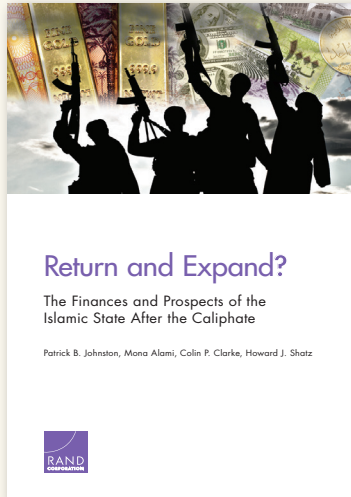




التحالف الإسلامي العسكري لمحاربة الإرهاب
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BOOK REVIEW 13



RETURN AND EXPAND?

The Finances and Prospects of the Islamic State After the Demise of the Caliphate

Dr. Patrick Johnston, Dr. Mona Alami, Dr. Colin P. Clarke, Dr. Howard J. Shatz

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Book Review

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Book Review

Return and Expand?

The Finances and Prospects of the Islamic State After the Demise of the Caliphate

In March 2019, Daesh was defeated and expelled from the territories it had seized in Iraq and Syria, which is the size of Britain. Does this mean the demise of the organization? It depends on the financial condition of the organization and its future alternatives. The current research study seeks to explore the methods in which the organization raised and spent funds, while analyzing the financial experience of the organization in the past, and its potential in the future, monitoring the impact and the possibility of emergence over and over again. The research study was conducted by the International Center for Security and Defense Policy at the "RAND Corporation".

Attempt to Return

The authors emphasize that Daesh will inevitably seek to return, and that will require financial support, and it will do what it consistently did in the past; diversifying revenue sources. Daesh has demonstrated its ability to raise funds through criminal activities, and it appears that it has significant assets to hold. Given its current situation as a manifestation of rebellion rather than a regional authority as was the case before, its overall expenditures will inevitably be much less than they used to be. Daesh has earned billions of dollars in revenue, used to control territories, create a semi-autonomous statehood, run the lives of millions of the residents of such territories, and establish an army that carried out deadly terrorist operations throughout the Middle East and the world.

A multinational military campaign successfully destroyed and eliminated the so-called statehood of Daesh. However, reports still indicate Daesh activity in many parts of Iraq and Syria, and that ISIS revenues continue, albeit at a lower level than it was. In early 2019, reports stated that Daesh kept more than \$ 400 million in assets. The slogan of Daesh during its so-called caliphate was “enduring and expanding.” The question now is whether the organization is “Backtracking and Snowballing”?

Daesh Revenues

Daesh had huge and diversified financial flows, ranging between one billion and two billion dollars annually; seeking to collect funds from local sources instead of relying on external donations,

including revenues from oil and gas fields as well as local taxes and sale of antiquities. However, in 2017, the organization-controlled area decreased by 60%, and its revenue decreased by 80%. Despite the demise of Daesh, and the loss of control over the territories, there are still fears that it will keep records of individuals who were under its control, and that they may be used to increase its revenues by terrorist methods without the need to control the territories. The organization is still able to launch complex attacks as long as it has the funds and support.

Post-Caliphate Sources

Following the collapse and destruction of its state, Daesh has demonstrated its resilience and determination that it can return. The organization has restructured its security and financial architecture not only to raise revenues, but to transfer money as well. Oil remained a source of income for the organization long after it lost control of the major oil fields. A report issued by the US government in late 2018 indicated that blackmail, smuggling and selling oil products are the main sources of the organization revenues. For example, four members of the organization oil and gas network were killed in May 2018 operations in the Euphrates River Valley in Syria. A report issued by the International Security Council in late July 2018 stated that Daesh had regained control of oil fields in northeastern Syria, and continued to extract oil, whether for private use or for sale to the local population. By the end of December 2018, the media confirmed that Daesh controlled the oil fields in Deir Ezzor Governorate in

Syria, and until October 2018 the organization was transferring and maintaining funds.

Between 7 and 9 October 2018, Iraqi Special Operations Forces and Counter-Terrorism Forces in Kurdistan, in cooperation with the Coalition Forces, arrested ten members of the Financial Rawi Network linked to Daesh in Baghdad and Erbil. In December 2018, the documents revealed significant reserves of the organization and investments in many legitimate businesses. According to a report published in the Iraqi media, the organization has earned nearly \$ 280 million in investments in the real estate, fish farming and car trade sectors.

Analysts note the shift in how Daesh generates its funds. By late 2018 and early 2019, there were various estimates of the organization assets; one of which was estimated at \$ 400 million.

In the wake of the expulsion of Daesh from the cities it once controlled until 2018 and stopped spending on such cities, transferring these funds into legitimate businesses has become one of the ways to preserve and even develop such funds. In some cases, business owners who invest these funds may not be aware of the sources of such funds, and in other cases, they may know and are enthused to make additional profits, or they may know and sympathize with the Organization. It is reported that Daesh has many cash storage sites, and media reports, quoting the Kurdistan Regional Government, indicate that some of these assets have been buried throughout Iraq and Syria. Reports of Daesh shift to illegal investment schemes and company ownership are still limited. In the same vein, reported activities indicate that the organization can still engage in sophisticated financial criminal activity to keep its war machine secretly energized while rebuilding the whole organization to gain momentum.

