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Our Reference:

4 March 2015

To:
All reporting institutions under the
Anti-Money Laundering, Anti-Terrorism
Financing and Proceeds of Unlawful
Activities Act 2001 (AMLA)

**Recent Statements by the Financial Action Task Force on Money Laundering (FATF)**

The purpose of this circular is to inform the reporting institutions (RIs) of the recent Public Statement issued by the FATF on 27 February 2015 on jurisdictions having strategic deficiencies in their anti-money laundering and counter financing of terrorism (AML/CFT) regime. These jurisdictions are either subject to the FATF's call for countermeasures; or have not made sufficient progress and not committed to an action plan to address those AML/CFT deficiencies.

2. In the statement, FATF has called upon its members and other jurisdictions to apply countermeasures against **Iran** and **the Democratic People's Republic of Korea** arising from the on-going and substantial money laundering and terrorist financing risks emanating from the jurisdictions. Other jurisdictions which have strategic deficiencies that have not made sufficient progress in addressing the deficiencies include **Algeria, Ecuador** and **Myanmar**, and is subject to FATF's call to consider the risks arising from the deficiencies associated with each jurisdiction. (The details if this statement is attached in **Appendix I**)

3. In accordance with the AML/CFT Policy issued to your sector, please be advised that RIs are required to conduct enhanced customer due diligence for business relationships and transactions with any person from countries identified by the FATF as having on-going or substantial ML/TF risks, and apply countermeasures proportionate to the risk. In addition, RIs are required to conduct enhanced customer due diligence, proportionate to the risks, for business relationships and transactions with any person from countries identified by the FATF as having strategic AML/CFT deficiencies and have not made sufficient progress in addressing those deficiencies.

4. On a related note, arising from its recent Plenary Meeting, FATF has issued a statement on its action on terrorist finance, specifying FATF's responsibility to develop a coordinated and decisive response to fight terrorism and terrorist financing. Concurrently, a report on the Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL) has been issued to assist relevant stakeholders on how ISIL generates and uses its funding. (The statement and report is attached in Appendix II)

5. Further information on the abovementioned statements is available at FATF's website at http://www.fatf-gafi.org.

Please be guided accordingly.

Yang benar,

(Abd. Rahman Abu Bakar)
Pengarah
Jabatan Perisikan Kewangan dan
Penguatkuasaan

56/42/0



News



last updated: 27 Feb. 2015

# FATF Public Statement - 27 February 2015

Document type
News

*Paris, 27 February 2015* - The Financial Action Task Force (FATF) is the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT). In order to protect the international financial system from money laundering and financing of terrorism (ML/FT) risks and to encourage greater compliance with the AML/CFT standards, the FATF identified jurisdictions that have strategic deficiencies and works with them to address those deficiencies that pose a risk to the international financial system.

| |
|---|
| ***Jurisdictions subject to a FATF call on its members and other jurisdictions to apply counter-measures to protect the international financial system from the on-going and substantial money laundering and terrorist financing (ML/FT) risks emanating from the jurisdictions.*** |
| Iran<br>Democratic People's Republic of Korea (DPRK) |
| ***Jurisdictions with strategic AML/CFT deficiencies that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with the FATF to address the deficiencies. The FATF calls on its members to consider the risks arising from the deficiencies associated with each jurisdiction, as described below.*** |
| Algeria<br>Ecuador<br>Myanmar |

## Iran

The FATF remains particularly and exceptionally concerned about Iran's failure to address the risk of terrorist financing and the serious threat this poses to the integrity of the international financial system, despite Iran's previous engagement with the FATF.

The FATF reaffirms its call on members, and urges all jurisdictions, to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. In addition to enhanced scrutiny, the FATF reaffirms its 25 February 2009 call on its members and urges all jurisdictions to apply effective counter-measures to protect their financial sectors from money laundering and financing of terrorism (ML/FT) risks emanating from Iran. The FATF continues to urge jurisdictions to protect against correspondent relationships being used to bypass or evade counter-measures and risk mitigation practices, and to take into account ML/FT risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. Due to the continuing terrorist financing threat emanating from Iran, jurisdictions should consider the steps already taken and possible additional safeguards, or strengthen existing ones.

The FATF urges Iran to immediately and meaningfully address its AML/CFT deficiencies, in particular by criminalising terrorist financing and effectively implementing suspicious transaction reporting requirements. If Iran fails to take concrete steps to continue to improve its CFT regime, the FATF will consider

calling on its members and urging all jurisdictions to strengthen counter-measures in June 2015.

## Democratic People's Republic of Korea (DPRK)

Since October 2014, the DPRK sent a letter to the FATF indicating its commitment to implementing the action plan developed with the FATF.

However, the FATF remains concerned by the DPRK's failure to address the significant deficiencies in its anti-money laundering and combating the financing of terrorism (AML/CFT) regime and the serious threat this poses to the integrity of the international financial system. The FATF urges the DPRK to immediately and meaningfully address its AML/CFT deficiencies.

The FATF reaffirms its 25 February 2011 call on its members, and urges all jurisdictions, to advise their financial institutions to give special attention to business relationships and transactions with the DPRK, including DPRK companies and financial institutions. In addition to enhanced scrutiny, the FATF further calls on its members, and urges all jurisdictions, to apply effective counter-measures to protect their financial sectors from ML/FT risks emanating from the DPRK. Jurisdictions should also protect against correspondent relationships being used to bypass or evade counter-measures and risk mitigation practices, and take into account ML/FT risks when considering requests by DPRK financial institutions to open branches and subsidiaries in their jurisdiction.

## Algeria

Algeria has taken steps towards improving its AML/CFT regime, including by enacting AML/CFT amendments on 15 February 2015 and issuing new customer due diligence guidelines on 8 February 2015. The FATF welcomes this development, but has not assessed the new measures due to their recent nature, and therefore the FATF has not yet determined the extent to which they address any of the following issues: (1) adequately criminalising terrorist financing; (2) establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets and (3) adopting customer due diligence obligations in compliance with the FATF Standards. Algeria also needs to issue corresponding asset freezing regulations. The FATF encourages Algeria to address its remaining deficiencies and continue the process of implementing its action plan.

## Ecuador

Ecuador has taken steps towards improving its AML/CFT regime, including by issuing CFT regulations for the freezing of terrorist assets and AML/CFT regulations for the supervision of credit and savings cooperatives. The FATF welcomes these developments. The new asset freezing regulations, due to their recent nature, have yet to be assessed by the FATF to determine the extent to which they establish adequate procedures to identify and freeze terrorist assets. Ecuador also needs to continue enhancing financial sector AML/CFT supervision, in particular the credit and savings cooperatives sector. The FATF encourages Ecuador to address its remaining deficiencies and continue the process of implementing its action plan.

## Myanmar

Myanmar has taken steps towards improving its AML/CFT regime. However, despite Myanmar's high-level political commitment to work with the FATF and APG to address its strategic AML/CFT deficiencies, Myanmar has not made sufficient progress in implementing its action plan, and certain strategic AML/CFT deficiencies remain. Myanmar should continue to work on implementing its action plan to address these deficiencies, including by: (1) adequately criminalising terrorist financing; (2) establishing and implementing adequate procedures to identify and freeze terrorist assets; (3) ensuring an operationally independent and effectively functioning financial intelligence unit; and (4) strengthening customer

due diligence measures. The FATF encourages Myanmar to address the remaining deficiencies and continue the process of implementing its action plan.

# FATF Action on Terrorist Finance

*Paris, 27 February 2015.* Terrorism is an increasingly global problem that requires concerted global action by a united international community. The ISIL phenomenon shows a new type of terrorist organisation with unique funding streams that are crucial to its activities; cutting off this financing is therefore critically important. Given its mandate, the FATF has a particular responsibility to develop a coordinated and decisive response to fight not just terrorist financing, but ultimately, terrorism. The UN Security Council Resolution 2199, passed on 12 February, welcomed the FATF's October 2014 statement, and the February 2015 G20 Finance Ministers' statement echoed the need for a renewed focus by the FATF on terrorist financing. This was further reinforced by the French Minister of Finance and Public Accounts, Mr. Michel Sapin, during his opening speech at the FATF Plenary meeting.

The FATF has now published a report on the ***Financing of the terrorist organisation Islamic State in Iraq and the Levant (ISIL)***. This significant report will contribute to the international discussion to update global efforts to counter terrorist financing. The report demonstrates that ISIL is essentially living off the capital illicitly generated by the territory it occupies, primarily by looting banks, exploiting oil fields and robbing economic assets. ISIL can be stifled by frustrating its ability to generate funds from these activities and by preventing it from obtaining funds from other sources and activities.

Using the findings of the FATF report on the sources and methods of financing of ISIL, the FATF and the FATF-Style Regional Bodies (FSRBs) will work together with international organisations to develop proposals to strengthen all counter-terrorism financing tools and report back to the G20 by October 2015.

**Making sure the legal and institutional frameworks are in place**

FATF and FSRBs will take additional steps to make sure that all members implement measures to freeze terrorist funds and stop terrorist financing. As a priority, the FATF will immediately review whether all its members have implemented measures to cut off terrorism-related financial flows, in accordance with the FATF Recommendations. All members are required to:

- Criminalise the financing of individual terrorists and terrorist organisations.
- Freeze terrorist assets without delay and implement ongoing prohibitions.
- Establish the capacity to develop robust designation proposals on individuals that meet the UN designation criteria.

The FATF will put pressure on any country who has failed to implement these measures and will include this in its report to the G20 in October 2015.

**Operational measures**

It is essential in combating global terrorism that all countries do not just establish laws and regulations to disrupt terrorist financing, but that they also ensure that they are working effectively. They must also actively use them in a whole-of-government approach that focuses on combating key terrorist financing risks, including by:

- implementing targeted financial sanctions regimes and developing the capacity to propose designations to the United Nations Security Council, and issue third country requests that meet designation criteria.
- identifying their terrorist financing risks and developing more effective ways to detect, disrupt, deter and prosecute terrorist financing.
- protecting their non-profit sector from the risk of terrorist abuse. The FATF is updating its best practices paper to help countries respond more effectively to terrorist abuse of this sector.
- taking steps to identify and target individuals, including travellers, who are suspected of terrorist financing involvement, by using PNR (Passenger Name Record of air travellers), for example, in order to stop,

restrain and enable confiscation of illicit cross-border transportation of cash.

- devising effective mechanisms to identify, monitor and take action against unregulated money value transfer services, and strengthening the transparency of financial flows.
- empowering FIUs and other competent authorities to improve the exchange of financial and other relevant information domestically and internationally in a timely manner. The ability to detect, analyse and share information about financial flows is essential to financial investigations. For terrorist-related cases, governments should be able to obtain relevant information from all sources more rapidly. To achieve this, countries should
    - strengthen inter-agency communication among financial intelligence units, law enforcement and intelligence services
    - encourage spontaneous exchanges of information among countries.

The FATF will focus on developing proposals to take forward these measures.

**Additional work on terrorist financing**

The FATF report ***Financing of the terrorist organisation Islamic State in Iraq and the Levant (ISIL)*** also identified a number of significant and emerging terrorist finance risks, including kidnapping for ransom, non-profit organisations, foreign terrorist fighters, social networks, among others, which all played a role in the financing of this terrorist organisation. Over the course of the next three months, the FATF will conduct further research in identifying and analysing these risks, and determine what more needs to done to prevent financial and economic sectors from being abused for terrorist financing for new and emerging threats. The FATF will discuss the findings of this work at its June 2015 Plenary.

In September 2015, the annual Joint Experts Meeting will be held in collaboration with GAFILAT and will have as its main theme the 'financing of terrorism'.

