



ISIL Finances:
Future Scenarios

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1.0 Abstract

The Islamic State in Iraq and the Levant (ISIL) Finance Team evaluated ISIL's financial structure to determine how the Violent Extremist Organization (VEO) may generate and manage financial funds across contested regions and controlled populations. The team identified and examined three scenarios - **Transnational Jihadi Brotherhood; Jihadi Territorial Authority; and a Jihadi Caliphate** - to determine how ISIL might evolve over the next three to five years. The future scenarios considered internal and external environmental factors, and financial signposts that may indicate the VEO's shifting from one organizational structure to another. Additionally, the team examined ISIL revenue sources and expenditures, and their impact on each of the three scenarios. The team also provided a brief history and background and an overview of financial management and structure.

The assessment aims to provide stakeholders with valuable insight while also encouraging discussion about ISIL's evolution and possible financial management strategies. The team did not endeavor to predict the future trajectory of ISIL nor definitively assert which financial resources ISIL needs to sustain each trajectory. ISIL's fortunes could rapidly change based on the focused attention given to the VEO.

2.0 Key Findings

- ISIL's income is highly dependent on the VEO's military strengths, land holdings, and ability to extract value from the population and natural resources it controls. Underlying political, geographic, and regulatory concerns also factor in how this VEO generates, stores, distributes, and transports money within its operational areas and across international borders.
- Under the Transnational Jihadi Brotherhood scenario, ISIL continues to struggle for land control and is unable to govern from a central location. The group dissolves into loose nodes and networks across different regions, and is largely dependent on self-financed operatives carrying out uncoordinated attacks on "soft" targets under the appearance of a cohesive global organization.
- Under the Jihadi Territorial Authority scenario, ISIL secures land control agreements with neighboring nations under truce terms. Finances become more centralized yet remain mostly outside of the formal banking sector. Its finances remain highly dependent on the Informal Value Transfer System (IVTS) and other forms of Trade-based Money Laundering (TBML) to move significant sums of money across international borders.
- Under the Jihadi Caliphate scenario, ISIL's land control expands to include inter-connected and distant regions. All aspects of government become centralized and are governed from one specific region; a central financial body is established, i.e. a ministry or central bank, to issue and enforce fiscal and monetary policies across all regions and contested territories.

3.0 ISIL History

ISIL, also known as the Islamic State of Iraq and Al-Sham (ISIS), or Daesh, is rooted in Salafi-Jihad ideology. Two primary criteria define this ideology: (1) a return to a “pure” form of Islam; rejecting the effects of modernity on the Islamic community and returning to a pious state similar to Muslims of the First Century after the death of the Prophet Mohammed; (2) a belief that violent jihad is the personal, religious responsibility of every Muslim.¹

ISIL’s origins stem from the leadership of Abu Musab Al-Zarqawi. Zarqawi created the insurgency, *Jama’at Tawhid wa al-Jihad*, predecessor to Al-Qaeda in Iraq (AQI) in 2004, and subsequently ISIL. Zarqawi believed in brutal, militant Islamic ideologies and possessed organizational, operational, and strategic skills. He successfully recruited former Baath party members from Saddam Hussein’s government who possessed intelligence and counter-intelligence, networking tradecraft, smuggling expertise, battlefield skills, and access to weapons caches.²

A U.S. airstrike in 2006 killed Zarqawi and the U.S. troop surge in 2007 caused a significant blow to the organization that had rebranded itself as the Islamic State of Iraq (ISI). By 2010, from Sunni strongholds in Northern Iraq, Abu Bakr al-Baghdadi emerged and successfully reorganized local Sunnis and attracted foreign fighters.³ Baghdadi had been a member of AQI since 2003, where he served as the head of the Sharia committee and worked his way up the hierarchy of the organization.⁴

The degradation of Syria caused by the civil war provided an opportunity for ISI to expand its operational territory.⁵ In early 2013, Raqqa fell to the Syrian opposition, and ISI moved military assets to Syria in order to consolidate power as a united organization called the Islamic State of Iraq and the Levant (ISIL); however, immense infighting ensued as they all battled for power. By early 2014, ISIL under Baghdadi’s leadership had taken over Raqqa, declaring it their capital.⁶

Later that year, ISIL shifted some efforts back to Iraq, launched numerous suicide bombings, and took control of several towns in the Al-Anbar Province, including Fallujah, and later Mosul. In June 2014, ISIL announced itself as a worldwide caliphate and named Baghdadi its caliph.⁷

4.0 ISIL Financial Enterprise

4.1 ISIL Organizational Structure⁸

ISIL has a sophisticated, well-developed, and complex financial structure. At least four councils in its governing structure have direct impact on revenue and expenditures; the most influential unit within the structure is the Finance Council, which governs all revenue and expenditure streams. This body sets and approves annual budgets and uses a Chief Financial Officer (CFO) to manage its accounts. The Media Council which regulates Media and Social Media, may also be involved in cyber activities to raise revenue. The Military Council, charged with the defense of the Caliphate or the “Islamic State” and the Fighters Assistance Council, which funds foreign fighters may constitute significant portions of the group’s expenditures.⁹ The following summarizes the roles of each of the councils:

- Finance Council – Weapons and Oil Sales
- Fighters Assistance Council – Foreign Fighter Aid
- Military Council – Defense of Islamic State
- Media Council – Regulates Media and Social Media