Money Transfer

Daesh transfers money using informal financial institutions, such as those that the Al-Rawi network deals with. In December 2016, the US Treasury imposed sanctions on "Fawaz Muhammad Jabir Al-

Bardawil Al-Rawi," who is one of the major funders of Daesh, through his "Hanifa Exchange" company in the Syrian city of Albu Kamal. It was the first time that the Treasury Department had identified a Daesh-linked financial services institution. In June 2017, the Treasury Department imposed sanctions on "Al-Kawthar Exchange" and its owner, "Omar Al-Kubaisi", which is linked to Daesh, following the monitoring of deposits and withdrawals with the "Hanifa" Company, whose owner, "Al-Rawi," was killed two days later in an airstrike on 16 June 2017. Other methods of transferring funds are available to Daesh. In March 2019, a network of more than a thousand fighters for the organization was exposed, each of whom smuggled 25 thousand dollars from Syria to Iraq, as of September 2018. The security sources estimated that the total amount smuggled was more than two hundred million dollars.

Restructuring

ISIS has withstood and weathered many challenges, and it has been a constant threat throughout its history with its various methods and organizational anomalies. When a senior leader was killed or captured, others were ready to take over. The autonomy accorded to parts of the organization increases its ability to adapt rapidly to changing circumstances. Daesh has applied this ability to adapt to its financial behavior, benefiting from various opportunities to collect revenues as conditions change on the ground.

As of 2019, there were clear signs that the organization had regrouped. In all parts of Kirkuk in Iraq, its fighters built fake checkpoints to ambush Iraqi security forces operating in the area, destroyed oil tankers and targeted Shiite civilians in Kirkuk, Diyala, Salahuddin and others. In Syria, the organization retained the ability to carry out complex, sudden attacks in all of the territories controlled by the opposition or the government. The organization continued to fight regime forces in Hama and Homs.

Daesh has also maintained its ability to recruit new fighters, which has helped it sustain itself despite its losses on the battlefield. Admittedly, it is true

that the recruitment process is slow, and the new recruits are often local from Syria and Iraq, in light of the restrictions on the travel of young men from Europe and the West.

The Book explains that Daesh following its defeat is now a low-level insurgency, and it will not defeat the government and control more territory, even if this type of insurgency creates long-term conflicts. The defeat of the caliphate of the organization was an important achievement, but it did not turn directly into the defeat of the insurgency to which the organization returned, and its continued access to financial resources could keep it alive so that it could benefit from the government failure in Iraq or Syria, or any other country in the region suffering a high level of political instability.

Financial Future of Daesh

The organization achieved a sharp decrease in its expenditures after losing the territories, with its revenues decreasing, while reorganizing and restructuring itself, with a significant reduction in expenditures in three methods:



The organization faced a military attack on almost all its fronts. When it was besieged, it was impossible for it to allocate all of its resources to fighting purposes, because it had to allocate funds for administration and governance, so the organization faced the problem of striking a balance between military spending and spending to manage the areas it controlled.

As highlighted by the book, the thing that the organization has demonstrated its prowess in is the balance of its revenues and expenditures. Even when its treasury was full of cash, its budget remained disciplined, a characteristic that benefited it very well in austerity times. The organization closely tracked expenditures, held its members responsible by following a wide range of

restrictions and oversight at all levels. Furthermore, maintaining its organizational structure was a top priority, as salaries were the highest expenditures, along with military expenditures, while little was devoted to services.

Despite declining revenues and territorial losses, the organization can still launch strong attacks, as it did in the eastern city of Deir Ezzor in late November 2018, when its forces killed nearly 100 fighters from the US-backed Syrian Democratic Forces. It is expected that, in the future, the organization will generate revenue through extortion, corruption, theft and looting.

Blackmailing Population

Going forward, the organization seeks to revitalize its revenue streams by blackmailing residents who live in areas where the Iraqi and Syrian governments operate, or alternative entities such as the independent administration of northern and eastern Syria. Even when these governments and authorities can act, Daesh is likely to have influence over the people. A United Nations report in early 2019 acknowledged this issue: "Some reports reveal that the organization maintains intelligence about local communities that it can use in the future to extract money in another way from areas previously under its control."

Benefiting from Business and Construction

There is another way in which Daesh can continue to earn money without the need to control the ground as an organization despite its financial and operational distresses. With the end of the conflicts in Iraq and Syria, the international community and regional influences will be called upon to help rebuild the destroyed cities. The previous Daesh organizations, such as Al Qaeda in Iraq and the so-called Islamic State in Iraq, blackmailed construction companies and other entities during their work to rebuild cities, towns, and villages, especially between 2008 and 2011. These groups did not control any territory at that time, Daesh is

likely to repeat the same process in the next few years, when reconstruction begins in war-torn areas throughout Iraq and Syria.

