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# Confronting the Terror Finance Challenge in Today's Middle East

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By Hardin Lang, Peter Juul, and Trevor Sutton    November 2015

Center for American Progress



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# Contents

- 1 Introduction and summary**
- 5 Three models of threat finance and facilitation**
- 11 Taking stock: Potential areas for improvement in the U.S. counter threat finance architecture**
- 18 Today's biggest challenges in the Middle East: Iran and ISIS**
- 21 Policy recommendations**
- 29 Conclusion**
- 30 About the authors**
- 32 Endnotes**

# Introduction and summary

In the years since 2011, the Middle East has been convulsed by instability. Bad governance and civil war have left vacuums that extremist groups have eagerly filled. Competition between regional powers is on the rise; it is often waged violently through sectarian proxies, including terrorist groups. As the nature of the terrorist threat evolves, so must the tools to combat it. A reinvigorated push by the United States to cut off the flows of financial support to the terrorist networks that are straining the state system of the Middle East will help advance stability and prosperity in the region.

No single group embodies the new challenge better than the Islamic State of Iraq and al-Sham, or ISIS. Breaking with Al Qaeda's traditional strategy, ISIS has seized large swaths of land through military power and brutality. Like its affiliate, Boko Haram, in Nigeria, ISIS draws strength from the territory and population centers it occupies.<sup>1</sup> ISIS poses a direct insurgent threat to the integrity of Iraq and Syria and seeks to challenge the legitimacy of other states in the Middle East.

At the same time, the regional contest between the Saudi-led Gulf States and Iran has intensified. Both sides do battle through proxies, most recently in Syria and Yemen. As part of this contest, Iran's state sponsorship for traditional terrorist groups such as Hezbollah and new partners such as the Houthis in Yemen has served to significantly destabilize the Middle East.

The landmark international agreement to prevent Iran from developing nuclear weapons was a historic achievement for the United States and its partners. It provides the best option for containing the greatest threat to the Middle East: a nuclear-armed Iran. As sanctions against Iran ease, the agreement raises concerns that Tehran will be able to pour more financial fuel on the regional fire.<sup>2</sup> In order to advance greater regional stability, a proactive policy that targets the financial support networks of the terrorist groups that receive funding from Iran is essential.

To confront these threats, the United States government will need to block financial and other support for these groups—much as it did for Al Qaeda in the wake of 9/11. Led by the Treasury Department, the U.S. government built a robust framework to disrupt Al Qaeda’s finances and defend the international financial system against abuse. But this framework is less suited to tackle the financial model of insurgent groups such as ISIS. As CIA Director John Brennan stated in March, “The United States and its allies have had considerable success degrading the capabilities of core al-Qaeda. But various al-Qaeda affiliates and other terrorist organizations have surged in other countries.”<sup>3</sup> Three trends help explain why.

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### A shift from donations to self-financing

The first trend is the shift by a new generation of jihadi groups away from Al Qaeda’s early dependence on donations toward a self-financing model that is based on the control of territory. These groups fund themselves largely through the extraction of wealth and resources from land and populations under their control—much like a traditional insurgency.<sup>4</sup> ISIS is the most prominent of new terrorist groups to draw on methods dating back to the likes of the Irish Republican Army. Boko Haram in Nigeria provides another powerful example of this trend. These groups operate like casinos: They keep their money in-house and have relatively little reliance the international financial system to channel support.<sup>5</sup>

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### A shift toward a broader spectrum of threats

ISIS and similar groups pose a wider range of threats than the spectacular terrorism of Al Qaeda prior to 9/11. Indeed, it was the immediate threat to the Iraqi state, coupled with the threat of mass atrocity, that galvanized the U.S. response to ISIS. Groups such as Hezbollah have financed terrorism and proto-state ambitions through transnational criminal enterprises for decades.<sup>6</sup> But the surge by jihadi groups to fill the space opened by war and uprising underscores the urgent need for a more comprehensive approach—one that tackles the full spectrum of threats posed by these groups.

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## A shift from finance to facilitation

Groups such as ISIS and Hezbollah maintain a much larger footprint than core Al Qaeda and thus depend more heavily on a wide range of logistical support beyond financial transfers. These organizations often rely on related networks both to make money—such as ISIS’ illegal oil trade—and move material and people, such as foreign fighters.<sup>7</sup> Terrorist groups’ financial flows often move through these larger facilitation networks. Therefore, measures to disrupt these flows should be more fully integrated into wider—often ongoing—efforts that target these facilitation networks. Sanctions should be synchronized with military action and efforts to bolster border control in order to better target terrorists’ bottom lines.

This report outlines three financial models of terrorist groups, reviews the evolution of the U.S. counter terrorist finance system, and takes stock of challenges that are confronting that system. The report also reviews progress and the remaining challenges across the Middle East, with specific attention paid to the Persian Gulf, ISIS, and Iran. It then argues for a more robust approach that involves the entire federal government and goes beyond the current focus on sanctions and designations to disrupt support for the main sources of threat.<sup>8</sup>

A key to success will be to mobilize the full interagency toolset in order to confront groups such as ISIS and Hezbollah. The first set of recommendations calls for a task force structure that would integrate operations, improve metrics to measure impact, and sustain pressure on recalcitrant partners. The second and third sets offer specific counter finance and facilitation measures to confront the top priority targets—ISIS and Iranian proxies—as outlined below.

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## Recommendations for the U.S. government

- Use a task force model to mobilize all relevant agencies at the operational level to disrupt the funding and support of the most dangerous terrorist groups to American security and interests.<sup>9</sup>
- Establish impact-based metrics that are specific to the ends, ways, and means of the most dangerous terrorist groups in order to measure the full effect of counter threat finance, or CTF, efforts.
- Strengthen financial diplomacy by signaling that the United States is prepared to use Section 311 of the USA PATRIOT Act, or Patriot Act, against the worst terror finance offenders in order to curtail their access to the U.S. financial system.

- Pilot the concept of a so-called white list—which documents financial institutions that are approved to do business in a specific country—in Somalia in order to mitigate the unintended consequences of CTF policy.

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## Recommendations on Iran

- Conduct a comprehensive review of all Iranian entities that are covered by U.S. nuclear-related sanctions in order to ensure that all entities eligible for designation under terrorism-related authorities are sanctioned.
- Step up enforcement of secondary sanctions against entities that do business with or provide material assistance to Iranian individuals and entities that are designated under terrorism sanctions.
- Establish a regional task force with partners in Europe and the Middle East to counter Iranian terror finance.

