of Aleppo province and in Iraq's northern regions, as well as on trucks that enter the territory under its control. According to the United Nations Assistance Mission for Iraq (UNAMI), this tax generates about USD 900 million per year. In some cases, up to 10 % of the profits is extorted, supposedly justified by the fact that the country is at war.

Given that its project is territorially rooted, IS has sought to profit from resources in areas under its control and, as a result, agricultural resources – especially wheat – are of a special importance. Wresting the agricultural and grain-growing plains in Syria's eastern regions and in northern Iraq from IS' grasp is crucial, as these regions have allowed the organisation to control arable land in close proximity to water sources. On the economic front, this has permitted it to take over agricultural production, while, in terms of social dynamics, this allows the organisation to provide food to the local population. As it creates a clientelistic bond with the local population, this last point is vital<sup>26</sup>.

The case of the Swiss building materials conglomerate LafargeHolcim is typical of IS' *modus operandi*. The factory's management wanted to remain operational despite the seizure of territory by IS, but above all it wanted to ensure the protection of its employees. It obtained the group's permission to pass through checkpoints in exchange for paying taxes. The manufacturer ended up admitting that 'unacceptable' arrangements had been made to protect its cement factory in Jabaliya, 150 northeast of Aleppo. Indeed, the company recognised that its local branch belonging to Lafarge 'handed funds over to third parties in order to come to an arrangement with a certain number of armed groups, of which a number were targeted by sanctions', without being able to identify their ultimate recipient<sup>27</sup>. This arrangement also suited the Damascus government – cement is a source of revenue for the Syrian government, which levies taxes on its sale.

According to an article drafted by [NATO](#)<sup>28</sup>, the issue of private financial contributions to further any form of armed jihad is a particularly sensitive question for Gulf monarchies, which are regularly accused of funding certain groups. Yet according to UN reports, only a small percentage of IS' resources is made up of external donations.

The role of external actors in the war economy, such as international or Muslim NGOs, charities and other foundations located in Gulf countries. It may be that legitimate, non-profit organisations may act as a cover for abusive practices, and as such the surveillance of such networks, which are often extensive, is vital.

The Iraqi Central Bank took action by establishing a blacklist of 142 exchange offices suspected of allowing IS money throughout territory under its control. According to an investigative report published by the *Wall Street Journal*, three primary routes are used for such money transfers, two of which are in Turkey and

<sup>25</sup> The *zakat* or legal tithe is one of Islam's five pillars. Every year, Muslims are to donate a part of their personal wealth to charity.

<sup>26</sup> [http://www.assemblee-nationale.fr/14/cr-mimdaesh/15-16/c1516018.asp#P5\\_535](http://www.assemblee-nationale.fr/14/cr-mimdaesh/15-16/c1516018.asp#P5_535).

<sup>27</sup> 'Syrie: LafargeHolcim reconnaît que son usine a financé des groupes armés', *Le Monde*, 3 March 2017, [http://abonnes.lemonde.fr/proche-orient/article/2017/03/02/syrie-lafargeholcim-reconnait-que-son-usine-a-finance-des-groupes-armes\\_5087906\\_3218.html?xtmc=lafargeholcim&xtcr=3](http://abonnes.lemonde.fr/proche-orient/article/2017/03/02/syrie-lafargeholcim-reconnait-que-son-usine-a-finance-des-groupes-armes_5087906_3218.html?xtmc=lafargeholcim&xtcr=3). The daily newspaper had already evoked these arrangements in its 21 June 2016 edition, explaining that they had benefitted IS.

<sup>28</sup> 'The Gulf monarchies' complex fight against Daesh', *NATO Review*

another in Jordan<sup>29</sup>. International organisations are striving to neutralise such sources of financing, which often transfer funds through small-denomination banknotes<sup>30</sup>.

## 4 International action against IS' funding

### 4.1 The implementation of an international framework

The international community's awareness at an early stage allowed the implementation of policies targeting the organisation's financing. Several measures have been taken with a view towards cutting IS off from external funding.

The Security Council Committee set up by resolutions [1267 \(1999\)](#), [1989 \(2011\)](#) and [2253 \(2015\)](#) concerning IS and the al-Qaeda network and the persons, groups, companies and entities that are associated with them and which together oversee the application of sanctions imposed by the Security Council and the UN. The aforementioned Committee is made up of 15 members of the Security Council and makes its decisions through consensus. Its mandate is to oversee the application of sanctions, demand that those individuals or entities which conform to the conditions contained in the pertinent conditions be placed on the list, examine notifications and requests for exemptions to sanctions imposed on IS and al-Qaeda and decide how to respond, carry out periodical and punctual reviews of the list of sanctions against IS and al-Qaeda, examine reports presented by the Analytical Support and Sanctions Monitoring Team<sup>31</sup>, present an [annual report](#) to the Security Council on the application of sanctions, as well as carry out information campaigns.

Concerning assets, the Committee requests that all states act swiftly to block funds, other financial assets or economic resources of persons and entities designated by the Committee.

As regards works of art, the Committee's team issued a recommendation on a moratorium of the trade of cultural Iraqi and Syrian goods. In 2013, following the events of Timbuktu<sup>32</sup>, the decision had already been made to place cultural goods on the list of frozen assets, given the inestimable value of manuscripts conserved in the region. This thus conferred the legitimacy required to work on issues pertaining to Syria and Iraq.

Lacking sufficiently reliable information, the Committee's team cannot gauge the value of stolen goods and has thus deliberately refrained from proffering figures. Even specialists hold back from estimating the worth of objects that could have been exhumed and sold. Only one State has recently publicly reported to the Security Council an estimate of the combined value of stolen goods, putting it at about USD 150 million.

Under Resolution 2253, States have an obligation to report all seized cultural goods from Syria and Iraq that have been illegally smuggled out of the country to the Security Council, regardless of whether such activities are linked to terrorism. Yet, at present, no State has submitted an official report on the matter to the Committee. However, during its missions, the Committee's team was informed of reports and seizures of goods of this nature by customs or police officers. Concerning the smuggling of antiquities and cultural goods, many States have introduced measures involving investigating their seizure in Iraq and Syria. However, identifying antiquities is problematic. The UN surveillance team therefore recommends that the

<sup>29</sup> 'How Islamic State's Secret Banking Network Prospers', *Wall Street Journal*, 24 February 2016, <https://www.wsj.com/articles/how-islamic-states-secret-banking-network-prospers-1456332138>.

<sup>30</sup> <http://www.lefigaro.fr/economie/le-scan-eco/decryptage/2016/03/23/29002-20160323ARTFIG00236-le-nebuleux-financement-de-daech.php>

<sup>31</sup> The Analytical Support and Sanctions Monitoring Team helps the Committee pursuant the UN resolutions

<sup>32</sup> En 2012, les islamistes radicaux des groupes AQMI et Ansar eddin s'emparent de Tombouctou au Mali et détruisent systématiquement tous les mausolées et mosquées de la ville.

Committee's team write to States who have not already done so to account for all seizures and judicial investigations relating to antiquities that have illegally left Iraq after 2003 and Syria after 2011.

Moreover, it is noteworthy that seizures have already been made, as it was expected that such goods would take longer to appear on the market. This is most likely a result of the drop in revenues that IS extracts from its main resources.

By virtue of its unregulated nature, controlling the art market is extremely complicated. While legislation exists, it is far from being harmonised across the board. Implementing targeted measures or specific procedures is not easy. That said, progress is underway. The United Nations Educational, Scientific and Cultural Organization (UNESCO) is fully committed and has transmitted the message that the issue goes beyond the fight against the smuggling of works of art and the protection of cultural goods, insofar as it also involves raising awareness regarding security at an international level and the fight against the financing of terrorism.

