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Marine Corps University
2076 South Street
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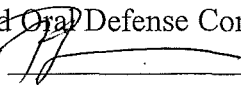
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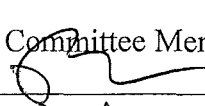
Major Daniel R. Myers, USMC

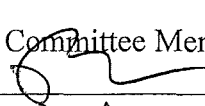
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Mentor and Oral Defense Committee Member: Benjamin Jensen, Ph.D.

Approved: 

Date: 29 Apr 15

Oral Defense Committee Member: Russell Ems  CP USN

Approved: 

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Executive Summary

Title: The Financial Capacity of the Islamic State of Iraq and the Levant

Author: Major Daniel R. Myers, United States Marine Corps

Thesis: The Islamic State in Iraq and the Levant's (ISIL) derives its financial capacity from a variety of sources that include oil revenues, external funding, illicit networks, and the opaque *hawala* network. These sources enable ISIL to fund its operations, pay foreign fighters, attract professional technocrats and bureaucrats, and conduct effective governance. Additionally, as ISIL increases its financial capacity, the group also increases its appeal, success, and durability.

Discussion: In the Middle East, a region experiencing no shortage of violent extremist organizations (VEO), ISIL's dominance is unparalleled and extremely unique. Contributing to their exceptionality was their robust financial capacity and emergence as the wealthiest VEO within months of taking control of large swaths of territory in both Iraq and Syria. Multiple factors explain their sudden wealth; however, the critical expertise of former Baathists members intertwined within ISIL's leadership linked the group to the revenue streams within multiple illicit networks including the oil smuggling network and enabled the group to quickly generate large amounts of financial support. Under the Baathists control, these revenue streams increased the group's governance, appeal, and growth. As a result, ISIL's financial capacity must be dealt with when examining how to counter the group's effectiveness and appeal.

The Taliban serve as a good comparative case study. The group generated a significant amount of revenue from the opium trade giving them legitimacy, effective governance, and broad appeal within Afghanistan. Additionally, other VEO case studies are examined to understand the implications of a group's financial capacity and the effects of countering their financial capacity through targeting the sources of their revenue.

Conclusion: Although not the critical factor, ISIL's financial capacity is a critical factor to the group's appeal, success, and durability. Because ISIL emerged from an alliance of former Baathists and *Salafi-Jihadists*, a significant reduction in their financial capacity combined with significant military pressure is likely to introduce chaotic effects and destabilize their powerful grip within the region.

DISCLAIMER

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Preface

Initially, ISIL appeared to be just another VEO within the Middle East. However, the group continued to gain power, influence, and territory in spite of other strong, competitive terrorist groups within the region. After attending a Strategic Multilayer Assessment conference in October 2014, I realized the uniqueness and exclusivity of this group. One of their strengths, financial capacity, intrigued my interest. As a result, I wanted to explore how the group amassed such wealth and translated that wealth into effective governance and control as well as strategic and tactical success. Any US strategy to counter ISIL's influence must include a comprehensive approach that includes countering the group's financial capacity.

I have truly appreciated my friend and colleagues in Conference Group 2 at the Command and Staff College who have contributed to many discussions and thoughtful insight into developing my understanding of this topic. Specifically, I would also like to thank Major Craig Giorgis, with whom I closely worked and collaborated with on this project. Also many thanks to Dr. Benjamin Jensen, my advisor, whose constant encouragement and guidance made this paper possible.

NOTE: Although the work below is mine, I conducted portions of the analysis and research with Major Craig Giorgis, USMC, who studied the Islamic State's leadership and organization as I studied its financial capacity. In particular, Major Giorgis and I collaborated on the predictive model and the comparative analysis.

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Introduction

On June 29th, 2014, Abu Bakr al-Baghdadi appeared at the Great Mosque in Mosul and declared the re-establishment of the Caliphate. This event signaled the birth of a problem as serious as al-Qaeda. As the world took notice, Baghdadi and his Sunni extremist group, known as ISIL, quickly grew holding territory in both Iraq and Syria. Shortly after Baghdadi appeared in the mosque in Mosul, Dr. Sebastian Gorka stated, “In the space of just a few weeks, the jihadi threat group ISIS has accomplished more than al Qaeda did in the thirteen years since the September 11 attacks.”¹ Nations, including the US, Saudi Arabia, France, the UK, and Jordan that were already divided on how to support efforts against the Assad regime in Syria, found that developing a strategy countering the spread of ISIL’s influence in the Middle East even more difficult.

The complexity of the problem with ISIL lies at the very nature of the conflict in the Middle East, which is inclusive of the following struggles: a proxy war by Gulf Cooperation Council (GCC) nations against Iran; the ethnic clash between Sunni and Shia sects; Salafist ideology countering western influence; and world powers such as Iran, Russia, and the US competing for strategic influence. These conflicts are by themselves complicated, and combining them introduces an even higher level of complexity to developing a durable regional strategy by the US that protects its vital national interests. One of the key lines of effort in developing a durable strategy against ISIL will be attacking their financial capacity. ISIL’s financial capacity creates legitimacy, energizes recruitment of foreign fighters, generates operational tempo, and entices Muslim professionals to return to the Caliphate among many other things. An article

¹ Sebastian Gorka, “Why ISIS is more dangerous than Al-Qaeda and what America must do about it,” *Breitbart.com*, July 9, 2014, <http://www.breitbart.com/national-security/2014/07/09/why-isis-is-more-dangerous-than-al-qaeda-and-what-america-must-do-about-it/>

from Arabian Business.com states, “ISIL is the world's richest terrorist organization, with an income estimated at about \$2.9 billion a year, much of it from oil, gas and farming projects it controls. It runs factories, oil refineries and even banks.”² However, attacking the financial capacity of ISIL is by no means an easy task. Intertwined with many opportunities to disrupt ISIL’s revenue streams are risks that if not performed surgically and accurately will only increase the support for ISIL and the developing Caliphate.

This paper is meant to contribute to the United States’ design and approach to countering ISIL. Its focus and scope deal specifically with countering ISIL’s revenue streams and financial capacity. It is not meant to propose a strategy rather it is meant to increase understanding and assist planners with the opportunities and risks associated with disrupting the economic activity of ISIL. Four approaches were used in the analysis. The first approach involves a case study of the Taliban who were heavily dependent on the drug trade, *hawala* networks, and other illicit smuggling networks to generate financial capacity. This approach gives a historical perspective of the problem as both the Taliban and ISIL share many similarities. The second approach consists of an examination of how ISIL’s financial revenue streams and enablers generate appeal through the lens of greed and grievance theorems.³ This analysis focuses on a current perspective of the ISIL’s financial capacity. The third approach involved a comparative analysis of 19 VEOs comparing the variables of military force, finance, and leadership with a group’s durability and ending. The fourth approach uses predictive analysis to envision a plausible state of affairs and conditions in ISIL’s future given various driving forces. The comparative analysis involved 19 different case studies of violent extremist groups. The analysis focused on each

² Reuters, “ISIL is the world’s richest terrorist organization, with assets of \$2 trillion, but can it win the war?” *Arabian Business.com*, November 30, 2014, <http://www.arabianbusiness.com/isil-is-world-s-richest-terrorist-organisation-with-assets-of-2-trillion-but-can-it-win-war--573506.html#.VT9jgCl0a7s>

³ Paul Collier and Anke Hoeffler, “Greed and Grievance in Civil War,” *Oxford Economic Papers*, Vol. 56, No. 4 (Oct., 2004), pp. 563-595. <http://www.jstor.org/stable/3488799>

group's leadership and finances and detailed how the group ended. The predictive analysis uses Robert Clark's Predictive Analysis Model to envision future end-states of ISIL based on multiple driving forces of ISIL's rise to power. In this approach, the driving forces behind ISIL's success are changed or altered to understand and predict future end-states. Using the comparative and predictive analysis provides opportunities and risks associated with US strategy and policy towards ISIL in light of the three previous approaches. The Middle East is a connected system involving multiple political, economic, information, and social inputs. As the US decides to interject itself, the system will change and adapt to any new influencing force. Therefore, it is important for the US to understand and critically examine the potential effects of interjecting different instruments of its national power in the Middle East.

