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**“The Islamic State and Terrorist Financing”**  
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Good morning. Chairman Hensarling, Ranking Member Waters, and distinguished members of the committee: Thank you for the invitation to appear before you today to discuss the terrorist group known as the Islamic State in Iraq and the Levant (ISIL). I will focus my testimony on the U.S. and international effort that my team at the Treasury Department is leading to undermine ISIL’s financial strength, as part of the Administration’s comprehensive strategy to disrupt, degrade and ultimately defeat ISIL.

Let me begin by briefly reviewing why we are so focused on ISIL. We are determined to defeat ISIL not just because of its brazen atrocities – its brutal murders, its persecution of members of religious minorities, its rape and enslavement of women and girls – but also because it threatens core U.S. interests.

ISIL threatens American personnel and facilities in Iraq. It threatens our regional allies, including Turkey, Jordan, and Lebanon. And because it is attracting so many foreign terrorist fighters, destabilizing an entire region, and securing a safe haven, ISIL, if left unchecked, could ultimately pose a direct threat to citizens of the United States and our allies outside of the Middle East. Put simply, a terrorist organization with territorial ambitions and a stated desire to kill innocent people abroad must be confronted.

That is why, under the leadership of President Obama, the international community has come together to stop this threat. The President has tapped General John Allen as Special Envoy to spearhead the establishment of a broad coalition – now more than 60 partners strong, ranging from the Middle East to Europe and beyond – behind a strategy to degrade ISIL’s capabilities, roll back its recent gains, and ultimately defeat it.

ISIL has grabbed the world’s attention for its outlandish ambitions and astounding brutality, but also, as this committee knows well, for another reason: its substantial wealth. ISIL’s primary funding tactics, which I will detail in a moment, enable it today to generate tens of millions of dollars per month.

So this morning, I'd like to outline how we at Treasury are focused on undermining ISIL's financial foundation by denying ISIL access to funds, limiting what it can do with the money it collects, and imposing sanctions on its senior leadership and supporters. Our work is one of several, complementary lines of effort within the international coalition to degrade and defeat ISIL.

The most visible of these lines of effort consists of military operations and training. The systematic campaign of air strikes underway makes clear that ISIL terrorists will not find safe haven anywhere. Our additional support for the Iraqi military, Kurdish forces, and the moderate Syrian opposition is allowing these partners to take the fight to ISIL on the ground. The bipartisan authorization by Congress of the mission to train and equip the moderate Syrian opposition will allow for this absolutely critical component of the strategy to move forward.

But the other lines of effort are also essential. Additional humanitarian assistance aims to provide a measure of relief to the people most affected by these terrible conflicts. The international push to stem the flow of foreign terrorist fighters into and out of Syria and Iraq will deprive ISIL of manpower and help safeguard against terrorist attacks on coalition nations. And our fight against ISIL propaganda will expose the hypocrisy of its twisted narrative.

Several of these lines of effort – in particular the air strikes and the fight to dislodge ISIL from territory it holds – bolster our work in attacking ISIL's financial foundation. As I will explain in a moment, ISIL obtains most of its revenues through local criminal and terrorist activities, so one way to cut off those revenues is to cripple ISIL's ability to operate freely on Iraqi and Syrian territory.

This is a whole-of-government effort, and while we take the lead on the financial component of the strategy, we are working closely with our counterparts in the State Department, the Department of Defense, law enforcement, and the intelligence community. And we are also linked up with international counterparts. In October, we hosted a meeting with the State Department that brought together over 20 countries and organizations to identify measures to financially isolate and undermine ISIL, as well as al-Nusrah Front and the illegitimate Asad regime.

As with the rest of the campaign against ISIL, our efforts to combat its financing will take time. We have no silver bullet, no secret weapon to empty ISIL's coffers overnight. This will be a sustained fight, and we are in the early stages. But one thing is certain: so long as ISIL terrorizes the people of Iraq and Syria, imperils the broader Middle East, and threatens U.S. interests overseas and at home, we will remain committed to degrading its financial strength.

## **I. The State of ISIL's Finances**

In 2004, the office I lead in the Treasury Department was created and charged with developing and deploying financial tools to combat terrorist financing, reflecting the recognition that one way to forestall terrorist attacks is to deprive terrorist organizations of money.

Through the application of powerful national and international sanctions, close cooperation with foreign partners and the private sector, and enhancements to international financial transparency, we have made it harder than ever for terrorist groups to raise, move, store, and use funds.