Other Assets and Revenue Sources

Daesh has many other sources of revenue, and the sale of antiquities through smuggling networks and brokers is still an option. Other methods include kidnapping for ransom, taking advantage of the personal data it collected about the population it once ruled. It is well established that Daesh has significant financial assets, some of which are investments in legitimate businesses and that can provide it with a steady flow of revenue for years.

Preventing Daesh from Returning

Ensuring the demise of Daesh requires several concerted efforts, including combating terrorist financing, domestic and international information gathering, law enforcement, reconstruction, a better government in Syria and Iraq, and finally military action.

The most important measures in Iraq and Syria will be the collection of local intelligence and law enforcement. The authorities will need to identify the companies that have investments in Daesh, money storage sites, money exchange companies and the transfer of funds that cooperated with the organization. As of late 2018, Daesh had a network of money services, remittances, and financial facilitators who finance terrorism throughout the Middle East. Law enforcement and local intelligence even have more important impact, which is creating security for the population and ensuring that reconstruction funds are not extorted. Actions against Daesh-linked financial institutions will require the collection of international information and real cooperation between countries in the region. An environment in which people feel safe when informing the authorities of regulation activities, and ensuring that they will not be able to benefit from and participate in reconstruction contracts must be guaranteed.

The rebuilding process can also help reduce the chances of the return of Daesh that people joined and to other groups for various reasons, and although poverty might not be the most important reason, financial need leads some people to join these organizations. Therefore, stability and reconstruction will be important elements to protect Iraq and Syria from the return of Daesh.

Likewise, ensuring that Daesh does not return requires a better government. The return of the organization between 2009 and 2013 to parts of Iraq and Syria had several reasons, including the presence of authoritarian governments. In Iraq, for example, armed groups have benefited from the anger of the Sunni community, its denial of rights, and the government harsh response to the peaceful movements of protest that turned it into an armed rebellion. People who have been forced to cooperate with Daesh in Iraq may face a double threat. On the one hand, Daesh could blackmail them by threatening to report them to government authorities, and on the other hand, they may face legal danger from government officials, or reprisals from Shiite-dominated militias, known as the Popular Mobilization Units (PMF), and may trigger incursions by these units. The incursions by the PMF, arrests and raids by regular Iraqi government forces at checkpoints in areas that were under the control of Daesh could exacerbate existing unrest and renew the grievances among Sunni Arabs who have returned to these areas.

In Syria, the situation is worse. The military campaign of the Assad government included large-scale violent bombing of civilian areas and the use of chemical weapons. The government appears to have participated in a systematic campaign of mass killing. The government took steps to confiscate the property of its opponents, refugees, and internally displaced persons, who account for at least half of the country population before the war. In some cases, homes and apartments were offered to foreign Shiite fighters from Afghanistan, Pakistan, Iraq and Lebanon.



Military Solution

Military action is still required, as the war against Daesh demonstrated the limits of combating terrorist financing, as the sanctions were impractical to stop Daesh progress, even strikes on oil infrastructure and cash storage did not paralyze the organization. There will still be a need for serious and determined military action to eliminate many of the organization cells throughout Iraq and Syria, guard the borders and retain territories that may be at risk of recovery.

The primary role of the United States of America as remarked by the authors of the Book is to continue its activities to fight Daesh financing by tracking the flows of the organization funds, punishing its financiers and associated financial institutions, and cooperating with regional central banks and financial intelligence units in this area. Facing Daesh financing may also involve a military component. In the past, the organization financial resources have deteriorated with military measures, such as arresting or killing members of the organization, and launching air strikes on its facilities and

storage sites. Those procedures revealed a set of documents that provided important evidence on financing activities, and led to further measures towards the organization.

Conclusion

The authors of the book highlight that Daesh is a rich terrorist organization but was a poor state, and although it currently has much less money than it had in previous stages, it is important to remember that its expenditures are now at a minimum level compared to what they were until 2017, when it was trying to preserve the last remnants of its state. With the loss of the last territories it once controlled, it no longer had an administration responsible for providing health care and education services, municipal salaries and public works. While losing the resources due to its territorial control, the organization drastically reduced the operating budget, allowing it to content itself with its funds to buy equipment and remain a clandestine terrorist movement with the ability to launch guerrilla campaigns throughout Iraq and Syria.

The Authors

Dr. Patrick Johnston is RAND chief political scientist. His research and analysis are concerned with terrorism and insurgency, illicit economies, and threat financing, with special expertise in Daesh and conflict in the Philippines. He testified before US congressional committees and the Canadian Parliament as an expert at hearings on Daesh and terrorist financing. He holds a PhD in political science from Northwestern University, and received fellowships at Harvard Kennedy College, Stanford University and the United States Institute of Peace.

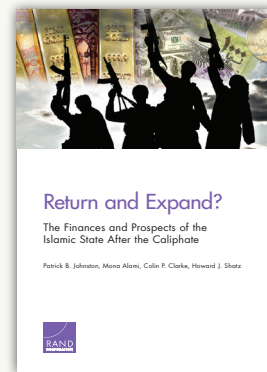
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