

## II. Research Notes

### The Importance of Financing in Enabling and Sustaining the Conflict in Syria (and Beyond)

by Tom Keatinge

#### *Abstract*

*The availability, sources, and distribution of funding are critical issues to consider when seeking to address an on-going conflict such as the one we are witnessing across Syria and Iraq. In the Syrian case, whilst funds from states such as Russia, Iran, the U.S., Saudi Arabia, and Qatar support various elements, a key factor to consider in addressing extremist groups is funding provided by private donors, some of whom are attracted by the concept of 'jihadi finance', seeking the honour and reward of waging jihad by proxy. This article reviews the importance of financing for insurgent groups, focusing in particular on the highly influential enabling role played by private donor financing in the current conflict in Syria, as well as the sustaining role of the war economy as the conflict spreads. Finally, it considers whether, in its fourth year, this conflict can still be influenced by targeting sources of financing.*

**Keywords:** *Terrorism finance, Syria*

#### *Introduction*

The Syrian conflict has drawn support in the form of weapons, spare parts, supplies, and fighters from across the globe. But most importantly, the conflict has been enabled by the ready and generous supply of financing provided by a broad array of states and private individuals and it is sustained by the development of a highly lucrative war economy. It is thus not an exaggeration to say that financing is extremely important to all parties in the conflict, and that the availability of financing has substantially influenced the course the conflict has taken thus far.

Perhaps more so than in any other recent conflict, financing from private individuals, believed to run into the 'hundreds of millions of dollars,'[1] has played a major role in support of rebel groups, shaping their actions, alliances, and agendas. Private donor financing is attractive for rebel groups as it often comes with limited associated conditions beyond the need to espouse an appealing and attractive ideology often tending toward the more extremist. This financing is particularly important for groups with no access to the largesse of those Middle Eastern and Western states that have chosen to back the less extreme elements amongst the rebel forces. And as long as the Assad regime receives supplies of fighters, weapons, spare parts, and finance from Russia and Iran,[2] the level of financial support received by the rebel groups needs to balance that if they are to have any chance of prevailing.

Furthermore, as the conflict matures and spreads across the border into Iraq, and as regional governments and international agencies seek to control and restrict external sources of financing, the emergence of the war economy is playing an important supplementing role. Taxation and trade, such as the sale of oil, allows groups—particularly the newly-styled Islamic State (IS)—to establish a significant level of self-reliance and financial autonomy. Thus, regardless of the source of the financing that fuels the conflict, as it grinds through a fourth year, its outcome will be substantially determined by the continuing supply of funding.

In assessing the importance of financing in both sustaining and restricting the conflict in Syria, this Research

Note will first review the importance of raising finance in any armed conflict, a process that has become more challenging for non-state actors in the past 25 years since the end of the Cold War. This discussion will then examine the sources of support and financing for the Syrian conflict with a focus on the significant contribution of private donors, including the key enabling role played by Kuwait along with the critical motivational factor of ‘financial *jihad*’. As the shape of the conflict has evolved and as the battle has matured and extended across the border into Iraq, the importance of the ‘war economy’ as a sustaining factor has increased. It is thus essential to consider this development as a key element in the financial balance between the various warring factions. And finally, this Research Note will consider whether disrupting or controlling the flow of finance can have a material impact on the shape and direction of a conflict that has no discernible end in sight.

### ***The Importance of Financing***

The belief that financing is an important ingredient of any struggle is certainly not new – in his series of Philippic speeches the Roman orator Marcus Tullius Cicero (106 BC – 43 BC) observed that ‘The sinews of war [are] a limitless supply of money.’[3] Since the end of the Cold War the extent to which groups seeking to mount a meaningful armed struggle have had to raise funding themselves rather than rely on benevolent state sponsorship has markedly increased. With the notable exception of Hezbollah through its connection with Iran, organisations seeking to progress from a hand-to-mouth existence to a more planned and organised model must now work much harder to acquire the income required to source arms, build recognition, and sustain support.[4] Even those groups that have enjoyed a measure of state sponsorship have had to be financial managers as well as military experts. For instance, in the mid-1970s the Italian Red Brigades had an annual funding need of US\$ 8-10 million, equivalent at that time to the turnover of a medium-to-large-sized company operating in Northern Italy,[5] whilst the PLO established itself as a quasi-state, levying taxes and earning as much as US\$ 600 million per year by the mid-1980s.[6]

