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## U.S. Efforts to Counter the Financing of ISIL

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Good morning, everyone, and thank you to the Washington Institute for hosting this important conversation. WINEP has been putting out some tremendous work on every aspect of the threat posed by the Islamic State in Iraq and the Levant (ISIL), so it's an honor to be here today and to shed some light on how we at the U.S. Department of the Treasury are approaching this issue.

As part of the international campaign to degrade and ultimately defeat ISIL, we at Treasury, along with colleagues throughout the interagency, are leading an effort to attack ISIL's financial foundation. We have made tremendous progress in understanding ISIL's revenue sources and financial activities, but we continue to work to fill the remaining gaps in our knowledge. At the same time, we are working to prevent ISIL from using the funds it has accumulated, and to disrupt its access to new funds.

Today I will explain our current understanding of ISIL's revenues and expenses, outline our approach to date to counter ISIL's financing, and provide an overview of additional steps we will take in the coming months.

### **ISIL's Financial Picture**

ISIL's primary sources of revenue are derived from (1) robbery and extortion, (2) the sale of oil, (3) ransom payments for kidnapped victims, and (4) donations from abroad. I'll address each one of these in turn.

ISIL raises at least several million dollars per month by robbing, looting, and extorting a portion of the economic resources in areas where it operates. This estimate excludes money to which ISIL has access in banks in ISIL-held areas, which I'll discuss momentarily. ISIL extorts money in connection with everything from fuel and vehicles transiting ISIL-held territory, to school fees for children, all 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, and agriculture.

Treasury estimates that during 2014, ISIL probably gained access to at least half of a billion dollars from seizing control of state-owned banks in northern and western Iraq. In addition, ISIL has assumed control over

the accounts of the Shi'a, Christians, and Yazedis, and possibly forces Sunnis to pay the group 10 percent of their cash withdrawals.

Last year ISIL may have earned as much as several million dollars per week, or \$100 million in total, from the sale of oil and oil products to local smugglers who, in turn, sell them to regional actors, notably the Asad regime. While we continue to map out ISIL's oil-related activities, we estimate ISIL's ability to use oil as a source of revenue is diminishing due to the impact of coalition airstrikes on the oil-related infrastructure under ISIL control.

In 2014, we estimate that ISIL earned at least \$20 million from collecting ransoms for kidnapped victims.

Foreign donations represented an important but comparatively smaller source of revenue for ISIL in 2014. However, externally raised funds are used frequently to finance the travel of extremists to Syria and Iraq. Of note, at least 19,000 fighters 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 a source from which ISIL receives both physical and some monetary support.

### **Efforts to Counter ISIL's Financial Activities**

I will now turn to the international coalition's efforts to limit ISIL's ability to use the funds and other economic assets under its control, as well as restrict ISIL's ability to gain access to new funds.

#### *Steps Taken to Restrict ISIL's Access to the International Financial System*

Foremost among these efforts have been steps taken to prevent ISIL from accessing the international financial system. ISIL's control of territory gives it access to banks that it can potentially exploit to conduct international transactions. Without restrictions on financial institutions under ISIL's control, ISIL would be able to more easily receive foreign funds to finance its activities as well as send payments abroad to procure weapons and other goods to sustain itself.

The Government of Iraq has taken some important steps to address this issue, including issuing national directives to its banks to prevent wire transfers to and from bank branches in territory where ISIL operates and halt the sale of hard currency to these banks. This has been important in two respects. First, it prevents an ISIL-affiliated individual or entity from using a bank under the government's control to transact through the domestic or international financial system. Second, banks operating in ISIL-held territory can no longer receive cash infusions to finance their operations, which averts potential ISIL exploitation of additional cash as a source of revenue.

Treasury has been working to ensure these restrictions remain in force by engaging closely with foreign counterparts to conduct enhanced due diligence with respect to financial activity emanating from territory where ISIL operates.

We continue to analyze and exchange financial information with domestic and foreign partners to identify illicit financial networks and revenue streams supporting ISIL. This exchange of information provides new leads, and enhances investigations of domestic stakeholders and foreign partners seeking to identify elements of ISIL's financial network that could move money through the financial sector.

### *Efforts to Disrupt Benefits to ISIL from the Sale of Oil*

As noted earlier, the relative value of oil as a source of revenue to ISIL is diminishing. This is largely due to the impact of coalition airstrikes on the oil-related infrastructure under ISIL control. A key example of this is the targeting of modular refineries that ISIL has stolen and used to refine crude oil drawn from wells in territory where it operates. Our efforts to suppress the sale of ISIL oil on regional markets have benefited from the steps the Turkish and Kurdish authorities have taken to seize suspected ISIL-related shipments of oil and oil products transiting their borders.

### *Kidnapping for Ransom (KFR)*

Treasury has focused for several years on engaging foreign partners to adopt “no concessions” policies with respect to ransom payments for kidnapping. The aim has been to force terrorists to abandon KFR as a practice by removing its underlying incentive. In June 2013, G-8 members issued a communique rejecting the payment of ransoms. Notably, last year, the UN Security Council approved Resolution 2133, which underscored that the payment of ransoms to terrorists creates more victims and perpetuates the hostage-taking problem. The UN Security Council also expressed its determination to secure the safe release of hostages without ransom payments or political concessions.