4.2 Financial Management

The Finance Council: This body is headed by the Chief Financial Officer (CFO) or Minister of Finance, and primarily oversees the financial infrastructure of the organization through the management of its revenue and expenditures. The management of the group’s cash-based finances are administered through “finance distribution and tax collection centers” in Mosul and “finance storage centers” or cash storage sites in Al Qaim, near the Syrian border.¹⁰ Open source reporting on confiscated ISIL state-craft manuals reveal that the VEO aims to build out a formal and centralized government-run state, complete with health and educational services, commerce, communication, transportation and infrastructure to support a formal state. The document details various administrative functions from setting up satellite offices to manage territory and collect taxes, to creating separate military training camps; ones for veterans and others for new recruits (FATF, 27).¹¹

- Management of finances through organizational structures: documents confiscated by U.S.-led coalition forces revealed that ISIL has kept meticulous records of its military operations and finances.^{12,13} ISIL leaders possess a “blueprint” for a future ISIL with build-outs to include regional government offices, civil services, and a taxation office complete with financial auditors.¹⁴
 - *Cash Management - Physical Currency:* The group uses bulk cash storage facilities that serve as “finance distribution and tax collection centers” in Mosul and “finance storage centers” or cash storage sites in Al Qaim, near the Syrian border.
 - *Cash Management - Investment Schemes:* Open source reports indicate that ISIL continues to exploit gaps in the formal banking sector by moving significant funds from the battle field to the formal trading markets. Reports also indicate that the

group is exploiting the Iraqi and Syrian central banks foreign currency auction systems to earn funds on the foreign currency markets. Counter threat finance experts believe ISIL may be generating as much as \$25 million a month from central bank currency auctions.^{15,16}

- *Formal Banking Networks*: Transactions with banks in VEO-controlled territories have been linked to the Syrian Central Bank in Damascus and the Commercial Bank of Syria in Raqqa (FATF, 28).^{17,18,19}
- *Digital Money Transfers and the Dark Web*: The use of online transfer systems appears lucrative due to lack of specific controls and monitoring process.^{20,21}
 - *Digital Currencies*: The use of Bitcoin and other crypto currencies due to anonymity of users.²²
 - *Social Media*: The use of social media to raise and transfer funds
- *Money Services Businesses (MSB)*: The group's financial management remains largely off the formal banking sector, and is believed to operate between Middle East foreign exchange houses and Middle East Iraqi business persons forming an informal network of money exchangers.
- *Informal Value Transfer Systems (IVTS)*: The use of hawalas, an Islamic exchange system based on trust and anonymity, pre-dates modern day financial systems and is used extensively by non-state criminal and terrorist actors.

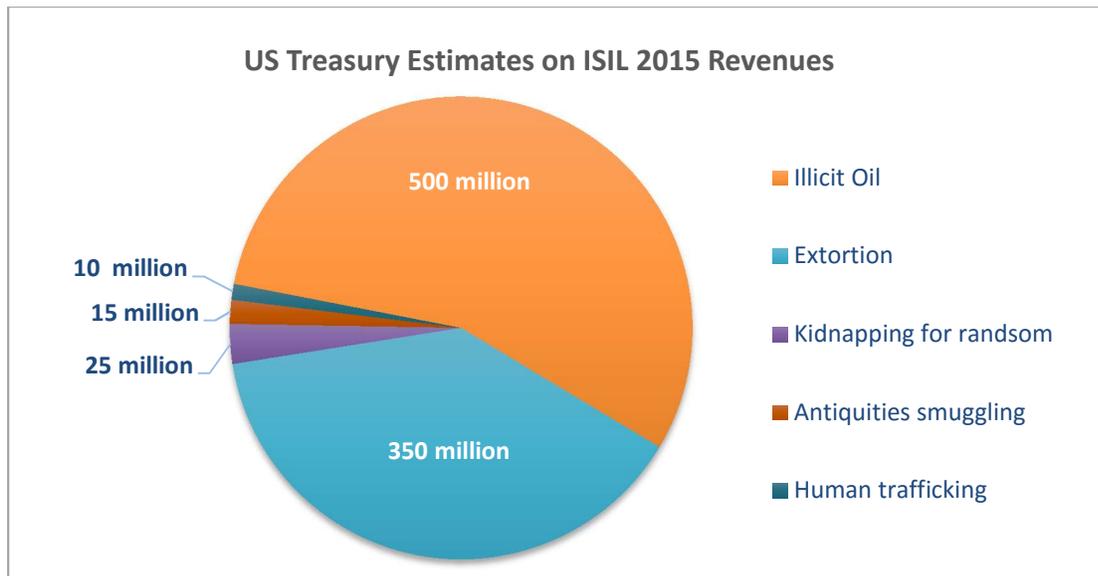
4.3 Revenue

The Finance Council is a cabinet level entity that manages the group's revenue and expenditures. Specifically, the Finance Council is responsible for oil and weapons sales and other revenue. A review of the group's finances lists five primary sources of funds as follows (FATF, 12-24).²³

- Illicit proceeds from occupation of territory
 - Control of oil fields and refineries
 - Bank looting and extortion
 - Robbery of economic assets
 - Illicit taxation of goods and cash that transit territory where ISIL operates
- Kidnapping for ransom
- Foreign donors
- Antiquities theft and smuggling
- Human trafficking

According to the US Treasury, ISIL generated an estimated \$1 billion dollars in 2015, with roughly half stemming from illicit oil transactions. The remaining sources of revenue can be viewed with the graph below:

US Treasury Estimates on ISIL's 2015 Revenue Base²⁴



4.4 Expenditures

ISIL has established ministerial units and offices to oversee fiscal policies in the territories it controls. In 2014, ISIL solicited Islamic scholars to move to al-Raqqa, Syria to begin the process of minting its own currency and formalizing Zakat similar to a finance ministry.^{25,26} In early July 2015, ISIL approved a \$2 billion dollar budget for the year, including a projected \$250 million dollar surplus, designed to cover the costs of operations in both Iraq and Syria.²⁷ The budget proposal was earmarked toward the cost of military operations, salaries, to maintain and repair infrastructure, and fill other state functions, such as the provision of social welfare.

