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Confronting the Terror Finance Challenge in Today's Middle East

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Introduction and summary

In the years since 2011, the Middle East has been convulsed by instability. Bad governance and civil war have left vacuums that extremist groups have eagerly filled. Competition between regional powers is on the rise; it is often waged violently through sectarian proxies, including terrorist groups. As the nature of the terrorist threat evolves, so must the tools to combat it. A reinvigorated push by the United States to cut off the flows of financial support to the terrorist networks that are straining the state system of the Middle East will help advance stability and prosperity in the region.

No single group embodies the new challenge better than the Islamic State of Iraq and al-Sham, or ISIS. Breaking with Al Qaeda's traditional strategy, ISIS has seized large swaths of land through military power and brutality. Like its affiliate, Boko Haram, in Nigeria, ISIS draws strength from the territory and population centers it occupies.¹ ISIS poses a direct insurgent threat to the integrity of Iraq and Syria and seeks to challenge the legitimacy of other states in the Middle East.

At the same time, the regional contest between the Saudi-led Gulf States and Iran has intensified. Both sides do battle through proxies, most recently in Syria and Yemen. As part of this contest, Iran's state sponsorship for traditional terrorist groups such as Hezbollah and new partners such as the Houthis in Yemen has served to significantly destabilize the Middle East.

The landmark international agreement to prevent Iran from developing nuclear weapons was a historic achievement for the United States and its partners. It provides the best option for containing the greatest threat to the Middle East: a nuclear-armed Iran. As sanctions against Iran ease, the agreement raises concerns that Tehran will be able to pour more financial fuel on the regional fire.² In order to advance greater regional stability, a proactive policy that targets the financial support networks of the terrorist groups that receive funding from Iran is essential.

To confront these threats, the United States government will need to block financial and other support for these groups—much as it did for Al Qaeda in the wake of 9/11. Led by the Treasury Department, the U.S. government built a robust framework to disrupt Al Qaeda’s finances and defend the international financial system against abuse. But this framework is less suited to tackle the financial model of insurgent groups such as ISIS. As CIA Director John Brennan stated in March, “The United States and its allies have had considerable success degrading the capabilities of core al-Qaeda. But various al-Qaeda affiliates and other terrorist organizations have surged in other countries.”³ Three trends help explain why.

A shift from donations to self-financing

The first trend is the shift by a new generation of jihadi groups away from Al Qaeda’s early dependence on donations toward a self-financing model that is based on the control of territory. These groups fund themselves largely through the extraction of wealth and resources from land and populations under their control—much like a traditional insurgency.⁴ ISIS is the most prominent of new terrorist groups to draw on methods dating back to the likes of the Irish Republican Army. Boko Haram in Nigeria provides another powerful example of this trend. These groups operate like casinos: They keep their money in-house and have relatively little reliance the international financial system to channel support.⁵

A shift toward a broader spectrum of threats

ISIS and similar groups pose a wider range of threats than the spectacular terrorism of Al Qaeda prior to 9/11. Indeed, it was the immediate threat to the Iraqi state, coupled with the threat of mass atrocity, that galvanized the U.S. response to ISIS. Groups such as Hezbollah have financed terrorism and proto-state ambitions through transnational criminal enterprises for decades.⁶ But the surge by jihadi groups to fill the space opened by war and uprising underscores the urgent need for a more comprehensive approach—one that tackles the full spectrum of threats posed by these groups.

A shift from finance to facilitation

Groups such as ISIS and Hezbollah maintain a much larger footprint than core Al Qaeda and thus depend more heavily on a wide range of logistical support beyond financial transfers. These organizations often rely on related networks both to make money—such as ISIS’ illegal oil trade—and move material and people, such as foreign fighters.⁷ Terrorist groups’ financial flows often move through these larger facilitation networks. Therefore, measures to disrupt these flows should be more fully integrated into wider—often ongoing—efforts that target these facilitation networks. Sanctions should be synchronized with military action and efforts to bolster border control in order to better target terrorists’ bottom lines.

This report outlines three financial models of terrorist groups, reviews the evolution of the U.S. counter terrorist finance system, and takes stock of challenges that are confronting that system. The report also reviews progress and the remaining challenges across the Middle East, with specific attention paid to the Persian Gulf, ISIS, and Iran. It then argues for a more robust approach that involves the entire federal government and goes beyond the current focus on sanctions and designations to disrupt support for the main sources of threat.⁸

A key to success will be to mobilize the full interagency toolset in order to confront groups such as ISIS and Hezbollah. The first set of recommendations calls for a task force structure that would integrate operations, improve metrics to measure impact, and sustain pressure on recalcitrant partners. The second and third sets offer specific counter finance and facilitation measures to confront the top priority targets—ISIS and Iranian proxies—as outlined below.

Recommendations for the U.S. government

- Use a task force model to mobilize all relevant agencies at the operational level to disrupt the funding and support of the most dangerous terrorist groups to American security and interests.⁹
- Establish impact-based metrics that are specific to the ends, ways, and means of the most dangerous terrorist groups in order to measure the full effect of counter threat finance, or CTF, efforts.
- Strengthen financial diplomacy by signaling that the United States is prepared to use Section 311 of the USA PATRIOT Act, or Patriot Act, against the worst terror finance offenders in order to curtail their access to the U.S. financial system.

- Pilot the concept of a so-called white list—which documents financial institutions that are approved to do business in a specific country—in Somalia in order to mitigate the unintended consequences of CTF policy.

Recommendations on Iran

- Conduct a comprehensive review of all Iranian entities that are covered by U.S. nuclear-related sanctions in order to ensure that all entities eligible for designation under terrorism-related authorities are sanctioned.
- Step up enforcement of secondary sanctions against entities that do business with or provide material assistance to Iranian individuals and entities that are designated under terrorism sanctions.
- Establish a regional task force with partners in Europe and the Middle East to counter Iranian terror finance.

Recommendations on ISIS

- Maintain military pressure on ISIS in order to disrupt their operations and control of resource-rich territory and increase targeting of critical facilitation networks.
- Ensure that CTF and military targeting are collocated to analyze and target ISIS financing and wider facilitation networks.
- Update the United Nations sanctions lists to include more members of ISIS and its affiliates.
- Bolster Turkey’s capacity to secure its borders against terrorist threats—especially those posed by ISIS—and maintain domestic stability.

It is unlikely that these recommendations will completely dry up the resources of Iran, ISIS, or the myriad other groups and countries that threaten the United States and its interests around the globe. But that is not the right way to think about the problem. Instead, CTF efforts should aim to make America’s adversaries devote more time and energy to securing resources than sowing chaos in the Middle East and beyond. The recommendations in this report intend to do just that.

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