Finance is an existential determinant of success as it creates the ‘enabling’ environment that allows states to arm themselves and opposition groups to mount a credible, threatening, planned, and organised strategy. The importance of funding can be seen in the extent to which financing and fundraising capabilities are at the heart of the operations of insurgent and opposition groups as they closely protect their key financiers, roles often held by fighters who are ‘imported’ or who have notable international experience. Their significance is also reflected in the effort put into apprehending or eliminating these individuals by security agencies.

Well-funded groups in the Syrian conflict share key characteristics. They can generally act independently, progressing their own or their donors’ ideology and developing patronage networks, particularly across the Middle East. They can more easily attract fighters, particularly those who are unemployed and without money. Finance may also allow them to poach fighters from less well-funded groups. Thus, well-funded groups are able to benefit from a reinforcing cycle that gives them the strength of numbers and weapons to target and control financially strategic hubs in order to maximise their benefit from the war economy, leading to further benefits as they increase their financial resources. And, perhaps of greatest concern to international security services, well-funded groups most often espouse a hard line ideology.[7]

In short, financing has played a dominant role in shaping and sustaining the Syrian conflict, as state-sponsorship from Iran and Russia maintains the Assad regime, while external financing determines the *modus operandi* of rebel forces, driving alliances, splits, and ideologies. Furthermore, the availability and sources of financing impact on strategy. Forces are deployed to target or protect revenue opportunities such as oil fields, key arterial roads and centres of commerce: for example, witness the tactical success of IS and its

rapid territorial gains. The conflict in Syria has lasted over three years because of the availability of financing, so restricting these funds is a major key to ending the conflict. Certainly President Obama was of this view when he noted in his January 2014 *New Yorker* interview that ‘...our best chance of seeing a decent outcome at this point is to work with the state actors who have invested so much in keeping Assad in power – mainly the Iranians and the Russians – as well as working with those who have been financing the opposition...’[8]

### ***Sources of Financing (and Support)***

The key sources of rebel financing and support include state sponsorship from Saudi Arabia, Qatar, Turkey, the West, and Israel, strongly supported by private donors from across the Middle East.[9] Saudi Arabia and Qatar are the main financiers, with Qatar also providing payments to defectors as well as significant media support via al-Jazeera.[10] Although Turkey’s previously robust support for the overthrow of Assad is fading, fighters, weapons, and supplies continue to cross its border into Syria, with oil and other products sold to finance the rebels coming the other way.[11] This apparently liberal approach to border security has had a particular impact on the growth of the number of foreign extremist fighters in Northern Syria. Contrast the state of affairs in the northern border regions of Syria with the picture in the south where tighter border control is maintained by the Jordanians and the prevalence of extremist rebel groups is far more limited.[12] One (perhaps less expected albeit limited) provider of financing is Israel, which funds certain groups out of practical expediency, paying for information and intelligence on extremist groups operating near its border. [13] In addition to the intentional supply of finance and weapons, countries supporting the opposition also provide a good flow of regional and Western foreign fighters, displaying a mixed ability and willingness to control this flow. In turn, as is well known, Iran and Russia provide the Assad regime with significant support, all of which is critical to the regime’s survival but some of which, particularly aircraft spare parts, and perhaps most importantly fighting experience and tactical support, ensures that the regime will be able to resist all but the most co-ordinated of rebel attacks.[14]

### ***Finance and ‘Proxy’ Jihad***

In considering the role played by finance in the Syrian conflict, in particular the contribution of private donations to rebel groups, it is important to illuminate one of the key motivations for private financial donations, namely ‘financial *Jihad*’.[15] The Qur’an provides motivation, emphasising the importance of giving generously to the cause of *Jihad*, linking voluntary, charitable contributions to a war effort.[16] The most common method of contribution is ‘*Tajheez al-Ghazi*,’ simply defined as fitting or arming a soldier. This allows those who cannot, or will not, join the *Jihad* physically for whatever reason, to achieve the honour and heavenly reward of waging *Jihad* by proxy. Donations and sponsorship are encouraged, for ‘Whoever arms a *Ghazi* then he would be considered a *Ghazi*, and whoever looked after the family of an absent *Ghazi*, he will too be considered a *Ghazi*’ (Bukhari 2630). Today, more popular than shields, armour, and horses is money, which is paid to individuals aspiring to make their way to *jihadi* theatres.