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## Recommendations on ISIS

- Maintain military pressure on ISIS in order to disrupt their operations and control of resource-rich territory and increase targeting of critical facilitation networks.
- Ensure that CTF and military targeting are collocated to analyze and target ISIS financing and wider facilitation networks.
- Update the United Nations sanctions lists to include more members of ISIS and its affiliates.
- Bolster Turkey’s capacity to secure its borders against terrorist threats—especially those posed by ISIS—and maintain domestic stability.

It is unlikely that these recommendations will completely dry up the resources of Iran, ISIS, or the myriad other groups and countries that threaten the United States and its interests around the globe. But that is not the right way to think about the problem. Instead, CTF efforts should aim to make America’s adversaries devote more time and energy to securing resources than sowing chaos in the Middle East and beyond. The recommendations in this report intend to do just that.

# Three models of threat finance and facilitation

Terror finance has received the widespread attention in the media and within the U.S. government since the terrorist attacks of 9/11, but it is only one avenue of threat facilitation. Threat facilitation refers to the means by which individuals and organizations acquire the funds and resources necessary to carry out activities that threaten the security and interests of the United States and its allies. The revenue streams of narcotics traffickers, pirates, cybercriminals, and organized crime syndicates, for example, fall under the broader umbrella of threat finance. So do the funding sources that are available to the local insurgencies that control territory. In some cases, one kind of activity finances another—as has been the case with opium trafficking for the Taliban and kidnapping for Boko Haram.

Wider facilitation networks include financing but extend to the full range of internal and external networks that allow adversaries to transport, smuggle, sell, and purchase everything that they need to conduct their operations. Just as money transfers and movements are often vulnerable to U.S. disruption, so too are traditional smuggling routes, border crossings and ports, criminal activities, propaganda tools and media networks, and required relationships with local power brokers.

Terrorist groups employ three primary financing models that threaten U.S. interests: fundraising via donations; rent extraction through territorial control; and traditional state sponsorship. The donation model relies on the international financial system to raise and move money—much as one might transfer money to a relative's bank account. State sponsorship can involve both formal money transfers and physical transfers of cash and commodities. The tools that the United States and others put in place before 9/11 focused on state sponsorship; the tools established after 9/11 have substantially constrained abuse of the international financial system by terrorist financiers, both private and public. But these tools are less effective against threat financing methods that operate outside the international financial system—in particular, terrorist groups that extract the means to support themselves from the territory, resources, and people they control.

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## Donations for Al Qaeda

The core Al Qaeda organization that attacked the United States on 9/11 relied principally on donations to fund its operations, to the tune of some \$30 million per year. On the eve of 9/11, core Al Qaeda dedicated anywhere from one-third to two-thirds of this budget to payments to the Taliban for providing it a safe haven.<sup>10</sup> Post-9/11 actions, including the U.S.-led overthrow of the Taliban in Afghanistan, put a dent in Al Qaeda's finances. The group's annual budget declined to "a few million dollars" by 2004 and only \$1 million by 2010.<sup>11</sup>

Core Al Qaeda's strategic model viewed holding and governing territory as secondary to planning, supporting, and executing terrorist attacks against the United States and its allies. These attacks are relatively inexpensive compared with the insurgent model of governance and territorial control. The 9/11 attacks, for instance, cost Al Qaeda only \$400,000 to \$500,000.<sup>12</sup> To finance these attacks, Al Qaeda raised funds through donation and charity networks in the Persian Gulf and elsewhere in the Middle East and Europe. Only in 2010 did Al Qaeda turn to kidnapping-for-ransom, a tactic commonly associated with the rent-extraction approach to self-financing, in order to fund its operations.

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## Rent extraction by ISIS

The second threat financing model is based on extracting rents from territory and populations that are under terrorist control. Although core Al Qaeda and the new wave of jihadi groups share similar ideological goals, they differ significantly on strategy and financing. Unlike core Al Qaeda, the new wave of jihadi groups seeks to conquer and hold territory. As a result, they are able to extort money and resources from the people and loot the localities that fall under their sway, imposing a de facto tax on the local population. At the same time, these groups have much greater overhead than Al Qaeda does. They must pay a larger number of fighters and provide services such as power and sanitation—however crude—to local populations. These are all activities that Al Qaeda has never attempted.

ISIS is the most prominent contemporary example of this self-financing model. As the Financial Action Task Force—an intergovernmental group that was established in 1989 and outlines best practices to counter illicit financial activities, such as terror financing and money laundering—said in its February 2015 report on ISIS financing, the group "obtains the vast majority of its revenues through local

criminal and extortion activities in the territory where it operates.”<sup>13</sup> These activities include oil sales; kidnapping-for-ransom; “a sophisticated extortion racket”; and general criminality, such as robbery, looting, and theft—including of local state-owned banks in the Iraqi territory that it seizes.<sup>14</sup> These activities would not be possible without “the threat or use of force within [ISIS] operational territory.”<sup>15</sup>

Similarly, Boko Haram—the Nigerian militant group that has sworn allegiance to ISIS—also funds itself through control of territory and people. Extortion, robbery, and looting are all major fundraising tactics for Boko Haram.<sup>16</sup> But kidnapping-for-ransom appears to be a main source of cash for Boko Haram and other new-wave jihadis. Former U.S. Under Secretary for Terrorism and Financial Intelligence David S. Cohen called it “today’s greatest source of terrorist financing and the most challenging terror financing threat.”<sup>17</sup> Indeed, ISIS itself is estimated to have made between \$20 million and \$45 million in ransoms in 2014 alone.<sup>18</sup>

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## State financing

State sponsorship remains an important financial model for terrorist groups in the Middle East. Under this model, governments directly provide funding to terrorist groups in order to subsidize their activities. Governments that finance terrorist groups often engage in terrorism themselves, such as Muammar Qaddafi’s Libya or contemporary Iran. But in the present context, state financing refers the transfer of funds and material from a government to a nonstate terrorist group—not a state that is engaging in terrorist activities itself.