Approach 1: The Taliban Case Study

When examining the Taliban's success, an inspection of their unique, plentiful, and diverse financial capacity is required. Although much discourse is provided on the sources of the Taliban's financial support, details and specifics are noticeably in shorter supply from the 1990s. However, post September 11, 2001 documentation pinpoints with much more accuracy the sources, networks, and methods of how the Taliban generated revenue and matured their financial capability to fund their successful operations and capacity for governance. The financial sources and methods contribution to the Taliban's rise were not always consistent year to year, but when reviewed as a whole since the 1990s, specific trends and facts are easily deduced.⁴ External support, the drug trade, and the *hawala* networks were the three critical enablers to the Taliban's successful governance in Afghanistan. External support was most

⁴ Ahmed Rashid, *Taliban: Militant Islam, Oil and Fundamentalism in Central Asia*, (2nd. New Haven and London: Yale, 2010)

important early on.⁵ As the Taliban gained territory and began to govern, internal revenue generation became more important, as did the ability to conduct financial transactions.⁶

External Support

Contemporary studies attempting to explain the rise and success of the Taliban's closely examine the external support from a number of external actors. Scholars such as Daniel Sullivan and Cintha Maass provide caution to attributing the Taliban's rise solely to external support. However, both individuals recognize the importance and primary role external support played in Taliban's the success. Sullivan identifies three stages of explanatory narratives that contribute to the rise of the Taliban. The first and second narratives are best explained by the failed state conditions and a resonating ideology.⁷ Sullivan seems to suggest that these two factors explain the Taliban's early successes. However, when the Taliban attempted the transition from an insurgent group to a legitimate governing body, the group success could be pinned on a third narrative.⁸ In the third narrative, he points toward external support as the critical factor that "explains how it was able to spread to over 90% of Afghanistan."⁹ In the early 1990s, Pakistan and Saudi Arabia provided support in various capacities that proved vital to the increase of the Taliban's military capacity and political legitimacy. Pakistan's Inter-Service Intelligence (ISI) service possessed a long history of providing direction, leadership, international connections, and financial support. Maass describes the intimate relationship between Pakistan's ISI and the Taliban stating, "The ISI has been strongly suspected of having been the Taliban's 'godfather' in

⁵ Daniel P. Sullivan, "Tinder, Spark, Oxygen, and Fuel: The Mysterious Rise of the Taliban," *Journal of Peace Research*, Vol. 44, No. 1 (Jan., 2007): pp. 103-105. <http://www.jstor.org.lomc.idm.oclc.org/stable/27640455>

⁶ Kirk Kraeutler, "U.N. Reports that Taliban are Stockpiling Afghan Opium to Ensure Income Source," *New York Times* (Nov 28, 2008): <http://search.proquest.com/docview/433970540?accountid=14746>.

⁷ Daniel P. Sullivan, p. 93.

⁸ The third narrative is arguably when the Taliban took over Kabul in 1996.

⁹ Daniel P. Sullivan. p. 93

logistical, military and conceptual terms and having enabled directly and in various respects (although not substantially proven) the Taliban's surprising advance.”¹⁰ In one of the first of many examples of an external actor providing arms to the Taliban in 1994, Pakistani officials enabled the Taliban to assert control over a weapons cache near Spin Baldak, and enabled the Taliban to control territory, a first for the group.¹¹ Additionally Pakistan was one of the first nations to recognize the Taliban as the official government. Saudi Arabia also provided a significant amount of financial support. In addition to Saudi Arabia many other GCC nations increased the financial care through illicit networks, private donors, charities, and cover businesses.¹²

Although these facts are known, more examples and a richer understanding of the Taliban's external support is known in the decade after September 11, 2001. One absolute throughout the Taliban's growth and rule is that of the indeterminate path of the financial support. Simply put - the money trail was difficult to track, leading Richard Holbrooke (who was appointed by President Obama as the Special representative to Afghanistan and Pakistan) to “reinvigorate efforts to trace the sources of financing for the Taliban insurgency, with special scrutiny of private donations.”¹³ In 2009, Holbrooke and others believed that private donors in the Gulf countries provided more financial support to the Taliban than any other source including the opium trade, which by UN estimates was about \$300 million a year.¹⁴ These statements reinforce the assertion that the Taliban received critical and substantial financial support from external sources. Additionally, this support was essential for and contributes to the success and

¹⁰ Citha D. Maass, "The Afghanistan Conflict: External Involvement," *Central Asian Survey* 18 (1): 65-78, (1999): <http://search.proquest.com/docview/220689083?accountid=14746>.

¹¹ Daniel P. Sullivan, p104.

¹² Sabrina Tavernise and Salman Masood, "U.S. Plans New Hunt for Sponsors of Taliban." *New York Times*, (Jun 06, 2009): <http://search.proquest.com/docview/434112595?accountid=14746>.

¹³ Sabrina Tavernise and Salman Masood.

¹⁴ *ibid*

sustainment of the Taliban's rule in Afghanistan. The US increased interest and targeting of the Taliban's financing and the addition of a member of the Treasury Department to Holbrooke's staff for the sole purpose of investigating the Taliban's financial network supports this assertion.¹⁵

Hawala Networks

Hawala networks were a key enabler for the Taliban for making money transfers untraceable within Afghanistan. *Hawala* networks have long been a necessity to the Middle East's financial system. They serve a similar purpose as banks and facilitate the transfer of financial resources among businesses and people in not only the Arab but also Islamic world. The Taliban were no stranger to these networks and used them extensively to funnel external support and resources into Afghanistan. The lack of oversight and regulation allowed these networks to operate in relative obscurity, which further supported the anonymous nature needed by the Taliban to sustain financial support. The US and UN recognized *hawala* networks' dangerous funding capacity for the Taliban and other groups prior to 2001. The US pushed several security resolutions through the UN hoping to freeze the Taliban's assets and sanction the seemingly impenetrable networks, which facilitated the financial transactions of the Taliban.¹⁶ However, despite the sanctions, *hawala* networks operated with impunity and no oversight in most Islamic states. Most importantly, the Taliban still use these informal financial networks today to transfer financial resources. Even in 2012, the US Department of Treasury and the UN sanctioned two more exchange networks (Haji Khairullah Haji Sattar Money Exchange and the Roshan Money Exchange) and their owners, which operated primarily in Afghanistan and

¹⁵ *ibid*

¹⁶ UN Security Resolution 1267 (1999) <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N99/300/44/PDF/N9930044.pdf?OpenElement>

Pakistan. Both of these networks operated as *hawalas* and provided financial services to the Taliban.¹⁷ The fact that the US and the UN are still tracking the Taliban's financial networks despite pulling military forces out of Afghanistan indicates the importance of these networks to the group's operations and the great emphasis the US and UN place on limiting the *hawala* networks' effectiveness as a means of combating the Taliban.

Drug Network

Opium and the drug trade network was another source of financing for the Taliban. In 1990, the US Drug Enforcement Administration (DEA) reported that opium production in Afghanistan fell to 415 metric tons that year. Seven years later, as Afghanistan increasingly submitted to the Taliban's control, production skyrocketed to over 2,800 metric tons, an increase of seven times the amount in 1990.¹⁸ The significant increase in production continued its upward trend over the next decade. In 2007, Afghanistan produced over 8,200 tons of opium.¹⁹ The Taliban generated revenue by collecting taxes on the opium trade. Every stage of the opium operation including cultivation, refinement, and transportation resulted in revenue for the Taliban. The Taliban made upwards of \$50 million per year from the opium trade over the last few years.²⁰ In this respect, opium functioned as a commodity for the Taliban.²¹ Markets (regulation of supply and demand) controlled the amount of money taken in from the drug trade. "The UNDCP estimates that 40 percent of the raw opium on the international market in 1999

¹⁷ *Treasury Targets Money Exchange Houses for Supporting the Taliban*, Lanham: Federal Information & News Dispatch, Inc. (2012): <http://search.proquest.com/docview/1022707801?accountid=14746>.