## 4.2 The role and importance of private donors

Once the Syrian conflict began some businessmen from the Gulf started financing brigades of radical Islamists (IS was not relevant at the time), the involvement of governments had not yet been formally established. Then, it was contended by the UN that IS was being financed by [oil monarchies](#); yet this seemed unlikely as IS itself questioned the legitimacy of royal families and carried out attacks on Saudi soil. Nevertheless, the fact that different regimes have 'purchased' IS protection should not be overlooked.

Kuwait has become a financing hub for individuals or charitable associations that wish to support extremist Sunni militias in Syria. Lenient legislation on freedom of assembly and the transfer of funds gave birth to this process, which reached its peak in 2012<sup>33</sup>.

Faced with this situation, Gulf monarchies started to revise their national legislation in 2014, for the purpose of introducing laws that would impede the collection of funds going to jihadist organisations, monitor the activities of charitable associations, deprive those suspected of terrorism of their citizenship, and fight against terrorism financing and online recruitment. Royal decrees in these countries were enacted in order to strengthen penalties for crimes relating to terrorism and to reinforce financial regulations linked to fighting terrorism. Nonetheless, grey areas persist: for example, the *hawala* system (bill of exchange) for transferring funds (illegally to Oman) could be used unofficially in order to finance insurgent activities.

Over the past two years, Bahrain has held many international conferences and workshops on this topic. Additionally, in May 2016, Gulf Cooperation Council (GCC) countries and Canada launched a strategic dialogue on the subject of terrorist financing. Among other measures, Kuwait established a financial intelligence unit charged with investigating illicit activities, while Saudi Arabia introduced new incentives for denouncing the collection of money or money laundering which profited jihadist groups by offering financial rewards to anyone who did so (in addition, Riyadh shares the presidency of the Counter-ISIL Finance Group with the United States and Italy)<sup>34</sup>.

Finally, it is important to note that private charities in Iraq and Syria have a hard time carrying out operations using official networks, therefore they are forced to use unofficial ways to transfer funds. There is a risk that certain groups or people steal from these unofficial networks in order to finance terrorism.

<sup>33</sup> 'The Gulf monarchies' complex fight against Daesh', *NATO Review*, <http://www.nato.int/docu/review/2016/Also-in-2016/geopolitics-gulf-monarchies-fight-against-daesh/EN/index.htm>.

<sup>34</sup> The Counter-ISIL Finance Group (CIFG) is an organisation of 36 states co-chaired by the US, Italy, and Saudi Arabia. The CIFG was established in January 2015 and it's part of international efforts to provide a coordinated response to IS, to understand IS's financial and economic activities and to develop and coordinate countermeasures internationally.

## 5 The IS of tomorrow: an organisation that can fund itself

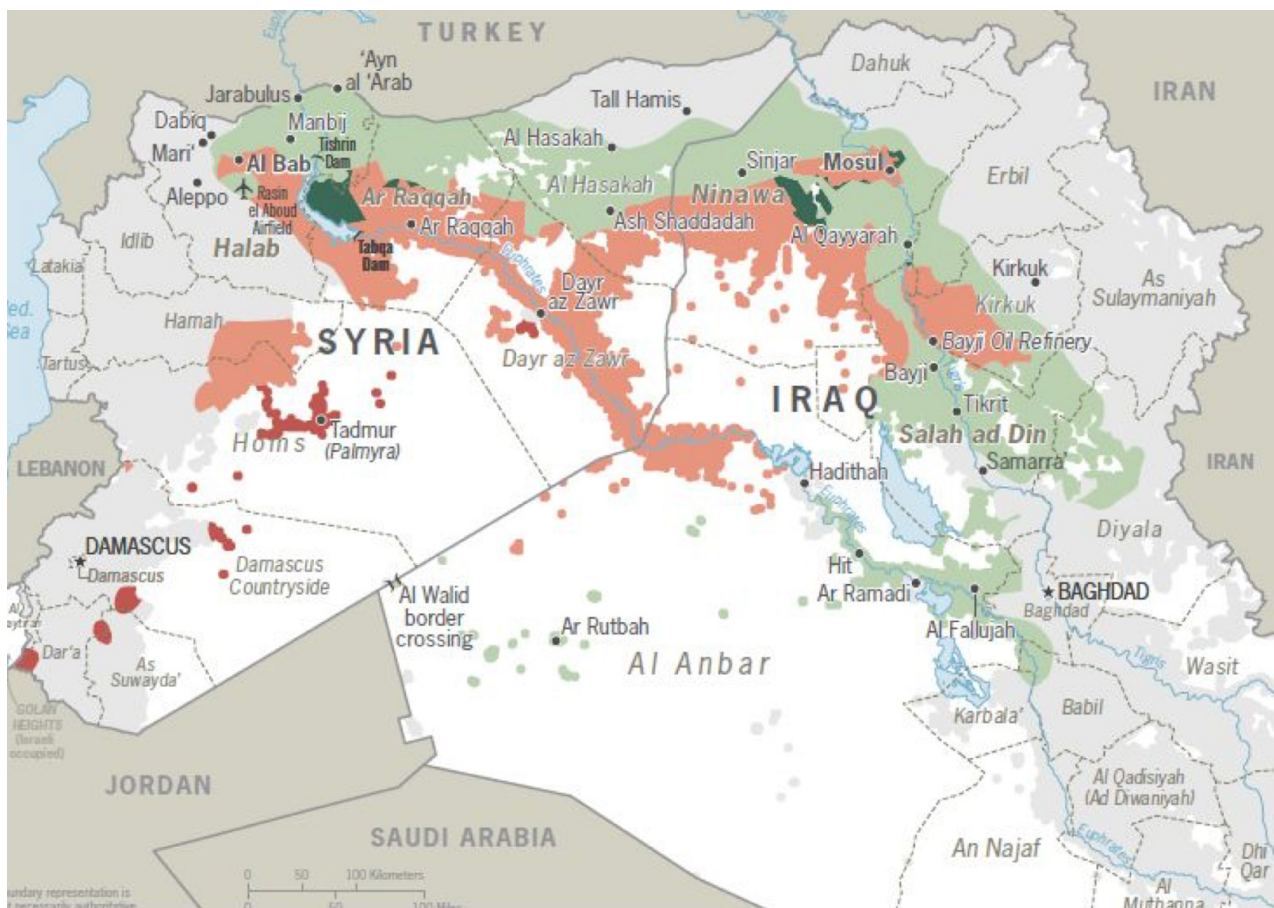
IS' capacity to inflict harm remains, although it has diminished in comparison to its capabilities in 2015. In addition, while its resources may have diminished, IS remains able to operate on a number of different planes. Essentially, efforts to reduce spending were implemented in order to channel the organisation's resources to meet its priorities. IS has proven its ability to adapt to any changes they might face.

IS will likely become more mobile and dispersed, progressively weakened to the point where it loses large swathes of its territory and thus need to secure a single centre for operational structures.

The report presented by the Secretary General to the [UN on 2 February 2017](#) stressed that, while IS may be on the defensive, that is not to say that it does not represent a 'serious threat' but rather proves that jihadists are able to 'partially adapt' to their losses.

According to the last International Centre for the Study of Radicalization and Political Violence ([ICSR report](#)), IS' finances have dropped from USD 1.9 billion in 2014 to USD 870 million in 2016. The vast territory controlled by IS is diminishing due to international coalition airstrikes. 62 % of the organisation's Iraqi territory and 30 % of that in Syria has already been lost.