## Document type

News

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FATF

FATF REPORT

# Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)

**February 2015**






FINANCIAL ACTION TASK FORCE

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

For more information about the FATF, please visit the website: www.fatf-gafi.org

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# ACRONYMS

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| **ABM** | Ansar Bayt al-Maqdis |
| **AML/CFT** | Anti-Money Laundering / Countering the Financing of Terrorism |
| **ANF** | Al-Nusrah Front |
| **AQ** | Al-Qaida |
| **AQI** | Al-Qaida in Iraq |
| **EFTs** | Electronic Funds Transfers |
| **FATF** | Financial Action Task Force |
| **FIU** | Financial intelligence units |
| **FTFs** | Foreign Terrorist Fighters |
| **IRS-CI** | IRS-Criminal Investigation |
| **ISIL** | Islamic State in Iraq and the Levant |
| **KFR** | Kidnapping for Ransom |
| **KRG** | Kurdistan Regional Government |
| **MVTS** | Money or value transfer services |
| **NPO** | Non-Profit Organisation |
| **R.** | Recommendation |
| **TF** | Terrorist Financing |
| **UN** | United Nations |
| **UNODC** | United Nations Office on Drugs and Crime |
| **UNSCR** | United Nations Security Council Resolution |
| **USD** | US Dollars |

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# EXECUTIVE SUMMARY

The mandate of the Financial Action Task Force (FATF) was expanded in 2001 to address the funding of terrorists acts and terrorist organisations. Since that time, combatting terrorist financing (TF) has been a very significant challenge. Important work was done in 2008 to identify a wide variety of TF methods terrorists use to raise, move and use funds. That study addressed the terrorist requirement for funds to include direct costs associated with specific operations and broader organisational costs to maintain infrastructure and promote ideology for the terrorist organisation.

Given the rapid development of the terrorist organisation Islamic State in Iraq and the Levant (ISIL), there is a need to understand those funding requirements and associated TF risk. This study represents a snapshot of the revenue sources and financial activities of ISIL been identified to date. However, gaps remain and more work is needed to develop the full picture of ISIL's financial activities and to identify the most effective countermeasures to prevent ISIL from using accumulated funds and disrupting sources of funding. ISIL financing is a constantly changing picture and a very difficult and complicated area to address given the operational situation on the ground. It should be emphasized that terrorism and those who support terrorism can never be associated with any religion, nationality, civilisation or ethnic group.

ISIL represents a new form of terrorist organisation where funding is central and critical to its activities. This report identifies ISIL's primary sources of revenue which are mainly derived from illicit proceeds from its occupation of territory. These sources include bank looting and extortion, control of oil fields and refineries and robbery of economic assets. Other sources include the donors who abuse Non-Profit Organisations (NPOs), Kidnapping for Ransom (KFR) and cash smuggling (areas where FATF has conducted in-depth research), to new and emerging typologies which have not yet been addressed by the FATF, such as the extortion of goods and cash transiting territory where ISIL operates and grass-root funding strategies. A number of unique and diverse "case studies" have been provided by countries which describe how ISIL obtains funding and economic support as well as describing mechanisms to utilize these funds.

The need for vast funds to meet organisational and governance requirements represents a vulnerability to ISIL's infrastructure. In order to maintain its financial management and expenditures in areas where it operates, ISIL must be able to seize additional territory in order to exploit resources. It is unclear if ISIL's revenue collection through the illicit proceeds it earns from occupation of territory, including extortion and theft, will be sustainable over time. Cutting off these vast revenue streams is both a challenge and opportunity for the global community to defeat this terrorist organisation.

While insight into ISIL's oil-related activities is limited, this report provides a snapshot of ISIL's control of gas and oil reservoirs. While this revenue stream was significant after ISIL's initial control of numerous oil fields, their ability to efficiently extract oil, refine it and sell petroleum products have significantly diminished ISIL's earnings. This is due to coalition[1] air strikes, ISIL's

[1] The Global Coalition to Counter ISIL ("the Coalition") is comprised so far of more than 60 partners that have committed themselves to the goals of eliminating the threat posed by ISIL and have already contributed

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need for refined crude and declining oil prices. There have been efforts to suppress the sale of ISIL oil and oil products on regional markets, such as enhanced counter smuggling efforts of the Turkish authorities in the past two years, as well as recent steps taken by the Kurdistan Regional Government (KRG) and Iraqi Government authorities to seize suspected ISIL-related shipments of oil and oil products. This has reduced oil's importance relative to other sources of revenue. There is still a need to better identify the origin, middlemen, buyers, carriers, traders and routes through which oil produced in ISIL-held territory is trafficked.

This report provides limited insight into the role of financial institutions and Money and Value Transfer Services (MVTS) in ISIL-held territory as well as the role of the larger international financial sector. However, a significant portion of the data related to this subject is of a sensitive nature and could not be included in this public report. There is a risk that MVTS companies in ISIL-held territory continue to maintain connections to regional counterparts through which ISIL could conduct funds transfers. At the same time, both the Iraqi government and many major global financial institutions have taken steps to prevent banks in ISIL-held territory from accessing the international financial system.

Donors who provide economic and material support, through Foreign Terrorist Fighters (FTFs), are a diverse and complicated area to address in this type of a report. Many of the FTFs come from a wide range of countries making this truly a global TF risk. The financing associated with FTFs is a cycle and support can take the form of self-funding for travel expenses; carrying money overseas for the benefit of ISIL; and providing funds to support those FTFs on the ground. As recent events have demonstrated, returning FTFs and lone actors represent a significant terrorism threat to all countries.

Another key finding of the report is that this terrorist organisation relies on grass-root funding sources and has utilized efficient delivery mechanisms to obtain funds through the latest technology. Terrorist fundraising through modern communication networks and the use of crowdfunding techniques have significantly increased over the past decade and efforts to combat it must also stay up-to-date.

The purpose of this report was not to create or define a set of policy options to address counter-terrorist financing efforts against ISIL. The report's concluding section looks at issues the FATF should consider further to include increased international cooperation.

It should be noted that a number of traditional countermeasures used to deprive terrorist organisations of its funds are not applicable with respect to this new model adopted by ISIL. However, like any terrorist organisation, ISIL's financial, logistical and supply networks are vulnerable. Disruption of command, control and economic structures will hinder ISIL's ability to finance its operations and support its fighters. Whatever measures are taken it will be critical, as emphasized in the relevant United Nations Security Council Resolutions (UNSCRs), that they do not affect the provision of humanitarian assistance to the vulnerable populations and refugees in Syria and Iraq and surrounding areas.

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in various capacities to the efforts to combat ISIL. Partners that have joined this effort to date can be found at www.state.gov/s/seci/.


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Finally, this report represents an opportunity to update global CFT efforts and will help identify existing and potentially new countermeasures that could be utilized to deprive ISIL of its resources and disrupt its financial flows. Numerous examples demonstrate efforts taken to disrupt ISIL from its resources. Further consideration will also have to be given to determine how best the international community can prevent ISIL from using or benefiting from the financial and commercial sectors under its control.

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# I. INTRODUCTION

## PURPOSE, SCOPE AND OBJECTIVES

In October 2014 the Financial Action Task Force (FATF) agreed to launch a four-month project to understand the financing of the terrorist organisation Islamic State in Iraq and the Levant (hereinafter ISIL). This study identifies how funds are raised, moved and ultimately used by ISIL. This report seeks to understand how ISIL obtains and moves funds in order to (*i*) disrupt financial flows, *(ii)* deprive ISIL of its resources, and (*iii*) prevent ISIL from abusing relevant financial and economic sectors. Given the diversified nature of ISIL funding and operations, the report considered the broader issue of resourcing to accurately capture the complexities of this terrorist organisation.

The purpose of this study is to identify how the sources of funding represent a threat to the integrity of the international financial system and to global safety and security. It is meant to assist States in the implementation of the FATF standards and support the identification of potential gaps in States' implementation and identify issues for discussion. It is also meant to assist States in the implementation of their broader obligations under relevant United Nations Security Council Resolutions (UNSCRs), including 1267 (1999), 1373 (2001), and the recently adopted UNSCRs 2161 (2014), 2170 (2014), 2178 (2014)[2] and 2199 (2015) in which the UNSC specifically condemns "any engagement in direct or indirect trade involving ISIL" and requires all member States to prevent and suppress the financing of travel of foreign terrorist fighters (FTFs) and of their activities.

## METHODOLOGY, PARTICIPANTS AND DATA UTILIZED

This report has been prepared under the co-lead of Turkey and the United States (US) and has input from a wide variety of other delegations within FATF's global network[3] and other publicly available information through open source channels.[4] This paper builds on the February 2008 FATF Report on Terrorist Financing in that it also addresses the terrorist requirement for funds and broader organisational costs for the terrorist organisation.[5] This report also relies heavily on the report by the UN Al-Qaida and Taliban Monitoring Team (hereafter the Monitoring Team) submitted pursuant to UNSCR 2170 (2014) that was issued on 14 November 2014 (hereafter the Monitoring Team Report on ISIL and ANF).

Delegations have submitted information and cases studies which identify funding sources and channels used by ISIL to raise money, such as the proceeds of criminal activities, illegal exploitation of oil and petroleum products and donations. Data was also received showing mechanisms used by

[2] UNSCR 2178 (2014) is global in scope and covers FTF operating in all regions of the world.

[3] Australia, Bahrain, Canada, European Commission (EC), Finland, France, Jordan, Italy, MENAFATF, The Netherlands, Saudi Arabia, Russian Federation, Turkey, United Kingdom, United Nations (CTED, UNODC, Monitoring Team) and The World Bank.

[4] The views mentioned in open source references that are quoted or referred in this report are not neccessarily shared or consented by the FATF.

[5] FATF (2008)

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ISIL to move funds and other assets, including the regulated banking system, Money and Value Transfer Services (MVTS) and smuggling cash, gold and other valuable items. Information was also received on preventative or specific measures taken or being considered by jurisdictions to combat this terrorist financing (TF) threat. A significant portion of the data related to this subject is of a sensitive nature and therefore could not be included in this public report.

## NATURE AND EVOLUTION OF THE TERRORIST THREAT

ISIL, which is the successor to Al-Qaida in Iraq (AQI), has undermined stability in Iraq, Syria and the broader Middle East through its terrorist acts and crimes against humanity, and poses an immediate threat to international peace and security.[6] Prior to ISIL's expansion of territorial control in parts of Iraq and Syria, the group (and its predecessor, AQI) benefitted from a network of associates in Syria, which it used to facilitate travel to Iraq.[7] ISIL persecutes individuals and entire communities on the basis of their identity, dissent, kidnaps civilians, forces displacement of communities and minority groups, kills and maims children, rapes women and commits other forms of sexual violence, along with engaging in numerous other atrocities.[8] ISIL presents a global terrorist threat which has recruited thousands of FTFs to Iraq and Syria from multiple countries across the globe and leveraged technology and other resources to spread its violent extremist ideology and to incite terrorist acts.[9] ISIL seeks to change the political order primarily in the Middle East through its extremist ideology and terrorist violence and aims to bring most traditionally Muslim-inhabited regions of the world under its political control, beginning with Iraq and the Levant.[10]

ISIL's operations are distinct from those of most other terrorist organisations, particularly with respect to how they finance their operations. Compared to Al-Qaida (AQ) core and AQ affiliates such as the Al-Nusrah Front (ANF), there are notable differences in their leadership and operational structures. Unlike some AQ associated organisations, most of ISIL's funding is not currently derived from external donations, but is generated within the territory in Iraq and Syria where it currently operates.[11] Distinct from most terrorist organisations, ISIL is operating in vast swathes of land across Syria and northern Iraq, allowing ISIL to exploit the local population and material resources through extortion of, and theft from residents. ISIL takes advantage of the resources in this domain, ranging from oil and banks to leveraging utilities and taxing local economies. According to several delegations, ISIL has been engaging in energy-related commerce with the Syrian regime, despite claiming otherwise.

ISIL obtains the vast majority of its revenues through local criminal and extortion activities in the territory where it operates (see *sources of funding* below), which present unique challenges for the international community but also presents a declining revenue base if it is unable to find alternative

[6] The Al-Qaida and Taliban Monitoring Team (2014), hereafter *Monitoring Team Report on ISIL and ANF (2014)*

[7] Levitt, M. (2010).