¹⁸ James Emery, "A River of Heroin." *The World & I* 15 (2): 60-65.
<http://search.proquest.com/docview/235880980?accountid=14746>.

¹⁹ Antonia Maria Costa, "Afghanistan 2007 Annual Opium Poppy Survey." *United Nations Office on Drugs and Crime* (August 2007): http://www.unodc.org/pdf/research/AFG07_ExSum_web.pdf p.IV

²⁰ James Emery

²¹ Commodity being a tangible good as opposed to a service that is capable of being purchased, sold, or traded.

was grown in Afghanistan where 96% from areas under Taliban control.”²² The revenue generated from the drug sale fueled the Taliban’s operations. The drug trade enabled the Taliban to buy weapons and ammunition as well as generate the capacity to govern among the population of Afghanistan. Although the Taliban officially banned opium production and the drug trade, the group realized the tremendous funding capacity of opium growth; and therefore, depended upon it for survival and sustainment. Production continued to increase throughout the Taliban’s reign, as the increase in the drug trade directly increased the funding of the military and political capacity of the Taliban. A report in 2008 from the UN’s Office on Drugs and Crime stated that the Taliban were “cutting poppy cultivation and stockpiling raw opium in an effort to support prices and preserve a major source of financing for the insurgency.”²³ The US coalition also attempted to eradicate the drug trade during their occupation of Afghanistan, but it still survives today due to the significant amount of revenue it generated for everyone involved. As a result, owning and controlling the drug trade was critical to the Taliban’s success in Afghanistan.

Conclusion: Finance and External Support

Contemporary studies of the Taliban will claim that external support was not the sole critical contributor to the success and rise of the group in Afghanistan. However, external support still played an important role to the Taliban’s success and rise from a terrorist organization to the Islamic Emirate. It is also difficult to imagine how the Taliban would have been able to generate the financial capacity to conduct operations without external support or without leveraging the revenue from the opium trade. Additionally, the *hawala* networks enabled financial transactions to occur among all supporters of the Taliban and participants in the

²² James Emery

²³ Kirk Kraeutler

drug trade with relative obscurity. The anonymous attribute of the *hawala* networks kept other nations and the UN from interdicting funds and outing individuals and organizations that supported the Taliban either directly through donations or indirectly through the drug network. As a result, external support, the *hawala* networks, and the drug trade proved vital to the successful financial support of the Taliban.

Understanding the inner workings of the Taliban's finances provides useful insights to understanding ISIL's financial capacity. Both groups seem to move through similar stages initially relying on external support and transitioning to internal revenue streams as their primary source of financial income. The use of the *hawala* network is of the utmost value to both groups. However, the Taliban were unable to divorce themselves from the drug trade. Diversification did occur, but nothing ever replaced the revenue from opium sales as the Taliban's major source of income. The Taliban were utterly dependent upon it. As ISIL grows, they too will likely diversify their revenue streams and their financial portfolio will likely depend on the success of their diversification efforts.

Additionally, the above insights provide several implications for ISIL. ISIL is beyond the stage where they depend on external support. Simply put, it is no longer critical to ISIL's durability. Hawala networks are opaque, shapeless, and self-regenerative meaning America's ability to influence them is minimal. The oil network similar to the opium trade, which serves as the critical means of sustainment, is a dynamic non-linear system. It is vulnerable to interdiction, but pressure on this system needs to be applied with caution. Financial interdiction of ISIL's oil network will result in unintended and unforeseen second and third order effects. Due to the expansive nature of the oil smuggling network, these effects will surface not only in Iraq, but also in neighboring countries. Table 1 provides a synopsis of how the Taliban generated

revenue, and how they conducted financial transactions as well as potential implications for US strategy countering ISIL's financial capacity.

Table 1: Assessment of the Taliban and Implications for US Strategy

Question	Assessment for the Taliban	Implications for ISIL
How did the Taliban generate revenue externally?	<ul style="list-style-type: none"> -Funding from other Muslim nations and the greater Umma at large provided external support -External support was critical to the start and initial growth of Taliban (i.e., as a nascent insurgency) -Less important as Taliban gained territory, began to govern, and diversified revenue streams 	<ul style="list-style-type: none"> -ISIL is beyond the stage where external support is critical to its growth and expansion
How did the Taliban generate revenue internally?	<ul style="list-style-type: none"> -Drug trade and taxes from the drug trade provided internal support -Drug Trade was critical to sustainment of Taliban -Drug trade was primary network for other networks such as smuggling -Consistent global market for opium -Drug trade is a complex non-linear system which made targeting efforts difficult; for example eradication efforts ultimately produced negative effects on the population and were unsuccessful 	<ul style="list-style-type: none"> -Oil is the critical income source for sustainment of ISIL -Oil network is also a complex non-linear system -Targeting of oil infrastructure is likely to have significant unpredictable and negative effects outside of ISIL
How did the Taliban conduct financial transactions?	<ul style="list-style-type: none"> -Hawala networks were critical to movement of funds -Hawala networks provided a critical capability to the Taliban -They were opaque & difficult to target (limited success) -They have few known critical vulnerabilities -Islamic nations rarely took action to interdict networks despite UN sanctions 	<ul style="list-style-type: none"> -Money trail is difficult to interdict -International targeting efforts depend on Muslim nations' actions -Likely have limited success conducting Financial Service Targeting (FST)

Approach 2: Analysis of ISIL's Current Revenue Streams & Financial Capacity

One of the reasons for ISIL's success and appeal is a direct result of their economic stability.²⁴ ISIL achieves economic stability through many of the same methods as the Taliban to include the use of and reliance on the hawala networks, illicit markets, and external support.²⁵ Their financial capacity enables the group to conduct operations and fuels the expansion of the Caliphate by attracting foreign fighters, bureaucrats, and technocrats that conquer more territory and enable effective governance.²⁶ Additionally, ISIL's economic system and methods of financing facilitate sustainment and growth creating the perception of legitimacy and economic stability.²⁷

Literature Review: Greed versus Grievance Theorem

When examining why people choose to fight in a civil war or rebellion, the focus is on motivation. Multiple theories exist on the true motivating factor or factors that cause individuals to engage in violence against a state authority. Political theorists use grievances to explain the motivation for the use of violence against a state power. Grievances can result from real or perceived economic, political, or even social imbalance. A grievance based approach argues that violent conflict emerges from a group's quest for justice in light of the real or perceived inequality. However, rational-choice theorists would argue that grievance based theories possess collection action problems. Rationalists explain the motivation for participation in violence in

²⁴ Matthew Levitt, "Terrorist Financing and the Islamic State," Testimony submitted to the House Committee on Financial Services, *Washingtoninstitute.org* (November 12, 2014) <http://www.washingtoninstitute.org/policy-analysis/view/terrorist-financing-and-the-islamic-state>

²⁵ *ibid*

²⁶ Patrick B. Johnston, "Countering ISIL's Financing," *RAND Office of External Affairs* (November 13, 2014): http://www.rand.org/content/dam/rand/pubs/testimonies/CT400/CT419/RAND_CT419.pdf

²⁷ Richard Barret, "The Islamic State," *The Soufan Group* (November, 2014): <http://soufangroup.com/wp-content/uploads/2014/10/TSG-The-Islamic-State-Nov14.pdf>

terms of greed and self-economic gain. Combatants seek economic capital through gaining and controlling resources. Collier compared the two competing theories. He says, “Greed and misperceived grievance have important similarities as accounts of rebellion. They provide a common explanation-‘opportunity’ and ‘viability’ describe the common conditions sufficient for profit-seeking, or not-for-profit, rebel organizations to exist.”²⁸ Proxies of opportunities are present in rebel financing, weak government and military capabilities, and social cohesion. Additionally, proxies of grievances reside in ethnic animosity, political repression, political exclusion, and economic inequality. In his findings, Collier concludes that opportunity provides ample fuel for rebellion in the following areas: availability of rebellion finance, cost of rebellion, and military advantage. He further argues that the export of commodities, specifically linked to rebellion financing, provides a significant number of additional opportunities. The resulting growth of opportunities increases the feasibility of rebellions, makes them more attractive, and increases their length.