Despite these successes, certain countries have adopted a de facto policy of allowing the payment of ransoms on a case-by-case basis. We will continue working with countries, particularly in Europe and the Middle East, to adopt and implement no-concessions policies and take steps to prevent kidnappings.

### *External Funding*

Treasury has worked very closely with partners in the Gulf to disrupt the flow of donations to a number of terrorist organizations operating in the Middle East and elsewhere. Most recently, I traveled to Kuwait and Saudi Arabia to share information about our understanding of ISIL's revenues and financial activities, and to solicit their support for our efforts to counter ISIL. Treasury officials will continue to engage these and other countries in the region in the coming months to broaden our information sharing about ISIL financing. We will continue to focus our efforts on working with Qatar and Kuwait in particular to ensure that they fully implement their international obligations by preventing terrorist financiers from providing funds to ISIL.

### *ISIL's Financial Outlook*

While we are actively working to disrupt ISIL's financial activities, it is important to note that as the sources of ISIL's wealth – notably the money stolen from banks and revenues from oil sales – are either no longer replenished or diminish over time, we expect ISIL will increasingly struggle to finance its operations. Just like any commercial enterprise whose income is less than its expenses, ISIL's financial strength will diminish unless it is able to find alternative sources of revenue or take additional territory.

There are already signs that ISIL is unable to provide fundamental services to the people under its control, which Baghdad previously provided or subsidized. Notably, access to electricity, fuel, and food in northern and western Iraq has decreased as ISIL has either taken these resources outright for its own purposes or limited their distribution. Even if ISIL chose to use its wealth to provide services to the millions of people it

subjugates, which it apparently is unwilling to do, its revenues are insufficient to fund the several billion dollar annual budget that the Government of Iraq had previously allocated to these areas.

### **Next Steps to Disrupt ISIL Financing**

Much work remains to be done with respect to disrupting ISIL's revenue sources and financial activities. Our efforts to date, of course, will continue. We will: (1) continue to gather information and take steps to prevent ISIL from gaining access to the international financial system and cash resources; (2) disrupt ISIL's sale of oil, both through coalition airstrikes and by working and sharing information with regional partners; (3) press our foreign partners to abide by their UN Security Council obligations to prevent ISIL from benefitting from ransom payments; and (4) work to prevent donations from becoming a more important source of revenue to ISIL.

Looking ahead, we will continue to refine our approach. I want to share with you today four relatively new lines of activity that Treasury is pursuing to build on our current efforts.

First, we are working to disrupt trade that continues to and from territory where ISIL operates that benefits ISIL. In addition to taking control of oil wells and refining equipment, ISIL has robbed and extorted other economic assets, such as grain silos, weapons and other military-related equipment, and vehicles. ISIL can use these assets to its financial benefit through transactions involving neighboring countries. Additionally, transport vehicles throughout the region continue to carry various supplies and cash to and from ISIL-held territory. We will work with the governments and private sectors in these countries to prevent ISIL from being supplied in this manner as well as from extorting the transit of these vehicles.

Second, we are working to prevent unregulated financial companies in Iraq and throughout the region from providing support to ISIL. We remain concerned that money services businesses in ISIL-held territory continue to maintain connections to regional counterparts through which ISIL could conduct funds transfers. Treasury officials are traveling to the region later this week and we will work closely with the Iraqi Government to bring these companies within its regulatory framework.

Third, we are targeting the financial activities of foreign terrorist fighters going to Iraq and Syria. Foreign terrorist fighters do not represent a significant revenue source for ISIL, but targeting their financial activities could help to stem the significant flow of foreign terrorist fighters to Iraq and Syria, which amounted to more than 19,000 from more than 90 countries through December 2014. Treasury will continue to work to develop and share information on foreign terrorist fighter financial activity with partners in source and conduit countries throughout the Middle East, North Africa, and Southeast Asia.

Finally, we are enlisting the support of key partners to develop a common approach to countering ISIL's financial activities. We intend to build on work ongoing in the Financial Action Task Force (FATF), which issued a statement in late October 2014 reiterating the need for all countries to fully implement the FATF standards to combat terrorist financing, and calling on all countries to take steps to prevent ISIL from accessing their financial systems. Importantly, the U.S. and Turkey are co-leading a FATF project to develop a common understanding of the terrorist financing risks posed by ISIL, including how funds and other assets are raised, moved, and used by ISIL. This report will be issued later this month by the FATF with input from many FATF members, and will serve as a baseline to further develop international efforts to counter ISIL's financial activities.

## **Conclusion**

In closing, I want to reiterate what officials across this Administration and internationally have made clear: that the fight against ISIL, financial and otherwise, is a long-term endeavor. Nobody should expect this problem to disappear overnight. But we are making progress each day in understanding how ISIL operates and, in turn, disrupting its attempts to create chaos in Syria and Iraq. We have had some important successes in denying ISIL revenue and limiting its ability to make use of its funds, and we expect that we will continue to undermine its financial strength in the months ahead.

Thank you again, and I look forward to the panel discussion.