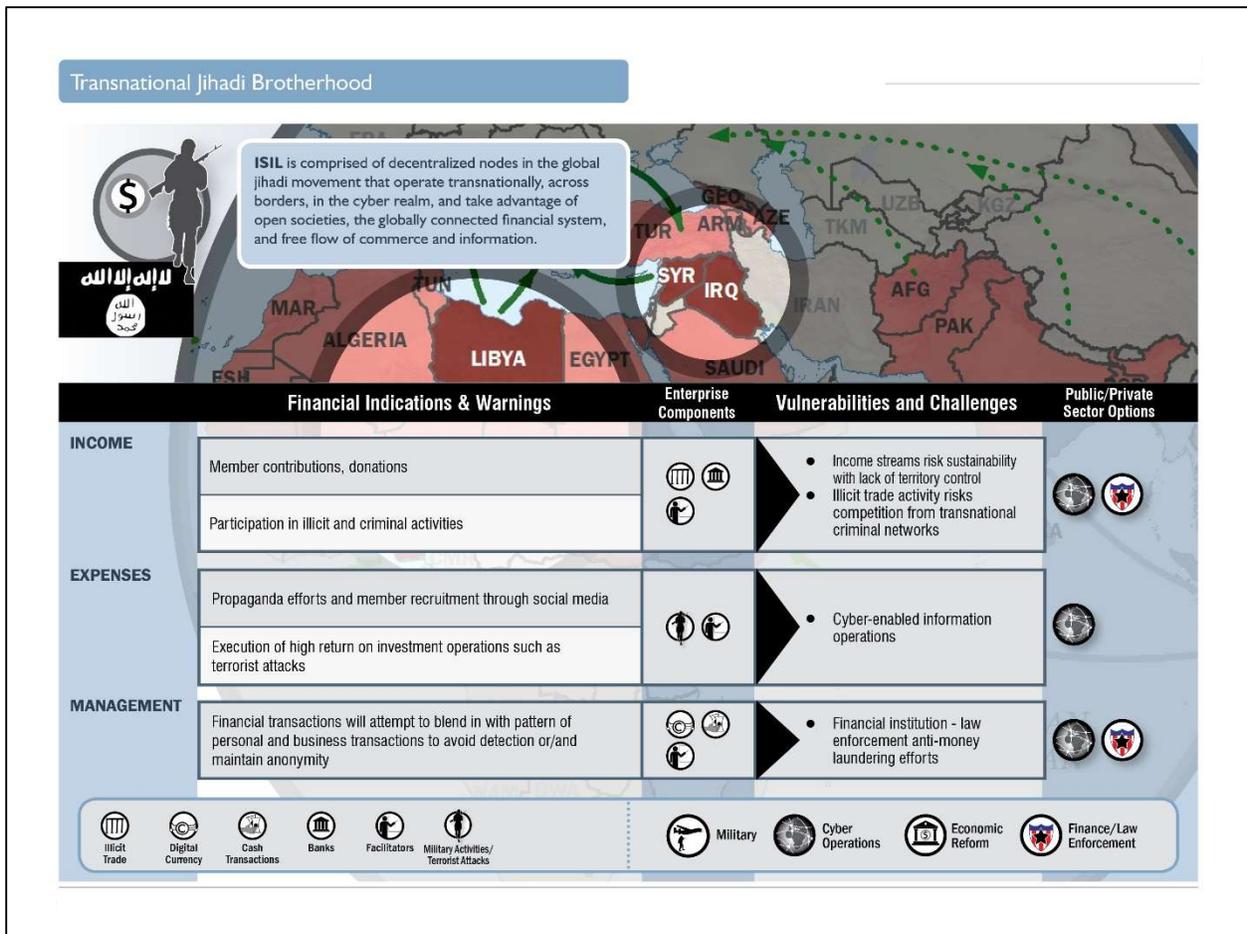
- *Salaries:* The expenditure on salaries has the potential of recruiting experts and scholars to join the Islamic State. ISIL is estimated to pay approximately \$400-\$600 dollars monthly to each fighter, with married fighters receiving an extra stipend per wife and child.²⁸
- *Infrastructure:* The group must also maintain and in many cases repair key infrastructure in areas it controls in both countries, particularly to provide electricity and water. The Islamic State, through its Projects Directorate of the Public Services Authority in Raqqa, issued three tenders in late November 2014, for the installation of aerial cables between several power substations in eastern Syria.²⁹
- *Social Welfare:* ISIL leaders have emphasized services to civilians as a core part of the group's mission, and their budget is expected to cover monthly subsistence expenses for a range of populations, in addition to payments to families of those killed. Within its territory, the group runs schools, an Islamic court system, a Consumer Protection Authority, and local police forces.³⁰

5.0 Scenarios

Based on our understanding of ISIL's financial structure, the team identified and examined three plausible scenarios - **Transnational Jihadi Brotherhood; Jihadi Territorial Authority; and a Jihadi Caliphate** - to determine how ISIL might evolve over the next three to five years.

5.1 Scenario 1: Transnational Jihadi Brotherhood

The operational footprint of the Transnational Jihadi Brotherhood (TJB) shapes the group's financial enterprise to generate revenue from local economies and by TJB-affiliate member contributions participating in illicit and criminal activities (FATF,12-24).^{31,32} In some instances, jihadi movements in other locations may supplement the group's income. The movement of funds associated with the brotherhood will be driven by the need to avoid detection by law enforcement, while the node's expenditures consist of operational costs associated with propaganda, financing operations with a high return on investments such as terrorist attacks, and recruitment of members through social media. The VEO's financial enterprise is small and susceptible to law enforcement anti-money laundering efforts and cyber-enabled information operations.



