Terrorist Financing and the Islamic State

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Examination of Terrorist Financing and Ways to Mitigate the Risks

If there was a global commitment, we would pull the plug on terrorist financing in a day, and ISIS would be incapacitated in a month because no terrorist organization is a financial island.

EXECUTIVE SUMMARY

The Islamic State (“ISIS”) is a profitable multinational business, a transnational criminal organization and a terrorist group. It is currently funding a nation-state larger in territory than the UK, and needs significant financial resources to survive and access to our financial system. Without much impediment, we give ISIS access to our financial system, and that access threatens international security, democracy and the global economy.

There are three stages of terrorist financing: Stage 1, “Funding”, Stage 2, “Delivery”, and Stage 3, “Terrorism”. While global efforts to date have focused on the funding stage, the critical stage to end terror is the Delivery Stage because, without the transfer of funds, a terrorist organization is unable carry out its attacks.

In order to effectively regulate the Delivery Stage, we need to understand the sources of terrorist financing. By September 2014, ISIS had revenues of at least $2 billion per year from internal and external sources, including ransom payments; taxes and fees levied by ISIS in its territories; profits from the sale of oil and stolen antiquities; proceeds from ISIS’ sex and slavery business; and seizures of banks.

We know that ISIS has moved into Turkey to set up business, and through there and other places, ISIS, its businesses and its leaders continue to have access to our financial system. Defectors to ISIS from the rest of the world also continue to use financial services from their home countries, particularly bank cards, and home-grown terrorist who commit attacks in the West also use our financial system.

In order to protect the financial system from being used for the financing of terrorism and minimize the risks to international security, there are key areas with which banks and other money remittance services must focus on, including closely monitoring funds travelling to conduit countries, regulating digital payment systems, and monitoring for certain markers of terrorist financing in financial transactions.

To stop terrorist financing, a greater effort is required to ensure that financial institutions of all types do not further the delivery of funds to ISIS. This will require investing in counter-terrorist financing legal compliance regimes that are truly effective and address the underlying law.
INTRODUCTION

As the threat of the Islamic State (“ISIS”) continues to increase globally, there will be enormous pressure on the global financial private sector to take whatever steps it can to stop the financing of ISIS, and for counter-terrorism policymakers to find solutions to ensure that another well-financed group like ISIS cannot emerge. As of the date of this White Paper, however, neither the public nor the private sectors have done enough to detect or prevent the financing of ISIS.

Structured Like Original Islamic State

To understand the terrorist financing threat, it must be appreciated that ISIS is three things – a profitable multinational business, a transnational criminal organization and a terrorist group. It is currently funding a nation-state larger in territory than the UK.

It is organizing its structure similarly to the way the first caliph ran the first Islamic State in the seventh century.

ISIS’ form of gang-style intimidation.

Its financial structure (terrorist financing) is mostly an adoption of the economies of the earlier Islamic State. Since the Umayyad period, the Islamic State was usually divided into provinces with an amir or sahib appointed by the caliph who exercised control over each jurisdiction, including fiscal administration and the appointment of judges. The judges administered the religious charitable foundations, called waqf, that were financed by everyone. Except for the adoption of modern conveniences, technology and know-how, the new Islamic State has reversed the clock 1,400 years, a fact that is important for comprehending and detecting their goals and their specific terrorist financing methods.

ISIS Threat

ISIS is a threat because its goal is to create a state of tension in Western states. In addition to violent acts, such as beheadings, suicide bombings and mass murders, they aim to financially cripple the West by attempting to attack critical infrastructure and drain Western economies to create chaos so they can achieve political control, eradicate existing culture and establish their own.

Obviously, they begin at home base (Syria) and expand outwards. They are not alone in this goal – Boko Haram does the same. In the last 18 months, ISIS and its precursor group have promised to “drown us all in blood,” “bleed us dry,” and worse, and for decades to come, through their children.

Terrorists Need Financing & Access

Although self-evident, terrorists need financing to commit acts of terrorism, and most importantly, access to our financial system. Another self-evident point is that we give terrorists the access to our financial system that they need without much impediment. There is no dispute that ISIS and its members and sympathizers currently use our banks and our global financial system. Money and value goes in and out of Syria and Iraq ISIS-controlled areas, for and from ISIS and their leaders and to conduct trade, most of which is attached in some way to accounts at financial institutions. ISIS is not the best funded terrorist organization in history, but it certainly is in modern times.