This map from [The Global Coalition](#) speaks for itself:



### Areas of Influence

- |   |  |
|---|--|
| <span style="display: inline-block; width: 15px; height: 15px; background-color: orange; border: 1px solid black;"></span> ISIL dominant                              | <span style="display: inline-block; width: 15px; height: 15px; background-color: grey; border: 1px solid black;"></span> Non-ISIL populated area |
| <span style="display: inline-block; width: 15px; height: 15px; background-color: red; border: 1px solid black;"></span> ISIL territorial gain                         | <span style="display: inline-block; width: 15px; height: 15px; border: 1px solid black;"></span> Sparsely populated or unpopulated               |
| <span style="display: inline-block; width: 15px; height: 15px; background-color: lightgreen; border: 1px solid black;"></span> ISIL territorial loss                  | <span style="display: inline-block; width: 15px; border-bottom: 1px dashed black;"></span> Administrative boundary                               |
| <span style="display: inline-block; width: 15px; height: 15px; background-color: darkgreen; border: 1px solid black;"></span> ISIL territorial loss during past month |  |

## 5.1 After Mosul and Raqqa: the state of the present threat

Militarily, IS is in a defensive position in many regions, notably in Iraq, but also in Syria. According to the Center for the Analysis of Terrorism (CAT)<sup>35</sup>, IS' military setbacks have reduced its territory by 25 % in one year (as was estimated in June 2016). In addition, its revenue has fallen by 16 %, from USD 2.9 billion in 2014 to USD 2.4 billion in 2015, according to the [CAT](#). The territory will continue to shrink after the fall of Raqqa, given that this development will have important repercussions on the organisations by virtue of the numerous oil wells in the surrounding region.

Throughout their retaking of neighbourhoods in Mosul, Iraqi forces discovered that a large part of IS' military arsenal and industrial capabilities was built up with the help of experts, some from Russia and the Caucasus, but most from among ex-army officers who had served under Saddam Hussein. According to a report published in December 2016 by Conflict Armament Research (CAR), a British organisation, IS developed a highly bureaucratised military production system, with a military production and development board, which manufactured tens of thousands of weapons. The report's authors claim that it produced arms in quantity over quality. Current developments prove that, while these resources have allowed IS to mount a strong resistance to the coalition's intervention, its ability to resist will continue to decrease.

'IS forces source most of the products used in the manufacture of weapons and ammunition from the Turkish domestic market. CAR's findings continuously reinforce evidence that the group operates a major acquisition network in Turkey and has a direct line of supply from Turkey, through Syria, to the Mosul area'<sup>36</sup>.

## 5.2 The decline in IS' attractiveness

In September 2016, due to a bombing campaign targeting the region under its control, IS had more difficulty in obtaining funds, particularly insofar as oil sales were concerned. In order to compensate for these setbacks, IS intensified tax collection and extortion. According to UN document [S/2016/830](#), this practice generated no less than USD 30 million per month, notably due to the religious tax or *zakat*, commercial taxes, electricity and water royalties, 'rent' payments from foreclosed properties, and customs and tolls.

This decline in resources led to a decrease in salaries (by half) and a backlog in stipend payments which led certain fighters to leave the group. IS has also encountered increasing difficulties in recruiting new fighters. Reports from the UN and FAFT describe a state of absolute corruption – with the routine theft of both money and gold – among IS' ranks, which is yet another sign of the group's deteriorating financial situation.

The Security Council Committee<sup>37</sup> had already remarked in [a preceding report \(S/2016/501\)](#) that IS' resources have diminished, and that it is operating on an austerity budget. According to one State, two IS finance officials deserted in July 2016, one of whom took USD 750 000 and the other USD one million. It would seem like combatant salaries have significantly lowered whereas those employed to operate the organisation's communications division have been ring-fenced, given that IS prioritises its ability to broadcast propaganda.

<sup>35</sup> The Center for the Analysis of Terrorism is a Paris-based research centre whose work focuses on terrorism.

<sup>36</sup> <http://www.conflictarm.com/publications/>, Standardisation and quality control in Islamic States' military production (p. 8)

<sup>37</sup> The Security Council Committee is in charge of report submit pursuant to paragraph 97 of Security Council resolution [2253 \(2015\)](#), in which the Council requested the Secretary-General to provide an initial strategic-level report about the threat posed to the international peace and security by IS



### 5.3 Consequences of the group weakening

Pressure has built up to a point where IS' internal priorities have shifted from state building to military engagements. In May 2016, through its spokesperson [Abu Mohammed al-Adnani al-Shami](#)<sup>38</sup>, IS has mentioned leading operations through local cells in neighbouring countries and encouraging its followers to do the same by organizing attacks in Europe or wherever else they reside.

The number of fighters who wish to make their way to the warzone is declining as well, due to measures taken by countries affected, such as border surveillance. Moreover, it would appear that IS' allure has declined. As the situation on the ground does not correspond to what recruits were promised, there is a growing risk that such individuals will return home to carry out attacks of their own. The issue of logistics and financing is central, given that such operations are relatively cheap to carry out.

According to the most recent [UN report](#), IS' financial situation continues to deteriorate; with the trend having first been outlined in the preceding September 2016 report.

The UN assistance mission in Iraq estimates that IS raised USD 260 million from smuggling hydrocarbons in 2016, in comparison to USD 500 million it provided in 2015. Revenues are thus in decline, yet remain substantial. The report underlines that the group 'demonstrated resourcefulness in repairing or adapting equipment and infrastructure damaged by international coalition air strikes'.

### 5.4 Policy cost control and priority setting

'While IS' finances are under considerable pressure, the group's sources of revenue have not changed much, continuing to depend upon proceeds originating from hydrocarbons, extortion, and 'contributions', which altogether represent between 70 and 80 % of its revenue.' In addition to oil smuggling, jihadists replenish their funds by selling electricity and agricultural products, smuggling antiques, kidnapping for ransom, accepting foreign donations, engaging in human trafficking, and harassing small-time smugglers and cigarette vendors – jihadists are prohibited from smoking on pain of a 30 to 50 dollar fine.

'The group seems to have enough funds to continue fighting, since it prioritises its ability to wage war over the provision of basic services to their population. A number of hardcore combatants appear willing to continue fighting without receiving a salary', the UN says in [report S/2017/97](#).

### 5.5 Diversification of resources

In order to counter this decline, IS wants to diversify its resources and, according to *The Telegraph*, makes USD 20 million each month from speculating on Middle Eastern markets<sup>39</sup>. According to a report from a British Foreign Affairs sub-committee, IS was able to transfer some of Iraq's liquid assets into Jordanian banks to start speculating in the stock market (notably investing in the American dollar). These Jordanian banks then sent back the profits made to jihadist-controlled regions in Iraq<sup>40</sup>.

The graph below, [published by The Telegraph](#), gives a more precise idea as the resources IS controls. While the situation has since evolved, it remains relevant in terms of the structure it details.