However, he also determines that most proxies for grievances were insignificant to the motivation towards violence. Many economists would heartily agree as they associate opportunity with greed. Ballentine and Nitzschke contribute to a similar logic explaining appeal and success, but also acknowledge the influence of grievances. They argue that the complexity and duration of a conflict directly correlates to a combatant’s ability to self-finance.²⁹ Their study on economic agendas in war concludes that resources, such as oil and gas, are characteristic of separatist conflicts. Separatist conflicts are usually a result of ethno-political grievances over an unjust distribution of resource revenue-sharing and exclusionary government

²⁸ Paul Collier and Anke Hoeffler, “Greed and Grievance in Civil War,” *Oxford Economic Papers*, Vol. 56, No. 4 (Oct, 2004): pp. 563-595. <http://www.jstor.org/stable/3488799>

²⁹ Karen Ballentine and Heiko Nitzschke. “Beyond Greed and Grievance: Policy Lessons from Studies in the Political Economy of Armed Conflict.” *International Peace Academy* (October, 2003): P1 http://www.worldpolicy.org/sites/default/files/imported/projects/arms/study/bak05_1.pdf

policies. Additionally, they argue that “Poor economic governance and state weakness are the critical mediating factors between resource abundance and vulnerability to armed conflict; the first engenders popular grievances, the second makes separatist and non-separatist insurgencies politically and militarily feasible.”³⁰ These conditions explain how a self-financed separatist group with talented leadership generates appeal and success against a perceived illegitimate, weak state government. In this scenario, both greed and grievance based theories concur on the validity of appeal and success being generated from a separatists group’s ability to self-finance.

The following paragraphs will examine ISIL’s economic capacity in light of Collier, Ballentine, and Nitzschke’s conclusions. The use of both greed or opportunity and grievance based theories contribute to the explanation of ISIL’s success and appeal. Former Baathists members see a potential return to their ruling days and seek additional opportunities to gain power, influence, and financial returns. Additionally, ISIL plays on Sunni grievances to appeal to a large portion of Iraq’s and Syria’s population. It is important to note that it does not explain all of ISIL’s appeal and success. Although Collier gives three areas of opportunity, this approach will examine only the area of rebel financing and ISIL’s economic capacity to explain its success and appeal. There are admittedly more examples of opportunity in weak government and military capabilities as well as social cohesion. However, the economic capacity of ISIL is of increasing importance because it is a domain that the international community can immediately affect. Social cohesion and weak military and government capacities require a significant amount of time to overcome.

Successful terrorist organizations master the ability to sustain levels of financing that creates growth and sustainment within their organization and a perception of stability to the local

³⁰ Karen Ballentine and Heiko Nitzschke, P2

population. However, in today's world of globalization, an individual, group, business, and even a nation's finances are capable of being monitored and tracked. If deemed illegitimate, assets can be frozen, seized, or even confiscated. How then, do some terrorist groups remain capable of funding operations and sustaining growth despite globalization? Marcy Forman wrote an article in the *Journal of Money Laundering Control* where she states, "Terrorists use a variety of alternative financing mechanisms to earn, move, and store assets their assets based on common factors that make these mechanisms attractive to terrorist and criminal groups alike. For all three purposes - earning, moving, storing - terrorists aim to operate in relative obscurity, using mechanisms involving close-knit networks and industries lacking transparency."³¹ Financial experts agree that multiple means outside the bounds of global monitoring exist allowing terrorist groups to receive external funding. External funding sources include private donors, neighboring countries that have vested interests, and illegitimate charities. These funds are transferred using *hawalas* or other opaque means in countries that either allows the transfer of illicit funds or refuse to enforce financial laws monitoring the flow of resources that fund terrorist groups. Additionally, terrorist groups work in and through illicit markets trafficking commodities and producing vast sources of income while retaining anonymity. Loretta Napoleoni, an Italian political and economic analyst, calculated that "an estimated two-thirds of terror financing originates from criminal and illegal activities, which range from large fraud to petty crime."³² ISIL is no different. The group operates in a similar fashion and with similar objectives in their financial operations. Multiple current assessments agree that the ISIL is financial capable of sustaining their operation. In fact, a study from the Soufan Group states,

³¹ Marcy M Forman, "Combating Terrorist Financing and Other Financial Crimes through Private Sector Partnerships." *Journal of Money Laundering Control* 9 (2006): P112-118
<http://search.proquest.com/docview/235871128?accountid=14746>

³² Loretta Napoleoni, "Terrorist Financing: How the New Generation of Jihadists Funds itself," *RUSI Journal* 151 (2006): P60-65 <http://search.proquest.com/docview/212124472?accountid=14746>

“there is little doubt that the financial resources of The Islamic State will allow it to consolidate its territory and build its support in both Iraq and Syria for the foreseeable future.”³³

External Support: Neighboring Countries, Private Donors, and Illegitimate Charities.

One method of ISIL funding originates from external support and outside sources. In Matthew Levitt’s testimony on ISIL to the House Committee on Financial Services he points out that “ISIS has accumulated as much as \$40 million or more over the last two years from donors in the oil-rich nations of Saudi Arabia, Qatar, and Kuwait.”³⁴ Although this is no small amount, it pales in comparison to other sources of ISIL revenue. However, what is important are the links to networks and individuals in these countries. US Treasury Undersecretary David Cohen stated that ISIL “derives some funding from wealthy donors, [but] even though [it] currently does not rely heavily on external donor networks, it maintains important links to financiers in the Gulf.”³⁵ These networks and links to the financiers within the Middle East allows ISIL’s interest to be represented and supported both informally and formally in these nations.

Use of Hawala Networks

The use of *hawalas* is another tactic used by ISIL that allows the group to avoid interdiction of financial resources by the outside world and operate in relative obscurity. Hawalas provide an anonymous method for Islamic extremist groups to circulate funds and payments. Most experts agree that hawalas networks are difficult to penetrate and regulate. As a result, financiers of extremism are able to retain an anonymous posture and avoid regulatory

³³ Richard Barret

³⁴ Matthew Levitt.

³⁵ David Cohen, “Attacking ISIL’s Financial Foundation,” *Carnegie Endowment for International Peace* (October 23, 2014): <http://carnegieendowment.org/2014/10/23/remarks-by-us-treasury-under-secretary-david-s.-cohen-on-attacking-isil-s-financial-foundation>.

oversight by nation states. Western intelligence officials have a difficult time monitoring and halting these informal networks.³⁶ Expatriates and various diaspora in many Middle Eastern nations use these networks to transfer funds to family in their home countries. Although some countries such as Qatar have enacted legislation to control and monitor these networks, many have yet to enforce their legislation. One reason for the lack of enforcement is that it may impede the nation's economy through discouraging the use of a foreign labor force. In Matthew Levitt's testimony about ISIL to the House Committee on Financial Services, he identifies Qatar and Kuwait as nations who have taken little action to curb the financing of extremist networks in the Middle East. These nations have often enacted legislation to curb funding yet fail to implement or enforce their own laws. Levitt points to Qatar as a prime example. In 2009, Qatar enacted legislation requiring Hawalas (informal money transfer businesses common to the region) to register with the government. When asked, a Qatar official explained that *hawalas* were not operating in the country. This fact was blatantly proven false. Multiple expatriate foreign workers told an IMF expert that they used *hawalas* to send money back to their families in their home countries. Despite enacting additional legislation in 2010, Qatar's public prosecution received only one case as of November 2013.³⁷ The use of *hawalas* is one example of a greater problem in financial oversight and monitoring in Muslim nations. Napoleoni calculated that "only 25 per cent of the total amount of terror money frozen since 9/11 was seized in the Muslim world."³⁸ She and many others conclude that the lack of willingness to regulate, monitor, and provide oversight of financial transactions involving potential terrorist funding is a major failure by Muslim nations. Muslim nations and their financial entities are to blame for these weaknesses and failures in their anti-terrorist and anti-extremist activities