5.1.1 Financial Management

TJB is comprised of a core group of jihadi leaders who influence autonomous violent extremist groups and self-radicalized individuals to conduct independently driven acts of terror. This scenario enables members to hide in plain sight by taking advantage of open societies, the globally connected financial system, and the free flow of commerce and information.

The anticipated impact of this scenario on the VEO requires fewer financial resources to conduct terror attacks against US interests. “US terror experts testifying before Congress in 2016 explain recent trends in the group’s operations illustrate they are moving from large-scale, complex efforts to the proliferation of more rapidly-evolving threats and plot vectors that emerge by an individual encouraged to take action.”³³

A TJB scenario will most likely occur if the VEO continues to lose significant territory and is no longer able to govern from a central location. Under this scenario, the group’s financial structure will remain decentralized and will largely depend on localized, criminal rackets to produce limited revenue. Illicit tradecraft will depend primarily on fund transfers via money couriers, prepaid cards, hawala, and virtual or mobile currency (FATF, 27-29).³⁴

- Key features of the TJB scenario:
- Utilizes force projection through remote ‘operations in place’ by individuals who self-recruit from their native homelands³⁵
 - Multiple terror cells function as self-financed groups under a loose, decentralized financial network utilizing tradecraft, criminal methods to raise and move funds
 - Networks transfer funds using IVTS and alternative payments schemes (e.g. money couriers, hawala, virtual currencies)
 - Trade finance and pay remittances are sent via intermediaries with legitimate businesses and banks to disguise illicit funds with every day commerce
 - Networks continue to use registered and unregistered MSBs, prepaid cards and ATM cash withdrawals
 - Illicit funds are sent via charities and social media platforms
 - Use of virtual/crypto currencies (dependent on price fluctuations)

5.1.2 Revenue

The VEO will operate as an underground insurgent and terrorist group across the globe. It will be composed of self-radicalized individuals, independent nodes, and aspiring networks that behave as cyber or virtual cells seeking to create operational safe havens. Under this scenario, the group lacks specific land domain and has a distributed command and control leadership and centers. It will function under a nodal financial structure and depend primarily on global financial networks to move funds. The TJB will depend on the following income stream assumptions to function:

- Criminal activities (e.g. extortion, human trafficking, smuggling, fraud)
- Cyber financial operations (e.g. scams and extortion)

- Kidnapping for ransom
- Sympathizers, non-governmental organizations (NGOs),³⁶ state sponsors
 - Foreign fighters and returning foreign fighters
 - Donations and remittances from sympathizers abroad
 - Broken Travel: individuals combine different modes of transportation to move funds to conflict regions.³⁷
 - Carousel transfer funding: individuals move funds through multiple networks and regions to disguise sources.³⁸

5.1.3 Expenditures

In this scenario, a TJB starts to resemble al-Qa'ida's distributed model of associated groups, affiliates, and cells. For an indication of the budgetary requirements of the VEO, it may be instructive to consider how al-Qa'ida allocated its budget. The CIA estimated that al-Qa'ida had a pre-2001 budget of about \$30m per year.³⁹ The 9/11 attacks cost about \$500,000, strongly suggesting that expenditures other than military spending – organizational promotion, ideological indoctrination and social outreach, make up a majority of the costs incurred. Extending this historical comparable, the discussion below considers the organizational priorities of the group in this scenario and then ranks the cost categories against each other on a relative basis.

In this scenario, the rank order of cost categories is:

1. Communications and media
2. Military
3. Security services
4. NGO networks (i.e. non-profit organizations, religious foundations and institutions, charities, etc.)
5. Infrastructure

Recruitment and promotion of the group's ideologies become paramount to the sustainability, operational scale and future prospects of the organization. Communications, and media will likely account for the greatest expenditures.

Communications and media will also be essential to recruiting and radicalizing new members and affiliates. The communications and media costs will become a key priority. The VEO will likely need to continue to generate compelling content and fully leverage all available internet and social media channels. Labor costs will likely fall upon the shoulders of ideologically aligned religious and social figures distributed and spread internationally, especially in Western Europe. The upkeep costs for these individuals and activities have historically been at least commensurate with a well-paid professional. Expectedly, key leaders and activists will overlap between the cost centers of NGO networks and communications and media.

In the TJB scenario, the VEO is de-territorialized and far more decentralized in terms of cost structure and organizational priorities. Military expenditures are focused on asymmetric terrorist

tactics in the style of ‘open source jihad’ whereby upstart fighters with little to no combat experience, sometimes in conjunction with battle-hardened militants, conduct a range of attacks globally. A smaller military budget is required when military efforts are limited to terrorist attacks. Historical examples in the following table illustrate this reality.

<i>Attack</i>	<i>Date</i>	<i>Estimated Cost</i>
London Underground/Bus	7 July 2005	£8,000 (\$10,400) [3]
Madrid Railway Atocha	11 March 2004	€100,000 (\$112,000) [4]
Istanbul	15 & 20 November 2003	\$40,000
Marriot Hotel Jakarta	5 August 2003	\$30,000
Bali Bombings	12 October 2002	\$50,000
New York Twin Towers	11 September 2001	\$400,000-500,000 [5]
USS Cole, Aden	12 October 2000	\$10,000
US Embassies in Kenya and Tanzania	7 August 1998	\$50,000

Figure: Costs of Terrorist Attacks.⁴⁰

Security services become substantially cheaper as the populations under the territorial control of the group obviate the need for large-scale, organized policing. This category of costs will largely become absorbed in general under the NGO networks and communications categories. Ideological content will promote self-organizing takfir and jihadi principles so adherents can apply pressure to those around them. Violent coercion and pressure tactics will be applied on a highly localized basis as an extension of ideological radicalization.