Today, Iran is the world’s most active state sponsor of terror. For example, Tehran provides Hezbollah with hundreds of millions of dollars in financial aid every year. But Iran’s support for terrorism does not end with money—Tehran has been caught repeatedly attempting to smuggle arms to militant groups operating from Gaza to Yemen. Iran has backed the Assad regime in Syria in large part to maintain a logistics conduit to Hezbollah. It has also mobilized Shia militia proxies to fight in Syria from as far away as Afghanistan.<sup>19</sup>

State financial support for terrorist groups can be divided into active and passive support.<sup>20</sup> Active financial support occurs when states provide direct funding to terrorist groups. Iran remains the most prominent contemporary example, subsidizing terrorist groups—such as Hezbollah and Hamas—to the tune of hundreds of millions of dollars per year.<sup>21</sup> Pakistan, with its support for anti-India Islamist militants such as Lashkar-e Taiba and the Afghan Taliban, can also be considered an active state terror financier.<sup>22</sup>

Passive financial support occurs when a state does not provide direct assistance to terrorist groups but “knowingly allows other actors in the country to aid a terrorist group”—as Saudi Arabia did for Al Qaeda before 9/11.<sup>23</sup> Passive state financing operates along a spectrum of complicity. At one extreme are states that do not wish to see their financial system being used to support terrorist activity, but their government officials lack the knowledge and technical sophistication to identify and disrupt illicit money flows. On the other end are states that support the aims or methods of terrorist groups but are unwilling to directly fund or enable them, opting instead for lax financial oversight. In between these extremes are states that have poor visibility of or give low priority to preventing domestic terror finance activity, such as the open fundraising in Kuwait for jihadis in Syria.<sup>24</sup>

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## The evolution of U.S. and international counter threat finance architecture

U.S. laws and efforts have been in place for decades in order to impose costs against state and nonstate actors for their support of terrorist activities. In 1995, President Bill Clinton signed Executive Order 12947 that blocked the financial transactions of those terrorist organizations and individuals that threatened peace negotiations between Israel and the Palestinians.<sup>25</sup> President Clinton issued this executive order under the authority of the 1977 International Emergency Economic Powers Act, which allows the president to freeze the assets and block the transactions of those individuals and organizations that are deemed “unusual and extraordinary” threats to the United States.<sup>26</sup> This order was followed by Executive Order 12978, which used the same legislative authority to impose asset freezes and other sanctions on designated narcotics groups. This second executive order provided the basis for the first financial sanctions against a single nonstate actor: the Cali cartel of Colombia, which was added to the U.S. government’s Narcotics and Blocked Persons List in 1995.<sup>27</sup>

In 1996, Congress passed the Anti-Terrorism and Effective Death Penalty Act, or AEDPA. This legislation authorized the secretary of state to identify and designate foreign terrorist organizations, or FTOs; prohibited Americans from providing “material support or resources” to FTOs; and required financial institutions to block all funds that are held by FTOs.<sup>28</sup> Although money laundering had been made illegal in 1986, the AEDPA represented the first formal criminalization of terror finance by the United States.<sup>29</sup>

After the East African embassy bombings in August 1998, President Clinton issued Executive Order 13099 to add the entire core Al Qaeda group, as well as Osama bin Laden and two other Al Qaeda leaders, to the list of sanctioned individuals and entities under Executive Order 12947.<sup>30</sup> According to the 9/11 Commission, these designations did not lead to much action due to a lack of intelligence on Al Qaeda's finances.<sup>31</sup> The Clinton administration had better luck going after the Taliban's finances after the group was designated an FTO in 1999, blocking \$251 million in Taliban funds that were held in the United States.<sup>32</sup>

In the same year that Al Qaeda was designated an FTO, the U.N. Security Council passed Resolution 1267. This resolution required all states to freeze the financial assets of designated individuals and entities that were associated with Al Qaeda; prevent the travel and transit of designated individuals; and prevent the sale of arms to designated individuals and entities.<sup>33</sup> The U.N. 1267 Sanctions Committee made its first designations on January 25, 2001.<sup>34</sup> As of November 2015, the committee continues to maintain a list for sanctions of hundreds of individuals and dozens of groups that are associated with Al Qaeda.

In the wake of 9/11, the United States and the international community focused on preventing terrorist abuse of the international financial system. The primary tool that both the United States and the United Nations has used to combat Al Qaeda's finances is the designation of terrorist groups and individuals. These designations are designed to freeze individuals and groups out of the international financial system. The United Nations relied on the 1267 Committee to combat terror financing, while President George W. Bush issued Executive Order 13224 shortly after 9/11.<sup>35</sup> This executive order built on and expanded the earlier executive orders issued by President Clinton in the 1990s, and it remains the foundation for U.S. terror finance designations today.

Other measures, including the Patriot Act, added more anti-money laundering and CTF rules and authorities. The Patriot Act requires financial institutions to develop anti-money laundering programs and imposes due-diligence requirements on financial institutions that have correspondent accounts overseas. It also expands the scope of financial institutions that are required to submit Suspicious Activity Reports, or SARs. Section 311 of the Patriot Act gives the Treasury Department the authority to designate foreign countries, foreign financial institutions, classes of financial transactions, and types of financial accounts as "primary money laundering concerns." Once invoked, Section 311 requires U.S. financial institutions to

take “special measures” against them. The most powerful of these measures is a prohibition on the opening and maintenance of U.S. correspondence accounts with the designated country or entity. The prohibition has the effect of sharply limiting opportunities for transactions that involve the U.S. financial system or U.S. dollars. Since 2001, this authority has been used relatively sparingly against just four countries and nine financial institutions.<sup>36</sup>

The U.N. International Convention for the Suppression of the Financing of Terrorism went into effect in April 2002, just more than two years after being opened for signature and roughly six months after 9/11. The convention defines terror financing as the provision or collection of funds for an act that is “intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.”<sup>37</sup>

Furthermore, the convention requires parties to establish terror financing as a criminal offense that is “punishable by appropriate penalties.” Neither Iran nor Lebanon have signed or acceded to the convention.<sup>38</sup>

Finally, in the wake of 9/11, the Financial Action Task Force, or FATF, issued Nine Special Recommendations for best practices in countering terror financing. These recommendations were merged with the Forty Recommendations to fight money laundering, which were first issued by FATF in 1990 and have been revised three times, including twice since 9/11—in 2003 and 2012.<sup>39</sup> Together, these recommendations constitute a best-practices model for anti-money laundering and counter terror financing legislation and policy. In addition, FATF conducts regular mutual evaluations of member countries to ensure that terror financing and anti-money laundering laws are up to par.

# Taking stock: Potential areas for improvement in the U.S. counter threat finance architecture

After 9/11, the U.S. government erected a revamped policy framework to counter the financing of traditional terrorist groups such as Al Qaeda. But in the 14 years since the terrorist attacks on New York and Washington, the threats facing the United States have evolved. Networks such as Al Qaeda still exist, but more and more extremist groups—such as ISIS—aim to hold and control territory like traditional insurgencies. Sponsorship of terrorism and insurgency gives states such as Iran the ability to foment chaos around the world. Just as it did after 9/11, the United States should build on the foundations of existing CTF policy to adapt to a changing threat environment.

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## A whole-of-government approach to counter terror financing

For the past two decades, the Treasury Department has been the main player in U.S. CTF efforts. Most of the U.S. government's major CTF successes over the past 20 years have come from the Treasury Department's use of designations to enforce sanctions against terrorist groups, drug cartels, and the like. By all accounts, the Treasury Department has both the tools and the sophistication to respond effectively to the broad spectrum of threat finance challenges.