[8] Monitoring Team Report on ISIL and ANF, at 10.

[9] *Id*. at 11.

[10] *Id*. at 6.

[11] *Id*. at 19-20.

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sources of revenue or take additional territory. Unlike core-AQ, ISIL currently derives a relatively small share of its funds from deep-pocket donors (relative to its other revenue sources), and thus does not depend principally on transferring money across international borders for this purpose. Available research on ISIL's organisational structure suggests that it is hierarchically organized and that ISIL recreates its top level leadership structure at the group's provincial level.[12]

## FATF, UNITED NATIONS AND OTHER STATEMENTS ON ISIL

Building on the condemnation by the United Nations and others of ISIL's illicit activities, on 24 October 2014 the FATF expressed profound concern with the financing generated by and provided to ISIL, highlighted the importance of robust implementation of the FATF standards to disrupt and prevent ISIL financing and called on all countries to take steps to prevent ISIL from accessing their financial systems. The FATF noted that ISIL is subject to sanctions under the United Nations Al-Qaida Sanctions List. Recently, UNSCR 2170 (2014) and 2199 (2015) identified ISIL-related funding streams, including revenues generated from control of oil fields and related infrastructure, kidnapping for ransom, private donations from individuals and entities, fundraising through the internet and possible sanctions evasion through aircraft or other transport to transfer gold, or other valuable items and economic resources for sale on international markets. In addition, UNSCR 2178 (2014) requires all member states to prevent and suppress the financing of FTFs, including their travel and subsequent activities.

The Kingdom of Bahrain hosted the *Manama Meeting on Combating the Financing of Terrorism* on 9 November 2014. The meeting was for participating countries to demonstrate their commitment to put a halt to the financing of terrorist groups and activities in all its forms. The FATF welcomed the determination of the participating countries to fight terrorism in the region. The closing declaration of the Manama meeting is a valuable step forward, showing the strength of international commitment, and the relevance of the counter-terrorist finance tools set out in the FATF Recommendations and UNSCRs. In particular, the statement emphasized the need for the full and effective implementation of the FATF Recommendations and active participation in the FATF's global network by countries in the region.[13]

[12] Lister, C. (2014).

[13] Kingdom of Bahrain, Ministry of Foreign Affairs (2014).

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# II. SOURCES OF FUNDING

ISIL earns revenue primarily from five sources, listed in order of magnitude: (1) 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 ISIL operates; (2) kidnapping for ransom; (3) donations including by or through non-profit organisations; (4) material support such as support associated with FTFs and (5) 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 ISIL.

## 1. ILLICIT PROCEEDS FROM OCCUPATION OF TERRITORY INCLUDING EXTORTION AND THEFT

ISIL manages a sophisticated extortion racket by robbing, looting, and demanding a portion of the economic resources in areas where it operates, which is similar to how some organized crime groups generate funds. This vast range of extortion, including everything from fuel and vehicle taxes to school fees for children, is done under the auspices of providing notional services or "protection." The effectiveness of ISIL's extortion relies on the threat or use of force within its operational territory. The economic assets in ISIL-held areas include banks, natural resources such as oil and phosphates, agriculture and historic and archaeological sites. As a result, ISIL's significant wealth from extorting the population under its control derives from both non-monetary economic assets as well as physical cash.

ISIL has attempted to demonstrate a degree of sophistication and a formalized, structured internal financial management system by providing receipts for levies paid. While ISIL frames its activities as "taxation" or "charitable giving," it in fact runs a sophisticated protection racket where involuntary "donations" purchase momentary safety or temporary continuity of business.

### 1.1 BANK LOOTING, EXTORTION AND HUMAN TRAFFICKING

ISIL has derived a significant portion of its wealth from controlling the bank branches in Iraq where it operates. In its perceived role as the local governing body, ISIL treats state-owned and private banks differently. The cash at state-owned banks are ISIL "property" while the cash at private banks largely remains in the vaults, to be taxed by ISIL upon customer withdrawals.

The US estimates that ISIL has generated, or has had access to the equivalent of at least a half billion US Dollars (USD) in cash alone as it has taken control of state-owned bank branches located in the Ninevah, Al-Anbar, Salah Din, and Kirkuk provinces in Iraq over the latter half of 2014.[14] Much of this cash is denominated in dinar, the local Iraqi currency, making it difficult for ISIL to use externally. Any use of these cash assets outside of Iraq would require ISIL to exchange the cash for foreign currency.

[14] US Department of Treasury (2015).


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According to press reports, ISIL has focused its attention on bank looting activities in Mosul, Iraq's second largest city and a major financial centre, and has reportedly installed managers at many bank branches located there.[15] From this perch, ISIL operatives have taken the cash deposits of local Christians and Muslims and have also levied a tax of 5 percent on all customer cash withdrawals, thus providing another form of extortion by abusing the concept of "Zakat," or Islamic alms, to support ISIL's activities.[16] This provides an opportunity for ISIL to profit from bank transactions while ensuring continuity of business, a necessity when attempting to establish a functioning self-sustaining terrorist state.

The threat of bank robberies is also relevant in other developed areas where ISIL operates freely, such as Fallujah and Ramadi in Iraq, and Raqqa, Aleppo, and Deir al-zor in Syria. More than 20 banks operating in Syria have branches in areas within ISIL-held territory, although insight into ISIL's looting or robbing of these branches is limited, as is the degree to which they continue to service the Syrian population in these areas.

Human trafficking has been another source of revenue for the group. ISIL has boasted in its own publication, Al Dabiq, of its involvement in human trafficking, specifically targeting women and children.[17] The BBC interviewed women from the minority Yazidi community in northern Iraq in December 2014 and they described how they were bought and sold in ISIL "slave auctions."[18] The group has provided internal guidance to its fighters regarding how many female slaves they are allowed to maintain, however, the prices ISIL fighters are paying for their slaves appear to be relatively low (approximately 13 USD).[19] In one case a Yazidi woman was freed when her family agreed to pay a ransom of 3 000 USD.[20] Given the small amounts cited, it is difficult to envisage human trafficking as a lucrative source of revenue for ISIL, but it may be more important as a means of meeting the demands of its fighters.

### 1.2 CONTROL OF OIL AND GAS RESERVOIRS

Recognizing the importance of energy assets as a reliable and sustainable revenue source, ISIL seeks to operate local oil infrastructure, underlining its desire to capture and utilize existing assets and expertise rather than destroy it. However, ISIL cannot effectively manage these assets due to lack of resources and technical capacities. Operating in large swathes of territory in eastern Syria and western and northern Iraq allows ISIL to control numerous oil fields from which it continues to extract oil for its own use, its own refining, and for onward sale or swap to local and regional markets.

ISIL benefits mostly from using the petroleum and petroleum products it controls or by earning revenue from sales of these resources to local customers. The remaining portion of ISIL's oil

[15] Di Giovannu, J. et al (2014).

[16] Salmon, R. and Bayoumy Y. (2014).

[17] Monitoring Team Report on ISIL and ANF, at 26.

[18] Wood, P. (2014).

[19] *Id.*

[20] *Id.*

revenue stems from sales routed through middlemen and smugglers who trade and transport the illicit petroleum and petroleum products for sale to end-users within the territory where ISIL operates and to nearby areas, including to the Syrian regime as noted by several delegations. This revenue stream may also include swapping ISIL crude oil for exported or imported petroleum products to and from Iraq and Syria. Syria in particular has a long history of smuggling networks operating in the country and along the border regions. These networks are largely autonomous, and some of them, such as the Berri clan in Aleppo, are powerful local families known to have dealings in arms and drug smuggling and historical ties to the Syrian regime.[21] These networks are profit-motivated, and are excellently positioned to exploit the lack of state capacity and capitalize on ISIL's need for stable funding through newly acquired oil resources which they know they may not be able to hold on to in the event of a serious military effort to regain territory. A sound estimate for the amount of oil and petroleum products subject to smuggling by ISIL related or other networks in Syria and Iraq is not known to exist and the nature of the relationship between ISIL and smuggling networks active in Syria is not entirely clear. Further, it is not possible to determine the source of the smuggled petroleum products that are seized. The assumption is that oil and oil product smuggling activities have increased since 2011 targeting all jurisdictions which neighbour territories where ISIL operates, but that the magnitude of such activities is impossible to assess. See paragraph 68 for examples of measures taken to respond to this threat.

ISIL has reportedly sold oil near the wellhead for 20-35 USD per barrel (bbl) where middlemen can then sell petroleum or petroleum products onwards at 60-100 USD/bbl in local and nearby markets, creating significant arbitrage opportunities.[22] A representative truck carrying approximately 150 barrels of crude oil earns roughly 3 000 to 5 000 USD, depending on the degree of refinement of the crude oil. According to press reports, ISIL is paid mostly in cash for the oil it sells, making the transactions underlying its oil trade difficult to track and disrupt.[23] However, ISIL's ability to efficiently extract, refine, and sell petroleum and petroleum products from the territory in which it operates has significantly diminished since the launch of international coalition airstrikes targeting ISIL's modular refineries and transport convoys.[24] ISIL's earnings from oil-related trade have probably diminished in importance relative to other sources of revenue due to coalition airstrikes, ISIL's need for refined crude for its military operations, and declining oil prices.

While ISIL operates in vast areas in Iraq and Syria, the populations under its control do not receive the full economic benefit from ISIL's petroleum extraction, refining, and trade, meaning that ISIL is robbing local populations of potentially millions of USD, on top of the explicit acts of theft and extortion that occur on an ongoing basis. The withdrawal of national and private sector companies, their equipment and expertise from ISIL-held territory prevents ISIL from fully utilizing the energy assets under its control. As a result, ISIL tends to use primitive techniques for extracting and refining oil. For example, Syria's al-Omar field requires sophisticated water injection techniques to

[21] Saleh, Yassin al Haj (2014).

[22] We note that during the preparation of this report, there has been a substantial decline in global crude oil prices (from approximately 80USD/bbl to 50USD/bbl), and so the price at which ISIL sells crude oil (and the revenue generated from the sale of crude oil) has likely declined as well.

[23] Hussein, M.; Toorn C.V.D.; Osgood, P., & Lando B. (2014); Giglio, M. (2014).

[24] Philips, M. (2014).


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maximize crude oil extraction.[25] Because ISIL doesn't have the expertise or equipment, it is able to withdraw only a fraction of the field's potential output. This is also true in other fields as well, leading to a best estimate of as much as 50 000 barrels per day of petroleum production in ISIL-held territory.[26] Once ISIL extracts oil under its control, ISIL still faces the challenge of monetizing the petroleum either by directly selling (or swapping) the crude oil itself or by refining the crude into petroleum products that can be used locally as fuel for vehicles and cooking, or for sale to the local population. Crude oil in itself, without a market and without refining, limits the use to the terrorist group within its current capabilities.

ISIL has relied on a variety of petroleum refining techniques. In Iraq, the Qayyarah oil field, has its own small refinery calibrated to refine the crude oil specifically from that field. More common are modular refineries, which are built off-site, can be attached to trucks or to the wells, and are located in both Iraq and Syria. These modular refineries are significantly smaller than, but can be as sophisticated as, their larger counterparts. Modular refineries provide ISIL the capability to refine crude oil and produce petroleum products for use in cars, trucks, and other energy-intensive applications. By their nature, these refineries can be replaced and rebuilt by importing replacement parts and machinery. As a result of coalition airstrikes, ISIL has been forced to rely upon even more primitive refining techniques, including burning the crude in open pits that produce limited yields of poor-quality product. With petroleum and petroleum product stores dwindling throughout the territory where ISIL operates, the group's resultant revenue stream is vulnerable to coalition actions such as airstrikes and enhanced border security by Iraq and neighbouring states.

