

To Spot Terror Funding, Look More at Local Crime: Analyst

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Among the many challenges of identifying terrorist funds is the fact that they can be hidden in plain sight, according to Colin P. Clarke, an associate political scientist at the RAND Corporation who studies the subject.

Not only are the monetary amounts tied to terror acts relatively small, but they may also be linked to seemingly unrelated crimes perpetrated locally, according to Clarke. Funds raised by members of Islamic State, also known as ISIS, ahead of last month's shootings in Paris stemmed in part from fraud schemes and other financial crimes, he said.

Clarke, who authored the recently published *Terrorism, Inc.: The Financing of Terrorism, Insurgency, and Irregular Warfare*, spoke with reporter Larissa Bernardes about Islamic State's funding and the hurdles nations face in cracking down on the group. What follows is an edited transcript of their conversation.

What are Islamic State's chief sources of revenue? What makes it different from other terror groups in terms of financing?

Primarily ISIS is gaining revenue from the smuggling and trafficking of oil. Right now, [oil is] believed to be their top moneymaker, about \$1 million dollars a day. I caveat that by saying that coalition air strikes on refineries are definitely having an impact, though there's a lag effect before we can tell exactly how much of an impact.

They are also getting a significant amount of money through extortion, protection payments and taxation, and that's in the area the group controls. That's one of the huge differences between ISIS and al-Qaida. Whereas al-Qaida relied quite significantly on donors from abroad, particularly from the Persian Gulf, ISIS is able to tax the people living in the areas it controls. Al-Qaida never actually held territory. So for ISIS, this is a renewable resource that is consistently draining money from the people that live in these large swaths of territory in both Syria and Iraq.

You write about the fact that al-Qaida in Iraq (AQI) is a predecessor of Islamic State. When it comes to fundraising, what did Islamic State learn from AQI?

They've learned a lot from al-Qaida's vulnerabilities. I just mentioned the fact that ISIS does not rely on external donors. That's partly because they saw the success that Western countries had in shutting down those donors by pressuring the governments in Saudi Arabia, Kuwait, UAE, Qatar and other places to sanction individuals. So those kinds of donations and donations [processed] through charities are a lot more vulnerable than preying on people that are living in territories that ISIS controls. It's a really hard nut to crack. There's no local law enforcement to speak of in those areas. It's ISIS. So there are very limited ways to actually pressure the group in that regard.

What role has semi-legitimate, or "gray economy," revenue played for Islamic State?

In terms of gray versus dark economy, I think ISIS relies a lot more on the dark economy, simply because it makes them much more money. [This involves] mafia-style activities, like extortion, and the smuggling and looting of antiquities.

One thing that I should mention that is important—and this is what makes ISIS so resilient—is that a lot of the group's finances are exclusively raised and spent locally. There's not a lot of money spent crossing borders. It's remaining within the territory that ISIS controls.

Syria has been named as a purchaser of Islamic State-controlled oil. Would you characterize how significant of a role the Syrian government has played? What are the other sources of oil revenue?

It's quite significant because the Assad government knows that it's in a tough place because it needs to keep the lights on, literally. It needs electricity and oil for its military vehicles, so it's forced to barter with ISIS and therefore aid the enemy that it is actually fighting. There have been other reports that oil is crossing into Turkey and parts of Iraq, particularly the Kurdistan [region].

What has prevented governments from more effectively blacklisting Islamic State's oil sales?

It's about getting on the same page. [The United States] can't get governments in the region to agree that ISIS is the primary threat because everyone has got their own issues. The Turks are primarily concerned with the Kurds. The Saudis are primarily busy with Yemen at the moment. Everyone has different objectives and ISIS doesn't always top that list, especially with the Sunni states since ISIS is a Sunni organization.

What can be done better?

I think we're doing everything we possibly can [in terms of sanctions]. The other part of it is being vigilant, making sure the money doesn't ultimately make its way into the licit financial system. So we need to be keeping a close eye on correspondent banks in Turkey and creating public-private partnerships to ensure that everyone is on the same page and watching that this money doesn't make its way into the financial system. The banks that are [most at risk for receiving the money] should make sure they are doing their due diligence, following know-your-customer rules and all your standard practices.

The Group of 20 has promised more action on terror financing in response to the rise of Islamic State, as has the Financial Action Task Force. What has hindered them from doing more to date?

It's really hard to get so many different countries to agree. But it's a double-edged sword in that, in order to be successful, you need more countries on board. But the more countries you have on board, the tougher it gets to agree on what's most important because everybody has their primary, secondary and tertiary interests.

European nations—France and Germany, in particular—have proposed or implemented several counterterrorist financing measures over the past year, including lowered reporting thresholds for financial institutions. How do you view these steps and which measures should be prioritized?

I think it's a step in the right direction. It's part and parcel to a comprehensive response. In the international community, people tend to get tied up focusing on the nexus between transnational organized crime and terrorism, but lately I've been urging people to look more at local organized crime and terrorism. If you look at some of the individuals that were part of the network that attacked Paris, these folks were local criminals, local folks who raised

money through fraud and other ways before going to fight in Iraq and Syria and then coming back and attacking as ISIS.

It's important to remember that, in many ways, effective terrorism can be cheap and not every plot is going to be a Sept. 11-style plot. A lot of times, these groups or individuals in small cells are going to be relying on activities in the gray economy, different types of fraud and even things as banal as mortgage fraud, credit card fraud, and welfare fraud—things where they can get a quick couple of thousand or ten thousand dollars that they need to buy the equipment and weapons and rent cars in order to take care of the logistics angle, particularly if they intend to die in the end anyway. They then won't be concerned with paying loans back.

Do you have any advice for banks on how to better identify terrorists' funds given that the amounts are usually so low?

It's hard to say because it would depend on where the bank was located and what their particular threats are. There are different threats emanating from a Mexican drug cartel than there are from an Islamic terrorist group. The threat is so unique in certain circumstances that you really need a tailored approach and there's really no one-size-fits-all [method] to keeping banks safe.

What is known about the terrorists' use of virtual currency platforms, such as Bitcoin?

At this point, it's largely speculation. I don't have any evidence to date that terrorists are actively using Bitcoin, but it's certainly something that we should be concerned about and it could be something that could potentially be a problem in the next three to five years, if not sooner.

How do you see counterterrorist financing evolving going forward, both on a national level and within the financial sector?

Two things: to be successful there has to be closer integration, such as more interagency cooperation, which sometimes people treat as a throwaway term. It's one of those recommendations people slap onto the end of any report and say something like, 'foster interagency cooperation, improve the rule of law and promote good governance.' Yeah, well, no kidding. But how do we actually do that? So thinking about how these things can be implemented and how they can be effective is a huge part of the challenge.

The other part is technology. Terrorists, insurgents and criminals are always attempting to stay at least one step, if not several steps, ahead of law enforcement and intelligence. How are they relying on technology? How are they adapting? And relatedly, how do we counter-adapt and try to make sure we don't see a repeat of something like Paris or the Madrid bombings in 2004?