

# Capital of Terror – The Past and Future of ISIS Financing

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**Abstract:** A key moment in the fight against terrorism is to prevent terrorist financing. This is well recognised by the international community, but despite all the rules, terrorist groups are well financed. One of the best funded terrorist groups in recent years has been ISIS/ISIL. The terrorist group has used many forms of financing to ensure its own financial stability. For the war on terror to be successful, it is essential to know the wide range of ways in which a terrorist group can use to finance itself. Knowledge is the key to success. A broad cross-section of society needs to be aware of the many areas of the economy where illegal terrorist financing can be found. This knowledge can contribute to preventive counter-terrorism action.

**Keywords:** terrorism, terrorist financing, ISIS, counter-terrorism.

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## I. INTRODUCTION

Terrorism is one of the most significant global threats of the 21st century, posing not only military but also economic, political and social challenges. In the opening act of postmodern terrorism, as we saw in the case of the September 11, 2001 terrorist attacks in New York, the execution of the coordinated series of attacks cost the al-Qaeda terrorist organisation and Osama bin Laden around half a million dollars. (Fábián, 2019) This is a considerable amount of money, both in contemporary and current exchange rates, to invest in the series of acts that shook the Western world and made terrorism the world's number one enemy. However, the series of terrorist attacks in Paris on 13 November 2015 cost the Islamic State (ISIS/ISIL) a much more tangible sum, with only €7,000 (MTI, 2015) to be sacrificed to the plot. And in the case of the terrorist acts committed since then, we can see that a kind of "cheapening" process is increasingly taking place, i.e. we can now clearly conclude that international terrorist organisations are increasingly seeking to economise terrorism and terrorist acts.

Recent terrorist attacks affected both national and global economies. The economic consequences can be largely broken down into short-term direct effects; medium-term confidence effects and longer-term productivity effects. The direct economic costs of terrorism, including the destruction of life and property, emergency responses, restoration of systems and affected infrastructure, and the provision of temporary living assistance, are most pronounced in the immediate aftermath of attacks and thus matter more in the short run. Direct economic costs are likely to be proportionate to the intensity of the attacks and the size and the characteristics of the economy affected. The indirect costs of terrorism can be significant and have the potential to affect economies in the medium term by undermining consumer and investor confidence. (Gál & Taylor, 2012)

One of the most important aspects of the war against terrorism is the prevention of terrorist financing. By blocking terrorist financing, the foundations of terrorism can be destroyed. Blocking terrorist financing creates an opportunity for the war on terror to be preventive rather than event-driven. And a preventive war on terrorism saves lives. Only action against terrorism that saves lives in advance can be successful. Counter-terrorism action after an act of terrorism is only a damage control, not a success.

The brutality of the ISIS/ISIL, when it first emerged, shocked the whole world, and its brutality was condemned even by many of its radical leaders. The ISIS/ISIL has split the global terror network, formerly centred on al-Qaeda. Taking advantage of the weakness of Osama bin Laden's organisation, a group of those calling for more radical action broke away and created the distortion that was the radicalisation of radical Islamists. But, the ISIS/ISIL has been remarkably successful in generating the financial resources to establish territorial control and a global threat. ISIS/ISIS has taken advantage of opportunities in uncontrolled areas, relying on illegal sources of revenue such as oil trade, looting and taxes on the population. Its quasi-state-like operations have set it significantly apart from other terrorist organisations, providing an example of modern terrorist financing analysis.

One of the greatest challenges of modern terrorist financing is the vulnerability of globalised financial systems and the emergence of new technologies, such as decentralised systems, which make it more difficult to trace the sources of funds. The paper also examines the role of the banking sector, which is key to filtering

suspicious transactions and preventing terrorist groups from gaining access to financial resources. The aim is to analyse current practices and make recommendations for improving the fight against terrorist financing.

## **II. ISIL and its financing**

### **2.1. The ISIS/ISIL**

The effects of the 2007 global economic crisis were still being felt when a new challenge hit global society. At first, all the experts thought that a new al-Qaeda affiliate had emerged. Soon, however, the world was faced with a more radical community than ever before. (Kertész, 2017) History and evolution of ISIL/ISIL's predecessor, Jamaa'at al-Tawhid wa'l-Jihad, was founded in 1999 by the Jordanian-born Abu Muṣ'ab al-Zarqawi. Following the 2003 US-led invasion of Iraq, ISIS became one of the most active armed groups and gained international notoriety for its fight against coalition forces. In 2014, ISIL adopted the name Islamic State after it had taken control of significant areas in Iraq and Syria and declared a caliphate. (Besenyő, et. al., 2016)