When the West wilfully or blindly facilitates the financing of terrorist organizations, we give terrorists the necessary tools to succeed. When they succeed, they threaten international security, democracy and our global economy.

THREE STAGES OF TERRORIST FINANCING

There are three stages of terrorist financing.

Stage 1, called the “Funding Stage”, involves third parties that raise funds for terrorist organizations. Most of these activities are financial transactions. In this stage, ownership or title in property, money or other assets is usually transferred to a person or entity that is fund-raising for the terrorist organization. At the end of this stage, the funds raised are legally held by the fundraiser. There may be cases where a wealthy person intends to use their own funds for terrorist organizations and in that case, there is no financial
transaction and no transfer of ownership but rather their property is earmarked for transfer in stage two.

Stage 2 is the “Delivery Stage”, whereby funds raised or allocated for terrorist groups are delivered or transferred to a terrorist organization. This may or may not be a financial transaction. For example, money mules that deliver funds do not perform financial transactions on paper.

Stage 3 is the “Terrorism Stage”, whereby the terrorist organization now has the resources it needs to commit terrorist acts, and carries out those acts.

**The Three Stages of Terrorist Financing**

The critical stage in the continuum is the second stage, the delivery of funds to a terrorist organization. Without completion of the delivery stage, a terrorist organization is incapable of carrying out terrorist acts. The activities in stage one are only a threat if and when a person can transfer funds in the second stage. If we eliminate the ability to transfer funds in the delivery stage, a fund-raiser for ISIS is neutralized in terms of terrorist financing, and his neutralization neutralizes ISIS.

The FATF Recommendations and national laws that flow from them are focused primarily on detecting, preventing and prosecuting activities in the funding stage (as we see with the focus on charities), not primarily on the delivery stage (the transfer mechanisms used).

**INITIAL SOURCES OF TERRORIST FINANCING**

How ISIS was funded initially is a separate story, but according to the US Treasury, a lot of it was from private donations from individuals and organizations in Qatar and Kuwait.

In 2013, Qatari banks apparently filed only one suspicious activity report (“SAR”) under anti-money laundering laws for the whole country, yet some of its richest individuals and organizations allegedly paid millions of dollars in cash and via wire transfers to ISIS, a stage 2 event. For example, an individual named Tariq Bin al Tahar Bin Al Falih al Awni al Harzi, a.k.a. al-Tunisi, is alleged to have arranged for ISIS to receive $2 million from Qatar in one transaction alone, which flowed, in part, through banks unimpeded. This was not the one SAR filed in Qatar. Despite allegedly funding ISIS, no SARs were triggered in respect of any financial transactions made by al-Tunisi.

**Al-Tunisi, the “Emir of the Suicide Bombers”**

Another individual from Qatar, Abd al-Rahman bin Umayr al-Nuaymi, is alleged to have sent more than $1 million per month to the al-Qaeda group that morphed into ISIS. Al-Nuaymi was an advisor to the Qatari government and therefore in law, a politically exposed person (“PEP”) everywhere. As a PEP, he was at high risk for money laundering and the commission of other financial crimes. Financial institutions the world over who banked al-Nuaymi were required to monitor his financial transactions and those of his family and associates more closely and to undertake enhanced due diligence over their transactions. Al-Nuaymi was not, however, ever treated as a PEP by banks. He was placed on the US sanctions list in December 2013 and only recently placed on the UK sanctions list.

By the time ISIS emerged on the international radar in January 2013, it was already earning at least $100
million a year. As of September 2014, it had revenues of at least $2 billion per year.

**CURRENT SOURCES OF TERRORIST FINANCING**

In this White Paper, we describe 12 known ways ISIS is funded, both externally and internally. External networks are easier to eliminate than internal methods, but both engage our financial system.

