



Discussion Paper (3)

## **ISIS and Nusra Funding and the Ending of the Syrian War**

Howard J. Shatz<sup>1</sup>

Senior Economist, RAND Corporation

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## **Howard J. Shatz**

A senior economist at the RAND Corporation, director of RAND-Initiated Research, and a faculty member at the Pardee RAND Graduate School. He specializes in international economics, economic development, and economics and national security. His RAND research has included the finances and management of the Islamic State and its predecessors; the Chinese economy and technology-based development in China; civil service reform, development policies, labor markets, and statistical systems in the Kurdistan Region of Iraq; U.S. international economic strategy; and labor-market reform in Mongolia. From 2007 to 2008, he was on leave from RAND, serving as a senior economist at the U.S. President's Council of Economic Advisers, where his policy areas were foreign investment, the Iraqi economy, and U.S. exports.

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## **Militia Funding and War Ending**

The Syrian war encompasses multiple conflicts and a diversity of groups. This paper considers the financial support that two groups in particular have received: the Islamic State (also known as the Islamic State of Iraq and Syria [ISIS] or, by its Arabic acronym, Daesh) and Jabhat al-Nusra (the Victory Front). Both are US-designated foreign terrorist organisations and specially designated global terrorists and employ terrorist tactics, such as suicide bombings, but they also may be considered insurgent groups by their goals and actions of governing territory.

### *Sources of Funding to Militias in Syria*

Militias in Syria have raised money every possible way. Locally, they institute indirect taxes and fees, engage in kidnap for ransom, run businesses, extort businesses, engage in theft and resale, engage in the illicit antiquities trade, and engage in arms trade. In contrast to the ISIS insurgency in Iraq, they receive considerable support from external sources. In the case of Jabhat al-Nusra, this is largely in the form of donations.

Many of the Shia militias also receive direct support from Iran. Apart from Lebanese Hezbollah, Shia fighters from Afghanistan, Iraq, and Pakistan have participated in the Syrian war.<sup>ii</sup> Afghan Shia fighters have reported receiving in the order of \$500 to \$600 monthly, and Iran has paid Syrians as well, although in one reported case, less than the Afghan Shias are reported as receiving.<sup>iii</sup>

One other significant difference with most insurgencies is that ISIS in particular, but also other militias, have gained financial support from controlling oil and gas fields and selling the oil and gas. Sales have included smuggling supplies throughout the region, as well as selling directly to the Syrian government and territories that it holds.

### *International Efforts to End Funding to Militias*

The main method used to end funding of the two most prominent Sunni insurgent groups – Jabhat al-Nusra and ISIS – is the recapture of territory. Recapturing territory ends their ability to sell oil and gas from captured fields, as well as to overtly tax the population or charge user fees. A campaign of destruction against ISIS's cash storage facilities has also been carried out.<sup>iv</sup>

There are a number of international efforts against the two Sunni groups. The UN Security Council runs a sanctions committee to deal with ISIS (ISIL in the terms of the committee, with the L standing for Levant), al-Qa'ida, and associated entities.<sup>v</sup> The list includes Nusra as an associated entity.<sup>vi</sup> If a person or entity is listed, UN members must institute asset freezes, travel bans and arms embargoes.

Specifically, for ISIS, there is a 52-member Counter ISIS Finance Group, led by the United States, Italy and Saudi Arabia.<sup>vii</sup> The group is situated within the broader Global Coalition and engages in information sharing and technical assistance to help stop the financial activities of ISIS. Beyond these international efforts, a variety of individual countries and governments maintain sanctions lists.

### *Obstacles to Cutting off Funding*

The United States, other major economies, and multilateral organisations have experienced great success at dampening the use of the formal financial sector in facilitating financing to insurgent groups.<sup>viii</sup> But there are a variety of obstacles to ending financing completely. One is the use of informal financial institutions and informal value transfer systems, such as hawalas, to

funnel donations or move money. Although reputed to be completely opaque to outsiders, in reality, hawalas in many cases keep good records of transactions.<sup>ix</sup> But accessing those records is far more difficult than accessing the records of formal, regulated financial institutions.