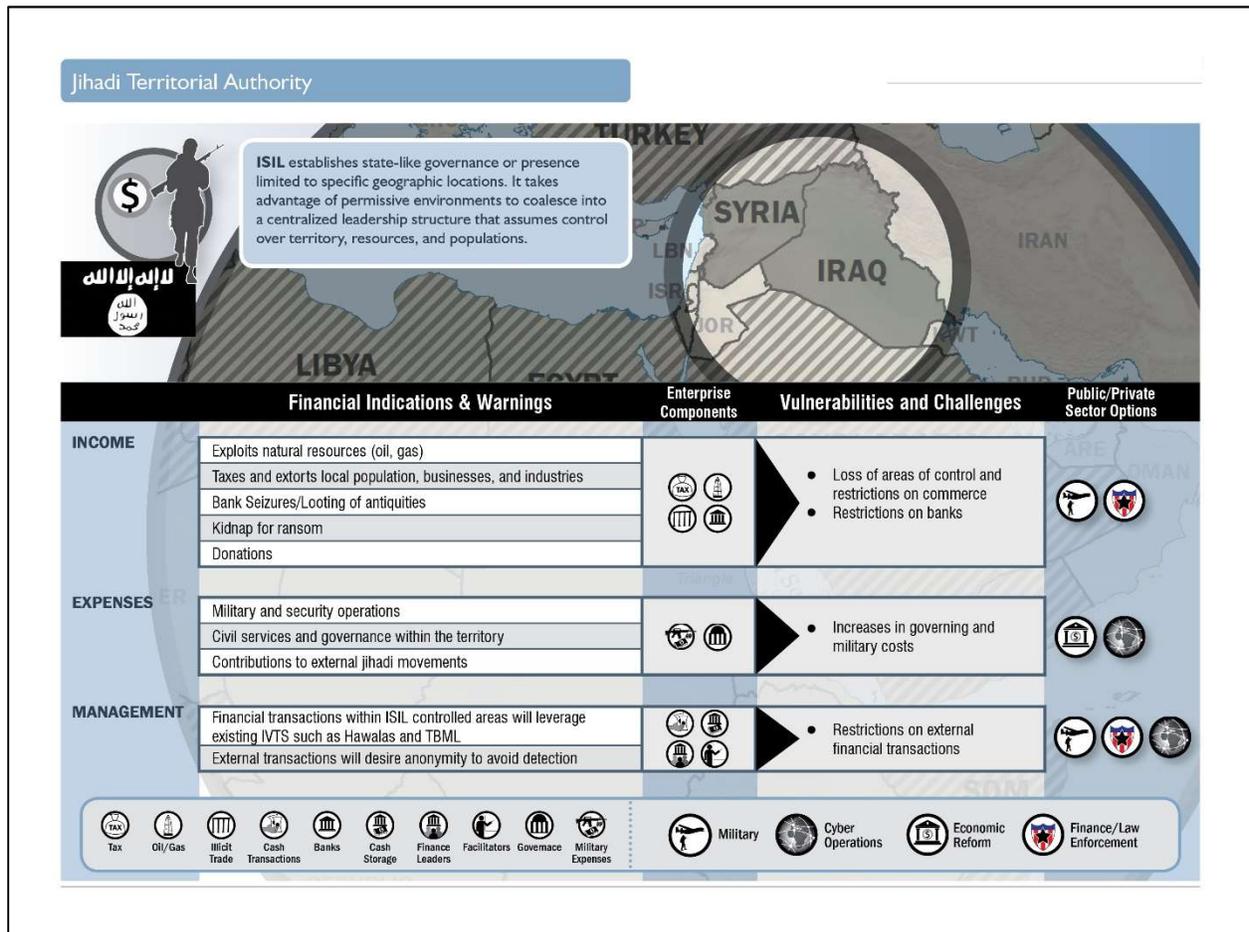
Networks of jihadist ideologues and non-profit organizations will provide services that provide a degree of legitimacy and access to the financial system. These non-profit organization networks of social, humanitarian, and religious organizations are particularly important in western democratic states, and will target population’s displaced or otherwise vulnerable for radicalization. This web of NGO networks will function as physical and digital hubs and promoters of the VEO’s ideologies and worldview, for retaining and growing the number of adherents and new recruits. NGO networks will serve as fronts for the internationally distributed network and will be both necessary and costly to maintain.

Infrastructure costs in this scenario become close to nil as no medium to large public works will need to be constructed or controlled officially by the group. Covert approaches to acquiring strategic property or infrastructure like factories and commercial enterprises engaged in criminal or trade-based terrorist financing may occur.

5.2 Scenario 2: Jihadi Territorial Authority

The operational footprint of the Jihadi Territorial Authority (JTA) scenario shapes the group’s financial enterprise, which generates revenue by taxing and extorting local populations and industries, while exploiting resources. The movement of funds within the ISIL area of control will be driven by convenience and by leveraging existing IVTS. External transactions will still be

driven by the need for anonymity to avoid law enforcement or intelligence community attention. In some instances, the external transactions might be leveraged to fund jihadi movements in other locations. A significant portion of the group's expenditures will consist of operational costs associated with military and security operations (i.e. to acquire, expand, hold, and maintain territory) as well as providing civil services and governance within the territory.



5.2.1 Financial Management

In the JTA scenario, the VEO establishes state-like governance or presence limited to specific geographic locations in each country (e.g. Syria, Iraq, Libya, etc.), takes advantage of permissive environments to coalesce into a centralized leadership structure that assumes control over expansive territory, resources (e.g. natural, industries, businesses, etc.), and populations. A significant portion of the authority's expenditures will consist of operational costs associated with military and security operations to secure cohesive safe zone(s) (i.e. to acquire, expand, hold, and maintain territory) as well as providing civil services and governance within the territory. The financial enterprise in this scenario is susceptible to financial regulations focused on eliminating external funding, military operations focused on removing resources and industries from the VEO's control, economic manipulation and degradation of associated industries (oil, etc.), and increasing governing costs.