In many respects, our campaign against ISIL's financial foundation will build on our work over the past ten years, and closely resemble our previous campaigns.

But to some extent, ISIL poses a different terrorist financing challenge. It has amassed wealth at an unprecedented pace, and its revenue sources have a different composition from those of many other terrorist organizations. Unlike, for instance, core al-Qa'ida, ISIL derives a relatively small share of its funds from deep-pocket donors, and thus does not, today, depend principally on moving money across international borders. Instead, ISIL obtains the vast majority of its revenues through criminal and terrorist activities in Syria and Iraq.

So, just as ISIL relies in part on new models to fund itself, we too are adapting our tools and techniques to combat ISIL's financial activities. Before turning to the specific steps we are taking, let me take a moment to detail these sources of revenue.

First, ISIL has raised a significant amount of its money from selling oil it extracts from fields in Syria and Iraq.

Our best understanding is that ISIL has tapped into a long-standing and deeply rooted black market connecting traders in and around the area. After extracting the oil, ISIL refines some of it in makeshift facilities and then sells some of the refined product, as well as unrefined oil, to smugglers and a variety of middlemen who, in turn, transport it outside of ISIL's strongholds.

It is difficult to get precise revenue estimates on the value to ISIL of these transactions, but we estimate that from mid-June up until recently, ISIL was earning approximately \$1 million a day from oil and refined product sales.

We are seeing, however, that coalition airstrikes are successfully impairing ISIL's ability to sell oil, and so its daily oil revenue has fallen. We assess that ISIL is probably now earning several million dollars per week from the sale of stolen and smuggled energy resources, which is still substantial, but a decrease from what ISIL earned prior to coalition airstrikes.

Second, ISIL, like many other terrorist organizations, kidnaps innocent civilians to profit from ransoms paid to obtain their release.

These payments are irregular, but each one can be a significant boon. This spring, ISIL released captured journalists and other hostages from several European countries. In return, according to press reports, ISIL received several multi-million dollar payments. All in all, ISIL has taken at least \$20 million in ransoms this year.

Third, ISIL raises up to several million dollars per month through a sophisticated extortion racket. In Iraq and Syria, ISIL extracts payments at gunpoint from those who pass through, conduct business in, or simply seek to live in the territory where it operates. We've also seen reports that when customers make cash withdrawals from local banks where ISIL operates, ISIL has demanded as much as ten percent of the value.

Fourth, ISIL also profits from a range of other criminal activities. They rob banks, loot and sell antiquities, and steal livestock and crops.

Finally, ISIL derives some funding from wealthy donors. Even though ISIL currently does not rely heavily on external donor networks, it maintains important links to financiers in the Gulf, as a spate of Treasury designations in September made clear.

## **II. Degrading ISIL's Financial Strength**

ISIL's revenue streams are, to be sure, diverse and deep. With the important exception of some state-sponsored terrorist organizations, ISIL is probably the best-funded terrorist organization we have confronted. Nonetheless, understanding that this effort will take time, dedication, and broad collaboration, we are well-positioned to degrade ISIL's financial strength.

Our strategy involves three mutually supportive elements. First, we are working to disrupt ISIL's revenue streams in order to deny it money in the first place. Second, we aim to limit what ISIL can do with the funds it collects by restricting its access to the international financial system. And finally, we will continue to impose sanctions on ISIL's senior leadership and financial facilitators to disrupt their ability to operate. Let me elaborate.

### *Cutting off ISIL's Access to Revenue*

The first element of our strategy is working to cut off ISIL's main sources of funding, in particular its revenue from oil and refined product sales, ransom payments, extortion and crime, and support from foreign donors.

#### Oil Sales

To disrupt the market in oil derived from ISIL-controlled fields, we are targeting for financial sanctions anyone who trades in ISIL's stolen oil or refined product.

It is true, of course, that ISIL's oil moves in illicit networks that are largely outside the formal economy, where individuals are less vulnerable to financial pressure. But at some point, that oil is acquired by someone who operates in the legitimate economy and who makes use of the financial system. He has a bank account. His business may be financed, his trucks may be insured, and his facilities may be licensed. All that makes ISIL oil facilitators vulnerable.