<sup>38</sup> Abu Mohamed al-Adnani al-Shami, porte-parole d'IS et probable chef des opérations extérieures a été tué par une frappe américaine en Syrie le 30 août 2016

<sup>39</sup> <http://www.telegraph.co.uk/news/worldnews/middleeast/iraq/12180652/Islamic-State-earning-millions-by-playing-the-stock-market.html>

<sup>40</sup> Martine Rabreau, « Comment Daech organise son lucratif marché pétrolier », *Le Figaro*, 26 novembre 2015

## How Does ISIS Fund Itself?

Estimated monthly and yearly revenue streams of the so-called Islamic State

Estimated monthly revenue streams



Estimated annual revenue streams



\* Upper estimate for 2014



Sources: US Department of the Treasury, Bloomberg

statista

## 5.6 New vulnerabilities of IS' financial system

IS confronts a number of difficulties stemming from the measures taken by the international community against it. This is borne out by the 19th report from the UN Analytical Support and Sanctions Monitoring Commission was delivered to Security Council members in the beginning of January 2017. The document revealed that the sale of stolen antiquities in Iraq and Syria was becoming increasingly difficult due to an increase in criminal investigations and seizures. However, foreign European terrorists are a source of revenue for IS – they use contacts in Europe to send the organisation money through their European bank accounts. Sympathizers control these bank accounts from outside of conflict zones in order to take out funds and send them to IS' core leadership.

The report also notes that certain States have reported cases where foreign terrorists continued to receive welfare payments while they are in IS controlled areas. Following these conclusions, given that active bank accounts kept by foreign terrorists remain a risk factor, the Analytical Support and Sanctions Monitoring Team recommended that the Security Council write to States to inform and encourage those that have not researched how to better control known terrorist access to their bank accounts on how to do so, in a way which complies with each state's national legislation.

The decline in resources and their aforementioned reallocation does not mean that IS no longer has the means to continue investing in its project, or that it has given up on establishing a Caliphate, since some of its fighters are ready to fight without demanding anything in return.

IS' principal resources remain oil, extortion, and levying taxes, which together represent between 70 % and 80 % of IS' revenue. Bombing campaigns carried out by the international coalition and Russia have specifically targeted and destroyed refinement installations and tankers. The resources under its control

have been significantly reduced. But IS' capacity to fully repair and revamp certain installations for commercial purposes should not be underestimated.

Given that people are much poorer and that, once more, bombings have reduced IS territory, leading to a consequent reduction in economic activity, taxation has become less profitable. As a result, IS will likely look to develop new sources of revenue or will be tempted by more traditional means, such as taking hostages for ransom. In this context, journalists and humanitarian workers are choice targets, and ties with mafia and/or criminal organisations could in turn be strengthened.

IS is weakening and a military victory over the group almost guaranteed. However, this means that the group will evolve, and adopt a new organisational structure. But after Mosul, the problem will be the fate of the Sunni population, as the underlying factors that led to IS' emergence will remain present. While responding to the task at hand and knowing how to destroy the group's infrastructure is indispensable, the causes that led to the organisation's formation should also be confronted. Yet this area remains largely ignored.

## 6 What the European Union's response could be

While IS' current system in Iraq and Syria may be weakening in particular due to a lack of resources, this does not resolve the issue of this group's future evolution. From the outset, IS has been obsessed by the idea of a caliphate and its creation, yet today terrorists focus on striking Belgium, France, Lebanon and Turkey. This is probably a sign of a reduction in resources but not of a dearth of willingness to act.

Abu Musab al-Suri's theory of 'a thousand cuts', where fighters are incited to coordinate attacks of a modest scale, is an important part of IS' strategy. Gilles de Kerchove, the EU coordinator for the fight against terrorism, said 'if you launch increasing numbers attacks crying out *allahu akbar* all over Europe, you create a climate of psychosis and terror. None of the attacks carried out in Europe were planned in Raqqa<sup>41</sup>.'

There is a large chance that the organisation's current defensive posture will increase the frequency of cheaper attacks carried out in Europe.

The threat which continues to loom over Europe is such that the security of the Union has become the Global Strategy for Foreign and Security Policy's top priority. This document is a political instrument oriented towards action which considers the evolution of the EU's geopolitical environment. One of the most important points put forward is that NATO should remain the principal organisation through which the majority of Member States, and therefore for the EU, can strengthen the level of international cooperation needed to tackle terrorism head on. This is particularly pertinent in the fight against IS.

The EU is conscious of the importance of playing an active role in the fight against the international financing of terrorism, and does so by working with dedicated and competent international institutions. The EU supports the UN Global Counter-Terrorism Strategy and participates in relevant conferences. The EU is a Financial Action Task Force (FATF) member and contributes to its work while submitting recommendations on a European level, which took place in Paris from 18-24 February 2017, strongly reinforced the engagement of all parties. During this meeting, participants exchanged information on current efforts to combat IS financing and discussed the need for a multilateral engagement strategy with countries where these IS branches operate.

It's important to note that there is currently 37 members of the FATF and the Gulf Cooperation Council is a full Member but not the individual Member countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). As an FATF Member, the GCC is committed to implementing the anti-money

<sup>41</sup> Propos tenus par Gilles de Kerchove, entretien dans *Politique internationale*, n°151, printemps 2016

laundering and counter-terrorist financing measures agreed to by the FATF Members which is very important.

If the Arab countries are not members of the FATF, they are Members of MENAFATF. This is the Middle East and North Africa Financial Action Task Force and the objectives are to adopt and implement the FATF 40 recommendations on combating money laundering and financing of terrorism and proliferation

## 6.1 European responses

Europe has taken measures in order to reduce the financing of terrorists. Anti-laundering directives were adopted: Europe is on its fourth. EU Member States have been invited to advance the transposition date and entry into force of the 4th directive to the 4th quarter of 2016 at the latest<sup>42</sup>.

On 31 March 2015, the French Finance Minister Michel Sapin and his German counterpart Wolfgang Schauble wrote to the European Commission to demand new action on a European level concerning financial intelligence units, an efficient mechanism for asset freezing in Europe, the central registration of bank accounts, better control of facets for anonymous payments (notably electronic payments), and export permits for cultural goods and setting aside cash in order to buy them.

As a result, liquid cash circulation is quite regulated: any sum above EUR 10 000 euros must be declared when crossing the exterior borders of the Union. The Commission put forth an evaluation that underlined the importance of expanding regulations against cash payments sent by mail or cargo, and recommended allowing authorities to act on cases involving smaller sums of cash in the event that illicit activity is suspected. The existence of companies like Western Union or MoneyGram poses the question: should they be prevented from functioning, or on the contrary, should they be used in order to obtain intelligence on money transfers?<sup>43</sup>

One form of regulation of fund transfers attempts to increase the traceability of payers, beneficiaries, and their assets. Specifically, it regulates the *hawala*, an informal, traditional payment system (bill of exchange) used in the Arab World and Asia that is based on trust. This system offers the possibility to launder funds since the *hawala* uses intermediaries – known as *hawaladars* – that accept illegal funds, integrate them into a formal banking system, and say that they originate from their own commercial activity.

In February 2016, the European Commission disclosed a European plan to stop terrorist financing that would be fully operational in 2017. This plan aims to better regulate methods of transferring money outside of the banking system, starting with anonymous prepaid cards. This point is important because terrorists use them readily since they are not linked to a name and, under a certain threshold, do not require a bank account, which complicates the investigation of such attacks.

On 5 July 2016, the Commission adopted a proposition that aims to reinforce EU regulation relating to stopping capital laundering in order to prevent terrorism financing and improve trust and business property transparency.

The Commission also adopted a series of measures which counters the risks incurred by anonymous prepaid methods, such as prepaid cards. They tried to reduce the threshold for providing identification – before the limit was EUR 250 and now it is EUR 150 – and further increased the requirements pertaining to verifying clients' identities.