But the prevailing approach—under which financial sanctions are expected to function as the tip of the spear—may need to evolve in order to keep pace with the threats. The Treasury Department's threat finance workload has grown substantially in recent years, but funding and personnel resourcing for the department has begun to lag. This resourcing challenge has emerged in some of the Treasury Department's efforts to support the activities of other agencies. The Treasury Department performs admirably against threats when it is the lead actor, for instance, but limited resources have raised concerns regarding its support for the wide range of CTF programs led by the U.S. Department of Defense, the CIA, the FBI, and other agencies.

This under-resourcing is in part a result of bureaucratic culture within the Treasury Department itself. The department views itself as the steward of the nation's economic resources and guardian of the federal budget. Senior Treasury Department officials are often reluctant to seek an expanded budget, as they view it as inconsistent with the Treasury Department's reputation as a champion of fiscal prudence.<sup>40</sup>

The evolution of threat finance itself has also raised cause for concern. Since President Clinton issued Executive Orders 12947 and 12978 in 1995, threat finance has undergone two major evolutions—but the U.S. CTF framework has seen only one major overhaul. The first evolution was Al Qaeda's use of the formal financial system to collect donations to fund its terrorist activities, which occurred on a scale and with a degree of breadth and sophistication that exceeded anything that had preceded it. This change was met with the new authorities of the Patriot Act, Executive Order 13224, and the United Nation 1267 Committee, which cracked down on these fundraising networks.

Today, however, with core Al Qaeda's influence and capabilities diminished, many of the gravest challenges to American security come from groups that rely on self-financing rather than on donations or state sponsorship to fund their activities. These groups operate largely outside the formal financial system and are therefore less vulnerable to financial sanctions. Although Treasury Department designations remain essential in combating terror finance, they are no longer sufficient in and of themselves to neutralize threats.<sup>41</sup> Other government agencies—including the CIA, the FBI, and the Defense Department—need to take larger roles to fill the gaps in combating these new threats.

The U.S. National Security Council, or NSC, is responsible for the overall coordination of interagency efforts to disrupt terrorist financing, and it exercises this responsibility through a subgroup of the Counterterrorism Security Group, or CSG. Known as the Terror Finance Sub-CSG, or TF Sub-CSG, this body has primary responsibility for ensuring proper coordination of CTF activities and information sharing. It also addresses departmental primacy and jurisdiction. A primary mission of the subgroup is to coordinate designations of terrorists and their affiliated groups.<sup>42</sup> But in light of the rise of self-financing terrorist groups, it may now be necessary to broaden the scope of the TF Sub-CSG beyond the focus on designations.

It may also be necessary to establish mechanisms or structures to drive greater operational integration between the Treasury Department, the U.S. military, and other relevant intelligence and law enforcement agencies. This is particularly true for the twin terror finance challenges of Iran and ISIS. Mapping Iran's parallel financial system and determining how ISIS generates revenue will require more analytical capacity than the Treasury Department can bring to bear on its own. All relevant U.S. government agencies will have to work together more efficiently and effectively to counter these threats.

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### Do existing metrics measure success?

There is a growing consensus among both scholars and practitioners that the robust CTF framework put in place after 9/11 has been broadly successful in reducing the terrorist finance threat to the formal international financial system.<sup>43</sup> The United States and its international partners have become adept at blocking terrorist and organized crime financiers from using that system to move money. Indeed, in a now-famous anecdote from 2005, the deputy commander of core Al Qaeda appealed to his erstwhile protégé in Al Qaeda in Iraq—the precursor to ISIS—to send funding back to the umbrella organization.<sup>44</sup>

But the overall impact of the framework on global efforts to degrade and defeat threats, including but not limited to terrorist groups, is less understood. The Financial Action Task Force has traditionally evaluated countries in the Middle East and elsewhere through a “technical compliance” assessment of relevant legal and institutional frameworks of a given country.<sup>45</sup> This methodology provides a comprehensive review of the laws and procedures that governments have on the books. While these elements constitute the fundamental building blocks of a CTF system, they do not measure the actual enforcement of the legislation in question or the actual impact on the actual flow of illicit finances.

However, a recent evolution in FATF evaluation methodology highlights an important shift of the policy and analytical paradigms. Beginning in late 2013, FATF instituted an “effectiveness assessment” to evaluate the “adequacy of the implementation” and identify the extent to which a country's anti-money laundering and combating the financing of terrorism, or AML/CFT, framework is stopping illicit activities from occurring within its financial system.<sup>46</sup> This new effectiveness methodology has been tested in a handful of countries—such as Spain—but has yet to be applied systematically in the Middle East.<sup>47</sup>

The United States itself is due to be assessed by FATF under the new methodology in 2016. In advance of the review, the Treasury Department issued its first ever “National Terrorist Financing Risk Assessment” in June. Out of the approximately 13,000 depository institutions in the United States that were operating between 2006 and 2012, for instance, only 1 percent was subjected to formal AML/CTF enforcement actions. While this is good news, the report found that “terrorists are rapidly seeking to develop new strategies” to circumvent the formal system. Only 8 percent of terror finance cases brought in federal court after 2007 involved the movement of funds directly through the banking system—down from 30 percent in the period from 2001 to 2007.<sup>48</sup>

More robust protections for the international financial system appear to have led threat financiers to look for ways around the formal system. Money increasingly moves through an alternate system of informal conduits, new forms of technology—including cryptocurrencies such as bitcoin—and at times cash. These trends complicate efforts to evaluate or quantify the real-world impact of the global CTF efforts. Looking only at the U.S. system, the 2015 “National Terrorist Financing Risk Assessment” uses information from court cases and enforcement actions as its metric of analysis. Few open source assessments of the quantitative impact of designations or enforcement actions on the actual financial flows or capabilities of terrorist organizations are available. While the new FATF assessment methodology marks a significant improvement, real metrics of effectiveness still elude policymakers and legislators.

In short, a new, more wide-reaching methodology for assessing CTF effectiveness is required. While the new FATF effectiveness assessment framework is a welcome development, it is aimed at stopping a broad range of abuse of formal financial institutions, rather than threat financing specifically. As such, the FATF methodology captures only a subset of contemporary threat finance activity. Effectively combating all the means—which are increasingly diverse, innovative, and informal—by which terrorist organizations fund their operations demands a new methodology.

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## The unintended consequences of de-risking

After more than a decade of expanding sanctions and increased compliance costs, banks often seek greater clarity about what they can and cannot do in specific circumstances; when such clarity is lacking, they often simply cut client ties altogether. As a result, many financial institutions engage widely in so-called de-risking—refusing or terminating a business relationship with a client or other financial institution that is deemed a high risk.