³⁶ Patrick B. Johnston

³⁷ Matthew Levitt

³⁸ Loretta Napoleoni

Illicit Activities

Another method of financing agreed upon by almost all terrorism experts is through illicit activities. Illicit activities provide ISIL with a daily income of around \$3 million.³⁹ Most terrorist organizations are involved in the sale of commodities. Commodities are valuable because they are easily sold or traded through the black market. Additionally they retain their value for long periods of time and retain a relatively constant supply of demand.⁴⁰ The sale of oil has been the commodity of choice for ISIL. In the summer of 2014, ISIL controlled about 350 Iraqi oil wells, and 60% of the oil fields in Syria producing upwards of 80,000 barrels per day.⁴¹ These barrels sell for approximately \$40 on the black market. However, the most vital part of this operation has been ISIL's ability to network with existing networks to transport, refine, and sell the oil. Matthew Levitt states that these networks date back to the 1990s and are the same networks Saddam Hussein utilized during the oil-for-food program. A similar situation exists within Syria. Both Iraqi and Syrian oil is smuggled through Turkey. This significant amount of oil and gas created a micro-economy within Turkey, which depends on the ISIL oil smuggling industry. Investigation of the smuggling activity has led to the discovery of about 500 illegal oil pipelines extending from Syria to Turkey.⁴² It is sometime refined, and smuggled back across the border to sell inside Iraq or for military use by ISIL. This entire system allows ISIL to generate a significant amount of sustainable and dependable income, access local networks and merge local economic interests with their interests, dilute Turkish desire to combat ISIL's presence due to the

³⁹ Matthew Levitt

⁴⁰ Marcy M. Forman

⁴¹ Matthew Levitt

⁴² Tastekin Fehin, "Turkish villages smuggle IS oil through makeshift pipelines." *Al-Monitor* (September 15, 2014): <http://www.al-monitor.com/pulse/originals/2014/09/turkey-syria-iraq-illegal-oil-pipeline.htm>.

economic benefits within their economy, increase their legitimacy through the economic sustainment of areas underneath their control, and provide for their military sustainment.

Another financing method for ISIL involves the collection of taxes better known as zakat. Zakat incorporates multiple forms of taxes, extortion, and other forms of donations. Although considered corrupt by western standards, Zakat is actually justified in Islam as a form of an obligatory tax.⁴³ Exact amounts collected likely vary month to month, but Alice Fordham, from NPR, estimated that ISIL received about one million dollars a month from zakat collections in the Mosul area alone.⁴⁴ The Soufran Group explains this form of extortion as “preying on small family businesses such as grocery stores or appliance repair shops to taxing large enterprises such as electric companies and other energy suppliers, cellular phone service providers, water delivery companies or others fulfilling government contracts.”⁴⁵ Another example of these informal taxes in Mosul indicates that large vehicles entering the city are forced to pay \$400, while smaller commercial vehicles pay \$100 or \$50.⁴⁶ ISIL’s control of key lines of communication facilitates the collection of these taxes by those transporting goods in areas underneath their rule in both Iraq and Syria.

ISIL’s Economic Activity

Due to the lack of tangible information from Iraq and Syria, it is difficult to ascertain the exact amount of economic impact on the local economy from ISIL. However, some assumptions

⁴³ Nelly Lahoud, et al., “The Group That Calls Itself a State: Understanding the Evolution and Challenges of the Islamic State.” *The Combating Terrorism Center at West Point* (December, 2014): P61
<https://www.ctc.usma.edu/v2/wp-content/uploads/2014/12/CTC-The-Group-That-Calls-Itself-A-State-December20141.pdf>

⁴⁴ Alice Fordham, “For Extremists in Syria, Extortion Brings Piles of Cash from Iraq,” *National Public Radio* (April 21, 2014)

⁴⁵ Richard Barret

⁴⁶ Richard Barret

and deductions are within the realm of probable even when relying solely on an external view of the situation. Within the areas ISIL controls, they serve as the de facto government. As a result, they are responsible for the economic governance, control, and infrastructure within these areas. As ISIL seeks to establish legitimacy, they must gather the public's tacit support by providing basic services, which mostly revolve and center on the economic domain. The first contribution from ISIL is in the area of employment. Within the oil industry alone, ISIL provides employment to not only unskilled workers who likely serve as laborers in the transportation industry to many highly skilled workers who maintain the oil fields and its equipment.⁴⁷ ISIL also provides employment within its militant and security sector. The Soufran Group estimated that 30,000 fighters receive anything from \$200 to \$600 a month in salaries. Other benefits likely include housing and increased support depending on family size.⁴⁸ ISIL must also employ individuals to maintain civilian infrastructure in urban areas underneath its control, which they have successfully achieved.⁴⁹ These civil servants are paid anywhere from \$300 to \$2,000 a month depending upon the depth of skill and level of responsibility required for the position.⁵⁰ This type of pay is in concert with the current average yearly income in Iraq and a definite increase in income from several years ago. The ability of ISIL to meet and even exceed (in some cases) the medium yearly wages of Iraqi citizens is indicative of their economic stability. They are not reliant solely on force, ideology, or other negative-based coercive techniques as motivating factors for support. In fact the opposite is true. Individuals are positively motivated through increased economic incentives to support ISIL's governance.

⁴⁷ Michael Levitt

⁴⁸ Richard Barret, P45

⁴⁹ Imran Khan, "ISIL in pursuit of legitimacy," *Aljazeera.com*, January 5, 2015, <http://blogs.aljazeera.com/blog/middle-east/isil-pursuit-legitimacy>.

⁵⁰ Richard Barret, P45

ISIL is also able to supply food, grain, and other commodities to the areas it controls. In August of 2014, ISIL acquired over one million tons of grain and dispersed it throughout its territories.⁵¹ Reporting also indicates that ISIL established banks and other economic infrastructure needed by a governing body to not establish authority but also to provide economic services to the people.⁵² These types of provisions to local populations solidify ISIL's influence and legitimacy within the region as the recognized government.

Conclusion on ISIL's Financial Capacity

A large part of ISIL's longevity and appeal is directly tied to its financial health. As several studies have noted, ISIL's income and financial support grew significantly in the past year. Financial experts state that it is the richest terrorist group in the world surpassing Al-Qaeda and other notable groups. ISIL's extensive financial networks, acquisition of the illicit oil industry in Iraq and Syria, extortion operations, and ability to leverage taxes facilitate and increase the group's capacity for control and legitimacy. Additionally, as Collier noted, these opportunities increase ISIL's appeal. As it seeks to establish the Islamic Caliphate, the provision of government-like services is critical to maintaining control of its territory. In many cases ISIL initially asserted control through fear and coercion. However, they must now replace that fear with appeal and attractive incentives, which they have by maintaining the ability to self-finance their activities. In the summer of 2014, Baghdadi called for professionals such as scientists, engineers, doctors, and other individuals with administrative skills to join cause. He promised

⁵¹ "Iraq says ISIL stole 1 million tons of grain, took it to Syria." *Today's Zaman.com*, November 18, 2014, http://www.todayszaman.com/business_iraq-says-isil-stole-1-mln-tons-of-grain-took-it-to-syria_364736.html.

⁵² Imran Khan, "ISIL in pursuit of legitimacy," *Aljazeera.com*, January 5, 2015, <http://blogs.aljazeera.com/blog/middle-east/isil-pursuit-legitimacy>

housing, competitive salaries, and other benefits.⁵³ In order to fulfill these promises, generate additional success and appeal, and increase their legitimacy ISIL must maintain their financial health. At the very least maintaining their financial health will undoubtedly prolong the conflict. As Ballentine and Nitzschke note, “extensive combatant self-financing complicated and prolonged hostilities, in some cases creating serious impediments to their solution.”