An example of this process in action, linked to the Syrian conflict, is the *Ramadan Campaign* conducted in Kuwait in 2013. It involved 19 leading public, religious, and political figures and aimed ‘to prepare 12,000 jihadists for the sake of Allah.’[17] The campaign posters promised that a donation equivalent to US\$ 2,500 would prepare one fighter for battle. One evening event in the campaign raised US\$ 350,000. Further examples include: the campaign reported by the *New York Times* and run by a Syria-based Saudi sheikh close to al-Qaeda, called ‘Wage Jihad With Your Money’ in which donors were told that they would earn ‘silver status’ by giving US\$ 175 for fifty sniper bullets, or ‘gold status’ by giving twice as much for eight mortar

rounds;[18] and as reported by the *Washington Post* pitches for the US\$ 2,400 needed for the travel, arming, and training of foreign fighters.[19] The importance of financial *Jihad* encourages rebel groups to emphasise their Islamic credentials, thus shaping these groups' strategies to maximize their appeal to those for whom the ideology of the recipient is so important. In this regard, Kuwait has played a key aggregation and channeling role as those who coordinate the raising and transferring of private donations seek a favourable environment in which to operate.

### ***Private Donors, Kuwait, and the Syrian Conflict***

In light of the significant role private donors have played in enabling the conflict, it is worthwhile considering this source of funding more closely. In the first instance, it is important to acknowledge that the generosity of these regional donors is primarily driven by their desire to support the humanitarian work underway in Syria. Yet a substantial portion has clearly been used to establish and support armed groups. The creation of these armed groups was arguably motivated initially by the noble desire to shorten the war and thus end suffering, but the actual result has been to 'super-empower' radical groups,[20] exacerbate sectarianism, and undermine much of the state-sponsored efforts to influence the conflict's outcome. As one analyst has put it, this funding is helping create 'a self-sustaining dynamic that is totally independent of all the strategic and diplomatic games that are happening and being led by states.'[21] In the context of the flow of private donations to Syria, it is important to take a moment to consider why Kuwait is such a popular origin and conduit for private donor funding. One critical reason is the condition of the country's illicit finance regulatory regime.

At the heart of the global effort to counter illicit finance is the Financial Action Task Force (FATF), founded in 1989 by the G-7 to inform and guide the global effort to combat money laundering by the criminal narcotics industry. Following 9/11 when President George W. Bush signed Executive Order 13224 launching 'a strike on the financial foundation of the global terror network' to 'starve terrorists of funding,'[22] FATF was the natural vehicle to use. It quickly produced 9 Special Recommendations to supplement the existing forty,[23] and over the following years organised regular evaluations to determine the extent to which countries complied (or not) with these 49 Recommendations.

In 2010, Kuwait underwent its most recent FATF mutual evaluation. It revealed 'many shortcomings,' particularly in relation to countering terrorist finance, including a complete lack of the criminalisation of terrorist financing, no established national Financial Intelligence Unit (FIU), and no implementation of the relevant UN terrorist-financing conventions and Security Council resolutions.[24] Of FATF's 49 Recommendations, Kuwait was 'partially' or 'not compliant' with 37, a 75% failure rate. In contrast, Saudi Arabia and Bahrain were 'partially' or 'not compliant' in 19 and 25 categories respectively.[25]