The middlemen, traders, refiners, transport companies, and anyone else that handles ISIL's oil or refined product should know that we are hard at work identifying them, and that we have tools at hand to stop them. We not only can cut them off from the U.S. financial system and freeze their assets, but we can also make it very difficult for them to find a bank anywhere that will touch their money or process their transactions. In combating ISIL's fundraising through oil sales, we will leverage the well-established reluctance of banks around the world to facilitate the financing of terrorism.

Of course, as I mentioned earlier, our military colleagues are also playing a significant role in degrading this source of funding through airstrikes on oil-related targets.

And our partners in the region, including Turkey and the Kurdistan Regional Government, are committed to preventing ISIL-derived oil and refined product from crossing their borders. The United States is actively supporting these efforts. We have also made progress in our conversations with oil, insurance, and transportation companies with operations in the region, as we work to ensure that they have the appropriate controls in place to identify information about their customers and thus limit their exposure to ISIL's oil.

#### Kidnapping for Ransom

Next, to prevent ISIL from raising funds through ransoms, we are redoubling our engagement with foreign partners to translate the emerging international consensus against the payment of ransoms to terrorist groups into a more widely adopted practice.

It has been U.S. policy for many years to refuse the payment of ransoms or make other concessions to hostage-takers. That's because refusing to pay ransoms eliminates the underlying incentive to take hostages, making it less likely that Americans will be kidnapped. When it comes to terrorist organizations, this policy has even more force, because refusing to pay ransoms deprives them of funding critical to their deadly aspirations and operations.

This norm is becoming more widespread. Last year, the G-8 unequivocally rejected the payment of ransoms to terrorists, and this year, members of the UN Security Council have twice adopted resolutions reaffirming their shared commitment to seek the safe release of hostages without making monetary or political concessions.

Going forward, as we seek to prevent kidnappings from occurring and remain dedicated to freeing those taken, we will continue to urge partner nations to subscribe to a no-ransoms policy.

At the same time, we will look to use our counter-terrorism sanctions authorities against those who demand or receive ransoms on behalf of terrorist organizations.

### External Donor Networks

We are also concerned about external donor networks, and we continue to identify ISIL's financial supporters and target them for sanctions. Even though ISIL does not currently rely heavily on wealthy supporters, we are focused on making sure that donations do not become a more significant source of funding as we squeeze ISIL's other revenues.

In fact, we have long focused on disrupting the funding networks of ISIL and its predecessor, al-Qa'ida in Iraq (AQI). Over the past ten or so years, we have applied sanctions against more than two dozen individuals associated with AQI or ISIL.

We are now accelerating our efforts to identify ISIL targets for sanctions and take actions against them through our counter-terrorism authorities. In September, President Obama led the United Nations Security Council in unanimously passing a binding resolution to suppress the flow of money and foreign fighters to terrorist groups in Iraq and Syria, and we are working to implement it swiftly.

And we are working especially closely with our friends in the Gulf – who are stalwart partners in the anti-ISIL coalition – to ensure that they all have the tools in place to combat terrorist financing and that they all use those tools effectively. Even though ISIL does not currently rely heavily on the traditional donor model for terrorist financing, that is no reason to relax our efforts in this area. Particularly as we make progress in disrupting ISIL's current sources of income, and as ISIL gains additional prominence in the global terrorist movement, we must be prepared for the possibility that wealthy extremists will increasingly seek to fund it.

I should also note that other terrorist groups in Iraq and Syria, particularly al-Qaida's branch, known as the Nusra Front, draw more heavily on external donor networks than ISIL. We remain intensely focused on blocking the flow of funds to the Nusra Front, both through targeted sanctions and cooperation with our partners in the Gulf.

### Extortion and crime

As for disrupting the revenue that ISIL generates from extortion and other local criminal activities, we recognize that Treasury's tools are not particularly well-suited to the task. We can and we will identify and designate the individuals who oversee ISIL's extortion networks, calling attention to those who are brutalizing the people of Iraq and Syria. But shutting down this source of funding ultimately will require breaking ISIL's hold on territory. As I mentioned earlier, other lines of effort in the anti-ISIL coalition are focused on this crucial objective.

Nonetheless, even where Treasury's financial tools cannot cut off certain revenue streams, we still have a crucial role to play, and that brings me to the second key element of our strategy.

### *Restricting ISIL's Access to the International Financial System*

As we work to disrupt ISIL's sources of income, we are focused on restricting ISIL's access to the international financial system in order to impair its ability to collect funds from abroad, and to store, move, and use the funds it acquires locally.