De-risking is a broader endeavor than the application of international blacklists and is highly discretionary, often turning on criteria that are specific to a given financial institution. Institutions undertake de-risking not only to ensure compliance with designations from the Treasury Department but also to mitigate a range of related legal, reputational, and financial risks, including liability issues and potential sanctioning by U.S. and European banking regulators. While de-risking does constrict the flow of money to terrorist groups, the ripple effects can result in collateral damage for other U.S. policy objectives.

In some select cases, AML/CFT frameworks have been too successful in reducing financial institutions' appetite for risk. Banks and other financial institutions in high-risk jurisdictions may simply lose relationships with North American and European financial institutions. The loss of these relationships can cut off a major conduit for inbound remittances from diaspora populations. In the past two years, de-risking has led U.S. and U.K. financial institutions to end relationships with thousands of banks across the world. Africa has been the most affected region.<sup>49</sup> This trend can undercut efforts to promote economic growth in high-risk countries where the United States has strong interest in promoting stability.

The most prominent example of the unintended consequences of de-risking occurred in Somalia. The United States has aggressively used blacklists against Somali individuals and entities as part of its effort to prevent funds from flowing to al-Shabaab, the local Al Qaeda affiliate.<sup>50</sup> Given these restrictions, on top of the inherently low-profit business environment in Somalia, most financial institutions have refused to transfer legitimate remittances. As of this writing, there are no U.S. financial institutions that are willing to engage in remittances to Somalia. This lack of financial engagement, in turn, undermines the emerging U.S.-backed Somali government and deprives the Somali people of their largest source of income. It has also redirected money flows to Somalia through intermediary markets with less oversight and lower compliance than Western jurisdictions.<sup>51</sup> By unintentionally weakening the Somali government, the United States is ironically making it more difficult to defeat al-Shabaab in the long run.

While some de-risking is useful in the fight against illicit finance, it should not be the only solution to high-risk customers: An alternative, but more resource-intensive, solution is for institutions to allow high-risk customers to open accounts and maintain banking relationships that are subject to enhanced oversight and controls. But few financial institutions are likely to adopt this approach absent encouragement from the United States and other developed countries.

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## The Gulf states

The Middle East remains an important center of state financing of Islamist extremist groups. Among the Gulf states, passive threat financing is the prevailing model. Many Gulf states have been at some point an important source of funds for terrorist organizations such as Al Qaeda. The prevalence of passive finance can be linked to a series of factors, including the close proximity to centers of terrorist activity, the substantial population of domestic extremist sympathizers, and numerous high-wealth individuals. Such factors are compounded by local power brokers who operate with a degree of impunity and a robust—but loosely regulated—banking sector whose growth has outpaced the oversight capacity of regional governments.

The U.S. government has expended significant resources in an effort to curb passive state finance among its Gulf Cooperation Council, or GCC, partners over the past decade. For many years, the focus of this effort was Saudi Arabia, whose financial institutions were an important source of funds to Al Qaeda both before and after 9/11. More recently, Kuwait and Qatar have emerged as major areas of concern for U.S. officials. The ongoing civil war in Syria has exacerbated the problem. Treasury Department officials have singled out Qatar and Kuwait as “permissive jurisdictions” for funding for ISIS and other extremist groups that are participating in the conflict.<sup>52</sup> In contrast, U.S. officials praised “the close collaboration and strong steps taken by the Emiratis and Saudis to combat ISIL financing.”<sup>53</sup>

Qatar, in particular, has been a top priority for U.S. counter terror finance officials in recent years. A 2009 Department of State cable described Qatari counter terrorism cooperation as “the worst in the region.”<sup>54</sup> In 2014, senior U.S. administration officials asserted that Qatar accounted for more financial support to ISIS and other extremists groups than any other country, including Saudi Arabia.<sup>55</sup> The Obama administration has worked diligently to persuade Qatar that action on terror finance is an essential component of a positive U.S.-Qatar bilateral relationship. This message has been communicated at the highest levels of government and was critically reinforced by senior Treasury Department officials during recent visits to Doha.<sup>56</sup>

There are some initial signs that these efforts are beginning to yield results. High-level démarches, combined with Doha’s sensitivity to its international image as it prepares to host the World Cup in 2022, appear to have prompted Qatar to adopt a more cooperative stance at the political level on terror finance matters.<sup>57</sup> It is too early to determine if this shift in stance on terror finance in Qatar will lead to sustained action over the long term. But continued pressure from the United States and its partners will likely be critical in avoiding backsliding.

Saudi Arabia has made substantial progress on counter terror finance issues in the period since 9/11, and today, it is second only to the United Arab Emirates among GCC states in its commitment to and competency in protecting its financial system from abuse by terrorist financiers. But significant room for improvement remains. The same 2009 State Department cable stated that, while the Saudi government “takes seriously the threat of terrorism within Saudi Arabia, it has been an ongoing challenge to persuade Saudi officials to treat terrorist financing emanating from Saudi Arabia as a strategic priority.”<sup>58</sup> The sheer magnitude of Saudi Arabia’s wealth and population relative to that of its neighbors means that it remains a major arena of terror finance in the Middle East. Of special concern is the role played by Saudi individuals and charities, most of which are run by prominent individuals who are shielded from prosecution by the Saudi government.<sup>59</sup>

The United Arab Emirates is the leading financial center in the GCC and has made notable strides in building a meaningful AML/CTF framework since 9/11. Despite this progress, the country continues to serve as a financial hub for countries in the region such as Iran. The United Arab Emirates has revised and strengthened its anti-money laundering legal authorities, establishing both a financial intelligence unit and financial task force to share terror finance-related information and train domestic financial institutions on best practices.<sup>60</sup> Nonetheless, effective oversight of the country’s informal markets has proven difficult. The Dubai gold market and the informal money transfer systems known as hawalas remain sources of concern.<sup>61</sup> Recent legislation has imposed a mandatory registration and licensing requirement for hawala agents, or hawaladars. While this is an improvement, it is too soon to assess its impact.<sup>62</sup>

Kuwait, which has received comparatively less attention than Saudi Arabia and Qatar for its role in financing terrorism, has been less responsive to U.S. pressure. This is partly a function of the Kuwaiti government’s ambivalence toward certain extremist movements, but also—and more importantly—it is a result of the more open character of the country’s political system.<sup>63</sup> Even assuming that the government can be moved to a more aggressive position on combating terror finance, officials may lack the appropriate levers to see that this position is effectively enforced at the level of individual financial institutions. This lack of capacity has made Kuwait a particularly problematic jurisdiction from a terror finance perspective: A senior U.S. government official told the Center for American Progress that Kuwait now presents a more serious terror finance risk than Qatar.<sup>64</sup>