Under the JTA scenario, the group's landholdings become less-contested with temporary boundaries established by neighboring nation states under truce-agreements. The VEO's finances transform and take on a more commercial form, utilizing heavy industry to transmit funds across regions. A blend of IVTS and TBML are utilized to move value to affiliated branches located outside of an established territory. After neighboring nation states recognize the group's territorial authority, leaders centralize and establish governance to implement state-like policies. A financial body similar to a central bank is established to coordinate receipt of revenue and control group expenses. The JTA will not be recognized by all sovereign nations, and will most likely function under a suite of economic restrictions; the VEO will continue to use money laundering tradecraft by using charities, existing businesses, and bulk-cash smuggling techniques to move funds across its region of control. The VEO will also use social media, alternative payment methods, private banks and prepaid cards to move value across international boundaries. The VEO will also facilitate currency exchange trade and pay remittances through middlemen with legitimate businesses or banks.⁴¹

- Key features under the JTA scenario:
 - Leaders adopt multi-currency financial model
 - A centralized financial body is established to coordinate the collection and disbursement of revenue by local areas
 - The establishment of provincial financial structures
 - Develop account management processes at provincial level (e.g. payroll, income statement, statement of cash flows and balance sheet)
 - Continue the collection of taxes (extortion) to support short-term revenue
 - Asset management shifts from the use of make-shift warehouses to formal banks with limited connections to other banks
 - Fund transfers are continued through money couriers, hawala, virtual and mobile currency platforms
 - Trade finance channels are utilized more frequently as the JTA establishes nascent trading relationships
 - Informal banking is still used to raise funds via the guise of charities and social development programs

5.2.2 Revenue

The ability of the group to function as a JTA will be dependent on adjacent nation states recognizing the VEO as a semi-sovereign body, with the establishment of truce agreements and temporary border agreements. Under the optics of a growing and fledgling nation state, the VEO will attempt to leverage industries located in JTA territory and establish commerce with other nations and territories. Depending on future land-holdings, the JTA financial model will most likely pursue the following revenue streams:

- Oil and natural gas sources (includes taxation of existing energy infrastructures)
- Formalized taxation of controlled population

- Introduction of tariffs on international trade and commerce
- Continued reliance on criminal activities (fraud, human trafficking, smuggling, extortion)
- Oversight and taxation of industries located in VEO-controlled regions
- Continued donations from foreign and domestic sympathizers

5.2.3 Expenditures

Taliban rule of Afghanistan from 1996-2001 offers a point of reference for a future JTA scenario. The Taliban's war machine and internal control requirements drove the vast majority of its operating costs. The projected rank order of cost categories under this scenario are as follows:

1. Military
2. Security services
3. Social welfare
4. Communications and media
5. Infrastructure

The cost structure of the JTA highlights the expensive nature of warfighting. Given the revolutionary nature of the group's character, resistance remains strong. This resistance forces the group to incur ongoing military and defense related costs. Its strategic success hinges on holding territory, controlling subject populations and must expand territorial control to acquire enough resources to satisfy the exorbitant costs of perpetual war.

Salaries and provision of food for tens of thousands of fighters constitute perhaps the greatest portion of the related military expense. The procurement of vehicles, arms and ammunition also constitutes substantial costs.

Security services remain integral for population control and therefore counterintelligence, police and judicial administrative functions are key cost centers. After seizing and controlling territory, controlling and extracting taxes from the subject population becomes the next priority from a cost standpoint.