1. **Ransom Payments**

One of the most consistent methods in which ISIS is funded is by ransom payments they receive for kidnapping. This is an external method. ISIS has confirmed that up until recently, it earned approximately $10 million per month in ransom payments made by foreign states and insurance companies for the release of kidnapped persons. Ransom payments are made to ISIS in US cash derived from banks in the EU. Under this method of terrorist financing, foreign brokers act as middlemen to broker the transactions, bringing the cash into Syria or Iraq (Stage 2 of terrorist financing), through a conduit country in exchange for the kidnapped individual. ISIS couriers then bring the cash back to ISIS headquarters. The brokers liaising for the foreign governments with ISIS earn commissions from these illegal transactions, which they deposit in banks in Europe.

2. **Taxes**

The largest source of financing for ISIS is through taxes, an internal funding method imposed on businesses, industries, farms and people in acquired territories that engage the local economy and do not initially flow through our financial system. Inhabitants and businesses of the Islamic State are required to pay a myriad of fees for, *inter alia*, taxes on transportation imposed at checkpoints, gasoline taxes, land taxes, customs taxes, electricity taxes and commercial transaction taxes. At least $360 million is generated by internal ad hoc taxes to ISIS. Some of it is pure extortion and the rest is the more systematic collection of taxes in exchange for services, such as hydro-electricity. The practice of extortion was common in the first Islamic State, and they had a Bureau of Confiscation.

The ISIS taxation system on people, businesses and services should not be underestimated as a significant source of terrorist financing revenue. Not surprisingly, banks under the control of ISIS are being used for tax collection purposes for ISIS, including the People's Credit Bank in ar-Raqqah, which collects municipal taxes for ISIS, circumventing the government.

3. **Christian “Right to Live” Taxes**

Christians must pay life taxes to ISIS, which are taxes Christians must pay as a “tolerance” tax if they do not convert, or are not first killed. It is a tolerance tax because Christians must be “tolerated”, which requires compensation to the community. But it can more...
accurately be described as a tax that Christians must pay for the privilege of life. If a Christian cannot pay or refuses to pay ISIS, they are killed.

Receipt for a Christian “Right to Live” tax paid to ISIS.

Given the inability of Christians to be employed in ISIS controlled areas by virtue of their religion, and the confiscation of their assets by ISIS, eventually every Christian will reach a point in time where they will be unable to pay. The tax is like a life insurance policy payment only the payment of insurance preserves a person’s life and the failure to pay results in his or her extermination. The right to live tax imposed on Christians by ISIS is based on a similar practice during the first Islamic State wherein “People of the Book” were required to pay a tax, but there were some collection differences.

Salary Taxes

Locals in the Islamic State have said that ISIS deducts 5% from everyone’s salary as a tax, except in the case of Christian and Yazidis whose salaries are confiscated, if they hold jobs at all. This model is not sustainable long term in Syria with a dwindling population and destruction of the economy by ISIS.

3. Oil Sales

ISIS controls oilfields and refineries in Syria and Iraq, and several pumping stations in both countries, although, following attacks from allied forces, that number is dwindling. In Syria, ISIS controls 60% of oil production capacity, and in Iraq they control 10% of oil production capacity, from which they earned about $150 million per month in September 2014.

ISIS controlling oil fields.

To sell the oil, ISIS deals with oil dealers, middlemen, tribal leaders and shipping companies who buy crude oil from ISIS at reduced market prices in Turkey, Iran, Kurdistan and Jordan. It is not possible to traffic in terrorist oil without the involvement of, and support from, financial institutions, unwittingly or not.

There have been widespread allegations that ISIS is able to finance its terrorist activities through oil sales with the support of the existing government agencies in Syria, Iraq and Turkey.

Syrian officers allegedly helped ISIS export oil.

This activity engages terrorist financing involving global financial institutions because the vendors (ISIS), the middlemen (brokers) and the purchasers must use the banking system to effect the transactions equalling $150 million per month. Note that there are multiple daily sales transactions, that together, equal $150 million, ergo thousands of terrorist financial transactions going through banks, some in cash and some not.

4. Utilities

ISIS is in control of utility infrastructure in several areas and charges businesses, industries and individuals for providing water, electricity and phone services,
thereby establishing a continuing stream of revenues. They also control hydroelectric dams in Syria, including the Tishreen and al Ba’ath dams. According to locals in Aleppo, ISIS sells hydroelectricity to the Syrian government.