# Today's biggest challenges in the Middle East: Iran and ISIS

There are two primary challenges to the policy architecture that has been built since 9/11 to combat threat financing: Iran's ongoing sponsorship of terrorist groups, including Hezbollah, and ISIS and its network of affiliates. Both Iran and ISIS work around existing measures to counter terror financing by avoiding the international financial system—albeit in vastly different ways. If a terrorist or terrorist group moves or collects money outside the international financial system, there is little that the battery of post-9/11 measures can do about it.<sup>65</sup>

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## Iran

The United States has listed Iran as a state sponsor of terrorism since 1984 and has sanctioned Iranian proxies, such as Hamas and Hezbollah, since 1995.<sup>66</sup> In 2007, the United States started sanctioning Iranian individuals and entities—including the Quds Force of the Islamic Revolutionary Guard Corps, and its commander, Qasem Suleimani—under Executive Order 13224.<sup>67</sup> But none of these actions has halted or substantially cut the flow of Iranian funds to terrorist groups. According to the Financial Action Task Force, Iran's continued financing of terrorism remains a “serious threat ... to the integrity of the international financial system.”<sup>68</sup>

Iran has been able to move funds to regional proxies in large part because it does not rely on the international financial system to do so. Tehran moves cash in bulk through Syria and Lebanon, the latter of which “may be the largest bulk cash money laundering country in the world.”<sup>69</sup> Moreover, it is far-fetched to imagine the Assad regime—which depends on Iran and its proxies for its very survival—complying with U.S. counter terrorism sanctions against Iran and its proxies. In effect, Iran has established a parallel transnational financial system to transfer funds to allies such as the Assad regime and proxies such as Hezbollah.

This financial support is not limited to support of Hezbollah—which, according to the U.S. government, receives hundreds of millions of dollars per year from Tehran—or the Assad regime. Iran also funds Iraqi Shia militias that are responsible for sectarian atrocities, as well as Palestinian terrorist groups from Hamas to the Popular Front for the Liberation of Palestine-General Command.<sup>70</sup> More recently, Tehran has sent money to Houthi militants in Yemen.<sup>71</sup>

In the wake of the nuclear agreement between China, France, Russia, the United States, the United Kingdom, and Germany—or the P5+1 countries—and Iran, Tehran is expected to receive tens of billions of dollars in frozen funds as sanctions related to its nuclear program are lifted.<sup>72</sup> Iran has not been shortchanging its regional proxies—even under sanctions—and much of this new money will likely go to meeting Iran’s substantial domestic economic needs. But the financial cushion provides more breathing room for Iran to increase its support of nonstate actors and terrorist groups that contribute to instability in the Middle East. Iran’s parallel financial system will make it all the more difficult for the United States and its partners to neutralize this potential problem.<sup>73</sup>

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## ISIS

Where Iran has established its own closed financial system to fund proxies and allies in the Middle East, ISIS has taken a different approach in Syria and Iraq. Like other terrorist and insurgent groups throughout history, ISIS generates its own funds through criminal activities. It, too, has little interaction with the formal international financial system, rendering existing tools to counter terror finance ineffective.

Oil smuggling appears to be one of ISIS’ main sources of revenue. After an analysis of documents that were recovered in a May 2015 raid on a key ISIS moneyman, American intelligence agencies believe that ISIS generates between \$8 million and \$10 million per month in revenue from oil and gas sales and smuggling—or between \$96 million and \$120 million per year. ISIS also has access to money that it has seized from local banks, which Treasury Department officials estimate as between \$500 million and \$1 billion. Although ISIS continues to rely on extortion and robbery for funding, American intelligence believes that these sources of revenue offer little room for growth.<sup>74</sup>

Still, in early 2015, the Treasury Department estimated that these mafia-style activities yielded “at least several million dollars per month” in revenue for ISIS.<sup>75</sup> At a rate of \$5 million per month, extortion would generate \$60 million per year in revenue for ISIS. Moreover, according to U.N. estimates, ISIS received some \$35 million to \$45 million in ransoms from kidnapping in 2014 alone.<sup>76</sup> The group’s combined revenue from oil and gas, extortion, and kidnapping-for-ransom could therefore stand at between \$191 million and \$225 million per year.

In sum, we estimate that ISIS likely has access to between \$691 million and \$1.225 billion in funds. But it also has expenses—most notably, salaries for fighters. Monthly salaries average between \$350 and \$500 per fighter, but can run as high as \$1,000 per month for a foreign fighter.<sup>77</sup> With as many as 22,000 foreign fighters out of 32,000 total, salary payments could cost ISIS \$306 million per year, potentially outstripping its annual revenue and forcing it to rely on the money that it seized during its 2014 conquests.<sup>78</sup> ISIS must also pay its local Iraqi and Syrian fighters, as well as provide rudimentary public services to the populations that it brutally rules, possibly making its overall operating costs unsustainable in the long run.

Although ISIS’ finances are insulated from the international financial system, they are not totally isolated from it. To smuggle oil and gas, the group must interact with middlemen to ship those resources out of its territory, and those middlemen may be susceptible to traditional tools that combat terror finance. Indeed, Treasury Department officials have announced their intent to target these middlemen with sanctions designations, though it is unclear what impact such designations may actually have on ISIS’ finances.<sup>79</sup>

Ultimately, however, the only sure ways to deprive ISIS of revenue are to impose significant costs on its operations and to roll back its control of territory so that it cannot extract rents, both of which can be done only through military action. As the FATF notes, “Every military strike and prolonged battle without ISIL victory slowly incurs fiscal injuries which simultaneously damage the group’s ability to generate new revenue and necessitates further spending to recoup losses.”<sup>80</sup> In other words, a prolonged military campaign will bleed ISIS dry in more ways than one.

# Policy recommendations

To combat the challenges of Iran and ISIS, the United States will have to refocus and revise its efforts to counter terror financing. Simply designating bad actors for sanctions will not halt the flow of funds to terrorist groups if those actors operate largely outside the legitimate international financial system. A more comprehensive and aggressive approach will be needed to substantially damage the balance sheets of ISIS and Iranian proxy groups such as Hezbollah.

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## General recommendations

### Implement a task force model to mobilize relevant government agencies

For high-priority targets operating outside the international financial system, the U.S. government should consider using a task force structure to mobilize all relevant U.S. government agencies that are involved in counter threat finance and facilitation operations. These task forces should be led by the government agency that has the tools that are most relevant to the target or group in question. The decision to mobilize a task force and designate its lead agency could be made by the National Security Council.

For maximum efficacy, each task force would carry out four distinct functions:

1. Map financing and facilitation mechanisms of a particular organization using all the intelligence sources available to the U.S. government—in particular, the Treasury Department’s Office of Intelligence and Analysis.
2. Devise a strategy to disrupt the identified mechanisms using the full spectrum of U.S. capabilities—including military operations, diplomatic engagement, and Treasury Department designations.
3. Coordinate and integrate interagency efforts at the operational level in order to implement the strategy.
4. Assess the effectiveness of the strategy on a periodic basis.