<sup>42</sup> On December 16th 2014, an agreement was reached between the Parliament and Council on the wording of both the settlement and the directive. The Council ratified it in April 2015, while the European Parliament approved this agreement during the Plenary Session that took place on May 20th. This fourth directive abrogates and replaces Directive 2005/60/CE

<sup>43</sup> These companies have grown and a number of startups have gravitated towards this lucrative market. According to the World Bank, nearly USD 600 billion was sent by individuals from one country to another in 2014.

The bank federation asked the government to look into new actors in the payment sector, specifically with prepaid cards issued outside of the European Union. Tracfin<sup>44</sup>, in its [2015 report](#), underlined that ‘the level of anonymity that is linked to certain electronic money mechanisms presents a special risk, worsened by the fact that nothing guarantees that the prepaid card buyer is the final user’.

Another concern involves electronic platforms for virtual money exchanges: ‘it seems like virtual money is used by terrorist organisations in order to conceal financial transactions, in which they can be used in a more autonomous fashion’ the European Commission explained.

## 6.2 National responses

Italy is involved in the fight against IS. It leads the Counter-ISIL Finance Group, alongside the United States and Saudi Arabia. ‘Drawing from the fight against IS financing strategy found in the CIFG Rome Plan adopted in March 2015, Italy established new financial sanctions in order to: reduce financial streams going towards IS territory, reinforce international anti-terrorist financial measures and halt money laundering; set up financial information sharing systems within the Coalition; and finally, support banking and financial institutions and their regulatory frameworks in countries where IS holds territory’.

The successful implementation of the strategy against IS requires taking appropriate legislative and judicial measures. Italy recently strengthened laws pertaining to the fight against terrorism financing, allowing judicial authorities access to more efficient methods. Besides installing a new penal legislation that sanctions those who finance terrorist groups or support them in other ways, Italy established measures that restrict self-trained jihadists and foreign terrorists. The Financial Security Committee, an interagency organisation, is in charge of managing this global strategy, in order to ensure rigorous and coherent enforcement and to encourage information sharing.

On 23 November 2015, Michel Sapin, the French Finance Minister, explained that ‘fighting against terrorism, for the Finance and Public Accounts Minister, is above all achieved by fighting against terrorist financing. Yet it is also realised by collecting and sharing information regarding financial flows, or customs surveillance, which helps identify terrorists, their movements, and their networks’. This declaration followed measures taken in March 2015, when new policies such as the reduction of transactions paid in cash from EUR 3,000 to 1,000 for natural or legal French residents, and from EUR 15 000 to 10 000 for non-residents were implemented.

Withdrawals and deposits that exceed EUR 10,000 per month are automatically reported to Tracfin.

These procedures have been effective in France since 1 September 2015. Additionally, since 1 January 2016, all foreign transactions exceeding EUR 1,000 require the presentation of identification (until then, it was possible to send up to EUR 8 000 without having to present an identification).

Besides these measures, the objective of the French government is to expand the number of assets that can be frozen, which will require changing the definition of taxable individuals as well as loopholes in the procedures for freezing and banning that allow those affected by an asset freeze to continue to receive funding, as well as the potential information sharing required to prepare and execute an asset freeze.

Progress must yet be carried out from within European institutions in order to buttress existing mechanisms.

The set of policies adopted by the European Commission on 21 December 2016 aims, above all, to fight against terrorism financing. It is inscribed in the February 2016 Action Plan’s engagement framework intended to strengthen the fight against terrorism financing. Three new texts were adopted concerning

<sup>44</sup> Traitement du renseignement et action contre les circuits financiers (TRACFIN) est la cellule française de lutte contre le blanchiment de capitaux et le financement du terrorisme qui est rattaché au ministère de l’Economie

capital laundering, the illicit transfer of liquid cash, and the freezing and confiscation of assets. The objective was to weaken 'terrorist capacities to finance their activities and, simultaneously, by allow the authorities to identify and block access to sources of funding'. The Commission proposed a new directive aimed at countering capital laundering by: using penal law, putting important capital transfers under strict control, and freezing terrorist financial resources and confiscating their assets.

These measures are essential since, as we have seen, past attempts have not addressed the large sums devoted to carrying out attacks on European soil such as those that have occurred over the past few years. Therefore, the objective is to prevent those supporting IS' cause from financing them.

According to Tracfin's director, 'IS need not use money to fund attacks as terrorists finance themselves through microfinancing. For the January attacks, we identified another source of microfinancing, which was not necessarily illegal, that employed consumer lending. It is clear that there are incentives for relying on consumer lending, for amounts less than EUR 2 000 since regulations for those transactions are less strict. It is not necessary to go for sophisticated ways of financing that redistribute oil or gold revenue for financing terrorist acts'.

Collecting funds through the internet is another concerning subject. Even if amounts collected via this option are minor, they are nevertheless concerning. Social media's multiplying effects should be taken into consideration, because this means that IS is able to create a form of adhesion to its cause while reaching a wider audience.

Requests for donations on social media platforms can take many forms, such as the financing of transportation for those wishing to train in Syria, requests for financing a project that seems humanitarian yet actually transfers its funds to IS or other terrorist organisations, or donation requests on social media sites for sending money orders, prepaid cards, or even liquid cash transported by individuals. As we have already seen, measures have been taken to counter these practices, yet they remain problematic due to the possibility of circumventing surveillance systems.

## Conclusion

While the war waged by the international coalition against IS is crucial, this must not obscure the fact that al-Qaeda maintains a presence in Iraq – the group's ability to do harm must thus be considered. Such were the conclusions of a [report published by the Institute for the Study of War](#).

The decline of IS' finances does not mean that the organisation will cease to exist – it has invested in communications infrastructure and propaganda in order to continue to mobilise fighters throughout the world.

IS' 'Ministry of Information' allows it to do so through its four primary official organs: al-Furqan, al-Itissam, al-Hayat, and al-Ajnad. These publications boast a widespread distribution, slick infographics and are published in a number of languages. More than a hundred propaganda pieces are distributed per month, drafted by regional media committees. The impact of such propaganda is undeniably powerful, meaning that it is as important as the group's financial resources. While IS' highly polished methods of communication come at a high cost, it seems that this area is prioritised given the fact that the impact of written or audio-visual publications transcends borders. Given that IS is threatened on a strategic level, propaganda will become increasingly central to mobilising combatants throughout the world.

This point is all the more important given that the economic cost of terrorist attacks is low, and the territory under IS' control is shrinking by the day. As a result, the danger the organisation poses may shift to Europe. In that case, the risk of community financing should be taken into consideration.

## Recommendations for the European Parliament

The European Parliament has an essential role to play in mobilising Member States. Since 2001, and all the more so following the attacks of 2003 and 2004 in Europe, the EU has made a substantial effort in this area. European bodies – as coordinators of the fight against terrorism – combined with Europol (with the European central records office) play an important role in terms of purveying and controlling information. European directives – which outline the European definition of terrorism and the minimum sentences that are correspondingly imposed – also contributed towards this objective.

But Member States, taken individually, have a major responsibility to implement and enforce common decisions. In this respect, the Parliament could be well advised to press for a study on the different levels of commitment and the progress Member States have realised in the fight against terrorism and, notably, efforts made to hinder IS' financing. It is evident that, due to their varying financial means as well as the differing historical development of their administrations and police forces, Member States cannot all muster the same level of engagement. However, it remains possible to build a common foundation, not only supported by EU institutions, but by those Member States that are most developed.

The European Parliament could also demand the implementation of an annual reporting mechanism regarding the measures taken by the various Member States and the Commission pertaining to the fight against the funding of terrorism.

Last but not least, the European Parliament should reinforce efforts to cooperate with NATO's Parliamentary Assembly, which has a special group centred on the Mediterranean and the Middle East which works to further the fight against IS. This strategic imperative for Member States was evoked at a summit held in Warsaw in July 2016.