A second obstacle is that of territorial control. If insurgent groups raise money from revolutionary taxes and other forms of local financing, only taking away territory will halt these financial flows. A final major obstacle is state collusion or support for militias or insurgent groups. The prime example from Syria had been the Assad government's purchase of hydrocarbons from ISIS.<sup>x</sup>

## **ISIS Funding**

ISIS has relied on a wide variety of funding sources. Yet, even before considering these sources, it is important to consider the group's overall philosophy regarding fundraising. Since the group's inception as Jama'at al-Tawhid wal-Jihad before the Iraq war, donations have played a very small role in its overall finances. This is not to say that there have been no donations. Donations have been a small but at times important source of revenue and came from a pool of international supporters.<sup>xi</sup>

Despite this, the group has focused on local fundraising as a matter of doctrine, to maintain full control.<sup>xii</sup> Accordingly, its main sources were local. As the underground Islamic State of Iraq in Mosul, sources included a percentage of contracts, revenue from gas stations, fees from transportation offices conducting international trade, money from factories, fines from the population, a small amount in donations, and even collections from government offices.<sup>xiii</sup>

As ISIS, the group maintained and expanded these local sources. Initially, when it took over cities, it stole money from banks in those cities, amounting to an estimated \$500 million to \$1 billion or more.<sup>xiv</sup> Once it established territorial control, it set up a system of taxes and fees, including collecting zakat from people and businesses, utility fees, rent for market spaces, and fines for traffic violations or violations of Islamic law.<sup>xv</sup> It also collected transit taxes, in the order of \$1,000 per truck, in one example.<sup>xvi</sup>

Another important source of local revenue was confiscations. Beyond taking money from banks, ISIS took land, agricultural output, factories, cattle, and people's homes in many circumstances. Home confiscations occurred to Syrian government officials and soldiers, Christians who fled the Iraqi city of Mosul, and many others.<sup>xvii</sup>

At the peak of its power, the largest source of revenue was oil and gas from captured fields. Sales were made throughout the region, but especially to the Assad government. For example, in November 2015, the United States sanctioned Syrian businessman George Haswani for serving "as a middleman for oil purchases by the Syrian regime" from ISIS, and HESCO Engineering and Construction Company for operating "energy production facilities in Syria, reportedly in areas controlled" by ISIS.<sup>xviii</sup> At their peak, in 2015, these oil revenues amounted to about \$500 million per year.

As the counter-ISIS campaign degraded ISIS's hold on oil and gas fields, taxation overtook oil and gas to become the largest source of revenue. By the spring of 2016, it was estimated that ISIS was raising \$250 million from oil and gas, and \$360 million from taxation.<sup>xix</sup>

Apart from taxation in its many forms, and oil and gas revenues, less lucrative sources included kidnap for ransom, antiquities smuggling, and even sales of wheat.<sup>xx</sup> At its peak, total annual revenue was estimated to be on the order of \$1 billion. As the group lost populated territory and oilfields, this reportedly declined dramatically.

With the loss of Raqqa, ISIS lost its last major population centre, and therefore its last major source of taxes and fines in Syria. But this did not end its fundraising. It maintained subsequent

control over smaller population centres and has likely reverted to extortion and other forms of criminality.

Occasional, hints of fundraising activities can be found in the actions of the military campaign against ISIS. As late as May 2018, operations from the Combined Joint Task Force – Operation Inherent Resolve killed four members of the ISIS oil and gas network, suggesting that even at that late date they were trading oil.<sup>xxi</sup> Another action suggests that ISIS clearly has money to move around. From October 7 to 9, 2018, Iraqi Special Operations Forces, Kurdish Counter Terrorism Forces, and international Coalition Forces arrested members of the al-Rawi financial network, an ISIS facilitation group, in Erbil and Baghdad.<sup>xxii</sup> This network stretches into Syria.

Based on its experience as an underground terrorist and insurgent group in Iraq up until 2011, ISIS has vast experience raising money when it does not control territory. It has two other advantages post-Raqqa—the point at which it lost its “capital” and largest remaining population centre. First, it reportedly still has substantial cash reserves. Second, during its period of governing, it was able to gather information on the assets and livelihoods of the many people living under its rule. Given its skill at maintaining records, it likely has retained this information for further use.

There are security implications to ISIS’s dual loss of territory and financing. Less money means its operational tempo will diminish and the types of fights it engages in will change because of its decreased ability to replenish supplies. But less money does not mean the group will disappear. Rather, through the maintenance of covert cells, it will likely engage in more traditional terrorist attacks, including assassinations of officials and opponents, and destruction of economic assets.