ISIL's ability to make the most effective use of money that it raises depends on its access to the banking system in Syria, Iraq, and internationally. Operating entirely in cash is both cumbersome and risky – cash is bulky, vulnerable to theft, and requires complicated logistics to transport. Moreover, ISIL will have a hard time funding external operations, including facilitating the movement of foreign fighters, without access to the international financial system.

To that end, we are working with the Iraqi authorities, Iraqi bank headquarters, and the international financial community to prevent ISIL from using the scores of bank branches located in territories where it operates.

The results of this work have begun to show. We've seen a decline in financial activity in areas where ISIL operates, and banks under ISIL influence are losing their access to the international financial system.

We are also engaging closely with our international counterparts on this issue. The United States and Turkey are co-leading an initiative within the Financial Action Task Force (FATF) to identify how ISIL raises, moves, and uses funds and other assets, so that we can best disrupt its financing and prevent it from abusing the financial system. Last month, the FATF, the international standard-setting body for combating money laundering and terrorist financing, called upon all countries to take steps to prevent ISIL from accessing the international financial system and highlighted the importance of implementing the key FATF standards to deprive ISIL of finances.

### *Targeted Sanctions Against ISIL's Leadership and Facilitators*

The third element of our strategy draws on our time-tested approach to countering the financing of terrorism – that is, we will continue to dismantle ISIL's financial foundation through targeting for designations its leadership, supporters, and financial facilitators. This will make it harder for ISIL to conduct commercial and financial activity, and also clearly identifies for the international community who stands behind this evil organization.

We have already stepped up our designations of ISIL members, both those based in Iraq and Syria and their financial supporters outside the area. Most recently, on September 24, Treasury sanctioned two high-profile individuals associated with ISIL – a financial facilitator who arranged for a \$2 million donation from the Gulf, and a senior military commander. Both were based in Syria, soliciting donations, procuring military equipment, and recruiting foreign fighters to ISIL's areas. These designations will not, on their own, stop these individuals from operating,

but they – and the designations to come – will frustrate ISIL’s ability to attract money and fighters.

Before concluding, I’d like to make two final points about our campaign against ISIL’s financial foundation.

First, in all these efforts, I cannot overstate the importance of our access to actionable financial intelligence. Our ability to combat ISIL’s financial strength – to target those smuggling its stolen oil, to prevent it from gathering donations abroad, to stymie its abuse of the international financial system – all depends deeply on the quality of the information available to us. And indeed, we are working with our counterparts in the intelligence community to ramp up collection on ISIL’s finances.

Within the office I lead at Treasury, we have a top-notch intelligence shop that helps us understand the landscape of terrorist financing. But for my intelligence analysts to do what they do best, they depend on the human and signals intelligence collection from their sister intelligence agencies and from our partners around the world.

The second point is this. We should not confuse funding with financial strength. While ISIL today is well-funded, a terrorist group’s overall financial strength turns not just on its income, but also on its expenses and, importantly, the degree to which it can dedicate its resources to violent purposes. And in that regard, ISIL operates within certain real constraints.

ISIL’s territorial ambitions are a financial burden. Attempting to govern territory, subjugate millions of people, and deliver some modicum of services is expensive. By way of comparison only – since no one expects ISIL to deliver the same level of services as the legitimate Iraqi government – the official Iraqi budget this year for the provinces where ISIL currently operates is well over \$2 billion. That far outstrips ISIL’s revenue, and does not include the price-tag for the territory it seeks to dominate in Syria.

What this means is that ISIL cannot possibly meet the most basic needs of the people it seeks to rule, despite its baseless attempts to function as the sovereign government in territories where it operates. As we make progress in diminishing ISIL’s revenues and its freedom to use them, we will further exploit this vulnerability.

### **III. Conclusion**

With time, patience, and close international cooperation, the steps I have outlined today will help undermine ISIL’s financial foundation. I must stress again, however, that the campaign against ISIL’s finances will require more than just financial tools.



This is primarily because, given that ISIL is enriching itself locally, depriving it of funding will ultimately require dislodging it from territory in which it operates. But more broadly, we recognize that the only solutions to the conflicts in Iraq and Syria are political in nature. The hateful ideology propagated by ISIL must be countered by tolerant, economically vibrant societies and governments that rule in an inclusive manner.

While the United States works toward fostering these long-term goals, Treasury will continue to deploy innovative strategies to disrupt ISIL's financing. Together with our partners in the U.S. government and across the globe, we will degrade and ultimately defeat ISIL.

Thank you.