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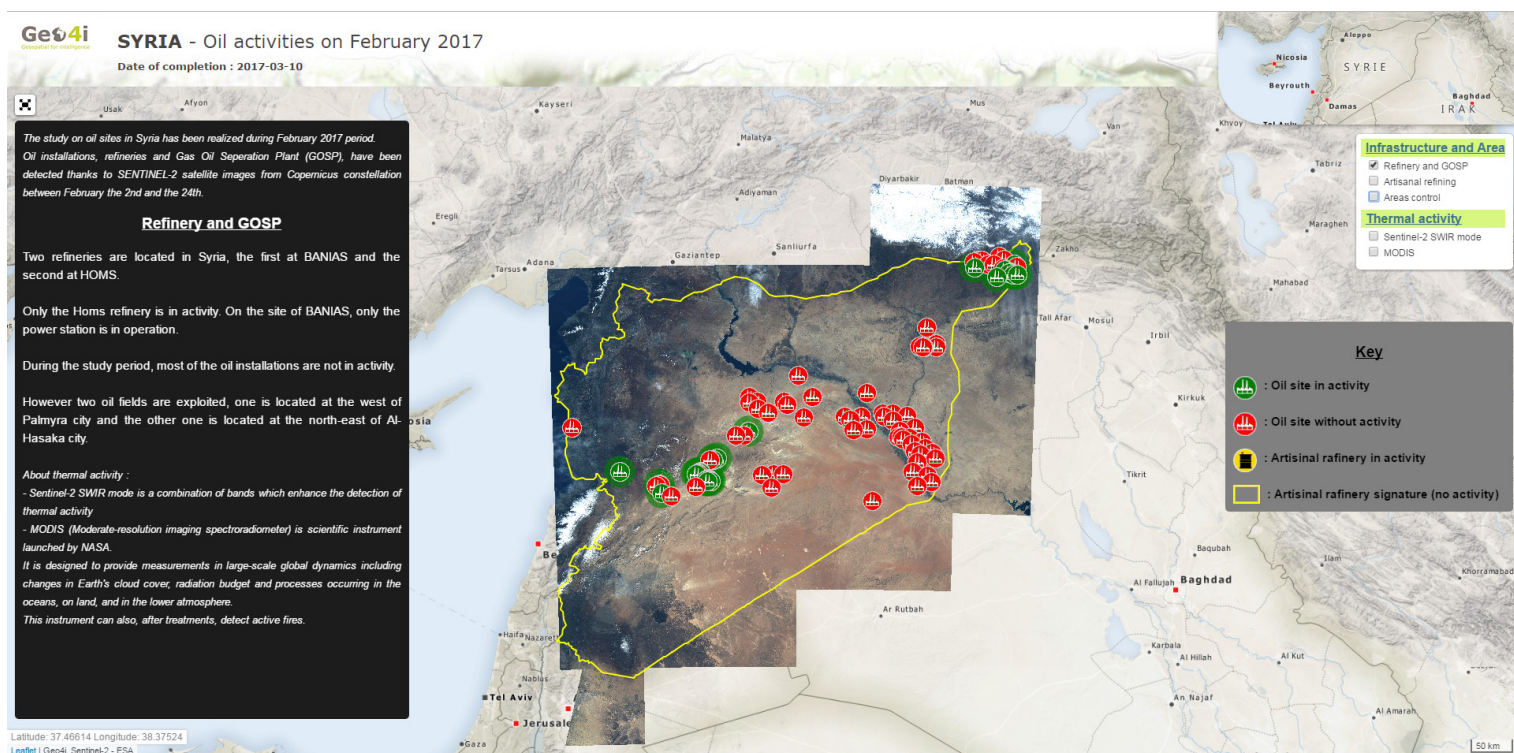


# Annex

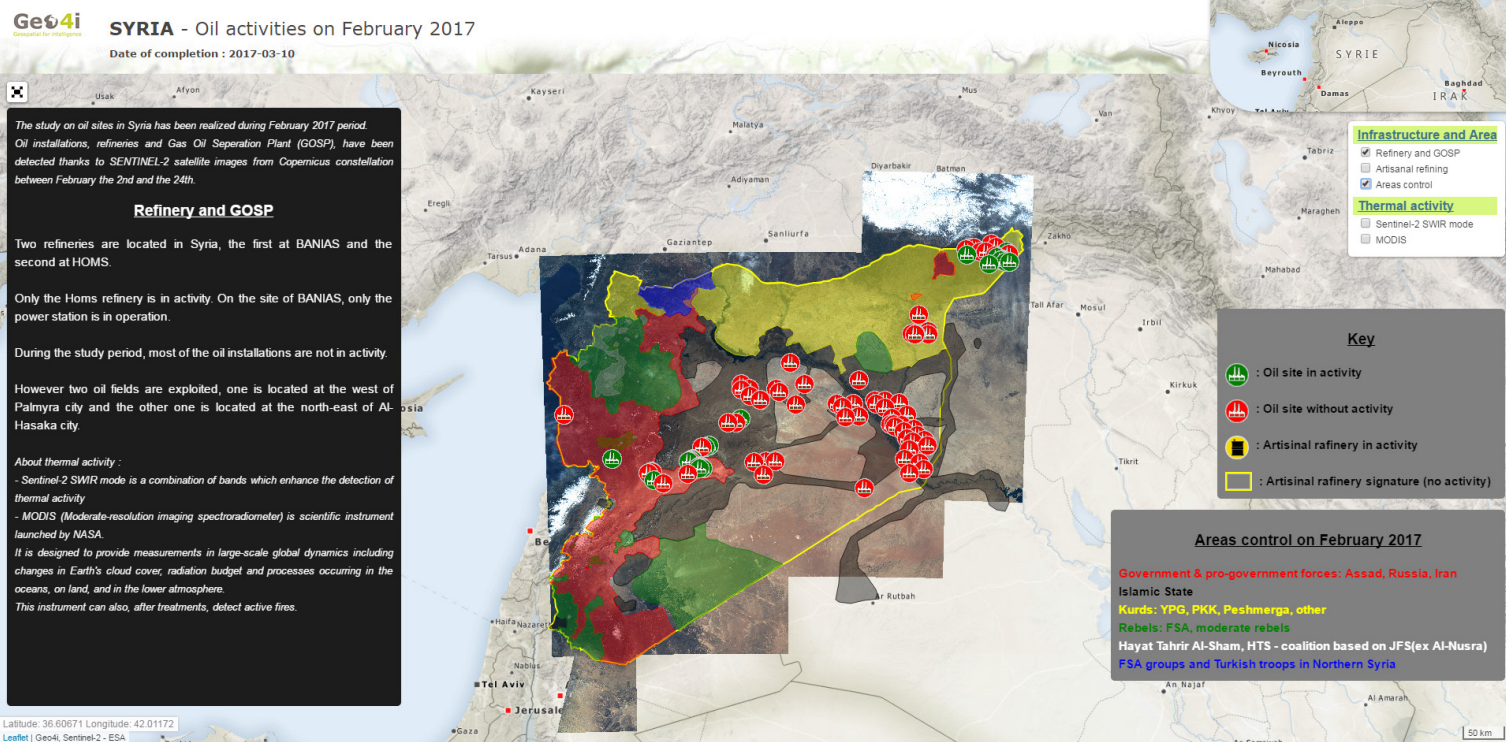
## SYRIA – Oil activity in February 2017