### 1.3 EXTORTING AGRICULTURE

Agriculture in Syria, and more recently in Iraq, has been identified as an opportunity to ISIL's extortion operations, providing the group another avenue to generate revenue.[27] Based on sources in the rural al-Raqqa, ISIL's Syrian stronghold, the organisation is said to extort money under the name of "zakat" from farmers by taking portions of their wheat and barley crops.[28] Additionally, ISIL has confiscated agricultural machinery from local farms, which it then rents back to the farms from which they were seized. Aside from these steep taxes and criminal rackets, ISIL is able to set the crop prices by taking control of the fields and means of production, storing the wheat in silos, and controlling its distribution.

The UN Food and Agriculture Organisation estimates that ISIL currently operates in part of Iraq that account for over 40 percent of Iraq's wheat cultivating land.[29] This allows the group to profit from the wheat industry while strategically restricting supplies to minority Yazidi and Christians as well as those who oppose ISIL's campaign. ISIL has also allegedly taken control of multiple government-operated wheat silos in the most fertile areas in Iraq. In addition there are reports that ISIL is integrating stolen harvests with existing regional agricultural businesses (an act which essentially

[25] Marcel, V. (2014).

[26] Lerman, D. (2014).

[27] Fick, M. (2014).

[28] Abu al-Khair, W. (2014).

[29] UN Food and Agriculture Organization (2014); Fick, M. (2015)

launders stolen crops by obscuring its origin), or by violently acquiring silos and keeping those previously employed on the payroll to carry out daily business, only now under ISIL control.[30] Since June 2014, ISIL reportedly took control of an estimated sixteen wheat silos including the largest silo in Makhmur which houses approximately 8 percent of Iraq's annual production.[31]

As well as obtaining revenue from selling crops, seizing agricultural supplies could also be intended to intimidate farmers and other Iraqis in ISIL-controlled areas.[32] ISIL has already used its control of water resources to destroy farmland in southern Iraq, by releasing water held by Fallujah dam.[33] The release destroyed cropland 160 kilometers downstream, leaving millions of people without water in the cities of Karbala, Najaf and Babil.[34]

### 1.4 OTHER RESOURCE EXTRACTION AND PRODUCTION FACILITIES

Various resource extraction and production facilities that are located in territory where ISIL currently operates may serve as an additional source of revenue. For example, according to one public report, ISIL has gained control of the Akashat Phosphate Mine and the Al-Qaim manufacturing plant, both located in Iraq's Al-Anbar province and owned by the Iraqi's State Company for Phosphate Manufacture which produces both sulfuric acid and phosphoric acid.[35] According to the available estimates and depending on production levels and the ultimate sales price (which, like crude oil sold by ISIL, could be significantly discounted), ISIL could generate tens, if not several hundred million USD a year from these facilities.[36] The same public report also notes that ISIL has control over five major cement plants in Syria and Iraq: Al-Raqqah Guris Cement Plant located in Raqqa, Syria; and the Al-Fallujah, Kubaisa, and Al-Qaim plants in Iraq. ISIL may also control several sulfur extraction plants operated by the Mishraq Sulphur State Company in the Nineveh governorate and the main salt mine of Syria in Al-Tabani (province of Dei res-Zor), operated by the General Establishment of Geology and Mineral Resources.[37]

Unlike crude oil and refined petroleum, for which there are long-established smuggling routes and local black markets, these other resources and facilities may be more difficult for ISIL to monetize, and so it may be difficult to estimate exactly how much revenue ISIL can generate from these assets.

### 1.5 CULTURAL ARTEFACTS

Reports on the smuggling of cultural artefacts by ISIL are limited, given that they are sold on the black market. ISIL's ability to earn revenue from the illicit sale of antiquities is contingent upon the presence of antiquities within territory where ISIL operates, knowledge of their existence, and ISIL's

[30] Fick, M. (2014).

[31] *Id.*

[32] Fick, M. and El Dahan, M. (2014).

[33] Massih, N. (2014).

[34] *Id.*

[35] Brisard, J.C. & Martinez, D. (2014).

[36] *Id.*

[37] *Id.*


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ability to recognize materials as artefacts and develop some estimation of their value. Although it might be impossible to show a direct link between the ISIL and the sale of a specific artefact, ISIL makes money in two ways from antiquities, both through selling looted artefacts and taxing traffickers moving items through ISIL-held territory.[38] However, the total amount that ISIL is earning is difficult to estimate, particularly as the activity is taking place across Syria, in the midst of the conflict, not just in ISIL-held areas.

*National Geographic* reports that according to flash drives seized by Iraqi security forces, ISIL and other illicit groups operating in Syria could have earned as much as tens of millions of USD to date from antiquities stolen from Syria.[39] ISIL also occupies more than 4 500 archaeological sites, some of them UNESCO World Heritage sites. According to the same report, 90 percent of the country's cultural artefacts are located in war torn areas, which has allowed for large scale looting.[40] More specifically, the organisation was able to take valuable relics from archaeological dig sites as well as from al-Nabuk in Syria, with some of the artefacts dating back 8,000 years.[41]

### 1.6 ILLICIT TAXATION OF GOODS AND CASH THAT TRANSIT TERRITORY WHERE ISIL OPERATES

Trade of goods and transfers of cash into and out of ISIL-held territory has been significantly disrupted due to the weak security environment. However, according to industry contacts and press reporting, some trade of goods has persisted, as have cash transfers necessary for financing this trade. ISIL is able to impose levies on all goods transiting territory where it operates. ISIL has reportedly imposed specific taxes on the movement of goods in parts of Iraq where it operates, including a road tax of 200 USD in northern Iraq and an 800 USD "customs" tax on trucks entering Iraq along the Syrian and Jordanian borders.[42]

### 1.7 SALARY PAYMENTS TO IRAQI GOVERNMENT EMPLOYEES

In addition to ISIL taxing the transit of goods and generating revenue from the sale of oil and petroleum products, ISIL benefits from the shipment of cash entering into territory where it operates. The Government of Iraq has taken proactive steps to prevent the transfer of hard currency to bank branches where ISIL operates. It has also prevented the shipment of salary payments directly to government employees in ISIL-held territory, opting instead to send the funds to Kirkuk and elsewhere. However, government employees that remain in territory where ISIL operates travel to Kirkuk and elsewhere to withdraw their salaries in cash, and return to ISIL-held territory where their salaries are then taxed by ISIL at rates of up to 50 percent.[43] While there are significant humanitarian concerns that need to be addressed, this practice represents a recurring source of revenue for ISIL. Several US contacts in Iraq have estimated that the value of these salary

[38] Frenkel, S. (2014).

[39] Pringle, H. (2014).

[40] *Id*.

[41] Chulov, M. (2014).

[42] Brisard, J.C. & Martinez, D. (2014).

[43] Solomon, E. (2014).

payments amount to as much as the equivalent of several billion USD per year, meaning that ISIL could potentially profit hundreds of millions of USD annually from taxing these salary payments.

## 2. KIDNAPPING FOR RANSOM

ISIL has reportedly kidnapped hundreds of individuals, including local Iraqis, Syrians and members of ethnic minorities, as well as Westerners, and East Asians located in the region. With some of these kidnapped victims, ISIL used them to extract ransom payments, while others are brutally murdered to send a political message.[44] In certain cases, ISIL has purchased Western hostages from moderate rebels at border exchanges. Over the past year, ISIL has raised substantial revenue through ransom payments for kidnapped victims, with FATF members providing estimates that range from 20 million USD to 45 million USD.[45] Exact figures with respect to how much ISIL has earned from ransom payments are difficult to assess and often intentionally kept secret since ransom payments often originate from private companies that wish to conceal the transaction, or are otherwise paid in cash, making the transactions difficult for financial institutions to identify.

In 2010 the FATF conducted a study on Kidnapping for Ransom (KFR) which provides unique insight into the significance of revenue generated from KFR for a number of terrorist groups and criminal organisations and the role of the regulated financial sector.[46] Several UNSCRs, including 2133 (2014) and 2170 (2014), call on all Member States to prevent terrorists from benefitting, directly or indirectly from ransom payments.[47] In addition, UNSC resolution 2161 (2014) confirms that the prohibition on providing funds to individuals and entities on the Al-Qaida Sanctions List, including ISIL, also applies to the payment of ransoms to individuals, groups, undertakings or entities on the list, regardless of how or by whom the ransom is paid.[48] As such, resolution 2161 applies to both direct payments and indirect payments through multiple intermediaries, of ransoms to groups or individuals on the Al-Qaida Sanctions List. These restrictions apply not only to the ultimate payer of the ransom, but also to the parties that may mediate such transfers, including insurance companies, consultancies, and any other financial facilitators.

## 3. DONATIONS INCLUDING BY OR THROUGH NON-PROFIT ORGANISATIONS (NPOS)

The overall quantitative value of external donations to ISIL is minimal relative to its other revenue sources, but ISIL has received some funding from wealthy private regional donors. On September 24, 2014, an ISIL official who received a 2 million USD donation emanating from the Gulf was listed and sanctioned by the US Department of the Treasury. ISIL has also turned to enabled contributions

[44] See Monitoring Team Report on ISIL and ANF, at 24; see Salman, R., & Holmes (2014).

[45] US Department of Treasury (2015).

[46] FATF (2011).

[47] UNSCR 2133 (2014), OP3; UNSCR 2170 (2014), OP 17.

[48] UNSCR 2161 (2014), OP7


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for financial backing to support its military campaign (see section on *Funding through modern communication networks*).[49]

Foreign donor support could increase in importance for ISIL as other sources of revenue diminish. There is also a risk that US-listed individuals and groups that have recently pledged allegiance to ISIL, including one faction of the Philippines-based Abu Sayyaf Group and Egypt-based Ansar Bayt al-Maqdis (ABM), may also develop stronger organisational ties that could lead to the provision of funding from one group to ISIL or vice versa.[50] Funds from these groups may be remitted through the international financial system.

Some delegations identified terrorist financing risks regarding wire transfers from charitable foundations to conflict zones or areas where ISIL operates. Other risks identified include the presence of NPOs raising funds for recipients in a third country which are or are suspected to be part of an organisation structure that engages in violent or paramilitary activities. These risks are enhanced when the source of the funds and purpose of the transaction is not known or cannot be verified. These instances include transactions not listing any reference or using generic terms such as "other", "services" and "goods". In some cases, public appeals for donations have not correlated with the organisations' stated purpose (e.g. educational, health care or humanitarian relief).

Case Study 1: **Distance adoptions-related donations performed by a FTF**

The account at an Italian bank of an organisation based in Northern Italy promoting charitable activities (*e.g.,* distance adoptions) in Syria received cash deposits and wire transfers (mostly involving small amounts) sent by numerous individuals and entities in located in Italy and Europe. Once credited, funds were sent to Turkey, where they would be withdrawn for their final legitimate use (most descriptions associated with the transactions referred mainly to "adoptions" ).

At a later stage, with reference to a limited number of transfers, investigations revealed that one of the donors was a member of an extremist group located in the North of Italy aimed at recruiting people to engage in violent extremism. Financial analysis eventually showed that this individual, who subsequently died fighting in Syria, used the organisation as unwitting conduit for fund transfers possibly connected to his terrorist activity.

*Source: Italy*

Some delegations have noted the movement of money among charitable organisations and principal officers purportedly serving the needs of Syrian refuges. The movement of these funds may be linked to an organisation's inability to transfer funds internationally, or who are relying on partner organisations to move funds on their behalf. However, such movement can give the appearance that charities may be attempting to obscure the source of their funds before they are transferred overseas. Charitable donations moved via physical cross-border transportation may also pose TF risks. On one occasion an EU member state's police liaison in Ankara requested that Turkish authorities stop and search three trucks that were expected to leave for Turkey, under the suspicion

[49] Monitoring Team Report on ISIL and ANF, at 25.

[50] Fadel, L. (2014).

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that the trucks contained material for radical groups in Syria, organized by charity groups in that country. The source country's authorities claimed to not be able to stop the trucks themselves due to lack of sufficient regulations. It should be emphasized that the above examples are relatively isolated in nature, and while certain payments, from, to or through NPOs operating in these areas may require higher due diligence, they are not meant to imply that all transactions to or through NPOs operating in these areas are high risk.