Because different threats require different capabilities, the agency that has the best tools to achieve the strategic objective would lead each task force. For most terrorist groups, the conventional framework led by the Treasury Department will continue to be the most appropriate model for undertaking CTF operations. But if an organization is mostly self-funded through kidnapping and territorial control in an area where the U.S. military is engaged, for example, the Defense Department should lead. These task forces could draw on the experiences of Joint Interagency Task Force South—which combats Latin American drug trafficking.<sup>81</sup>

### Establish real, impact-based metrics

Traditional assessments of CTF efforts evaluate a government’s legal and institutional framework for protecting the international financial system against terrorist financiers and review compliance within that framework. But these measures do not fully capture or measure the impact of individual designations and other enforcement actions on the financial well-being or capabilities of the terrorist or other criminal organizations themselves. While the new Financial Action Task Force assessment methodology marks a significant improvement, real metrics of effectiveness elude policymakers and legislators. The United States should establish a system of results-based metrics that is specific to individual terrorist groups to measure the impact of CTF efforts. In the case of ISIS, for example, such metrics would include the ability of organization to pay its fighters and provide public services to the people under its control.

The challenge of developing such metrics is that there is no one-size-fits-all methodology for effectiveness assessment, given the heterogeneous character of the contemporary threat finance landscape. Different methodologies will be required for different terror finance structures. Yet this does not mean that the United States cannot build on past experience or must develop a new methodology for every terrorist organization. Although the mechanisms of terror finance are more complex and diverse than in the years immediately following 9/11, there are still only a limited number of ways for rogue groups to fund their activities. A methodology for evaluating effectiveness in disrupting self-financing through kidnapping and extortion for a Middle East-based terrorist organization, for example, is likely to prove useful in combating similar organizations elsewhere in the world. The National Counterterrorism Center would be well-placed to lead this effort.

## Strengthen diplomacy to crack down on terror financing

A number of America's Gulf partners have improved their terror finance efforts in the years since 9/11, but others remain lax in their enforcement of terror finance prohibitions. U.S. political pressure at the highest levels—from the president on down—has been successful in improving behavior and should continue. Moreover, present and future U.S. presidential administrations should continue to ensure that there is a single address for threat finance engagement between target countries and the United States. Senior officials at the Treasury Department have played this role effectively, making it increasingly difficult for countries to evade their responsibilities or trade off cooperation on terror finance against other areas of mutual interest. These approaches have seen results in key countries in the Gulf, including Saudi Arabia.<sup>82</sup> Most recently, Qatar has responded to sustained pressure by signaling a new willingness to cooperate on terror finance, though much remains to be done.<sup>83</sup>

In particularly grave situations, the United States should seriously consider using some of the more aggressive tools in its CTF arsenal—such as designating entities or entire countries under Section 311 of the Patriot Act. Simply finding under Section 311 that a country is eligible for “special measures” could cause its government to take its threat financing problems more seriously.<sup>84</sup> However, this step should not be taken lightly. The United States has critical interests, including access to significant military facilities, in many countries in the region. But signaling that the United States is prepared to use some of the most powerful counterterrorist finance weapons that it has could encourage better behavior by trouble governments.

The Treasury Department has imposed Section 311 measures against a sovereign nation only once: Burma in 2004. In two other cases, against Ukraine and the Pacific nation of Nauru, the department made the determination that a state was eligible for sanctions but did not complete a formal rulemaking.<sup>85</sup> In all three cases, the primary reason for the finding of Section 311 eligibility was the weakness of the countries' oversight of their respective financial systems and powerful evidence that they had become money laundering havens.<sup>86</sup> And in all three cases, the measures or threat of measures—in particular, the prohibition on the use of correspondent accounts—were an important factor that led to those states' overhauling of their anti-money laundering and combating the financing of terrorism legal and regulatory frameworks.<sup>87</sup>

## Consider the use of a so-called white list to mitigate unintended consequences

The United States should continue to disrupt the funding of terrorist groups such as al-Shabaab. But this objective must be undertaken in a way that does not inadvertently undermine long-term solutions to the chronic instability that is plaguing failed states. As a step in this direction, the United States could create so-called white lists—lists of approved financial institutions and channels in troubled countries that foreign banks can use without undue worry about terror finance risks. In Somalia, for instance, U.S. policymakers and bank regulators should work with the financial sector to explore a pilot project to develop a list of approved financial institutions that do business in Somalia.

Rather than proscribing certain financial institutions from access to the United States—and hence, global—financial system, white lists would signal that certain financial institutions are preferred channels for funds from abroad in what would otherwise be high-risk environments for terror finance. White lists would help alleviate some of the unintended consequences of black lists that work at cross-purposes with other, equally important American policy goals.

The issuance of a white list should be accompanied by a wider program of engagement to ensure that all parties understand and buy into the concept. To this end, the Treasury Department should consider creating a white list point of contact to liaise with other U.S. and European agencies, as well as with compliance officers at financial institutions.

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## Iran policy recommendations

The nuclear agreement between the P5+1 and Iran marks a triumph of diplomacy and is the strongest possible outcome for the United States and its partners. It is the best way to stop Iran from getting a nuclear weapon. But the agreement between Iran and the P5+1 countries is unlikely to change Iran's other bad behavior in the region. Although U.S. terrorism- and human rights-related sanctions will not be lifted under the terms of the agreement, the United States can and should act more aggressively to staunch the flow of funds from Iran to proxies such as Hezbollah.

## Conduct a review to ensure comprehensive coverage of the remaining sanctions

Before each Iranian individual and entity is removed from U.S. nuclear-related sanctions lists, the United States should conduct a thorough review of its activities to ensure that it cannot be sanctioned under terrorism-related authorities. These authorities will not go away as the nuclear agreement with Iran is implemented and can ensure that dangerous individuals or entities do not fall through the cracks. Should an individual or entity be in line for removal from nuclear-related sanctions lists while being eligible but not on terrorism sanctions list, it should be sanctioned as swiftly as possible under those authorities.