5. Mining and Manufacturing Plants

ISIS has taken control of phosphate mines in Iraq and sulphuric acid, phosphoric acid and cement plants in Syria and Iraq, many of which were foreign-owned. The combined revenue of those activities was $1.3 billion per year. ISIS cannot operate industrial mines and plants without buying industrial services and goods from other countries and paying for that trading activity internationally. Providing goods and services to the manufacturing sector controlled by ISIS is a type of illegal trade-based terrorist financing, and banks that support ISIS based trade, facilitate terrorist financing and are providing material support for terrorism.

6. Sex & Slavery Businesses

In the Umayyad period in the former Islamic State, one of the most lucrative businesses was trafficking in slavery. The new Islamic State is re-instituting this practice except only with women. Slavery trafficking is not the same thing as human trafficking, although the anti-money laundering typologies are the same.

In the former, women are outright sold – not for services, but for ownership and, unlike human trafficking, they may be sold domestically or internationally.

ISIS fighter sells Yazidi girl for $350 on Facebook.

ISIS has set up prostitution businesses in certain towns and cities in which they occupy using primarily teenage girls that they force to work in such businesses.

They sell captured Christian or Yazidi women and children in the local marketplace and to buyers in other countries. According to human rights agencies, there are websites in which captured girls are priced and listed for sale from $8 to $12 per girl. One of the many disturbing videos circulating on YouTube is of ISIS soldiers casually getting ready for an auction to buy Yazidi girls for a few dollars, in which they discuss that one over the age of 15 is worth less than a younger one, and comment on the girls’ lack of rights because they are so-called “slaves”.

Below is a tweet by an individual whose Twitter account says he is a Canadian living in Kuwait who, in response to a tweet about a Yazidi “slave girl”, asks if he can buy one also and to have her sent to Kuwait. He then recommends the establishment of an IS express service. This person’s tweet requesting to buy a girl was first published by an anti-terrorism watch group. The tweet is hard to reconcile coming from a person purportedly connected to Canada.
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“Can I buy one too [slave]?”

In addition to Twitter, other social media platforms are used for offensive forms of terrorist financing to benefit ISIS in this way, most notably Ask.fm.

Ask.fm post by ISIS on cost of ISIS slave.

7. Real Estate Rentals and Sales

In territories that ISIS controls in Syria and Iraq, homes, businesses, industrial sites and agricultural land owned by individuals that ISIS finds objectionable were confiscated. They include Christians, Shiite Muslims, army and police officials, politicians, government officials, lawyers and judges. ISIS inventoried the properties and apparently filed property transfer records for ownership, then sold the properties at public auctions, or currently rent them out, collecting monthly revenues.

In Mosul locals said that in 2013, the land registry offices were taken over by ISIS long before they conquered Mosul, and administrators were assassinated when they did not let ISIS access land records. ISIS pre-identified which properties, businesses and lands were owned by Christians and began extorting them for taxes in late 2013.

When ISIS took over Mosul in June 2014, properties and businesses owned by so-called objectionable individuals were confiscated by ISIS.

Today, ISIS collects significant revenues as rental income from individuals who rent homes and farms, or operate businesses, industrial sites and farms.

8. Seizures of Banks

ISIS has taken over many banks in towns and cities in which they occupy.

Banks in Iraq

In June 2014, ISIS seized several private and public banks in Mosul, including the Central Bank of Iraq. According to the Governor of the Nineveh province, there was $425 million in cash at the Central Bank of Iraq, now in the hands of ISIS.
All across ISIS controlled areas, ISIS has taken vast sums of cash from banks and other financial institutions as a quick terrorist financing method.

According to locals, the Mosul Bank continues to be operated by ISIS managers, and conducts transactions with our financial system, even though every such transaction is ISIS controlled.

Tweet allegedly showing US cash seized by ISIS.

In January 2015, ISIS opened its first bank called the Islamic Bank, in Mosul. People in Mosul say that all of the bank employees are members of ISIS and people are being forced to bank there.

**Banks in Syria**

In parts of Syria under ISIS control, the banking system is controlled and managed by ISIS, including in ar Raqqah and Deir es-Zor. In ar-Raqqah, the People’s Credit Bank is used by ISIS as the tax collection authority for utilities, and it levies fees of $20 per month on each customer for utilities.

These banks continue to function normally, connected to transacting with our financial institutions. For example, they operate ATM machines and exchange US, UK and Canadian currency. The banking clients include ISIS members and defectors from the West.