Case Study 2: **Diversion of Funds by Actors to NPOs**

An individual (Mr. A) established a charitable foundation under the pretext of collecting donations for Syrian refugees, people in need of medical and financial aid, and construction of mosques, schools and kindergartens. However, Mr. A was the leader of an organized scheme in which donations were sent to a group of individuals related to Mr. A (Group A) instead of the foundation's account. In most cases, the first stage involved money being sent through money remitters and then transported in cash. The money was then transferred either to credit cards accounts or to e-wallets. The members of Group A placed the relevant information (that funds are being collected for the declared purposes) on the Internet, but, in fact, the funds were sent as an aid for terrorists and their families and meant to be used as a financial support for terrorist activities.

This information was discovered through investigations conducted by the FIU based on regular monitoring of entities on their domestic list of designated terrorist entities and related persons or on information provided by law enforcement. Analysis of the collected information allowed the FIU to identify the relation between different cases: common payers and recipients and similar modus operandi in collection and distribution of funds. Further cooperation with law enforcement authorities allowed the FIU to establish the direct link between Mr. A and ISIL's activity. This resulted in several criminal investigations related to Mr. A. In addition, Mr. A was listed on the domestic list of designated terrorist entities, with the relevant freezing procedures performed. Under the court decisions, assets of the Group A members were frozen.

*Source: Russian Federation*

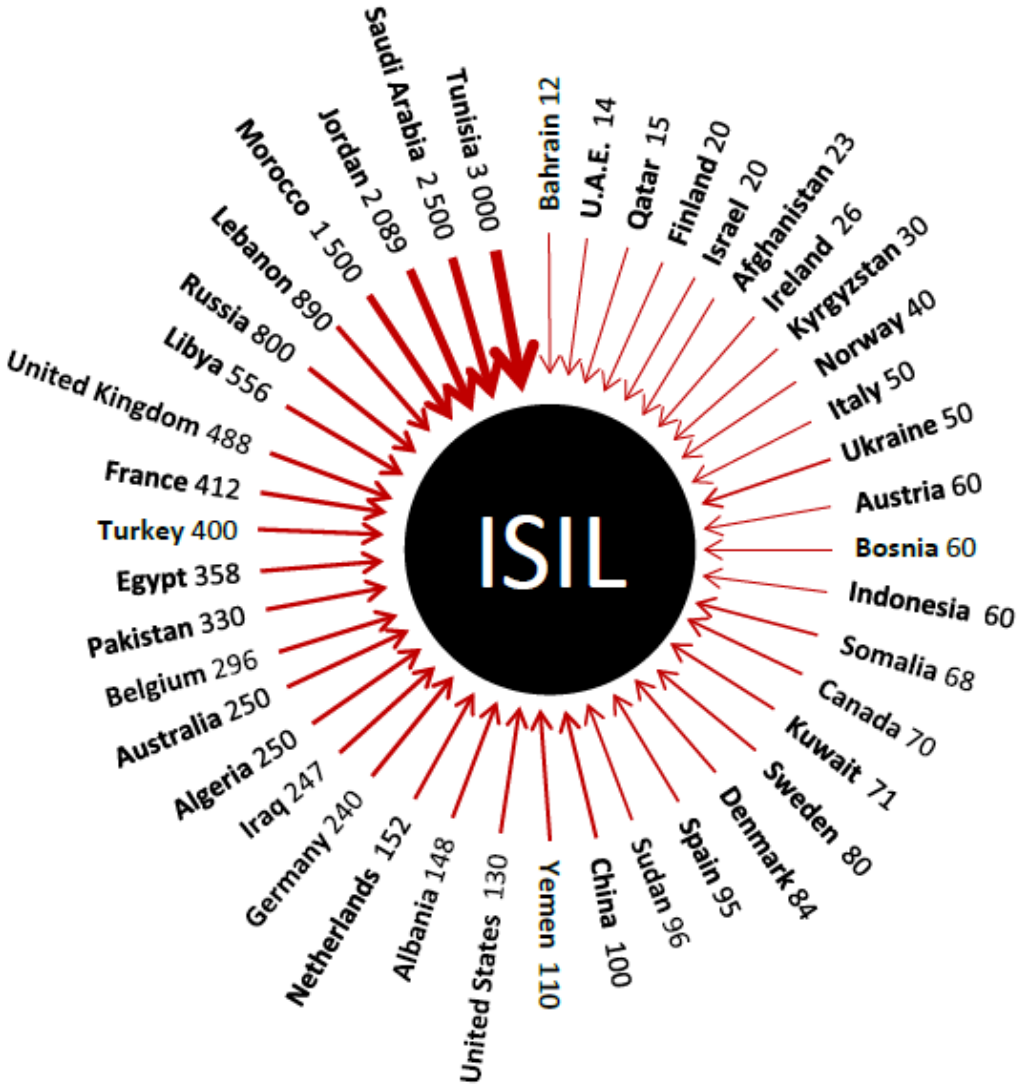
## 4. MATERIAL SUPPORT TO INCLUDE FOREIGN TERRORIST FIGHTERS

The term material support is used as outlined in the FATF definition of "funds and other assets," which includes "financial assets, economic resources, property of every kind." Foreign terrorist fighters (FTFs) continue to be a relatively small, but important source of funding for ISIL. This includes FTFs collecting money in their home country for travel; FTFs traveling with funds and Diasporas sending funds to support FTFs. These volunteers and their respective social networks are the source from which ISIL receives some physical and monetary support. According to US government information, as of December 31, 2014, at least 19,000 FTFs from more than 90 countries have left their home countries to travel to Syria and Iraq to join ISIL. This pool of international supporters is the source from which ISIL receives both physical and some monetary support. While significant in terms of manpower, the overall financial contributions from such sources are relatively low.


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The following graphic[51] details the breakdown of which countries FTFs are originating from[52].

Graphic 1. **Breakdown of FTFs by country of origin**




ISIL has benefitted from supporters developing recruitment hubs in various places around the world.[53] The payment of fighters and the development of international recruitment hubs are endemic to a global movement, as seen in the case of core-AQ. Managing a multinational operation and the logistical and financial framework will require, in one form or another, use of the conventional banking system. Finland has reported that a common methodology for financing FTFs

[51] Based on a information originally published by the *Washington Post* on October 30, 2014. While the graphic and associated story estimates the number of FTFs at approximately 15 000 FTFs from 80 countries, this is not the most current estimate of FTFs, which has been included above. Nonetheless, the broader geographic trends in FTF origination illustrated are still accurate.

[52] Miller, G. (2014).

[53] Monitoring Team Report on ISIL and ANF, at 28; Dalton, M. & Coker, M. (2014).

is to send money via money remitters (i.e. MVTS) who have agents operating in border areas close to ISIL held territory. This is to finance them once they are in Syria/Iraq.

The Netherlands authorities have observed that in some cases FTFs have to pay for their own living expenses and to that end receive funds from their respective home countries. Such transfers have been found to vary from several hundred euros to several thousand euros per transaction. The Netherlands has detected funds being transferred via regulated money and value transfer systems (MVTS) to agencies located near territories where ISIL operates. Netherlands authorities regard it highly likely that in other cases intermediaries transport cash to areas near territory occupied by ISIL. The Netherlands has also found indications that FTFs use debit-cards that are linked to their national bank accounts when withdrawing money from ATMs alongside those areas where ISIL operates. (See page 17 for US case study on continued access to bank accounts by FTFs.)

Case Study 3: **Material Support**

A suspicious traveller from a Nordic country arrived in İstanbul Sabiha Gökçen Airport. Upon his interview by the competent authorities, he admitted that he travelled to Turkey with the intention of traveling to Syria and to join ISIL. This case involves the use of material support as resources. Camouflage, AK-47 type gun parts and cartridges, a first aid kit, three knives, binoculars, batteries, sport shoes, wire ropes, torches and military supplies were found in his luggage. He was denied entry into Turkey and was deported to his country of residence.

*Source: Turkey*

Suspected FTFs are also seen funding their own travel to ISIL-held regions to join the group's terrorist campaign. Self-funding scenarios are often limited to the purchasing of airline tickets or physically carrying small amounts of cash (less than USD 1 000) which are often based on personal earnings. Many of these fighters travel to Syria and Iraq with just enough cash to finance their travel expenses, while some abuse the cash declaration or disclosure requirements for cross-border transportation, sometimes taking significant sums of cash across borders into Syria and Iraq to the benefit of ISIL. While these methods are often difficult detect, it provides an opportunity for relevant authorities, such as Financial Intelligence Units (FIUs) and border agencies to work together to detect instances of terrorist financing.

Case Study 4: **Examples of identified revenue streams of FTFs**

- Proceeds of robbery and drug trafficking
- Social benefits, from unemployment to family allowances
- Non paid off consumer loan, below 10 000 euros, withdrawn in cash
- Opening of several bank accounts and use of bank overdraft limit to withdraw cash
- Donations by family, friends and supporters, raised through social media, and sent by cash or wire transfers

*Source: France*


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Case Studies 5 and 6: **Use of tax refunds to fund foreign terrorist fighters**

**(5)** In March 2013, Jonathan Paul Jimenez was sentenced to 10 years in prison for making a false statement to a federal agency in a matter involving international terrorism, and conspiring to defraud the US Government by submitting a false income tax return in 2010. Jimenez was training to become an FTF and began making preparations to participate in violent extremism overseas. On the return, Jimenez falsely claimed three children of the co-conspirator as his dependents and falsely represented that he lived with each of the three children for all of 2010. As a result of those false representations, Jimenez obtained a refund from the Internal Revenue Service (IRS) in the amount of 5,587 USD.

**(6)** In June 2014, Michael Todd Wolfe pleaded guilty to attempting to provide material support to a Foreign Terrorist Organisation, namely, ISIL. Wolfe allegedly planned to travel to the Middle East to provide his services to radical groups engaged in armed conflict in Syria. Wolfe and his family expected a tax refund of around 5,000 USD which they planned to use to fund their travel expenses. Wolfe planned to first fly to Europe before traveling to Syria through Turkey, but was arrested at the airport in Texas when he attempted to board an international flight to Denmark.

IRS-Criminal Investigation (IRS-CI) has implemented administrative procedures to quickly identify and stop the processing of fraudulent claims for tax refunds, regardless of the amount involved in a fraud scheme. By detecting and preventing large and small fraudulent refund schemes, the flow of funds intended for illicit purposes can be significantly limited. IRS-CI's role in the fight against terrorism is similar to its role in all financial investigations which is to follow the money and collaborate with other federal agencies in terrorist financing investigations.

*Source: United States*

A larger global terrorism risk exists with returning FTFs or those individuals who were not allowed to travel to become a FTF. Knowledge of the financing aspects of returned fighters is often not known due to the limited number of fighters returning back to their home country. It is difficult to assess which of these returning fighters or lone actors have been acting or gaining support under the direction of others. Any potential TF risks related to returning FTFs will need to be explored further.

Case Study 7: **Continued Access to bank accounts by FTFs**

According to sensitive financial information, terrorist financing risks were discovered regarding foreign cash withdrawals via ATMs that were made in areas located near territories where ISIL operates by unknown individuals. These withdrawals were taken from US-based bank accounts using a check card. Another terrorist financing risk identified was the existence of large deposits into bank accounts followed by immediate foreign cash withdrawals in areas located near to territories where ISIL operates. This information reveals the terrorism financing risks posed by the continued ability of the individuals who are believed to have travelled to areas occupied by ISIL to reach their bank accounts in their home countries.

*Source: United States*

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## 5. FUNDRAISING THROUGH MODERN COMMUNICATION NETWORKS

While key players in terrorist networks may be identified by the international community as terrorists, many of the lower-level, tenuously-connected contributors to terrorist networks remain unknown. These low-level contributors, prompted by group actions which mimic popularized crowdfunding strategies have become another source of financing and physical resources for ISIL. Most of the social media platforms that are named throughout this report are unintentionally providing an effective method for terrorist groups and their sympathizers to exploit this technology for terrorist financing purposes. It should be stressed that it is not the company itself that is actively contributing to ISIL, and that many of these companies work with competent authorities to shut these accounts down.