## **Nusra Funding**

Since its split from ISIS, Jabhat al-Nusra raises money much as ISIS does, with some exceptions.<sup>xxiii</sup> One of the key sources has been tax at the border crossing with Turkey, at Bab al-Hawa in Idlib province. Control of this crossing has given the group a monopoly over humanitarian aid and the ability to tax it.<sup>xxiv</sup> In September 2018, both the U.S. Agency for International Development (USAID) and the UK Department for International Development (DFID) told their partners to stop using the crossing because of fees charged by the Nusra-affiliated National Salvation Government. That organisation then said it would cease charging fees, and USAID once again allowed crossings.<sup>xxv</sup> However, in December 2018, the Charity Commission, which regulates charities in England and Wales, issued an alert that Nusra could benefit from aid passing through Bab al-Hawa, subjecting charities using the border to a potential criminal offense.<sup>xxvi</sup>

The biggest difference between Jabhat al-Nusra and ISIS is that Nusra has relied on donations from outside Syria to a much greater extent. These have reportedly included donations from wealthy people in Saudi Arabia, Qatar, and Kuwait. In fact, although the group was at one time formally affiliated with al-Qa‘ida, it said it ended that affiliation, and one suspected motivation was to enable donors to say that they were not funding that more notorious group.<sup>xxvii</sup> Aside from Gulf sources, it has also been alleged that they have received donations from Turkey.<sup>xxviii</sup>

This use of external sources explains the several U.S. Treasury sanctions actions against Kuwaiti nationals for Nusra finance. For example, in March 2017, Treasury designated Muhammad Hadi al-‘Anizi, based in Kuwait, for raising funds for Nusra.<sup>xxix</sup> Others included sanctions against two Kuwait-based financiers in August 2014 who were collecting money under the auspices of charities, and two Kuwait-based financiers in May 2016, also using charities to raise money.

These fundraising schemes have extended beyond the Gulf. In one case, Italian authorities arrested 14 people in Sardinia and the northern city of Brescia for moving money raised in Muslim communities in Europe and transferred by hawala ultimately to Nusra.<sup>xxx</sup>

Another Nusra financing source that differs from ISIS is kidnap for ransom. Although both groups carry out such operations, Nusra apparently has relied on this activity more heavily. Transactions of the magnitude of \$4 million to \$25 million have been noted, with the payments and releases allegedly mediated by Qatar.<sup>xxxi</sup>

Similar to ISIS, Nusra raises money through local finance, such as by taxing civilians and, as noted above, charging transit fees. It also has taken a proportion of military equipment and supplies given to other forces.<sup>xxxii</sup> Taxes include those on income and businesses, as well as fees for services and utilities such as electricity and water. The group has also imposed fines on people within its territory, leased out homes, seized assets from religious minority groups, and gained from smuggling cigarettes.<sup>xxxiii</sup>

Two other funding sources are similar to those of ISIS or its predecessor groups. First, Nusra has also benefited from oil sales, at least when it controlled oil fields.<sup>xxxiv</sup> Second, Nusra has engaged in what would commonly be thought of as criminal activity, in this case skimming aid. According to one report, Nusra placed people in two stations of the Free Syrian Police in Idlib Province to receive UK aid money that was going to that organisation.<sup>xxxv</sup>

### **Cutting Off Militia Funding and the End of the War**

International efforts can have a strong effect on transfers of money to insurgent groups in Syria, particularly Nusra and ISIS. Even money transfers from hawalas are vulnerable, although harder to access. Hawalas are often connected at some level to the formal financial system, in particular for final settlements, and so cutting off hawala accounts in formal institutions or sanctioning institutions that deal with rogue hawalas can be effective.

State support for militias and insurgent groups is harder to end. This also applies to indirect support, such as Syrian government purchases of oil or gas from ISIS when it held oil and gas fields. The most difficult financial flow to halt is the flow of finances gained locally, such as from taxes or fees. Stopping this generally requires taking back territory or militarily defeating the insurgent group.

After taking back territory or military defeat, the problem has not ended. Groups can maintain cells, extort money from the population, and engage in other criminal behaviour to raise funds. For example, the most recent two meetings of the Counter ISIS Finance Group discussed how to stop ISIS from exploiting stabilisation and reconstruction contracts.<sup>xxxvi</sup> ISIS, at least, has a proven record of skimming contracts. Documents from its predecessor group, Islamic State of Iraq, indicate collusion with the offices of Ninewa provincial and Iraqi federal officials to gain a portion of contracts.<sup>xxxvii</sup>

These means that once these groups have been defeated, action against them needs to shift toward law enforcement rather than military.<sup>xxxviii</sup> The population has to feel secure enough to cooperate with law enforcement to report and work against remnants of militia groups. This reliance on law enforcement can also be a weak link; corrupt police organisations could cooperate with the militia group remnants, helping them raise money and stay active. For international assistance, the main roles could include training and oversight.