Kuwait's shortcomings at that time were underlined in leaked U.S. State Department cables from late 2009 which revealed frustration at a lack of inclination to 'take action against Kuwait-based financiers and facilitators,' noting that 'groups continue to exploit Kuwait both as a source of funds and as a key transit point.'[26] Although Kuwait finally introduced more internationally acceptable terror-finance legislation in 2013,[27] some believe Kuwait is less than serious about delivering on its commitment, exemplified by the appointment in January 2014 of the Salafist and former MP Nayef al-Ajmi as Justice Minister and Minister of Islamic Affairs and Endowments. Al-Ajmi openly confirms on Twitter that the struggle in Syria is a legitimate Jihad and appears to be associated with fundraising for extremist rebels and others in Kuwait such as fellow clan member Shafi al-Ajmi, who espouse support for the ideology of these extremist groups.[28] FATF also remains to be convinced of Kuwait's genuine progress, noting at its plenary meeting in February, and again

in June, that ‘certain strategic Anti-Money-Laundering /Countering Financing [of]Terrorism (AML/CFT) deficiencies remain’ in Kuwait’s standards and procedures, placing it in uncomfortable company alongside Afghanistan, Sudan, and Zimbabwe.[28] These remaining deficiencies are considerable, and were almost certainly at the core of comments in March 2014 by David Cohen, Under Secretary for Terrorism and Financial Intelligence at the U.S. Department of Treasury, when he said ‘Our ally Kuwait has become the epicenter of fundraising for terrorist groups in Syria.’[30]

This statement is supported by the comprehensive December 2013 Brookings report *Playing with Fire* by Middle East journalist Elizabeth Dickinson.[31] The report chronicles the broad range of fundraising activities undertaken by a number of high profile Kuwaiti clerics and politicians in an environment where charities are either autonomous or only lightly regulated. As highlighted by the report, although fundraising is now more covert, during the first two years of the conflict campaigning for funds was undertaken publicly via social media. Bank account details were often freely and openly displayed online, and fundraising events were held by tribes and public figures using typical NGO target tactics to encourage donations for specific goals such as weapons and fighter costs. Thus, although Kuwait—unlike regional neighbours—does not publicly back arming rebel groups, it has appeared reluctant to interfere with those individuals who choose to do this despite the recent introduction of its new counterterrorism finance law.

### ***The Role of the War Economy: A Sustaining Factor?***

Whilst sovereign and privately-sourced funding has allowed Syria’s conflict to flourish and persist, the maturity of the conflict means that the establishment of a viable war economy risks providing a sustaining source of finance that the international community is far less able to control or influence. The expansion of territory controlled by IS across Syria and Iraq is indicative of the power that groups can derive from the war economy as they control key financial nodes such as arterial roads, business districts, and oil fields.

Syria’s economy has been set back generations by the conflict. The UN describes how the ‘wholesale de-industrialisation of the economy has precipitated a destructive restructuring of the economy’ as the country’s core industries of mining, manufacturing, construction, internal trade, transport and communications, and finance and real estate services have been destroyed.[32] It is estimated that 40% of the country’s GDP has been eliminated. For example the U.S. Energy Information Administration estimates that Syria now produces a mere 25,000 barrels of oil per day, down from 400,000 before the conflict began.[33] Every economic measure tells a story of destruction and loss: the currency has devalued by 75% and national foreign exchange reserves have been reduced from US\$ 20 billion to US\$ 5 billion as the Assad regime seeks to continue to finance as much of the state as it can whilst income to its coffers dries up.[34]

Yet perversely, the longevity of the conflict is helping the development of the war economy, creating sources of revenue that may replace state and private funding that is discouraged or interrupted. Some activities, particularly oil extraction and agriculture remain operational to a limited extent. These activities are divided across territory controlled by the various fighting factions and thus the spoils and revenues benefit different groups. This division of assets creates some unexpected liaisons of convenience. For example in Northern Syria, both Jabhat al-Nusra and IS have captured and control oil fields but not refineries, meaning that to profit from the oil they either transport it out of the country or sell it to the regime which still controls and operates refineries and needs this fuel to continue to support what little of the economy is still functioning. [35]

Furthermore, new businesses are being established to meet the need to import goods previously produced domestically – the lack of foreign exchange combines with this import need to create a profitable foreign

exchange black market. International sanctions placed on the banking sector also encourage valuable business opportunities for barter, smuggling, and other trade outside formal corridors.[36] Local taxation schemes have been established in areas controlled by rebel forces, and the government has diverted to the war effort funds that are saved from no longer needing to provide services such as schools and salaries to many government employees, particularly in areas no longer under government control. The government can also save money on food imports, as the exodus of refugees to neighbouring countries means that the regime has three million fewer citizens to feed and in many areas can leave the provision of food and basic services to aid agencies.[37]