The above conclusions suggest that the ability of ISIL to self-finance activities is a critical requirement for their success. Additionally, vulnerabilities exist within this critical requirement of self-financing. Interdiction of the oil flow, *hawala* networks, and grain provisions would likely dampen ISIL’s operations as well as reduce their success and appeal to the local population. However, it will not halt the underlying problem. Ballentine and Nitzschke explain that, “Where conflicts are motivated by a mix of political, security, ethnic, and economic factors, curtailing resource flows to combatants may weaken their military capacity but not their resolve to continue fighting.”⁵⁴ Affecting the vulnerabilities in ISIL’s ability to self-finance create a window of opportunity to work on the deeper political, ethnic, and economic tensions. The solution to the ISIL problem is not simple; it is complex. Policy makers and resolution seekers must resolve these greater socio-political and ethnic competitions within the region or else another extremist group will rise and take the place of ISIL or ISIL will rise again.

Approach 3: Comparative Analysis

Using Mill’s methods of logic, 19 VEOs were compared to develop an understanding of how external military force, leadership, and finance impact each group’s durability and ending. The criteria for VEO case studies include the following: use of violence towards a political end-

⁵³ Abdallah Suleiman Ali. “Baghdadi vows revenge in announcing 'Islamic State'.” *Al-Monitor*. <http://www.al-monitor.com/pulse/security/2014/07/iraq-syria-baghdadi-call-muslims-caliphate.html#2>, July 3, 2014.

⁵⁴ Ballentine and Nitzschke P1

state, transnational in nature, and a certifiable ending (groups who are currently still viable such as Boko Haram were excluded because they still exist).⁵⁵ The variable of external military force, finances, and leadership were assigned a score of “very high,” “high,” “low,” or “very low.” Durability was assigned a score of “high,” “medium,” or “low.” Finally, the VEO’s end-state was listed as either “defeated,” “compromised,” or “victory.” Table 1 lists the case studies and the resulting analysis.

Table 2. Military Force, Finances, Leadership, Durability, & End-states of VEOs

<i>Case</i>	<i>External Military Force</i>	<i>Finance and Resources</i>	<i>Leadership and Organization</i>	<i>Durability</i>	<i>End</i>
Almoravids	High	High	Low	High	Defeat
Assassins	Very High	High	Very High	High	Defeat
AUC	Low	High	High	Med	Defeat
Ghostdance	Very High	Very Low	Low	Low	Defeat
GIA	Low	High	Low	Med	Defeat
Jacobites	Very High	Low	High	Med	Defeat
John Brown	Very High	Very High	High	Low	Defeat
Knights Templar	High	Very High	Very High	High	Defeat
Mad Mahdi	Very High	Low	High	Low	Defeat
Muslim Brotherhood (violent splinter)	High	High	High	High	Compromise
MEK	High	Low	Low	Med	Defeat
Early Islam	Very High	High	High	High	Victory
Wahhabism	High	Low	Very High	High	Victory
Sikh	Very High	High	Low	High	Defeat
Taliban (1994-2001)	High	High	Very High	High	Victory

⁵⁵ Appendix A contains definitions of specific terms used in the comparative analysis

Tenskwatawa	Very High	Very Low	Low	Low	Defeat
Tupac Amaru	High	Low	Low	Low	Defeat
Mormons	High	Very High	High	High	Compromise
Zapatistas	Low	Low	Low	Med	Compromise

Implications of Comparative Analysis

The comparative analysis indicated that external military force is a critical factor in the end-state of a VEO. Thirteen of the nineteen case studies ended in defeat as a result of at least “high” or “very high” military force. There is a weak correlation of a group’s finance and leadership to a group’s durability, but both appear to be solid factors contributing to a group’s durability especially when both categories were “high” or “very high.” Although these case studies do not indicate that a particular strategy such as using a strong military force, leadership decapitation, or targeting a group’s finance will always be successful, it is clear that these factors play an important role in a group’s durability and end-state.

Out of the nine case studies that were analyzed as possessing a “high” or “very high” durability, eight also had a classification of “high” or “very high” level of financial resources. Only one case exists that was classified as having a “low” level of finances but a “high” level of durability. Out of the three cases that ended in “victory,” two possessed “high” or “very high” levels of financing. Although the number of case studies is not extremely high, the resulting analysis indicates that finances are likely a contributing factor to a group’s durability and success. Furthermore, this analysis seems to suggest that successful targeting of a group’s financial capacity will weaken the group’s durability.

Limitations of Comparative Analysis

The comparative analysis had multiple limitations. In both the leadership and finance variables groups often experienced low and high levels at different points within their lifespan. Subjective assessments were often made of the aggregate levels for both variables. Additionally, the analysis did not assess the character of military force and financial capacity only quantity. Further study should be devoted to break out and further define these categories as they could lead to even more specificity in the resulting analysis.

Approach 4: Predictive Analysis

The United States has found that developing a durable policy that counters ISIL in Syria and Iraq consistently leads to a strategic catch-22.⁵⁶ In order to figure a way out of this “no win” situation, the US officials should explore driving forces in the conflict and how they lead to alternative futures. Robert Clark’s Predictive Analysis Model is one of several methods that may increase America’s understanding of the environment.⁵⁷ Using Clark’s model, the following paragraphs examine the driving forces behind ISIL’s rise to power and predict various futures. The analysis focuses on the changing financial capacity of ISIL and the introduction of a new coalition with the political will to commit ground forces. Each of the model’s future end-states is described through a hypothetical vignette and a description of the scenario’s conditions. Further examination of these end-states reveals both opportunities and risks for the US as it debates how best to counter the rise of ISIL.

⁵⁶ For example, President Obama stated the Assad Regime must end, yet the only force demonstrating success against Assad is ISIL. Additionally, attempting to reduce ISIL’s revenue stream from the sale of oil through black markets impacts both the local economies within Iraq as well as the economies of Turkey and other neighboring states.

⁵⁷ Robert M. Clark. *Intelligence Analysis: A Target-Centric Approach* - 4th edition. CQ Press: Washington DC, 2013

Discussion of Predictive Approach technique:

Robert Clark's Predictive Analysis Model requires an initial analysis of the driving forces and their interests within an environment. Identifying and mapping these forces and their interests facilitates understanding of a region's history, current status, and possible futures. In Clark's book *Intelligence Analysis*, he quotes Brent Scowcroft to explain the data and methodology to his predictive theory: "What intelligence estimates do for the policymaker is to remind him what forces are at work, what the trends are, and what are some of the possibilities that he has to consider."⁵⁸ Clark's method starts with identifying the past target model, the forces involved, and the present target model. Further analysis of the forces involved and their potential change will provide and shape the future models via extrapolation, projection, and forecasting.⁵⁹ After a short description of these futures, vignettes are provided to offer a clearer picture of the environmental conditions within the predicted future of each target model. Although limited, these vignettes present possible and plausible circumstances as the outlined forces collide and interact to present a future state of affairs.

The driving forces within Iraq and Syria leading to ISIL's rise to power

Although many conditions and forces facilitated ISIL's rise to power, the following four major forces explain the path from the past to the present target models:

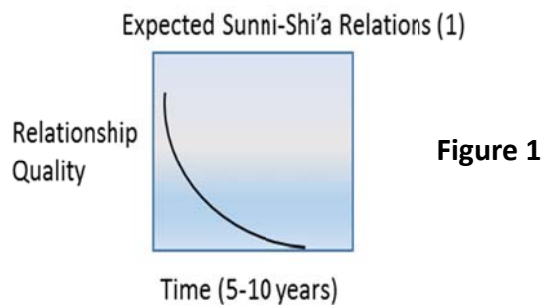
1. The continuation of the Sunni/Shia' cleavage
2. The withdrawal of coalition forces from Iraq
3. ISIL's revenue stream

⁵⁸ Robert M. Clark. pp 195

⁵⁹ Robert M. Clark. pp 199

4. ISIL's leadership⁶⁰

The Sunni/Shia' split has existed for generations and is unlikely to be reconciled. As a result, the intensity of this cleavage may change, but its place in Middle East politics and rivalries is forever cemented into the social fabric of the culture.⁶¹ The newly elected Shia' dominated government within Iraq shunned Sunni participation. This exclusion only added momentum to the decreasing quality of the relationship between the two sects. Major Sunni grievances soon developed and ISIL, a Sunni dominated extremist group, was able to exploit



these perceived injustices and garner support for their cause.⁶² As a result, the force consisting of the relationship between the Sunni and Shia' sects is considered to be in a state of decline as shown in the Figure 1.

