



March 2, 2017

# Counterterrorism Issues: Islamic State Financing

## Introduction

The Islamic State (IS, aka ISIL/ISIS or the Arabic acronym Da'esh) is a U.S.-designated Foreign Terrorist Organization that has controlled parts of Iraq and Syria since 2014 and has threatened to conduct attacks against the United States and its citizens. As part of broader efforts to restrict the group's ability to operate, the United States has sought to limit the Islamic State's ability to raise funds and access the international financial system. While IS revenue streams are in decline, in part due to U.S. and coalition military strikes, the group retains the capability to conduct operations inside its territory as well as to inspire attacks abroad.

## Revenue Sources

The Islamic State's revenue is derived primarily from oil sales and taxes levied on local residents, but the amount of revenue from each source has fluctuated.

- **Oil and Natural Gas.** During its wide territorial expansion in 2014 IS captured oil and gas facilities in eastern Syria and northern Iraq. Income from these facilities initially provided the majority of the group's revenue, but gradually declined as a percentage of overall IS revenue due to airstrikes by the United States and coalition partners. In July 2016, U.S. officials estimated that *Operation Tidal Wave II* had reduced the group's monthly oil revenue by half.

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**Operation Tidal Wave II.** In October 2015, coalition forces began Operation Tidal Wave II, which targets IS oil and natural gas infrastructure to restrict the group's ability to fund governance activities and terror operations. Strike targets have included oil tankers, oil and gas separation plants, well heads, and pumping infrastructure. Air strikes also targeted the Islamic State's Ministry of Oil headquarters in Mosul, targeting the group's ability to administratively manage illicit oil and gas operations. Coalition forces have expanded strikes against Syrian oil fields, primarily in the eastern province of Dayr az Zawr, which had been providing two-thirds of the oil seized by the Islamic State according to Defense Department officials.

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- **Taxation, Extortion, and Asset Seizure.** The Islamic State earned approximately \$360 million from "taxation" in 2015, according to U.S. Treasury Department officials. This includes taxes levied on government workers, traders and business owners, farmers, religious minorities, and other local residents, which in effect amounted to extortion. The Islamic State has increased its taxation of local residents in response to U.S. and coalition military operations that have reduced the group's ability to profit from oil and gas infrastructure. Some estimate that taxation is now the group's largest source of income.

- **Kidnapping for Ransom, Antiquities, and External Donors.** The Treasury Department and independent researchers estimate that the Islamic State earned between \$20 and \$45 million from kidnapping for ransom in 2014, but significantly less in 2015 and 2016 due in part to the reduced presence of potential Western hostages. Treasury officials indicate that antiquities smuggling has not been a significant source of income for the Islamic State, although the group generates income from taxing those who engage in the activity. U.S. officials have stated that funding received from outside donors makes up only a small portion of the group's overall revenue.

## Imprecise Revenue Estimates

Although the Islamic State was once described as the richest terrorist group in the world, its financial prospects are believed to be in decline. One study estimated that its revenue has declined from approximately \$1.9 billion in 2014 to some \$870 million in 2016. The Treasury Department estimates that the group generated roughly \$1 billion in revenue in 2015. Multiple factors may explain why IS revenues are difficult to estimate with precision:

- The Islamic State benefits from a mix of regenerating and non-renewable income sources, but the percentage of revenue derived from each source varies by year.
- Renewable revenue streams, such as taxation, have fluctuated due to changes in the group's tax base as it gains or loses territory, and changes to residents' available income (in 2015, the Iraqi government suspended the payment of salaries to workers in IS-held territory).
- Not all income generated by the group is in liquid cash form or other assessable goods. A significant portion of the group's revenue is generated from "confiscations," such as land or items the group declares to be contraband (e.g., cigarettes). It is unclear how the value of real estate or commercial items is assessed in calculations of IS revenue.

## Expenditures

The Islamic State spends a significant portion of its revenue on salaries for its fighters, as well as on administrative staff that manage its network of "ministries" within Syria and Iraq. U.S. officials have stated that the Islamic State has cut salaries for fighters defending the group's self-declared capital at Raqqa, likely reflecting cash shortages throughout the organization. The group also expends funds to maintain and repair infrastructure, as well as to provide social services. Terrorist attacks conducted by the Islamic State reportedly cost relatively little when compared to the group's other expenses.