**Bank Commissions**

In order to withdraw funds from banks in the Islamic State, account holders must go through a 3-person ISIS committee to prove they are the account holder and are not Christians, Yazidis, Shiite Muslims or members of the government. This latter group of prohibited persons has, under ISIS, automatically forfeited money held in their accounts to ISIS. If a person is not within the prohibited group, in order to withdraw funds, a commission must be paid to ISIS equal to between 3%-5% of each withdrawal.

**9. Sale of Antiquities**

On a wide scale, ISIS excavates antiquities in Syria and traffics them to Western art collectors through brokers in Turkey and Lebanon. Payments for antiquities sales all involve our banks and are a form of terrorist financing that is obviously prohibited.

According to brokers for ISIS, the persons financing ISIS in this way are art dealers from the UK, Switzerland and Germany who buy several antiquities in bulk, apparently for €500,000 or €1 million, paid for by wire transfers. Antiquities are then sold to private art collectors in the EU.

**Destruction of antiquities by ISIS.**

A person found in possession of antiquities acquired from ISIS or that originated from ISIS will likely be prosecuted for terrorist financing, providing material support to a terrorist organization and possessing terrorist property.

Antiques trafficked by ISIS are uninsurable because they’re not just proceeds of crime, but proceeds of terrorism, the possession of which is illegal.

**10. ISIS Currency**

According to locals in Mosul and certain Twitter accounts, ISIS has issued its own currency available in two gold coins, three silver coins and two bronze coins, minted with Islamic State approved imagery. No one outside of the Islamic State has confirmed whether the currency actually exists.

A terrorist organization issuing its own currency is an insidious new type of terrorist financing because not only is the whole currency based on and funded by, terrorist activities but each use of the ISIS dinar for goods and services is an act of terrorist financing.
In December 2014, ISIS members had conversations on Twitter and Ask.fm, two of their preferred recruitment platforms, about the progress of the new ISIS dinar in which, *inter alia*, they said was costing the organization £100 million to mint, suggesting that a mint was coming from the UK, or some parts of it.

In early January 2015, ISIS installed billboards in several places in Mosul, including the University of Mosul, announcing the advent of the ISIS dinar and extolling its virtues and benefits, including that it would save Syrians and Iraqis from the “unjust and satanic financial system” in the rest of the world.

![Official release of money minted by IS (IS) has started (2)](image)

**Tweet of ISIS currency officially released.**

According to the billboards, one gold dinar will cost $139.

The creation of an Islamic State dinar is consistent with a step back in time to recreate the financial system that existed under the earlier caliphs. Abd al-Malik, the caliph who ruled from 685 – 705, was the first to mint new coins that bore his image and verses from the Koran. Before then, the former Islamic State used coins from Persia and the Byzantines.

There are ISIS sympathizers in the UK already asking about acquiring the ISIS dinar on Ask.fm and no doubt there will be some external sales of the dinar to support ISIS when it is minted. As well, coin collectors and others who are not ISIS sympathizers will look to collect the dinar for its novelty value. The purchase and possession of an ISIS dinar is terrorist financing, ergo illegal.

11. **Drug Trafficking**

According to locals in ar-Raqqah, an ISIS stronghold, ISIS has begun to traffic in illegal drug sales, which they traffic externally.

Locals in ar-Raqqah say that many of them are employed to plant and work at cannabis farms that ISIS has set up to sell to drug organizations in Turkey.

12. **Fundraising from Charities**

The extent to which ISIS has been able to obtain financing for its activities through charitable donations remains unknown. Traditionally, charities are widely used for terrorist financing, as is evident from the activities of the LTTE for many years, and many other listed terrorist groups.

**Saja al-Dulami, former wife of al-Baghdadi.**

The arrest of al-Baghdadi’s former wife, Saja al-Dulaimi, provides some evidence that ISIS obtains funding from aid organizations that ostensibly raise funds for refugee children. Al-Dulaimi pretended to be a refugee fleeing ISIS to enter Lebanon, when in fact, she acted as a money mule for ISIS, transporting funds from a charity that she collected in the refugee camp in Lebanon to Syria.

Refugees in camps have said that they are infiltrated by members of ISIS and their families.