The withdrawal of coalition forces from Iraq was a singular event that created a power vacuum within the nation. The power vacuum and a disenfranchised Sunni population created an opportunity for ISIL to fill a void. This singular event helps to explain ISIL's broad appeal and quick rise to power in the Present Target Model. ISIL's narrative that focuses on a return to traditional Islamic beliefs in the wake of a perceived illegitimate government appealed to Sunni and garnered their immediate cooperation and support. Due to the continued physical absence,

⁶⁰ Figure 2 is a graphical depiction of Clark's model as it applies to the future end-states of ISIL. The diagram is included in Appendix B. It shows the integration of the four forces and the progression through the different phases of the model.

⁶¹ "The Sunni-Shia Divide," *Council on Foreign Relations*, (April 28, 2015): <http://www.cfr.org/peace-conflict-and-human-rights/sunni-shia-divide/p33176#!/>

⁶² Bill Park, "Five reasons why Islamic State will be hard to destroy." *The Telegraph* (September 15, 2014): <http://www.telegraph.co.uk/news/worldnews/middleeast/iraq/11097795/Five-reasons-why-Islamic-State-will-be-hard-to-destroy.html>

this force remains unchanged in the initial parts of Clark's model. However, the introduction of a new coalition in the Forecasted Future Target Model is a new force. The new force has the following two characteristics that make it unique from the singular event of the withdrawal: the introduction of additional Arab/GCC nations as well as the commitment to the use of ground forces within Iraq and Syria by these new nations.

ISIL's revenue stream, a significant factor in the group's rise to success, is the third driving force. The lottery win of taking over the Mosul bank as well as the revenue exploited from captured oil wells were critical enablers to increased tempo and capacity of ISIL's operations. The group also possesses other revenue streams. However, none of them are constant. Coalition air strikes and declining oil prices slowed the flow of revenue to ISIL. The reduction in revenue decreased the tempo of military and political operations. A future decrease or increase in the flow of revenue will significantly affect ISIL capacity to conduct future operations.

The fourth driving force leading to ISIL's rise to power is ISIL's mysterious leadership. Abu Bakr al-Baghdadi and his "Shura Council" have been able to link tactical gains to strategic success. The convenient alliance between Salafists and Baathists, which make up the group's leadership, generated a council of experts that gave ISIL's leadership an advantage in politics, military operations, and ideology.⁶³ Additionally, their style of leadership, exploitation of opportunities, and methods of command and control enabled ISIL's broad appeal and success.⁶⁴

⁶³ Denise Natali, *Ba'athists and Bounties in ISIS*. National Defense University, Washington, DC: Institute for National Strategic Studies, 2014. Presentation.

⁶⁴ Ben Hubbard and Eric Schmitt, "Military Skill and Terrorist Technique Fuel Success of ISIS," *The New York Times*, August 27, 2014.

In this modified version of Clark's model, ISIL's leadership remains constant and unaffected providing similar services as experienced between the past and present target models.

The Present Target Model

The interaction of these four forces provides an explanation of the path from the past target to the present target model within Iraq and Syria. The Present Target Model can be characterized with the title of "Stalemate and Security." The struggle between President Assad's regime and rebellious factions is currently at an impasse. Since 2013, ISIL's strength, capacity, and influence increased significantly. However, ISIL has been unable to topple the Assad Regime and both sides continue to experience only limited tactical wins and territorial gains. The same characterization can be applied to Iraq. ISIL's power, control, and influence rose quickly while capturing key cities and oil infrastructure. However, they have yet to capture Baghdad and their gains have slowed if not been halted for the past year.

Explanation of the Extrapolated, Projected, and Forecasted Future Models

The Extrapolated, Projected, and Forecasted Models identify potential future environments. These models are described below in separate paragraphs identifying the predicted conditions. Additionally, the hypothetical vignette provides a clearer picture of the future model. The extrapolated future target model is based on a continuation of the current forces involved. The projected and forecasted future target models examine future end-states by changing one of the forces and/or adding new forces to the environment. Clark states that both of these models are usually more reliable than the extrapolation model.⁶⁵ As this applies to Iraq and Syria, the changing of the force in projected and forecasted model is ISIL's revenue stream.

⁶⁵ Robert M. Clark. pp 223,231

The new force introduced in the forecasted model is a new coalition with the political will to commit to the use of ground forces against ISIL.

Extrapolated Future Target Model

The Extrapolated Future Target Model predicts an end-state where the identified forces (the continuation of the Sunni/Shia' cleavage, the withdrawal of coalition forces from Iraq, ISIL's revenue stream, and ISIL's leadership) remain unchanged and the current state of affairs will continue uninterrupted on its intended path. The Extrapolated Model for the situation in Iraq and Syria predicts an "Expanding Regional Crises," and offers the potential for the following conditions to emerge:

1. Increasing Sunni versus Shia' cleavage
2. Increasing conflict produces instability with Middle East
3. Regional conflict begins to significantly affect the interests of nation's outside the Middle East, intensifying the conflict's effect on the world

Vignette: "China, Australia, and India weigh in at the UN on the expanding crisis in the Middle East."

The war in Syria and Iraq is expanding into a larger regional Sunni versus Shia' struggle. GCC states refuse to send ground troops into Iraq and Syria to retake the ground that ISIL controls; rather these nations prefer to contain ISIL through air campaigns. Evidence of further Sunni versus Shia' conflict is seen in Iran's admittance to supporting the Houthi rebellion in Yemen. Egypt and Saudi Arabia continue to support Yemen's legitimate government as they struggle to quell the violence by Houthis in Sanaa. The expanding conflict is affecting Saudi Arabia, Iran, and Iraq's ability to meet the world's demand for oil. Yesterday, China, Australia, and India made statements condemning the violence and requesting mediators from Turkey and Egypt to assist with long term solutions. However, Egypt's impartiality will likely be questioned by Iran due to their military participation in Yemen. Although ISIL seems contained for time being, the regional crises and spillover effects continue to expand.

Projected Future Target Model

In the Projected Future Target Model, the following forces remain unchanged: Sunni and Shia' cleavage, limited coalition involvement, and ISIL's leadership. The changing force in this model is a significant increase in ISIL's ability to generate revenue, allowing ISIL to achieve economic growth. This scenario would occur through a sudden rise in oil prices or a momentous increase in support from financial donors. This model presents the potential for the following conditions to emerge:

1. Oil prices rise significantly, generating a large profit for ISIL from the group's black market oil sales
2. ISIL's appeal and influence increases as a result of their economic stability
3. Significant increase in foreign fighter flow to Syria and Iraq followed by increasing territorial gains as a result of ISIL's growth in military capacity and size
4. ISIL draws bureaucrats and technocrats to urban areas through attractive financial, political, and social incentives

Vignette: "Increase in oil prices benefits ISIL more than OPEC nations."

The recent increase in oil prices gave a much needed economic boost to OPEC nations. The price for a barrel of oil rose from \$45 to \$80 over the past three months. US companies engaged in fracking are waiting to see if the prices hold before re-starting their business and investors are likely still shying from significant losses over the past two years. However, increasing oil prices have seemed to also produce substantial profits for ISIL through its black market sales both inside Iraq and in neighboring countries. Because OPEC raised prices and cut production rates in order to realign OPEC's supply with the world's demand, black market sales are increasing within Iraq and Syria. ISIL is the main benefactor of this budding industry. Combined with the group's other revenue generating operations, ISIL's financial portfolio is growing quite robust. Over the past month, street markets in Raqqa and Mosul have returned to life as cash is again flowing in these cities. Additionally, the flow of foreign fighters to Iraq and Syria increased for the first time in two years.