As an organisation, ISIL has a propaganda arm called the Al-Itisam Establishment for Media Production and a newly established Al Hayat Media Center outlet, specifically targeting the West by playing on regional sentiments.[54] Al Hayat Media Center is predominantly focused on the distribution of ISIL propaganda via social media platforms, controlling dozens of social media accounts related to the group.[55] Through such accounts, ISIL was able to maximize its ability to go "viral" to gain wide range support by generating a "Twitter storm" on June 18, 2014.[56] A "Twitter storm" is the epitome of internet popularity, creating an opportunity to gain immense support and potential funding.

The development of a Twitter campaign like #AlleyesonISIS and a mobile android phone application free for public download are signs of ISIL's growing technological savvy. [57] Advertised as a way to keep up with ISIL-related news and content distributed by ISIL itself, "The Dawn of Glad Tidings" app strategically tweets varied content. The "Twitter storm" during ISIL's summer offensive, resulting in 40,000 tweets in one day, was due to apps like "The Dawn of Glad Tidings" and a viral contagion furthered by Twitter accounts like @ActiveHashtags that tweet the day's highest trending tags.[58] As a result of its campaign and hashtags such as #ISIS and #Islamicfront, ISIL overtook Jabhat Al Nusra on social media in the summer of 2014 with respect to the number of followers.[59] ISIL's presence on the internet and social media has allowed it generate and convert international support into tangible funds.

Case Study 8: **Fundraising through the Internet**

Intelligence information indicates that some individuals associated with ISIL have called for donations via Twitter and have asked the donors to contact them through Skype. The donors would be asked to buy an international prepaid card (e.g., a credit for a mobile line or to purchase an

[54] Gertz, B. (2014).

[55] Bleiberg, J., and West, D.M. (2014).

[56] Maher, S., and Carter, J. (2014).

[57] Della Ratta, D. (2014).

[58] Berger, J.M. (2014).

[59] *Id.;* Berger, J.M. (2014).


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application or other program which stores credit) and send the number of the prepaid card via Skype. The fundraiser would then send the number to one of his followers in close country from Syria and sell the number of the card with a lower price and take the cash which was afterwards provided to ISIL.

*Source: Saudi Arabia*

ISIL has manipulated social media, physical and virtual social networks, encouraged donations and conducted a marketing campaign in a manner that is consistent with industry standards established by major crowdfunding companies. Crowdfunding is a method of drawing donations from a large group of people through a combination of technology and marketing. Leading crowdfunding platforms have used statistical analysis to optimize online crowdfunding campaigns through the encouragement of "perks" or "donation tiers."[60] Through "donation tiers", a prospective donor is better able to connect with the cause and feel the immediacy of donations, thereby increasing and incentivizing larger contributions. These companies also prescribe specific marketing actions for campaigns which employ different forms of social networking in order to develop support, maintain campaign momentum, and maximize profits.[61]

Case Study 9: **Use of Social Media to Raise Funds**

On 31 May 2014, an individual was arrested and charged by criminal complaint with two counts of receipt and possession of an unregistered firearm silencer. On 16 September 2014, a federal grand jury in Rochester, New York, returned a seven-count indictment charging him with three counts of attempting to provide material support and resources to ISIL, among other charges.

According to the criminal complaint, the individual has used Twitter to post and re-post tweets expressing support of various terrorist groups and violent extremism, and seeking donations to assist foreign terrorist fighters in Syria. The complaint alleged that he stated that money is the largest resource for extremists and people should fight with their money as well as with their bodies and words. He urged people to donate money, often times a third of their salary, as it is considered a type of jihad. These tweets would sometimes list specific weapons and the amount needed to purchase them. One example included asking for specific cash donations of 5,000 USD from each family. Charges contained in an indictment and/or criminal compliant are merely allegations, and under US law all defendants are considered innocent unless and until proven guilty in a court of law.

*Source: United States*

Crowdfunding was observed early in the Syrian civil war as used by rebel groups.[62] According to press reports, the funds arranged through social media by these Syrian rebel groups were

[60] Indiegogo Playbook (2014).

[61] Indiegogo Field Guide (2014).

[62] Ackerman, S., (2012).

commonly wired between private bank accounts and transported across borders by cash couriers.[63] Pledges took the form of several options ranging from the purchase of a single weapon to the funding of an operation or paying for the travel, training and arming of a volunteer fighter.[64] In return for subscribing to a certain donation tier, contributions were commonly reinforced with visual documentation of how the donations were utilized.[65] An example of the aforementioned "perk" or "donation tier" development was posted by the twitter account Jahd_bmalk, an ISIL and AQ-linked cleric, who was seeking donations for weapons. In this post, the cleric promised that if 50 dinars is donated, equivalent to 50 sniper rounds, one will receive a "silver status."[66] Likewise, if 100 dinars is donated, which buys eight mortar rounds, the contributor will earn the title of "gold status donor."[67] An attempt to raise funds via the internet is not only characteristic of key players in ISIL's ranks, but also applies to those who wish to support its campaign.

[63] Warrick, J. (2013).

[64] *Id.*

[65] *Id.*

[66] Gilligan, A. (2014).

[67] *Id.*


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# III. MOVEMENT AND USE OF FUNDS AND OTHER ASSETS

## 1. FINANCIAL INSTITUTIONS

ISIL's operations in large parts of Iraq and Syria give it access to scores of bank branches with operations in these areas. As noted below, the Iraqi government has taken steps to prevent these bank branches from accessing the international financial system through their headquarters, which retain access to the international financial system through correspondent relationships with foreign banks. These accounts could be used to finance trade and to facilitate transfers to and from Syria and Iraq. As the conflict in Syria and Iraq prolongs, there are indications that the conflict, and Syria's underdeveloped banking sector, are forcing funds into financial institutions in the immediate surrounding region.

Case Study 10: **Use of Funds transfers**

According to sensitive financial information, terrorist financing risks were discovered regarding the use of both Electronic Funds Transfers (EFTs) via banking channels and other transfers via Money Value Transfers Systems (MVTS) to areas located near territories where ISIL operates or designated individuals. The location of the receipt of these transfers were often located in areas known to be a funding, logistical and smuggling hub for foreign terrorist fighters and terrorist organisations. In some of these cases, social media have suggested that beneficiaries of funds transfers may have links to terrorist or radical groups. In other cases, excessive cash deposits were made in the US with subsequent wire transfers to beneficiaries in areas located near territories where ISIL operates. Risks identified also included lack of information of the purpose of the wires, the relationship of the receivers or the reason funds transfers were conducted in multiple transactions over short time periods.

*Source: United States*

### 1.1 FINANCIAL INSTITUTIONS IN IRAQ

After the fall of Mosul in June 2014 and ISIL's successive moves into additional provinces in Iraq, there was a strong concern that ISIL could access the international financial system through Iraqi bank branches in territory where it operates. Iraqi banks are largely headquartered in Baghdad, but have branches located throughout Iraq which can process funds transfers via their headquarters in Baghdad through the international financial system. Based on industry reporting and contacts, approximately 90 Iraqi bank branches are located in territory that is either held or contested by ISIL, including in and around the provinces of Nineveh, Salah Din, Anbar, and Kirkuk.

In an effort to prohibit ISIL from exploiting Iraqi banks to access the international financial system, the Central Bank of Iraq issued instructions to financial institutions incorporated in Iraq to prevent wire transfers to and from banks located in ISIL-held territory. The sole bank headquartered in Mosul, Mosul Development Bank, also moved its center of operations to Baghdad in order to mitigate the risks of connecting to the international financial system from its primary location in ISIL-held territory.

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### 1.2 FINANCIAL INSTITUTIONS IN SYRIA

More than 20 Syrian financial institutions with operations in ISIL-held territory continue to operate in Syria. Syrian bank branches in territory where ISIL operates are connected to their headquarters in Damascus; and some of them may maintain links to the international financial system. Several Syria-based banks, including the Central Bank of Syria, Commercial Bank of Syria, and Syria International Islamic Bank, were designated by the US Department of the Treasury and the European Union.[68] As a result, most major financial institutions internationally have probably severed their ties with these banks in Syria, particularly in ISIL-held territory, making it difficult for ISIL to gain access to the regulated international financial system via Syria-based banks. However, there are jurisdictions which the banks operating in the ISIL-held territory are still able to liaise with.

## 2. MONEY AND VALUE TRANSFER SERVICES (MVTS)

MVTS companies provide services throughout Iraq and Syria, including in areas where ISIL operates, according to several US contacts. These financial companies are trusted brokers that have established relationships throughout the region, which allow them to "transfer" funds to finance trade and pay remittances, among other financial activities. These MVTS companies would not conduct wire transfers as banks do, but would send a message via email, fax, or telephone to a local or foreign associate to pay or receive payment from the counterparty to a transaction. The MVTS companies would then settle their business at a later date, either through a physical cash payment or a banking transaction. Since many Iraqis and Syrians do not hold bank accounts, they rely on these often unregulated MVTS companies for sending, or receiving payments from, local or foreign counterparties. ISIL could abuse this system of transferring money, especially as the bank branches under its control have lost their access to the international financial system.

Many money remitters with links to Iraq and Syria use neighboring countries in order to transact with customers and physically move money to these locations. Analysis of international funds transfer instructions (IFTIs) from Australia to Syria and Iraq has supported this displacement of funds – although they appear to reach recipients within Syria and/or Iraq. Australia notes that many legitimate recipients would be included in this funds flow displacement, as would those individuals who have been displaced to refugee camps – also displacing the location of beneficiaries. Analysis has discovered that some remitters have less control/ability to conduct due diligence over end recipients when their former channels of funds delivery are no longer available due to the circumstances in Syria and Iraq. This situation presents a more challenging TF risk environment when it comes to cross border remittances to Syria and Iraq. An example was noted where the remittance business needed its new counterpart to physically move cash across borders to deliver to end recipients – while highly practicable, it does raise concerns for misuse of some or all of those funds in support of ISIL.

[68] US Department of the Treasury, Press Release (2012).


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## 3. SMUGGLING (CASH, GOLD OR OTHER VALUABLE ITEMS)

The UK has noted cash couriers as a known clandestine transfer method for FTFs and that the couriering takes place in aid convoys or is physically moved by individuals transiting borders in the region. Cash seizures from subjects intending to travel from the UK to Syria are a common occurrence. Often times, when cash has been discovered, the subjects were unable to provide an adequate explanation for the provenance of these funds. Intelligence from other countries has noted that ISIL will specifically request FTFs to bring money with them in order to join or participate with the terrorist organisations. One case from Saudi Arabia has noted one passenger who was trying to transport cash over the declaration requirement divided the amount and provided it to three other individuals which could be considered a form of cross-border "smurfing".

Case Study 11: **Cash Smuggling**

A passenger from an EU member state arrived in İstanbul Sabiha Gökçen Airport with four large pieces of luggage and two sport bags. Upon the suspicion by the competent authorities at the airport, he was interviewed and found to be in possession of 3,500 Euro. The passenger stated that he was visiting and would go back to his homeland in a weeks' time. Upon search of his luggage, many pairs of tracking boots, jeans, ISIL labelled t-shirts and sweatshirts and torches were found. He was denied entry and was added to the Turkish no-entry list.

*Source: Turkey*

## 4. FINANCIAL MANAGEMENT AND EXPENDITURE OF FUNDS AND ASSETS

Although ISIL generates a significant amount of revenues, it also has substantial expenses associated with attempting to fund and administer government-like social and economic programs within the territory it occupies. The so-called "burn rate", or amount of money ISIL spends relative to its revenues, is essential to discerning its overall financial position and strength. ISIL's illegal occupation of territory in Iraq and Syria and exploitation of the local population, which is estimated to be five to six million, increases its ability to raise funds through criminal activities, such as extortion and theft. However, providing services to such a large number of people could result in a significant drain on ISIL's coffers. In order to successfully manage the territory which it illegally occupies, ISIL needs sufficient economic resources to provide basic necessities, such as food, water, and electricity to the local population.