## Enforce secondary sanctions and use existing laws in order to target Iranian proxies

The United States should actively enforce secondary sanctions against non-U.S. individuals and entities that do business with or otherwise provide material assistance to Iranian individuals and entities that are designated under terrorism sanctions. Combined with deft diplomacy, the prospect of secondary sanctions helped persuade other countries and businesses not to buy Iranian oil, eventually bringing Tehran to the nuclear negotiating table.<sup>88</sup> The threat of secondary sanctions against violators of the Iranian terrorism sanctions will not be as comprehensive or deep as those related to the nuclear issue. But they can nonetheless help financially squeeze bad Iranian actors. When key countries ignore these sanctions and do business with Iranian terrorists—such as the reported recent visit to Moscow by the Iranian Quds Force commander Qassem Soleimani—there should be serious implications for their bilateral relations with the United States.<sup>89</sup>

In addition, the United States should explore how to more aggressively use existing laws and authorities against Iran and its proxies. The Obama administration could, for instance, make wider use of the authorities granted under Executive Order 13244 in order to sanction more constituent parts of Iran's proxy support network. The United States should also mount a comprehensive effort to use drug trafficking and organized crime laws—such as the Racketeer Influenced and Corrupt Organizations Act, or RICO—to go after Iranian proxies. Hezbollah, in particular, is deeply involved in organized crime.<sup>90</sup> Efforts to combat drug trafficking and organized crime should not just target individuals but also banks, businesses, and organizations with ties to Hezbollah.

## Establish a regional task force to counter Iranian terror finance

In 2014, the United States partnered with the United Arab Emirates to set up a joint financial counterterrorism task force. Building on this model, the United States should consider establishing a new regional task force involving key partners in Europe, Asia, and the Middle East that is dedicated to disrupting financial flows from Iran to terrorist groups and other proxies in the region. This task force can serve as a clearinghouse for intelligence on Iranian financial flows across the region and the world. It can also serve as a mechanism to coordinate joint action against Iran and its proxies across borders.

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## ISIS policy recommendations

### Maintain military pressure on ISIS

Ultimately, the only way to significantly degrade the finances and facilitation networks of ISIS is to impose costs on its operations and roll back its control of territory so it cannot extract rents. These goals can be accomplished only by steady attrition through military action. Accordingly, the U.S.-led coalition fighting ISIS should maintain its military pressure to disrupt and degrade the group's critical facilitation networks, deny it further territory, impose continuing costs, and ultimately roll back the terrorist army. So-called sanctions from the sky will not by themselves fully degrade the facilitation network. But without such military action, all other U.S. efforts will be of only marginal utility.

### Ensure that counter threat finance and military targeting are collocated

In 2005, the United States established an interagency cell in Baghdad to “enhance the collection, analysis, and dissemination of timely and relevant financial intelligence to combat the insurgency” in Iraq.<sup>91</sup> The cell became known as the Iraq Threat Finance Cell and integrated U.S. Central Command, or CENTCOM, analysts with representatives from the Treasury Department, the CIA, the FBI, and other relevant government agencies.<sup>92</sup> The cell was considered so successful in both analysis and targeting that it was replicated three years later in Afghanistan.

The key to success was the collocation of analytical and operational work on threat financing with military targeting. In order to facilitate strikes against ISIS revenue sources, an ISIS Threat Facilitation Cell should be collocated with the relevant military and intelligence targeting—either forward deployed, as in earlier cases, or in the United States, as appropriate.

An ISIS Threat Facilitation Cell should conduct a thorough assessment of the sources that the terrorist group is likely to tap outside of Iraq and Syria in order to resupply itself in the medium term. A plan should be developed to move against these potential suppliers once attrition forces ISIS to look outside its immediate confines for material support. Such a move would fit in well with an anti-ISIS coalition military strategy of attrition, targeting potential sources of resupply by nonmilitary means.

### [Update the U.N. sanctions lists](#)

The United States can press the United Nations to place ISIS, its leaders and key financial facilitators, and its affiliates on its sanctions lists. A number of individuals—such as ISIS leader Abu Bakr al-Baghdadi—are already on the United Nations 1267 sanctions list, but others are not. If necessary, the United States should push to expand the United Nations authority to sanction ISIS and its affiliates through a new U.N. Security Council resolution.

The U.N. Security Council has already passed Resolution 2199, which specifies the application of anti-ISIS sanctions to “direct and indirect trade in oil and refined oil products.”<sup>93</sup> Ensuring that this resolution is adequately enforced should be a top priority for the U.S. government and the anti-ISIS coalition. At very least, Resolution 2199 paves the way for unilateral sanctions on illicit oil trade middlemen by the United States, coalition members, and regional bodies such as the European Union. It also offers the potential for these individuals to be listed on the 1267 sanctions list. The sanctions against ISIS oil trade should also be expanded to include natural gas and other natural resources ISIS exploits.

## Bolster Turkey's capacity to secure its borders and maintain domestic stability

Turkey's border with Syria has been the main access point to ISIS territory, making it a central conduit for robust trade in the illicit goods and oil smuggling that fortifies the ISIS economy and connects it with the international financial system. Some analysts report that significant sums of money are wired to Turkey and other neighboring countries and then carried across the border into ISIS territory in cash.<sup>94</sup> Moreover, other key U.S. partners in the region are critical of what they have seen as a “free pass” given to Turkey on compliance with international terror financing standards.<sup>95</sup>

Turkish authorities have insisted that they are committed to securing the border, but progress was uneven before the July agreement with the United States to fight ISIS. The problem may well be one of technical capacity, but Turkish authorities also harbored concerns over a potential ISIS backlash inside Turkey itself—concerns that appear to have been well-founded.<sup>96</sup> The United States should take advantage of Turkey's newfound political will to fight ISIS in order to engage Ankara on border security and counterterrorism to combat the ISIS threat.

# Conclusion

For decades, the United States has attempted to starve Middle East terrorist groups and militias of the funds and material support that they need to survive. With the region's civil wars fueled by resources from states such as Iran or private donors in the Gulf, this task has become more important—and more difficult—than ever before. Although the United States made largely successful moves after 9/11 to insulate the formal international financial system from abuse by terrorists, it has proven less successful at attacking the finances of self-supporting insurgent groups, such as ISIS, or self-contained facilitation networks, such as those of Iran and its allies.

Models of threat finance that operate beyond the reach of the Treasury Department's designations and sanctions are not new. To counter terror finance, however, the United States will need new strategies that better integrate and utilize the different capabilities that can be offered across the U.S. government. Military strikes, for instance, may be the most effective tool against ISIS finances, while diplomatic pressure from the White House on down may be needed to convince an erstwhile partner to crack down on terrorist fundraising in its territory. Threat finance and facilitation problems may share certain characteristics, but the American policy response will likely need to adapt to differing circumstances. No single counter threat finance policy will suffice.

It may ultimately prove impossible to completely collapse militant groups by starving them of resources: There are likely too many ways for determined organizations to evade many of the tools that are available to the United States and its partners. But American policy need not be absolute to have a significant effect on the resources that are available to the terrorist groups and militias wreaking havoc across the Middle East. With effective integration of all the capabilities at its disposal, the United States can force those groups to focus more on their basic financial survival than on supporting attacks or sowing chaos in the region and beyond.

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