**ISIS USING OUR FINANCIAL SYSTEM**

1. **ISIS in Turkey**

According to news reports in Turkey, ISIS opened its first consulate office in Ankara, ostensibly to be able to issue official visas, and also opened several businesses in Ankara and Istanbul. According to those reports, ISIS leaders have also purchased luxury secluded homes, and armoured vehicles and have rented office spaces. These are typologies that are typical in every transnational criminal organization.
Twitter account of ISIS consulate in Turkey.

All of these activities, from purchasing houses, cars, operating consultates, and running new businesses in Turkey require the constant use of banks, bank accounts and banking relationships in Turkey.

The ISIS move into Turkey to set up businesses is likely being done to formalize their operations, part of which is to establish bank relationships through commercial activities so that ISIS can access financial institutions in Europe, an activity that is more difficult from Syria or Iraq with sanctions in place.

It may seem surprising that Turkey is allowing ISIS to operate openly in their country, but Twitter accounts have pictures from Istanbul and Ankara of stores that sell ISIS garb, flags, books, magazines, propaganda and other paraphernalia, and pictures of ISIS armoured vehicles driving through the streets, unimpeded in the operation of their newly established businesses.

Terrorist paraphernalia sold in Turkey.

Given the emergence of ISIS, and the tens of thousands of Yazidi and Christian girls that are missing from Syria, it is likely that many of them are transported to Turkey through Gaziantep and sold to people from Turkey and the Gulf States, and that one of ISIS’s material businesses in Turkey is slave trafficking. It would explain the need for large secluded homes, armed vehicles and a multitude of bank accounts, which are typologies in human trafficking.

ISIS may be issuing purportedly official travel documents from Syria and Turkey so that they can travel under new identities to gain access to other countries for trade, including financial trade. Saja al-Dulaimi and her daughter with al-Baghdadi had official fake ID from Syria (they are Iraqi nationals) to travel to act as money mules from Lebanon to Syria for ISIS. As is evident in the March 2015 video of three British schoolgirls who defected to join ISIS, official fake passports are provided to defectors in Gaziantep from ISIS to leave Turkey.

We should not assume that ISIS has not figured out that it needs to secure reliable access to the global financial system for survival, and that it knows we could shut them out of it and bleed them dry if we voted to do so by strictly enforcing counter-terrorist financing and anti-money laundering laws globally. We should assume, therefore, that they have already secured access to banks directly in Turkey.

2. Banking ISIS

There are many banks operational in ISIS-controlled territory that are still connected to our financial system with correspondent banking relationships. The Syria International Islamic Bank in Syria has several branches, operates national ATMs, does foreign currency exchange and has online banking, even though it is subject to US sanctions.

In addition, banks in Istanbul, Ankara and towns along the border, such as Gaziantep, bank ISIS members. American money services businesses also provide financial services to members of ISIS in Syria, Iraq, Turkey and Lebanon, no doubt unwittingly.

SIIB Bank offers ATM & currency exchange in ISIS-controlled areas.

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In the Gulf States, it is likely that bank accounts were set up for ISIS a while ago and ISIS’ precursor group became the bank’s VIP customers as more and more revenues were deposited. The best way to avoid detection for suspicious or terrorist financing activities is to become a bank VIP and move to private banking under a beneficial ownership structure. Although private banking clients are more high risk for financial crimes, terrorists and money launderers know that banks treat private banking clients preferentially in terms of identity, transaction monitoring and anti-money laundering reporting, and regulators turn a blind eye on enforcement of AML/CTF for wealthy and prominent private banking clients. ISIS is sufficiently sophisticated to issue corporate annual reports highlighting their financing activities and changing land title records to illegally take control of businesses and property owned by Christians; there can be no question they have corporate vehicles through which they launder their proceeds of crime and terrorist proceeds at foreign banks.

The Qatari financiers referred to above who allegedly initially funded ISIS, are bank VIP customers in Qatar; their transactions would be less scrutinized, not more. As noted above, just one SAR was filed in Qatar last year despite the multiple million dollar withdrawals in US funds, paid to ISIS.