And for the Assad regime, the war economy brings a further benefit as it creates division amongst the fighting factions as groups struggle with each other for control of lucrative business rather than uniting to fight the regime. For example it is reported that ‘criticism accompanied the...creation of the Syria Revolutionaries’ Front (SRF) which was decried as nothing more than a collection of thieves with some rebel leaders apparently dedicating as much of their energies to kidnappings, robbing food convoys, and smuggling as to the fight against the regime.’[38]

Ultimately, national economic collapse has created for some, a profitable, informal, rent-seeking opportunity much of which is based on criminal enterprise and an economy of violence, but which has brought stability to many areas albeit at the hands of crony businesses. To underline the extent to which the war economy is the ‘new normal,’ the currency, although significantly devalued, has experienced prolonged periods of stability in 2014.[39]

### ***Can Disrupting Financing Restrict the Conflict?***

Whilst some hope that the economic restrictions and sanctions applied by various members of the international community—such as the European Union, US, and Arab League —might force the government to negotiate, in reality it would seem that the economic support of allies such as Iran and Russia (for example a US\$ 3.6 billion credit line from Iran for the import of oil and medicine) will sustain the regime.[40]

So what can be done? On top of the existing sanctions regimes in place, specific steps have been taken by various countries with the aim of restricting the flow of funds into the Syrian conflict. Kuwaiti authorities introduced a new law on combating money laundering and the financing of terrorism in 2013: terrorist financing is now criminalised and terrorist assets can now be frozen. Furthermore a fully independent Financial Intelligence Unit has been established. Measures have also been put in place to control the activity of *Hawala* and cash courier networks by requiring the declaration of currency and negotiable financial instruments upon leaving Kuwait.[41] Saudi Arabia has issued a royal decree promising harsh prison sentences in order to counteract clerics that urge the giving of support in the form of funds and fighters to extremists in Syria[42] while the UAE has recently introduced tough penalties, including death, for those found undertaking, supporting, or financing terrorist acts.[43] Yet these measures are directed against terrorism, not against jihad and as long as the borderline between these two concepts has not been drawn clearly, they are likely to remain of doubtful value.

Beyond the Middle East, authorities are seeking to restrict and control financial flows to the conflict. Charities in countries such as the U.K. are under greater scrutiny[44] and the U.S. Department of Treasury regularly designates and sanctions entities and individuals it believes to be funding designated terrorist organisations or facilitating the circumvention of sanctions applied against the Syrian regime.[45] These flows can be considerable as demonstrated by the U.S. Department of Treasury designation of Abd al-Rahman bin ‘Umayr al-Nu’aymi in December 2013, accused of funnelling US\$ 600,000 to al-Qaeda in Syria.[46] More

generally, international authorities can also use 'off-the-record' means to restrict financial flows by indicating to banks that certain of their clients are being investigated for facilitating the conflict – as a result, clients subject to such suspicions may quickly find that banking services are withdrawn, and in some cases, accounts closed. And finally, humanitarian assistance can be collected through state-sponsored or state-recognised channels such as the UK's Disasters Emergency Committee, negating the need for private gatherings and distributions.

But will these steps have an effect? Whilst financial arm-twisting has been used on the rebels previously to secure attendance at the Geneva 2 talks in January 2014,[47] the ability of the international community to influence the direction of the conflict via financial means will need a much greater level of co-ordination. Even then, it is likely that the glacial pace with which the financing issue has been addressed has significantly reduced the possible effectiveness of future action as an increasing proportion of these groups' financing comes from sources such as the war economy, beyond the reach of the international community. Furthermore, supporters of the opposition are seemingly unable to agree on an escalation strategy, and are in conflict with each other,[48] while Russia and Iran are apparently willing to continue their level of financial and material support. Unless diplomatic efforts can reduce this input, restricting rebel finances will merely tilt the battle in favour of the Assad regime.

Whilst the importance of financing as an enabling and sustaining factor remains, the apparent failure of the international community to grasp this importance in a timely fashion means that its ability to influence the course of the conflict via restricting and disrupting financing has become severely reduced.

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## Notes

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