ISIL also reportedly pays its fighters on average 350 - 500 USD per month.[69] With an estimated 20,000 to 30,000 fighters in its employ, this alone would represent a 10 million USD drain on ISIL's treasury every month. According to the Monitoring Team Report on ISIL and ANF, based on information provided by a member state, ISIL reportedly pays its members a monthly salary that is

[69] Zalewski, P. (2014).

determined by several factors, including their particular skills and nationality.[70] Using other figures, this salary can range from 50 euros per month for unskilled volunteers to 1,500 euros per month for more skilled members.[71] In addition to a salary, ISIL is also reported to provide other benefits, such as a stipend for each family member of a fighter.[72] One public report noted that ISIL paid a fighter a stipend of 50 USD per month for his wife and 25 USD per month for each child.[73] Additionally, ISIL may also be making regular payments to the families of members killed or captured, as financial records seized from AQI noted that a militant's monthly salary would continue to be paid to family members if the militant was killed or captured.[74]

ISIL is using some of its funds in an attempt to improve its popularity among the populations within the territory it illegally occupies. Some of this spending includes attempts to provide public services, seen in ISIL's purchase of diesel generators for distributing electricity to residents of its territories.[75] Similarly, the group has made attempts to mobilize existing infrastructure to provide basic services to its holdings. ISIL's actions immediately following the capture of Mosul Dam were indicative of its strategy. The group arranged for an engineer at the dam to retrieve electricians from a nearby town in order to restore stalled generators as well as attempts to import Syrian engineers to manage the power plant.[76] If ISIL is successful in acquiring additional energy or oil refinement infrastructure, it would need to operationalize and maintain such facilities. This would require a hefty investment of monetary resources and personnel.

Much of ISIL's funding is contingent upon its ability to refine and transport oil. As such, ISIL has built underground pipelines, and rudimentary stationary and mobile oil refineries. These systems not only take money to initially install, but also to rebuild after being strategically destroyed. Airstrikes have been used to not only inhibit ISIL from acquiring strategic battlefield positioning[77], but also to target its assets and infrastructure, including its refineries and pipelines.[78] Along these lines, 16 mobile refineries were destroyed by the end of 2014.[79] Energy experts estimate that ISIL can rebuild a single mobile refinery in 10 days for 230,000 USD, if it could acquire necessary equipment.[80] 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.

[70] Monitoring Team Report on ISIL and ANF, at 26.

[71] *Id*.

[72] *Id*.

[73] *Id* (citing Institute for Policy Analysis of Conflict (24 Sept. 2014), "The evolution of ISIS in Indonesia").

[74] Bahney, B. et al (2013).

[75] McElroy, D. (2014).

[76] Habboush, M. and Alwan, A. (2014).

[77] Ernst, D. (2014).

[78] Blair, D. (2014).

[79] Johnson, K. (2014).

[80] *Id*.


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While ISIL garners some of its funding from oil, the group is also heavily reliant on this natural resource for military and civilian needs. Through its advances in 2014, ISIL was able to acquire the abandoned battlefield positions, weapons and vehicles previously held by its opponents. Much of the organisation's success is dependent on maintaining equipment it seized from Iraqi and Syrian Regime forces, most notably when it commandeered the major Iraqi city of Mosul.[81] ISIL's reliance on oil, apart from the needs of the region it occupies, has a major impact on the group's net income.

[81] Bender, J. (2014).

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# IV. ISSUES FOR FURTHER CONSIDERATION AND COOPERATION

All terrorist organisations, including ISIL, will always require funds for operational support and to meet broad organisational requirements. As such, terrorist organisations will use diverse mechanisms regarding the collection and movement of funds. Many of the terrorist finance characteristics identified within this report are well known. However, the funding model of ISIL is different from other terrorist organisations and this report identifies a number of unique funding sources and terrorist financing techniques which have not been previously addressed in depth by the FATF. This report has helped identify the most important sources of ISIL funding, particularly of ISIL funds being generated largely within a territory it occupies such as criminal extortion and the sale of oil, and in setting a framework for future discussions and further studies. There is a need to further consider all possible solutions and mechanisms to suppress those funding sources and other resources and to determine which countermeasures are the most appropriate to implement.

It was not possible in this limited report to provide a comprehensive inventory of measures taken by all multinational bodies and individual jurisdictions to address the terrorist financing risks described in this report. That said, the global response on the need address the terrorist financing threat associated with ISIL has been strong and clear. In particular we have seen an improvement in the technical compliance with many of the FATF recommendations resulting in stronger legal and regulatory frameworks. Despite these improvements, many jurisdictions continue to struggle with meeting the technical requirements associated with criminalising terrorist financing (R.5), with abuse of the NPO sector (R.8), implementing targeted financial sanctions to freeze terrorist assets without delay (R.6) and creating legal and operational frameworks to stop, restrain and enable confiscation of cash related to terrorist financing (R.32).Taking into consideration that the 2013 FATF Methodology addresses the effectiveness of AML/CFT systems, jurisdictions should ensure that these TF-related recommendations, which have an important role in the disruption of ISIL funding, are being fully implemented.

## 1. DISRUPTING FINANCIAL FLOWS

Disrupting and dismantling terrorist financing networks is essential in order to combat the ISIL threat. Without financial resources, the capability and activity of terrorist organisations such as ISIL are degraded. Interdicting illicit financial flows can limit their ability to launch attacks, increasing their operational costs and injecting risk and uncertainty into their operations. Disrupting financial flows can also damage morale, leadership and legitimacy within a network.

A number of donors and providers of technical assistance, such as the UN Office on Drugs and Crime (UNODC), have incorporated the concept of disrupting illicit financial flows into their framework. These welcomed initiatives often focus on ensuring member states conduct proactive intelligence-led assessments and on building effective partnerships both domestically and internationally to develop a full range of financial disruption options.


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### 1.1 INTERNATIONAL CO-OPERATION

The need for greater international co-operation between countries to combat the ISIL threat is without question. There is a need for practical action beyond multilateral statements and declarations which rightly call for such action. Attention should be placed on ensuring countries become more active and open to sharing information and intelligence both "spontaneously" and "upon request", in a timely manner, through a range of competent authorities. For example, law enforcement agencies should continue to leverage their international working relationships to proactively identify and develop investigative leads involving illicit money flows related to terrorism and/or terrorist groups such as ISIL. In particular, the TF risks involving FTF travel could be addressed by rapid information flow involving persons who have been identified as FTFs. Discussions should include the sharing of best practices for detecting and investigating individuals who are illicitly financing ISIL. In addition, FIUs should seek to find more effective mechanisms to proactively share information regarding risks to the international financial sector and with non-financial businesses and professions. This can include the use of "on-line" information sharing mechanisms between competent authorities.

## 2. DEPRIVING ISIL OF ITS RESOURCES

### 2.1 TARGETED FINANCING SANCTIONS

The Monitoring Team Report on ISIL and ANF recommended that Member States, in particular those most directly affected by the threat from ISIL, develop additional listings proposals for the Committee under the Al-Qaida sanctions regime of key individuals and entities, including facilitators and those most vulnerable to the impact of being sanctioned.

The MT provided examples of individuals and entities that might be relevant candidates for listing requests, such as:

1. facilitators of FTF recruitment networks based outside of territory where ISIL operates;
2. key individuals involved in providing logistical support associated with ISIL and ANF who may travel and be vulnerable to the travel ban;
3. financiers whose involvement in terrorist funding to ISIL has been established by Member States;
4. companies and smuggling networks that trade in commodities that derive from ISIL, thereby supporting ISIL financially;
5. other parties, including terrorist groups that facilitate or give assistance to ISIL; and/or
6. non-profit organisations involved in providing funding or other material support to ISIL.

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Case Study 12: **Use of Targeted Financial Sanctions**

On 13 November 2014, the Minister for Foreign Affairs, Ms. Julie Bishop, listed the two Australian individuals, Khaled Sharrouf and Mohamed Mahmoud Elomar, under Part 4 of the Charter of the United Nations Act 1945. This legislation gives effect to Australia's international obligations under UNSCR 1373 (2001) relating to the prevention and suppression of terrorist acts.

As a result of the listing all assets owned or controlled by Khaled Sharrouf and Mohamed Mahmoud Elomar are subject to an immediate asset freeze. It is an offence to use or deal with such assets, to allow such assets to be used or dealt with or to facilitate the use of or dealing with such assets, without a permit. It is also an offence to make an asset (of any kind) available, directly or indirectly, to the listed persons without a permit.

*www.dfat.gov.au/sanctions/*
*Source: Australia*

## 2.2 OIL SMUGGLING AND SALES

There have been efforts to suppress the sale of ISIL oil and oil products on regional markets, such as enhanced counter smuggling efforts of the Turkish authorities in the past two years, as well as recent steps taken by the KRG and Iraqi Government authorities to seize suspected ISIL-related shipments of oil and oil products.

Case Study 13: **Efforts on Counter Smuggling**

Turkey provided statistics on counter oil smuggling, demonstrating that the amount of seizures of smuggled petroleum has shown a steady increase since 2012, when the government introduced enhanced measures with an Action Plan upon finding an increase in attempted oil smuggling along the Syrian border. Following capture of oil fields by ISIL by summer 2014, the seizures of smuggled oil increased sharply, reaching 20 million liters at the seven Turkish provinces bordering Iraq and Syria. The amount of seizures of smuggled petroleum products and oil by Turkish authorities was raised to 79,238,759 liters in 2014 from over 73,000,000 liters in 2013 and the number of intercepted smuggling incidents since 2012 has increased from around 4,000 to 10,000.

*Source: Turkey*

There is a need to better identify the origin, middlemen, buyers, carriers, traders and routes through which oil produced in ISIL-held territory is trafficked. There is also a need to better understand financial flows and the role of the international financial sector with respect to the oil trade. This is important because the value chain does not only create revenue streams for ISIL, but also generates local economic dependencies on illicit activity. In this respect an important example was provided with effective steps taken by the Kurdistan Regional Government (KRG) in northern Iraq after ISIL's


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advance in summer 2014.[82] To ensure further measures, intelligence, findings and evidence regarding transnational ties and connections of local smugglers should be shared with other jurisdictions. This could involve a wide range of actors from both the government and private sectors.

## 2.3 KIDNAPPING FOR RANSOM

Jurisdictions should make use of UNSCRs 2133 (2014), 2170 (2014), 2161 (2014) and 2199 (2015) in the scope of countering the financing of ISIL. In order to adhere to these UNSC resolutions dealing with ransom payments, financial institutions should avoid processing attempted transfers through the international financial system of ransom payments to listed individuals and entities.

In relation to insurance companies, the 16th report of the Monitoring Team highlights the value of sanctions exclusions clauses in kidnapping and ransom policies. Such clauses are generally worded very broadly and provide that the insurer is not liable for paying any claim that would expose the insurer to a breach of relevant sanctions obligations, including United Nations sanctions.[83] The Monitoring Team recommended that the Al-Qaida Sanctions Committee suggest that Member States encourage insurance companies in their jurisdictions to incorporate such clauses into kidnap and ransom insurance policies in accordance with their national legislation.[84]

Case Study 14: **Criminalizing Ransom Payments**

The United Kingdom's (UK) Terrorism Act 2000 prohibits the provision of funds to terrorists under any circumstances (s15). It also prohibits the entrance into an arrangement as a result of which funds may be made available to terrorist (s17). The threshold – reasonable cause to suspect – is intentionally low. These offences have extra territorial effect.

However, two recent cases highlighted a lack of clarity in the law as it related to insurance payments, meaning there was potential for UK insurance/reinsurance firms to find themselves in a position where they are called upon to reimburse to insured parties for payments, (such as ransom payments), where they know or have reasonable cause to suspect that the funds have gone to terrorists. Existing UK terrorist finance legislation, while comprehensive, is not explicit on whether or not such reimbursements were prohibited in law. This clearly went against the UK Government's clear stance on kidnap for ransom.