It takes little courage to say that the Islamic State has now been defeated in both Iraq and Syria. In principle, this should be a cause for great celebration, since the reduction and virtual defeat of the most ruthless and bloody terrorist group in recent times, which poses a fundamental threat to the peaceful world, can be seen as a significant achievement. But the picture is much more nuanced than that: the Islamic State has not ceased to exist, and the threat it poses is far greater than when it was primarily concentrated in one geographical area. The Islamic State's tumour on the face of the Earth has metastasised as its activities in Iraq and Syria have become impossible, as fighters have returned home, and as the global terrorist threat has grown even higher. What is the fundamental problem? It is the fact that the terrorists fighting in the ranks of the Islamic State have arrived in the Middle East crisis zone from virtually every corner of the world, but are now without a 'job'. Thus, having lost their source of livelihood, most of them have left for their home countries, thus flooding the world with trained, skilled, extremist terrorist fighters. Very significant numbers of terrorists are to be expected. It is well known that one terrorist is exactly one more than is desirable in terms of social security. And the number of former fighters of the Islamic State who have returned home is in the tens of thousands.

The fact that former fighters of the Islamic State are returning home, often to take advantage of the migration flows, is a new security risk that most states are not prepared to deal with. Single or multi-person cells formed by returnees can significantly increase the terrorist threat.

### **2.2. Basic forms of ISIS/ISIL financing**

The sources of ISIS/ISIL's income, according to the European Parliament's expert resolution, consisted of oil smuggling, bank robberies, looting, trafficking in artefacts, taxation and human trafficking. (European Parliament, 2017)

#### **a) Petroleum**

ISIS/ISIL has made significant revenues from oil smuggling, particularly by controlling oil fields in Iraq and Syria. In the occupied territories, ISIS/ISIL controlled at least 11 oil fields, and in Iraq, approximately 350 oil wells were operated for the organisation. Oil was smuggled out of the region, mainly to Turkey, through complex and extensive smuggling routes.

#### **b) Bank robberies and looting**

ISIS/ISIL has looted several major banks, for example, after the capture of Mosul, it looted over USD 400 million in cash and valuables. These funds not only covered short-term costs, such as armaments and logistics, but also helped finance ISIS/ISIL's propaganda and recruitment campaigns.

#### **c) Artifacts trafficking**

ISIS/ISIL encouraged the looting and smuggling of antiquities from Iraq and Syria, which provided a significant source of revenue. The looted artefacts were smuggled out of the country, mainly via Turkey and Jordan. ISIS/ISIL not only supports the theft of artefacts but also organises its own excavations.

#### **d) Taxation and human trafficking**

ISIS/ISIL has established a comprehensive system of taxation in the territories it occupies, which has allowed them to generate significant revenues. They regularly tax the population of the occupied regions, irrespective of religious affiliation, and have regularly carried out kidnappings for ransom. ISIS/ISIL's system of taxation and extortion has generated approximately \$900 million annually for the group (FATF, 2015).

### **2.3. Modern terrorist financing methods in ISIS/ISIL's money raising processes**

In addition to traditional forms of funding, non-traditional means have also been used to finance ISIS/ISIL.

The emergence of non-traditional forms of financing in the life of the Islamic State allows it to serve as an example for future research. What are these modern methods of terror financing?

#### **a) The role of cryptocurrencies**

Cryptocurrencies such allow international transactions that are not subject to traditional regulatory regimes. In 2020, the US Department of Justice seized millions of dollars worth of cryptocurrencies that were being used for terrorist purposes (Wang&Zhu 2021).

#### **b) AI and ML technologies**

Artificial intelligence (AI) and machine learning (ML) offer innovative ways to analyse cryptocurrency transactions and identify suspicious activity. AI-based models, such as decision trees and neural networks, can detect suspicious transactions with extremely high accuracy. The use of AI and ML technologies is particularly important because traditional financial monitoring methods are not able to fully track decentralised transactions (Agorbia-Atta et. al., 2021).

#### **c) Crowdfunding**

ISIS/ISIL exploits crowdfunding platforms such as the “Bitcoin wa Sadaqat al Jihad” site to collect donations anonymously. Such platforms exploit the untraceability of cryptocurrency, which allows the terrorist organisation to build a global fundraising network (FATF, 2023).

#### **d) Dark web and encrypted channels**

ISIL uses the dark web and encrypted messaging applications to collect donations and communicate with its supporters. Platforms established on the dark web allow encrypted communications and cryptocurrency transactions that are extremely difficult to track or stop (FATF, 2023).

#### **e) Islamic State digital communication campaigns**

The Islamic State's online propaganda activities enable it to motivate a wide range of potential supporters and make emotional appeals for financial assistance. These campaigns take advantage of the psychological impact of social media and build targeted relationships with emotionally impressionable individuals (Kenyon& Birenbaum, 2023).