## U.S. Policy Responses

Nested within U.S. and international objectives to defeat the Islamic State is the goal of disrupting the group's revenue sources and its ability to move and use such funds. Because most of the group's revenue is generated from territory it controls in Iraq and Syria, policymakers were challenged at the outset to modify the standard approaches for countering the financing of terrorism (CFT)—which were developed to respond to groups, such as Al Qaeda, that are dependent on external donors and charities for fundraising and which attempt to use traditional financial mechanisms to move funds and support transnational activities. Since 2015, the United States has taken unilateral, bilateral, multilateral, and coalition-based CFT actions, described below.

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### Counter-ISIL Finance Group (CIFG). In

January 2015, the Global Coalition to Counter ISIL established the CIFG, co-chaired by the United States, Italy, and Saudi Arabia. The group last met in October 2016. CIFG's four key objectives are to:

1. deny IS access to the international financial system;
  2. counter the extraction and exploitation of resources, including extortion of the local populace, that transit, enter, or are derived from IS territory;
  3. prevent IS external fundraising; and
  4. block IS from providing financial or material support to foreign affiliates.
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- **Military Actions in IS-held Iraq/Syria Territory.** Coalition forces have targeted IS sources of internal revenue through airstrikes on oil and natural gas targets, bulk cash storage sites, and senior IS leaders, including at least two “finance ministers.” U.S. special operations forces have also conducted ground raids, including one in 2015 that killed top IS financier Abu Sayyaf. Continued losses in physical territory directly degrade the Islamic State's ability to tax and extort local residents and commercial activity.
- **Financial Actions to Limit Cross-Border Transactions.** In 2015, the Central Bank of Iraq (CBI) halted the distribution of government salary payments in IS-territory, blocked 90 compromised bank branches, and barred some 140 IS-related currency exchange houses from accessing its currency auctions. The United States and Iraq also established a “Bilateral Committee to Counter Terrorist Financing.” The United States and the International Monetary Fund are supporting longer term technical assistance to improve Iraq's capacity to maintain sound anti-money laundering and CFT practices. Turkey and Jordan have reportedly ramped up border security efforts, in part to deter cross-border illicit financial flows.
- **Financial Sanctions.** Targeted sanctions are intended to restrict IS members, financial facilitators, and related entities from accessing the international financial system. In 2015, the United States unilaterally designated more than 30 IS-linked actors. The United States also nominates individuals for U.N. sanction, a process expanded in 2015 to incorporate the Islamic State as a key element. In 2016, the United States and

Iraq coordinated sanctions on an Iraqi exchange house and a Syrian national accused of acting as an IS banker and financier.

- **Financial Intelligence Information Sharing.** Responding to regulatory requirements and IS red flag alerts, U.S. financial institutions file suspicious activity reports, including some 800 IS-specific filings each month. Actionable reports are, in turn, shared with law enforcement, intelligence, and international partners. Intergovernmental platforms, such as the Egmont Group of Financial Intelligence Units, the Financial Action Task Force (FATF), and CIFG provide additional ways for information on IS financing to be shared. In 2015, FATF published two reports that reflected emerging CFT risks and IS-specific illicit finance typologies.
- **Diplomatic Engagement.** Efforts to galvanize cooperation to combat IS finances have included a May 2015 CIFG Communiqué on denying government ransom payments to terrorist groups, a December 2015 U.N. Security Council “Summit of Finance Ministers” on CFT, a FATF-CIFG joint meeting in February 2016, and events to raise awareness of antiquities trafficking as a source of IS revenue.
- **IS-Material Support Investigations and Prosecutions.** The U.S. Department of Justice has actively pursued material support cases in the United States involving U.S. persons seeking to facilitate IS-related travel or financially support the Islamic State. The Federal Bureau of Investigation warned in a public 2015 notice that it could charge those who purchase IS looted antiquities with providing financial support to a terrorist organization.

## Issue Outlook

According to FATF, Syrian bank branches still operate in IS-held territory. FATF has also reported that the Islamic State may exploit bank branches just beyond the areas it controls to access the international financial system. Cross-border trade continues to generate income in the region and, while Iraq has identified some IS-implicated exchange houses, many more remain in operation.

In the longer run, while success in curtailing IS finances has been linked directly to coalition territorial gains on the battlefield, the 115<sup>th</sup> Congress may continue to monitor whether IS financing tactics change in the face of lost territory and a depleted war chest. Meanwhile, in its FY2017 budget request to Congress, Treasury sought resources for CFT, including funds to combat IS financing, for its Office of Terrorism and Financial Intelligence and Financial Crimes Enforcement Network, as did multiple offices in the U.S. Department of State. A consolidated budget request across U.S. federal agencies for funds to counter IS finances is unavailable.

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