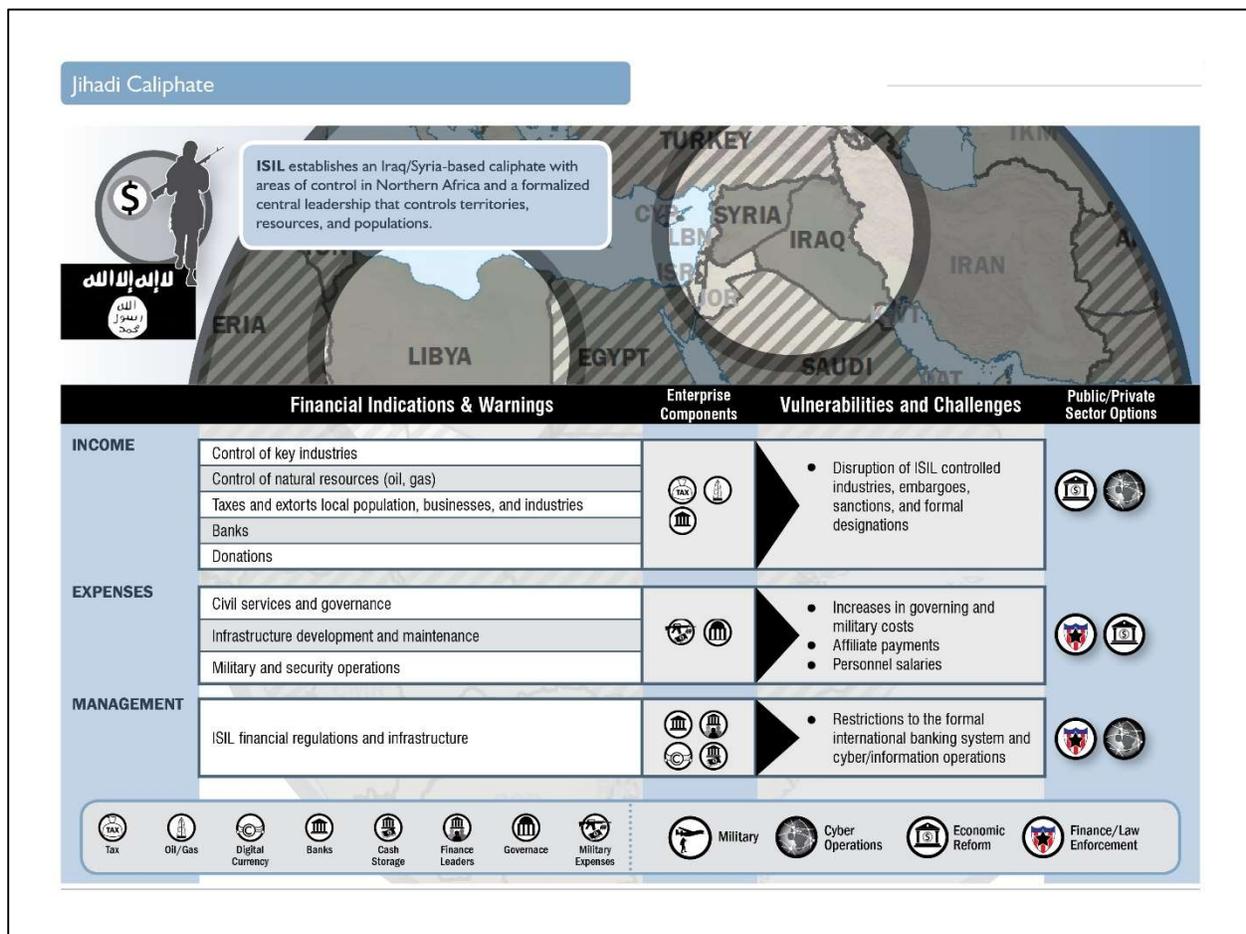
Social welfare in the JTA include basic needs such provision of food, medicine and education while also allocating resources for indoctrination purposes. The VEO will provide services at a taxed rate. Social welfare remain a priority in the JTA scenario due to the group's reliance on local populations and their industries for its revenue.

Communications and media play a critical role in the promotion of the group. The VEO's agenda requires ongoing radicalization, recruitment, and ideological training. Communications and media strategy and execution continues to be managed through perceptive use of relatively inexpensive internet communications technology. This cost category is relatively cheap due to the ubiquity of smartphones, internet, and social media technologies.

Infrastructure, including the construction and maintenance of roads and buildings are a lower priority in this scenario, where the VEO relies on existing roads and structures. Projects will be necessary from an economic development standpoint, but will never reach completion due to the imperative demands of war and robust internal security.

5.3 Scenario 3: Jihadi Caliphate

In the Jihadi Caliphate scenario, the group’s operational footprint shapes the financial enterprise to generate revenue by taxing the population, all aspects of the economy, as well as assuming complete control of key industries within the caliphate. The movement of funds within the caliphate will be driven by financial regulations and infrastructure. A significant portion of the group’s expenditures will consist of operational costs associated with providing civil services, governance, infrastructure development within the caliphate, and military and security operations. The financial enterprise in this scenario is susceptible to financial regulations aimed at curtailing links to the formal, international banking/financial system, economic disruption of the group’s controlled industries (oil, gas, etc.), embargoes, sanctions, formal designations, freezing of assets, border security measures, and cyber/information operations.



5.3.1 Financial Management

In the Jihadi Caliphate scenario, the VEO establishes a formalized central leadership that controls multiple territories, resources, and populations across the globe. Territories identified by weak governmental control, rampant corruption, and are rich in natural resources are viewed as being most vulnerable to falling to caliphate control. Additionally, growth and expansion of the caliphate is driven by functioning as a force of attraction, strategically orchestrating, synchronizing, and exporting conflict.⁴² A significant portion of the authority's expenditures will consist of operational costs associated with providing civil services, governance, and infrastructure development within the caliphate, and military and security operations. The financial enterprise in this scenario is susceptible to global financial regulations focused on curtailing connections to the formal, international banking/financial system, economic sanctions and restrictions, freezing of assets (not just of the VEO but of those who conduct business with the group), border security measures, and continued cyber-operations.

To manage a complex state-run financial system, the group will exert control over external funding such as the sale of oil, gas, antiquities, etc., then coordinate and pay for social welfare at a higher organizational level. In addition, it will set standard rates for various fees and taxes in controlled areas and share revenue to meet certain organizational needs such as support for fighters and to fund the expansion of affiliates and their operational activities. To exert external influence, the VEO will provide foreign assistance in the form of technical experts to assist networks in other countries, and consolidate its own legitimacy by introducing its own currency and engage in correspondent banking relationships.

- Key features under the Jihadi Caliphate scenario:
 - Leaders establish ministries to handle, coordinate, govern state-issues
 - A ministry of finance (treasury) is established to coordinate the collection and disbursement of revenue by local areas
 - The group establishes their own currency
 - Account management processes are established at national level
 - Establishment of financial regulations to exert central control over industries (i.e. sale of oil and gas, antiquities, etc.) for long-term revenue
 - Process transfer of funds from across state entities
 - Implement state-sanctioned and overt trade transactions controls
 - Development of corresponding banking relationships

5.3.2 Revenue

The VEO will continue to expand its global land territories to include Iraq, Syria, Africa, and Asia Pacific regions installing governments with marginal control. It will operate as a Sunni unified state that controls and provides governance in its global territories. The caliphate will seek to formalize trade agreements and establish commerce with trading partners. As a nation state, the caliphate will generate revenue much like any other nation state by:

- Taxation of population, industries, business and commerce

- Issuance of Caliphate bonds
- Segmentation of industries, natural resources for international trade
- Continued reliance on foreign religious donations and charities
- Continued reliance on criminal enterprises

5.3.3 Expenditures

The caliphate represents an unusual multinational polity. Given its highly revolutionary character and international scale, the relative cost structure driven by this scenario is similar to the Jihadi Territorial Authority; however, it is exponentially larger. The objective of territorial seizure, control, and expansion for new resources continues.