Forecasted Future Target Model

In the Forecasted Future Target Model two forces remain unchanged, the Sunni/Shia split and ISIL leadership. Similar to the Projected Model, the changing force is an increase in ISIL's revenue stream. The new force involves a revitalized coalition that possesses the political will to use ground forces in the fight against ISIL. The revitalized coalition is different in both kind and character when compared to the previous coalition. Not only do additional nations join the coalition, they are also willing to contribute ground forces to the fight. As a result, this model presents the potential for the following conditions to emerge:

1. ISIL's political and military capacity experiences growth as a result of their increased financial capacity and stability
2. Significant military conflict ensues and urban engagements destroy major Iraqi and Syrian cities
3. Foreign fighters flock to support ISIL
4. Arab nations join the coalition and provide ground forces as civil unrest increases in their own nations
5. ISIL initiates and approves terrorist operations against nations within the coalition

Vignette: "ISIL prepares defensive positions around Mosul as Jordan and Saudi Arabia coordinate ground operations with the US."

ISIL fighters dig prepared defensive positions in Mosul and Raqqa as the coalition begins a ground offensive into Iraq and Syria. The recent commitment of Saudi and Jordanian ground troops resulted from mounting political pressure on Arab nations to clean up their backyard. Jordan, Saudi Arabia, and Egypt are now coordinating with the US, UK, and France to combat the menacing influence of ISIL's spreading Caliphate. The recent wave of protests against the established governments with these Arab nations, combined with the political and diplomatic pressure from western nations ignited the political will to address ISIL's growing influence. Despite the growing number of foreign fighters headed to the region, the additional ground troops are expected to retake territory long held and

governed by ISIL. The US is working with and advising the GCC nations and the Iraqi government to provide immediate assistance and governance once towns and cities are back under the control of the Iraqi government. The Shia' dominated government will have an uphill battle to prove that Sunnis will not be further discriminated against.

Opportunities and Risks

Each of these future target models produce opportunities and risks for the US policy towards ISIL. It is important to understand both the opportunities and risks in order for the US to make well-informed decisions as it counters the spread of ISIL's influence and control. The following opportunities and risks are common in all three future target models:

Opportunities

1. Interdiction of ISIL revenue streams: Interdiction of ISIL's revenue streams will directly affect the group's capacity to govern, and conduct operations as well as attract foreign fighters, bureaucrats, and technocrats. As a result, decreasing ISIL's financial capacity directly affects their growth and success. It is not the only factor influencing growth and success, but its importance is significant.
2. Development of closer ties and partnerships with GCC Nations: Financial interdiction cannot happen unilaterally. It requires cooperation and coordination with other Arab nations. Combined and partnered efforts to interdict ISIL's financial capacity will enhance the overall relationship with Arab nations and strengthen the ties in other areas of coordination between the US and partnering nations.

3. Minimize visible presence of US in the Middle East: Financial interdiction gives the US the opportunity to put an Arab face on efforts countering ISIL. Additionally, financial interdiction efforts can be conducted with minimal US military presence in the Middle East.

Risks

1. Efforts to disrupt ISIL are dependent upon the relationship and cooperation with Arab nations: Success depends on the GCC and other regional nations to regulate the *hawala* and illicit smuggling networks, which fuels ISIL's financial engine. Historic efforts in counter threat finance have not achieved the desired level of success, and future efforts in CTF are likely to achieve the same limited results.

2. CTF efforts will have unintended and unpredictable consequences: Because *hawala*, illicit smuggling, and other opaque financial networks extend into neighboring countries, efforts to eradicate or regulate these mechanisms will affect the economies of all regional nations in unpredictable ways.

3. Increasing the burden on US intelligence efforts: CTF efforts may force ISIL to expand and diversify its revenue generating operations into areas such as narcotics, legitimate cover businesses, or rapid expansion to other continents. As such, US intelligence collection efforts will also need to expand in these new domains. ISIL's diversification will also increase the requirements for sharing intelligence with other nations further exposing our methods, tactics, and capabilities.

Appendix A. Definitions of Comparative Analysis Terms

External Military Force. A collective measure of military force applied externally. “Very low” or “low” indicates a minute amount effective military force. “Very high” or “high” equates to the application of substantial, effective, and persistent military force towards a group.

Access to Finance and Resources. A collective measure of access to sustained revenue streams and resources. “Very high” or “high” indicates the group developed or sourced lucrative, long-term supplies of money and resources. “Very low” or “low” indicates the group had only sporadic or limited access to money and other resources.

Leadership and Organizational Efficacy. A qualitative assessment of the organization's cohesion and ability to successfully navigate leadership crises. “Very high” or “high” indicates a history of effective succession, unity of effort, and limited factionalization. “Very low” or “low” indicates that the organization was unable to transition leaders and high levels of factionalization.

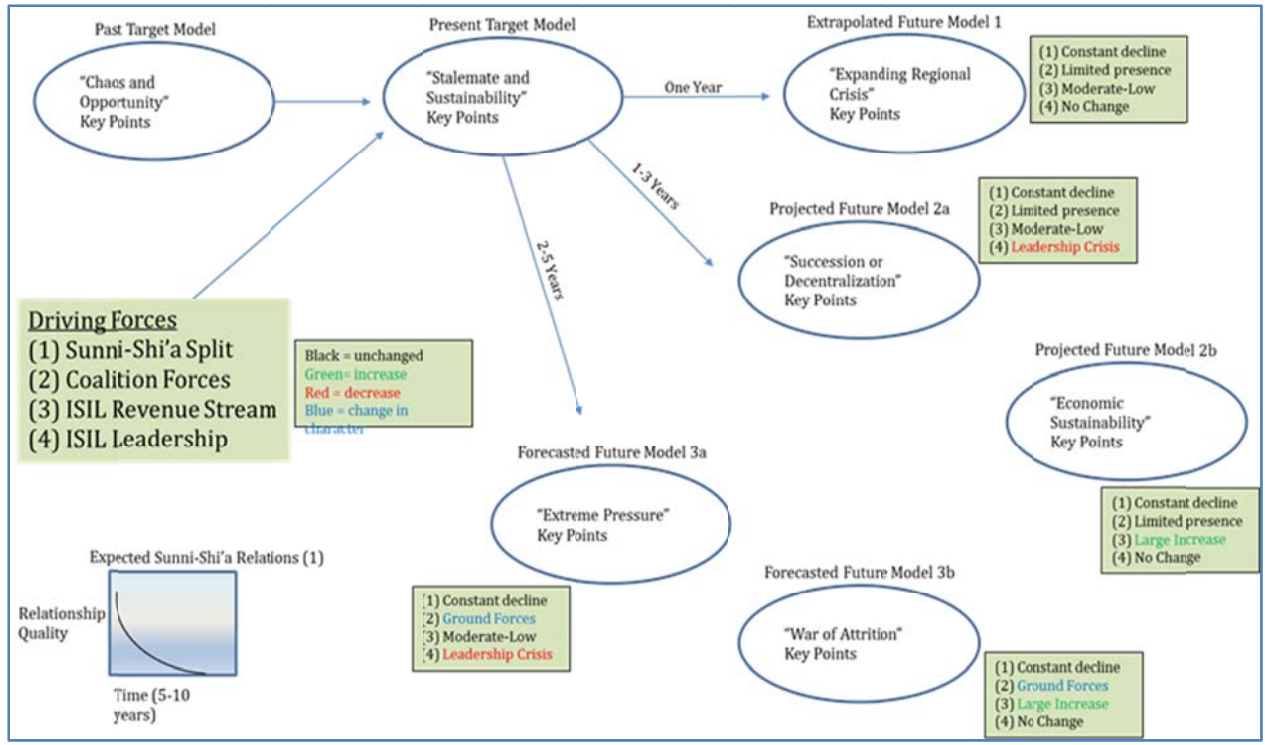
Organizational Durability. A qualitative assessment of how long and through how many crises the VEO endured.

End. A description of how the VEO ended. “Political defeat” means that the VEO failed to accomplish its goals and either disappeared or was marginalized. “Political compromise” means the organization gained some concessions and transitioned away from violent means, or that the *status quo* power incorporated the VEO. “Political victory” means that the VEO replaced the *status quo* power.

NOTE: These definitions were developed in collaboration with Major Craig Giorgis.

Appendix B. Predictive Analysis Diagram

Figure 2: Predictive Analysis Diagram



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