#### **f) Exploiting online payment systems**

The Islamic State also takes advantage of the flexibility of online payment systems such as PayPal and other similar platforms. Although regulatory authorities are increasingly paying attention to these transactions, terrorist organisations may find loopholes to avoid monitoring. The organisation often makes small, multiple transactions that are more difficult to detect and monitor. These types of transactions are particularly advantageous to terrorist organizations because small payments raise less suspicion and may avoid banking or regulatory attention (Kenyon& Birenbaum, 2023).

### **III. How to fight against terrorist financing**

The fight against terrorist financing has become one of the biggest global security challenges of recent decades. The international community, financial institutions and regulators are constantly working to prevent terrorist groups from accessing financial resources and supporting their operations (Teichmann& Falker, 2024).

#### **1. International regulation and cooperation**

Organisations such as the Financial Action Task Force (FATF) and the Egmont Group are setting global standards for countering terrorist financing. They promote regulatory consistency between countries and conduct regular assessments to ensure compliance by Member States. Ukraine, for example, has aligned its legal framework with the FATF standards to prevent the funding of terrorist activities (Egmont Group, 2023).

#### **2. Risk-based profiling**

Financial institutions use risk-based profiling methods to focus on high-risk customers and transactions. This includes filtering suspicious transactions and stricter customer identification. Such methods

allow financial institutions to detect and prevent terrorist financing even under the guise of legitimate activities (Bauer, Levitt, 2020; Teichmann, Falker, 2024).

### **3. Technology tools: AI and machine learning**

AI and ML technologies play a prominent role in the fight against terrorist financing. These algorithms can detect transaction patterns in real time and alert compliance officers. They are particularly effective in tracking cryptocurrencies and digital transactions, as they analyse large amounts of data and provide rapid alerts on suspicious financial flows (Department of the Treasury, 2024; Agorbia-Atta et al., 2024).

### **4. Fintech and cryptocurrency regulation**

The rise of fintech and cryptocurrencies poses new challenges in the fight against terrorist financing. Decentralised financial systems (DeFi) and the anonymity of cryptocurrencies make it difficult to track transactions. Many countries have introduced more stringent requirements, such as mandatory customer identification and transaction reporting, to reduce terrorist access to these tools (Department of the Treasury, 2024; Bauer, Levitt, 2020).

### **5. Information sharing and cooperation between financial institutions**

Information sharing between countries and financial institutions is essential in the fight against terrorist financing. The Egmont Group enables the sharing of financial information between countries, which facilitates the timely identification of suspicious transactions and effective action. Data sharing and international cooperation significantly enhance global financial security (Bauer, Levitt, 2020).

## **IV. CONCLUSION**

Terrorist financing has undergone significant changes in recent years, shifting from traditional methods such as looting, bank robbery and trafficking of artefacts to new digital technologies such as cryptocurrencies and crowdfunding. These modern tools allow terrorist groups to bypass the control of traditional financial systems, making it more difficult for authorities to monitor financial flows. The case of the Islamic State illustrates how terrorist organisations adapt quickly to technological changes (Teichmann, Falker, 2024).

In order to be effective, it is essential to strengthen international cooperation, for example by creating common databases that monitor suspicious transactions in real time. AI and machine learning-based systems can help detect financial crimes more quickly, while blockchain analytics tools such as Chainalysis allow for a more thorough analysis of cryptocurrency transactions. In addition, the regulation of cryptocurrencies, especially the control of anonymous assets such as Monero, is key to curbing terrorist financing (Department of the Treasury, 2024).

Monitoring online crowdfunding platforms and the dark web is also a priority. The introduction of mandatory user identification on these platforms could facilitate the work of the authorities. Improving the cyber-security of financial institutions, education and the use of advanced protection systems could be further steps in the fight against terrorist financing.

Based on an in-depth analysis of the economic activities of each terrorist organisation, it is clear that the financing of each terrorist organisation is a much more complex and complex process than the previous focus on counter-terrorism. As a result of these processes, by the beginning of the 21st century, certain terrorist organisations have developed extensive economic links and interests similar to those of the mafias and other organised criminal communities that emerged earlier. The evolution of terrorist organisations' funding sources means that the fight against terrorist financing, which was previously considered sufficient, not only needs to be rethought and its activity increased, but also needs to be placed on a new footing.

This new type of action will require more and more economic control activities by the counter-terrorism and law enforcement services in order to identify the segments of terrorist interest in the various economic areas. This will help to prevent terrorist financing from being carried out by economic protection, law enforcement, judicial organisations, agencies and other professional authorities in activities which appear legal to them.

Overall, cooperation at global level, the use of modern technologies and a tightening of regulatory frameworks can help authorities to keep pace with the evolving methods of terrorist groups, thus contributing to maintaining global security. Sharing information between counter-terrorism services and common preventive procedures can be the most successful way to curb the spread of terrorism. Of course, the question remains: can terrorism be abolished?

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