The rank order of cost categories under this scenario is as follows:

1. Military
2. Security services
3. Infrastructure
4. Social welfare
5. Communications and media

Like the JTA, the Jihadi Caliphate will incur the greatest relative costs to resource its military activities. It will be under perpetual attack from external state and sub-state adversaries. Defending against these attacks will require significant military spending. In addition, it will need to expend to seize new resources to fund its military and therefore will incur greater costs.

The caliphate will require substantial security services costs to control the populations within the territories that it holds. These services include all varieties of intelligence, law enforcement, and social controls.

Infrastructure needs will be great in the caliphate and include access to clean water, electricity or the power grid and roads. In order to generate taxes, controlled populations must be able to operate their respective businesses efficiently.

Social welfare in the caliphate remain a priority and include monthly subsistence to the poor, disabled, orphans and widows. Under the auspices of Sharia law, the caliphate will have educational institutions, an Islamic court system, and local law enforcement.⁴³

Communications and media will also be an integral component of statecraft for the caliphate. It must communicate to its subjects in order to control the population. The caliphate must also project a strong propaganda message to its adversaries to undermine resistance internally and externally. While these activities will be considerable, the costs involved will be relatively low due to the ubiquity of modern technology and communications. Open source and freely available software and social media enable the Caliphate to communicate its messaging economically.

6.0 Outlook, Implications, and Opportunities

The ISIL finance team assesses that a multilateral collaboration between the international private sector and domestic and foreign governments will be necessary to counter the VEO, regardless of which scenario transpires.

We assess that the private sector will look to the US Government to provide guidance on identifying sources of revenue, expenditures, and financial operations and inform the private sector of potential vulnerabilities. Based on this information, the private sector will continue to put into place effective compliance procedures to monitor and prevent the group from accessing the formal financial system.

The US Government will utilize the human, technological and financial resources available in the financial private sector for anti-money laundering/counterterrorist financing investigations and campaigns.⁴⁴

The implications and opportunities for both the US Government and the private sector vary greatly depending on ISIL's trajectory within the next three to five years. Below is our assessment for each plausible scenario:

- **Transnational Jihadi Brotherhood:** We assess ISIL will be mostly cutoff from the formal financial system, but may occasionally try to transfer funds through the formal financial system. It will likely explore using virtual currency, prepaid cards, and hawalas to move funding in its fragmented network. In this case, the US Government may look to the private sector to better understand new financial technologies while the private sector may look to the US Government to understand how to protect itself from exploitation by ISIL. The enhancement of reporting (i.e. timeliness, details, and distribution) on suspicious activity by the private sector, coupled with the US Government and law enforcement effectively using the reporting, could be a useful tool in tracking and restricting ISIL funding.
- **Jihadi Territorial Authority:** We assess ISIL will rely on IVTS and the risk to the formal financial system will be lower than in a Caliphate Scenario. In this case, both the US Government and private sector will look to better understand IVTS and their potential interaction with the formal financial system.
- **Jihadi Caliphate:** We assess that ISIL will need to transfer funding to its affiliates abroad. It will therefore primarily rely on using the formal financial system, but may also explore using the IVTS. The US Government has experience dealing with terrorists' use of formal financial systems and will likely be positioned to provide information, partially via its sanctions regime, to the private sector. In this case, the private sector will likely need information from the US Government to assist it in remaining compliant by identifying indicators of ISIL financial activity. This could include regular sharing information on patterns of ISIL financial activity so that the private sector can more easily identify ISIL financial transfers.

All three scenarios could benefit by the private sector and the US Government leveraging Financial Intelligence and Information Working Groups to build upon established relationships and facilitate transparency and understanding. These Working Groups help knowledge exchange on new technologies, payment mechanisms, financial innovations, vulnerabilities, and solutions. This type of collaboration would enhance cross-financial institutional sharing of strategic trends aimed at combating emerging money-laundering and terrorist financing activities by identifying patterns, anomalies, detecting new behaviors and changes in technology.⁴⁵

Further, more formal research and study of illicit economies including new financial innovations, services, and technologies such as virtual currencies and block chain, are opportunities for advanced collaboration in the private sector between academia, banks, trade associations and NGOs, who possess resources available to inform the US Government of emerging terrorist and criminal industries.

Research Purpose, Analytical Methodology, and Tradecraft

This assessment provides stakeholders visibility into the financial enterprise of ISIL by detailing cash-management practices, primary revenue streams, and expenditures related to their operations. Global financial industry professionals and consultants, in collaboration with US Government and state all-source intelligence specialists and financial analysts, contributed to the analysis herein.

The ISIL Finance Team utilized the structured analytic technique of futures analysis to explore where the VEO may be in three to five years. The ISIL Finance Team developed three plausible future scenarios: the Transnational Jihadi Brotherhood, Jihadi Territorial Authority, and the Jihadi Caliphate, detailing the VEO's variable financial enterprise in each scenario.

Source Summary Statement

Research for this assessment includes open source reporting such as news media, research institutions, international NGO publications and US Government sources. Open source reporting was corroborated through engagement with more than forty subject-matter experts from academia, law enforcement, research institutions, art auction houses, industry practitioners, financial institutions, and other US Government officials. All judgements and assessments are solely based on unclassified sources and are the product of joint public and USG efforts.

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