3. Banking ISIS Leaders

Generally, state leaders who acquire power undemocratically take great pains to accumulate wealth and preserve it by removing funds from domestic areas of conflict to overseas safe havens for future use by them or their families, usually their children. The reason we have a politically exposed person (“PEP”) reporting regime is to prevent this from happening. We know from the Ukrainian crisis, in which an alleged $70 billion was removed to offshore accounts by PEPs, that the PEP regime is seldom applied or enforced. Because PEPs are VIP bank customers, they get preferential treatment in terms of ID and account scrutiny. The PEP regime is not limited to those who acquire power democratically – it applies to financial institutions when they bank ISIS leaders as much as it applies to legitimately elected state leaders, their family, friends and close associates.

We can expect, therefore, that the ISIS elite has moved or will move, vast sums of money to other jurisdictions in the world through close family members (who are PEPs by definition). The money and its ownership will be more difficult to tie to ISIS leadership because, *inter alia*, it originates from a state over which ISIS has effective control in some parts and in which they can create an endless number of new identities and passports to use for travel and to open and use foreign bank accounts.

An example is Tarkhan Tayumurazovich Batirashvili, also known as Abu Omar the Chechen, one of ISIS’ most powerful leaders. He joined ISIS because he was tired of living in poverty in Georgia and without power. He likely has parked funds in other jurisdictions.

As noted earlier, al-Baghdadi’s former wife, Saja al-Dulaimi, is a PEP and was able to access banks in Iraq, Syria and Lebanon to transit funds for ISIS. ISIS women in Syria have tweeted that ISIS maintains bank accounts in Saudi Arabia, and that is likely accurate.

4. Banking Businesses that Supply Goods & Services to ISIS

ISIS undertakes a large volume of trade from Syria, Iraq and via Turkey. They buy food, vehicles, weapons, equipment, industrial goods and services, clothing and countless other goods and services. All of this trade requires the use of bank accounts in the West. And all of this trade provides material support to ISIS and is, ergo, terrorist financing.

ISIS also sells goods and services outside of Syria and Iraq, which also requires foreign banking services.

Funding the Sybaritic Lifestyle

One thing we have not seen is evidence in ISIS controlled territory, of extravagant living by al-Baghdadi and those closest to him, which is inconsistent both with the typology of leaders of terrorist groups and transnational criminals.
organizations, and inconsistent with the sybaritic lifestyles of some of the former caliphs of the Islamic State. For example, Yazid I had gold bracelets made for his hunting dogs and the wife of Harun al-Kachid refused to wear any shoes unless they were studded with precious stones. We have seen cases where ISIS has asked defectors to bring luxury items from the West to them, but these are on a very small scale.

It would be surprising if there were not a luxurious ISIS compound in existence in Iraq that is buying and importing luxurious items from the West into Syria or Iraq. To wit, this photo below, of a new BMW M5.

*ISIS brides with shiny new BMW from France.*

This photo was pushed out by ISIS’ PR arm for recruitment propaganda about how the purported equality of women under ISIS’ regime allows ISIS women to drive cars and carry loaded machine guns. The PR message backfired because the luxurious car is hypocritical to ISIS’ stated position that they live a simple life and shun Western luxuries. However, the foreign importation of luxury goods, as the photo proves takes place with ISIS, is consistent with the typology of ISIS as a transnational criminal organization.

That ISIS could buy a BMW from France and have it transported all the way to Syria unimpeded underscores the theme of this White Paper, namely, that ISIS has access to our financial system in the EU and Gulf States and trades readily with the West.

5. Using Bank Cards

In Iraq, the advance force of ISIS, called the House of Islam, is dominated by foreigners, including several thousand North Africans, Europeans, Australians and Canadians. They land in places like Turkey, travel to border towns like Gaziantep and then cross over to Syria and join ISIS where they are put at the front lines to fight. When they defect from the West, they leave with debit cards, value added cards and credit cards linked to bank accounts in the West. Those cards are used when defectors arrive overseas to pay ISIS’ joining fees and to buy uniforms and fighting gear. Their friends and families may be then called upon to fund their activities by loading up bank accounts so that they can withdraw funds in Iraq or Syria.

Financial institutions, money services businesses and other remittance services are unwittingly used to finance terrorism by facilitating payments and funds transfers for use in terrorist hot spots.

All financial institutions know the extent to which their customers are undertaking financial transactions in terrorist hot spots or conflict zones. Credit and debit card issuers also know, in real time, when their products are used and precisely where, by virtue of the card magnetic strips that generate an electronic message to the issuer through the merchant’s POS machine or at an ATM machine. In places under ISIS control, these cards should be immediately restricted and terrorist financing reports filed.