To put beyond doubt that such reimbursements are illegal, the UK Government introduced a measure in the CT and Security Bill, currently before Parliament, making it an offence for insurers (or reinsurers) to reimburse a payment which they know or have reasonable cause to suspect has been made in response to a terrorist demand.

*Source: United Kingdom*

[82] Hurriyet Daily News (2014).

[83] United Nations (27 Oct. 2014).

[84] *Id.*

### 2.4 FUNDRAISING THROUGH MODERN COMMUNICATION NETWORKS

This report has shown that in terms of its external donor networks, ISIL is beginning to draw material support from grass root-level individual contributors rather than soliciting funds from deep pocket donor networks. The examples in this report emphasise how ISIL has used social media platforms to secure individual-level acts of material support which are delivered through wire transfers, bank transactions, or cash couriers. Emerging technological advancements have created novel virtual pathways to solicit and transfer funds instantaneously to any location. These expanded internet-based pathways provide more anonymity and greater opportunity for fraud and the obscuring both the source and recipient of the funds. To effectively combat this approach, international focus must shift to also include grass root funding by lessening the opportunities for ordinary citizens to contribute to ISIL's campaign.

Case Study 15: **Using the Internet/Twitter for donations**

As of January 2015, the Saudi competent authorities addressed individuals and entities calling for donations for the Syrian people over the internet. Those calls were through social media, including Twitter, and included local and international banking accounts the donors could transfer to.

The authorities imposed temporary attachments which resulted in a "preventive temporary freeze" on local bank accounts and prevents international transfers. A total of 61 local bank accounts have been identified and blocked. The account holders include nine different nationalities. After investigation, 16 out of those accounts have been released. On the other hand, 29 foreign bank accounts in four countries and representing 20 beneficiaries have also been identified and measures have been taken to prevent any wire transfer from Saudi banks to those accounts.

*Source: Saudi Arabia*

### 2.5 MATERIAL SUPPORT AND FTFS

Greater efforts should be taken to prevent the flow of foreign terrorist fighters travelling to the conflict zones to join terrorist groups. Some jurisdictions have placed travel bans on their nationals who have supported, or are associated with, ISIL, and some jurisdictions have indicated they would strip the nationality of those citizens. As noted in section II.4 of the report more work is needed to develop red-flags to better identify the funding mechanisms FTFs utilize which should involve greater domestic cooperation among AML/CFT bodies and other authorities. Cooperative efforts could include identifying and freezing of FTF's bank accounts, annulment of their debit/credit cards and criminalizing fund transfers for their use, particularly after their departure from their countries.

## 3. PREVENTING ISIL FROM ABUSING RELEVANT SECTORS

### 3.1 FINANCIAL SECTOR

In an attempt to mitigate potential losses, regional bank branches have started to enact failsafe manoeuvers. Large international banking groups have begun to relocate staff in their regional branches from areas around ISIL-held territory to safer locations both within and outside of Iraq. These groups have advised their major multinational clients to minimize assets held in Iraq, and


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suspend correspondent banking with Iraqi banks located in ISIL-held territory. According to industry sources, some Iraqi banks with branches in territory where ISIL operates have also shuttered their operations, including by removing cash assets to safer locations. An additional consideration is that bank branches and/or other financial service providers in areas occupied by ISIL's could conceivably be forced by ISIL to attempt to establish some level of connectivity with financial institutions or transaction messaging providers servicing their particular region. Awareness of such vulnerabilities further assists members to contain ISIL's threat to regional and international financial systems. The recently adopted UNSCR 2199 (2015) urges Member States to take steps to ensure that financial institutions within their territory prevent ISIL, ANF, or other individuals, groups, undertakings or entities associated with Al-Qaida from accessing the international financial system.

Case Study 16: **Enhancing Preventative Measures**

On 22 September 2014, the Government of Canada updated the Criminal Code list of terrorist entities to include ISIL, which was previously known as Al Qaeda in Iraq. Following the FATF statement of October 2014 FINTRAC, the Canadian FIU, advised that reporting entities consider the listing and FATF statement when deciding whether to file a suspicious transaction report in respect of financial transactions or attempted financial transactions emanating from, or destined to, the jurisdictions occupied by ISIL and the surrounding jurisdictions. Reporting entities were also encouraged to undertake enhanced customer due diligence with respect to clients and beneficiaries involved in such transactions or proposed transactions.

*Source: Canada*

## 3.2 CULTURAL ARTEFACTS

Those who buy the artefacts or their proxies at some point intersect with the regulated financial system in order to send or receive payments. UNSCR 2199 (2015) calls on member states to prohibit cross-border trade in Iraqi and Syrian cultural property and other relevant items illegally removed from Iraq and Syria. The financing for the buying and selling of tainted antiquities can be disrupted as auction houses, financial institutions, and other legitimate businesses involved in the antiquities trade, by urging these institutions to adopt or implement policies that require clear, certified documentation that identifies the origin of the artefacts. Banks should refrain from processing transactions for antiquities that originate in Iraq or Syria. Steps could be taken to ensure that private sector actors have a better understanding of the sites in Iraq and Syria that are being plundered and of the routes that are being used. In addition, dealers in the antiquities realm could be urged to report suspicious behavior, fraudulent paperwork or knowledge of stolen artefact circulation.

The European Commission (EC) notes that pursuant to Article 3 of Council Regulation (EC) No 1210/2003 of 7 July 2003 concerning certain specific restrictions on economic and financial relations with Iraq, trade in Iraqi cultural property that has been illegally removed from locations in Iraq is prohibited (giving effect to UNSC sanctions in relation to Iraq). EU restrictive measures in relation to Syria include a similar prohibition which is Article 11c of Council Regulation (EU) No 36/2012 of 18 January 2012 concerning restrictive measures in view of the situation in Syria.

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## 4. STEPS TO LIMIT HUMANITARIAN CONSEQUENCES FOR POPULATION

The Syrian crisis is the largest, most complex humanitarian emergency of our time. Humanitarian needs in Syria have increased twelvefold since the beginning of the crisis, with 12.2 million in need of humanitarian assistance. This is more than half of Syria's pre-war population and includes 7.6 million internally displaced people and more than 5.6 million children in need of assistance. In Iraq, more than 5 million people are in need of humanitarian assistance, including more than 2 million innocent children, women, and men who have been displaced. It is critical that these vulnerable populations receive humanitarian assistance.

Distinguishing between legitimate and illegitimate donations is a challenging task. It is important that efforts and measures aiming at combating terrorist financing should not affect legitimate provision of humanitarian assistance to vulnerable populations. Moreover, the potential impact as a result of the possible restrictions on contributions may delay, reduce or prevent life-saving assistance provided to refugees and internally displaced persons. However, the possibility of abusing charities by ISIL or its affiliates directly or indirectly for fundraising or funding activities needs to be recognized.

The UNSC has unequivocally supported the provision of humanitarian access to populations in need, including in contexts in which humanitarian actors operate in close proximity to an active terrorist threat. More specifically, in UNSCRs 2139 (2013) and 2165 (2014), the UNSC authorized the provision of humanitarian assistance to populations in need in Syria. Resolution 2139 (2013) demand that all parties to the conflict, and in particular the Syrian authorities, promptly allow rapid, safe and unhindered humanitarian access for United Nations humanitarian agencies and their implementing partners.[85] The latter resolution reaffirmed the need to ensure humanitarian access and authorized additional routes across international borders.[86] Additionally, paragraph 3 also established a monitoring mechanism, under the authority of the United Nations Secretary-General, aimed at confirming the humanitarian nature of relief consignments crossing into Syria.[87] UNSCR 2191 (2014) renewed the decision to create additional routes and to establish a monitoring mechanism for a period of twelve months, until 10 January 2016.[88]

[85] UNSCR 2139 (2014), OP5.

[86] UNSCR 2165 (2014), OP2.

[87] UNSCR 2165 (2014), OP3.

[88] UNSCR 2191 (2014), OP2.


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Case Study 17: **Official channels for donations**

**Case 17.1:**

In July 2012 Saudi Arabia launched a national donation campaign for Syrian refugees and called upon all Saudis to take part in helping the Syrian refugees. The Saudi Ministry of Interior announced that the campaign would cover all parts of the kingdom so that all Saudi citizens would get the chance to offer the Syrian people what they can to help them in their time of crisis.

A day of Solidarity with the Syrian Children was inaugurated on February 25, 2014. On that day large number of Saudis turned out with huge donations on to support the national campaign. There after a caravan of 60 trucks left Riyadh, carrying relief supplies, including food and medicine meant for the children of Syria. The Campaign, which started since 2012, has spent more than SR708 million to help the afflicted people of Syria.

*Source: Saudi Arabia*

**Case 17.2:**

The Prime Ministry Disaster and Emergency Management Presidency of the Republic of Turkey (AFAD) oversee the humanitarian response to the Syrian and Iraqi crises, including the collection and distribution of donations. Furthermore, national and international non-governmental organisations can operate in Turkey only if they are registered with the Ministry of Interior as per the relevant laws and regulations in place. The number of Syrians living in Turkey under temporary protection has reached 1.6 million. Turkey has so far spent close to 5 billion USD to serve the needs of Syrians in Turkey; the total bilateral and multilateral support it has received remains at 300 million USD.

Turkey's cross-border humanitarian assistance cooperating with the United Nations in the implementation of the UNSCRs 2139, 2165 and 2191 to Syrian people distributed at the "point-zero" of selected border gates through the Turkish Red Crescent reached 330 million USD since August 2012. Turkey has been providing humanitarian assistance for all Iraqis seeking protection in Turkey and IDPs without any discrimination. Furthermore, Turkey has built three IDP camps in northern Iraq.

*Source: Turkey*

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# V. CONCLUSION

The purpose of this report was to understand how ISIL obtains and moves funds in order to (*i*) disrupt financial flows, *(ii)* deprive ISIL of its resources, and (*iii*) prevent ISIL from abusing relevant financial and economic sectors. As highlighted in the report, a number of traditional countermeasures used to deprive terrorist organisations of its funds are not applicable with respect to the new model adopted by ISIL. However, like any terrorist organisation, ISIL's financial, logistical and supply networks are vulnerable. Disruption of command, control and economic structures will hinder ISIL's ability to finance its operations and support its fighters.

A number of the funding tactics ISIL employs have not yet been assessed by the FATF, such as extortion of goods, cash transiting territory where ISIL operates and grass-root funding strategies. The FATF should consider undertaking further research into emerging terrorist financing methods and trends in order to better inform both the public and financial sectors, including non-financial businesses and professions.

Further, all international AML/CFT bodies and organisations including FATF's Global Network are integral in countering ISIL financing given the diverse geographic scope of the terrorist financing risks identified. All efforts should be made to call on all countries to fully implement counter-terrorist financing measures in accordance with the FATF standards to include adequately criminalizing terrorist financing, ensuring a robust targeted financial sanctions regime and creating legal and operational frameworks to stop, restrain and enable confiscation of cash when reasonable grounds for suspicion exist of terrorist financing.

Finally, in an effort to disrupt ISIL's external funding sources, focus should be put on the identification of the origin, middlemen, buyers, carriers, traders and routes through which oil produced in ISIL-held territory is trafficked. This would align with the recently adopted UNSCRs 2170 (2014), 2178 (2014) and 2199 (2015) on this subject. Further, robust preventative measures and effective supervision and enforcement are central to ensuring that MVTS are not abused for ISIL-financing purposes. This should include effective mechanisms to identify, monitor and take action against illegal MVTS operations.

To conclude, this report contributes to the international discussion to update global counter terrorist finance efforts and will help identify existing and potentially new countermeasures that could be utilized to deprive ISIL of its resources and disrupt its financial flows. Still, further consideration will have to be given to determine how best the international community can prevent ISIL from using or benefiting from the financial and commercial sectors under its control.

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