Source Géo4i

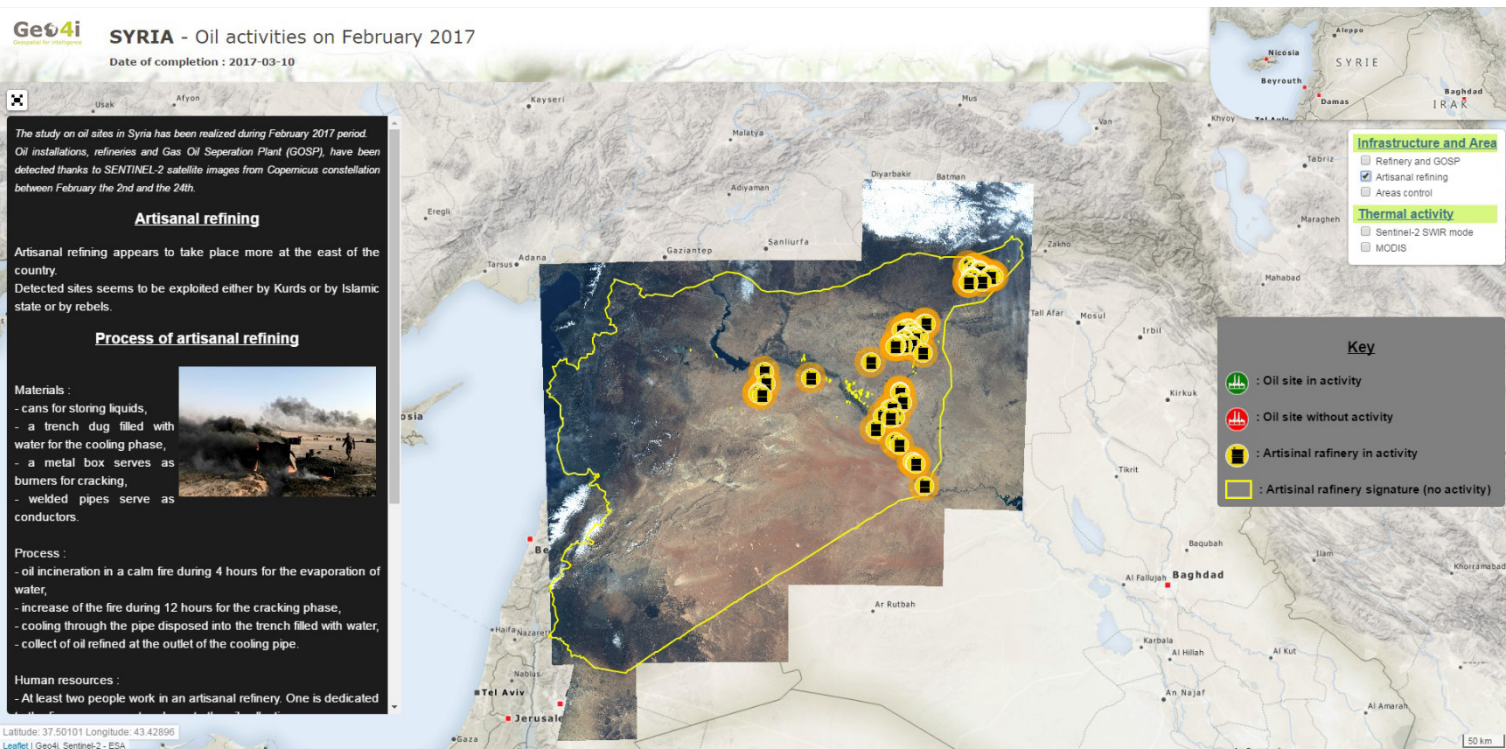
The cartographic study presented here is unique in Europe. These screenshots show the activity of the clandestine refineries of IS during February 2017 through satellite open source means and interpreted by specialists. The joint action of air forces of the coalition and of Russia have led to a clear decline of this activity. The dynamic imagery is available by following the link mentioned on page 10.