ISIS members have tweeted that there are still ATM machines all around from which they readily withdraw cash.

6. The Funding of Domestic Terrorism

Terrorist financing is also used to support home-grown terrorist attacks in places like Canada, France, Germany, Australia and the US and to support terrorists, such as to pay for travel, training, rent, social media activities, Internet access, cellular phones and phone plans.

Terrorist financing in this area may involve payments from the exterior to lone wolf-types persons or larger groups but more often it involves domestic funding whereby persons fund activities in furtherance of terrorist activities that are domestic. The amounts are significantly lower than other types of terrorist financing but are just as significant because an attack to domestic critical infrastructure requires much less in the way of an economic investment by terrorists.

**Stopping ISIS Financing**

Insurance companies, financial institutions, and other financial payment service providers that provide
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terrorist financing services to ISIS by, *inter alia*, making ransom payments, banking ISIS leaders, or bank companies that do business with them, negatively impact the integrity of the global financial system and threaten international security, as do businesses and individuals that trade with ISIS by buying stolen artefacts or terrorist oil.

Financial institutions and remitters also risk reputational damage to their organizations and may harm NGOs that provide humanitarian and other aid in conflict zones for engaging in terrorist financing. Obviously, as well, they are exposed to litigation claims for terrorist financing, sanctions avoidance and regulatory action for doing so, both institutionally and for their directors and officers individually.

The government role is to provide greater and better education on terrorist financing to financial institutions and the population generally. Its role also should involve mandating greater regulatory scrutiny over financial institutions, money services businesses and online payment processors for compliance with terrorist financing laws. There has been historically very little enforcement for terrorist financing compliance at banks, including for PEP enforcement, that needs to change.

In order to protect the financial system from being used for the financing of terrorism and minimize the risks to international security, there are key areas with which banks should be careful in addition to those that arise from the foregoing:

- Funds involving the use of conduit countries to fund terrorism such as Turkey, Lebanon, Jordan and UAE and sanctioned areas, especially towns that border ISIS controlled areas.
- Use of the banking system by ISIS, its agents, terrorist oil purchasers, antiques buyers, traders to Syria, insurance brokers and others to move funds to and from terrorist organizations and in many cases to tax havens through wealth management companies using beneficial ownership structures.
- Co-mingling funds such as sending multiple wires in a bundle to hide the actual sender or recipient of the funds – this is common with Dubai banks that co-mingle wires to move sanctioned funds from Iran.
- Sending funds to known hot spots using remittance services and banks, between individuals in home jurisdictions and the hot spots, mostly from Western states to conduit countries.
- Online payment systems and stored value cards, particularly in conjunction with social media wherein ISIS uses Twitter and WhatsApp to solicit requests for payments by PayPal and other online payment methods. Banks providing services to online payment service companies should be exceedingly cautious in respect of unwittingly facilitating (by transferring and providing banking services) payments to ISIS.
- Digital payment systems that are new, such as digital currencies, may pose an emerging risk of terrorist financing which is increasing as they grow in popularity because they are by design, anonymous, and it is not possible to know with certainty who the transactor is behind transfers of digital payments.
- Use of debit cards in high risk jurisdictions, particularly in cases where the client is in the West but the card is being used in the Middle East.
- Multiple low-value transfers domestically and internationally without any reason or obvious connection.
- Sudden activity in an account that is inconsistent with customer profile.
- Multiple parties using the same telephone number or address to conduct wire transfers.
- Draining bank accounts for no legitimate reason.

To stop terrorist financing, a greater effort is required to ensure that financial institutions of all types, including money services businesses, eliminate delivering and transferring funds to terrorist organizations and eliminate providing banking services to terrorist organizations and their sympathizers wherever they may be in the world, including in the West.

It will require investing in counter-terrorist financing legal compliance regimes that are effective and address the underlying law. It is not the time in the history of financial services to take shortcuts in the quality and effectiveness of counter-terrorism efforts. Apparent dollars saved in compliance will be paid ten times over in liability costs for terrorist-related compliance failures and personal injury litigation for terrorist-related deaths.
White Paper on Islamic State Funding

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