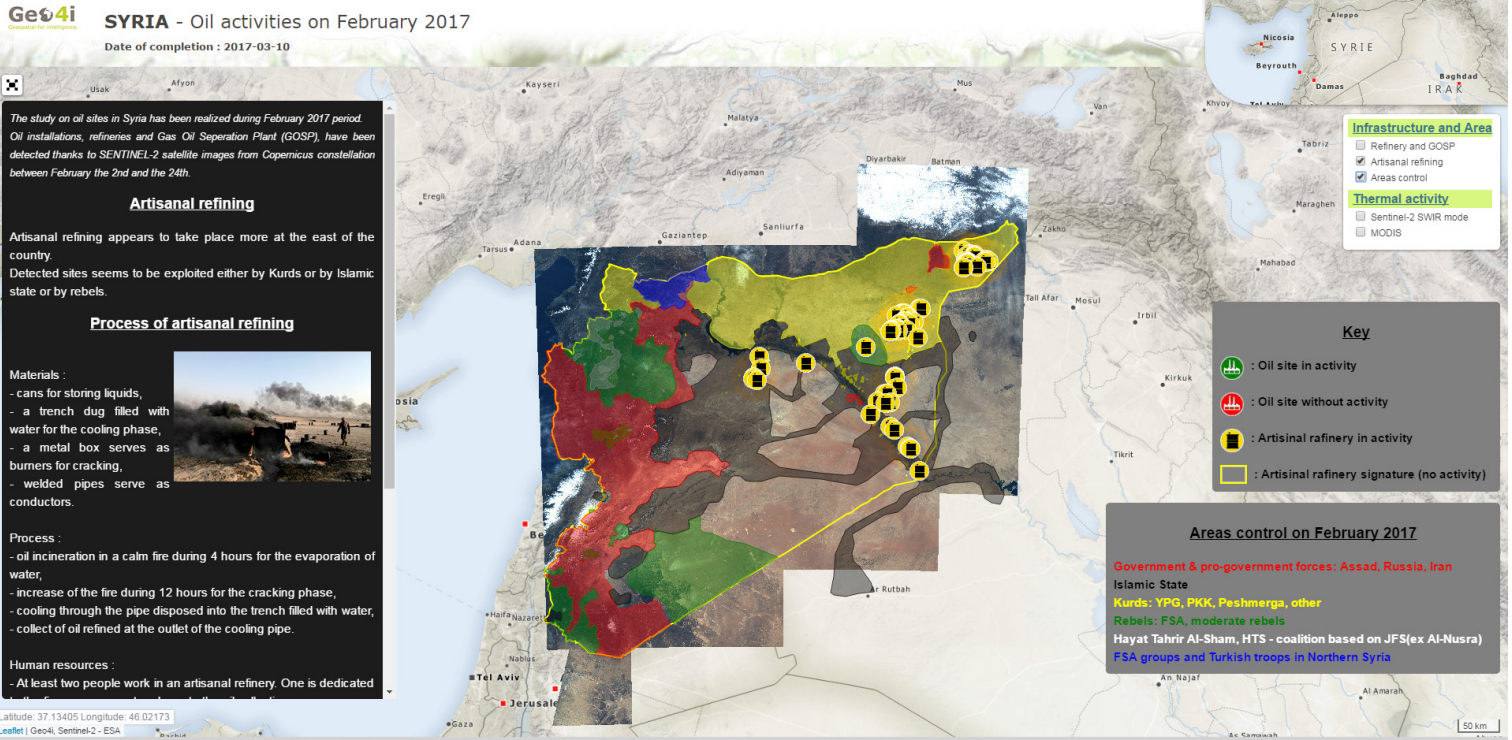
Overview of refineries and GOSP



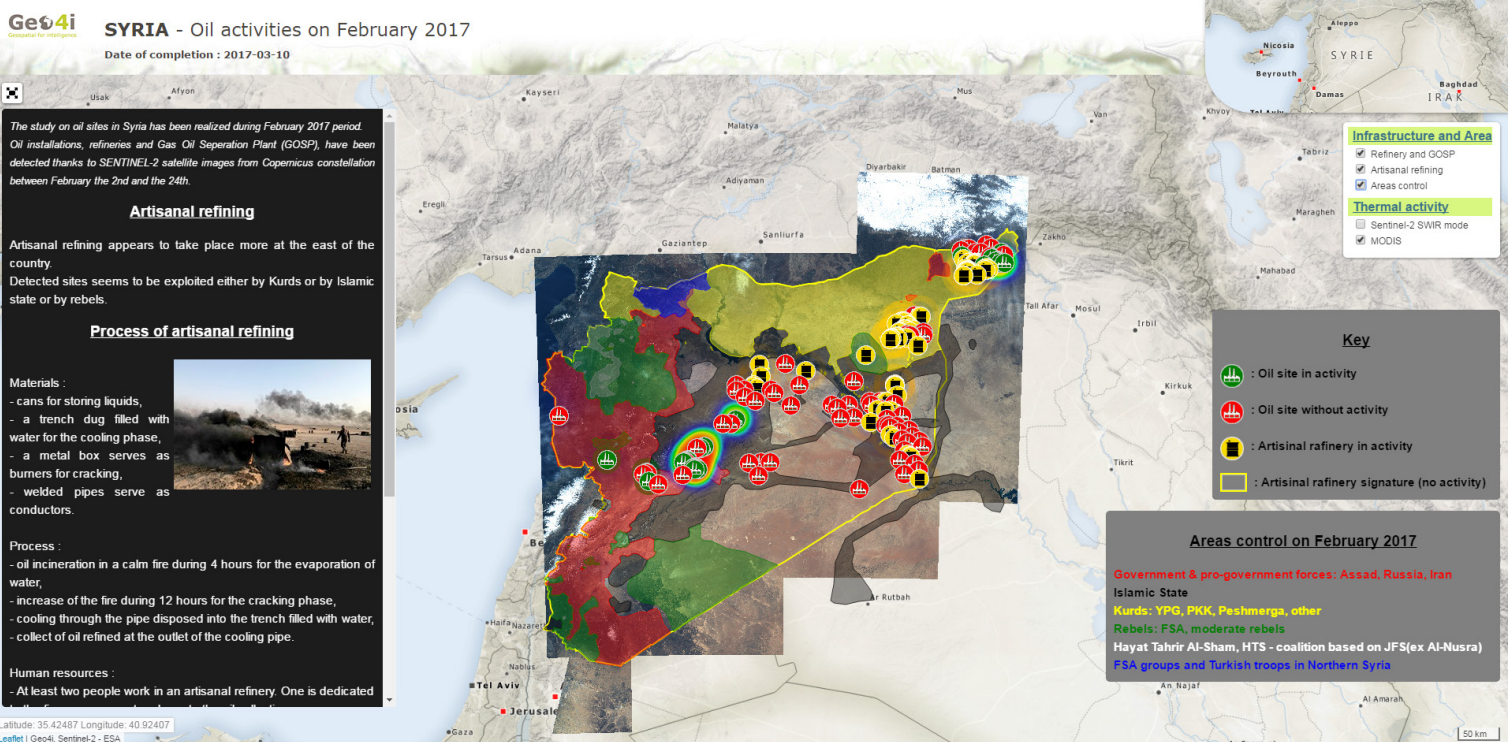
Overview of refineries and GOSP with areas of control



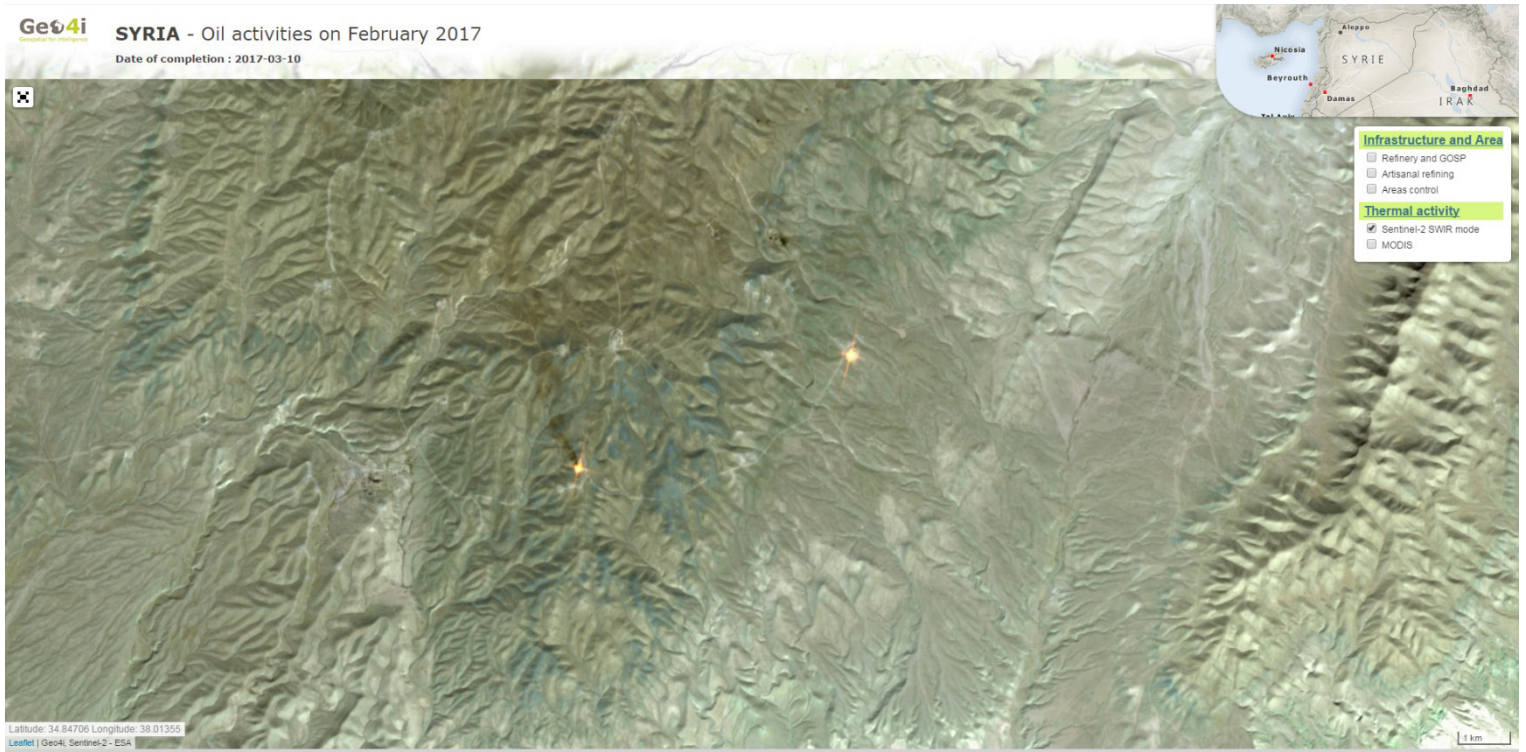
Overview of artisanal refineries



Overview of artisanal refineries with areas of control



Overview of oil sites with areas of control and thermal activity



Detection of thermal activity with Sentinel-2 SWIR mode

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