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<sup>ii</sup> Ali Alfoneh, "Iran's Shia Foreign Legions," Carnegie Endowment for International Peace, January 30, 2018. As of October 13, 2018: <https://carnegieendowment.org/2018/01/30/tehran-s-shia-foreign-legions-pub-75387>. Ranj Alaaldin, "Iran's Complicated but Resistable Influence in Syria," *Markaz*, The Brookings Institution, May 19, 2017. As of October 13, 2018: <https://www.brookings.edu/blog/markaz/2017/05/19/irans-complicated-but-resistible-influence-in-syria/>.

<sup>iii</sup> Pamela Constable, "Recruited by Iran to Fight for Syrian Regime, Young Afghans Bring Home Cash and Scars," *The Washington Post*, July 29, 2018. As of October 13, 2018: [https://www.washingtonpost.com/world/asia\\_pacific/recruited-by-iran-to-fight-for-syrian-regime-young-afghans-bring-home-cash-and-scars/2018/07/29/ecf9e34c-64e0-11e8-81ca-bb14593acaa6\\_story.html?utm\\_term=.4859a2b0cf2a](https://www.washingtonpost.com/world/asia_pacific/recruited-by-iran-to-fight-for-syrian-regime-young-afghans-bring-home-cash-and-scars/2018/07/29/ecf9e34c-64e0-11e8-81ca-bb14593acaa6_story.html?utm_term=.4859a2b0cf2a). Carla Hummel, Jeremy Sharp, and Jim Zanotti, "Iranian Assistance to Groups in Yemen, Iraq, Syria, and the Palestinian Territories," Memorandum for Senator Mark Kirk, Congressional Research Service, July 31, 2015.

<sup>iv</sup> "Hundreds of Millions of Dollars Destroyed in anti-IS Strikes," AFP, February 17, 2016.

<sup>v</sup> "Security Council Committee Pursuant to Resolutions 1267 (1999) 1989 (2011) and 2253 (2015) Concerning ISIL (Da'esh) Al-Qaida And Associated Individuals Groups Undertakings and Entities," web page. As of October 13, 2018: <https://www.un.org/sc/suborg/en/sanctions/1267>

<sup>vi</sup> "Narrative Summaries of Reasons for Listing: QDe. 137, Al-Nusrah Front for the People of the Levant," Security Council Committee Pursuant to Resolutions 1267 (1999) 1989 (2011) and 2253 (2015) Concerning ISIL (Da'esh) Al-Qaida And Associated Individuals Groups Undertakings and Entities, undated. As of October 13, 2018: [https://www.un.org/sc/suborg/en/sanctions/1267/aq\\_sanctions\\_list/summaries/entity/al-nusrah-front-for-the-people-of-the-levant](https://www.un.org/sc/suborg/en/sanctions/1267/aq_sanctions_list/summaries/entity/al-nusrah-front-for-the-people-of-the-levant)

<sup>vii</sup> U.S. Department of the Treasury, "Counter ISIS Finance Group Leaders Issue Joint Statement," Press Release, September 24, 2018. As of October 13, 2018: <https://home.treasury.gov/news/press-releases/sm494>

<sup>viii</sup> For a broad overview of these efforts, see Juan C. Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare*, New York: PublicAffairs, 2013.

<sup>ix</sup> Roger Ballard, "Coalitions of Reciprocity and the Maintenance of Financial Integrity Within Informal Value Transmission Systems: The Operational Dynamics of Contemporary Hawala Networks," *Journal of Banking Regulation*, Vol. 6, No. 4, 2005, pp. 319-352; Roger Dean, "Remittances to Syria: What Works, Were and How," Norwegian Refugee Council, July 2015.

<sup>x</sup> Erika Solomon, Guy Chazan, and Sam Jones "ISIS Inc.: How Oil Fuels the Jihadi Terrorists," *The Financial Times*, October 14, 2015; Erika Solomon and Ahmed Mhidi, "ISIS Inc.: Syria's 'Mafia-Style' Gas Deals with Jihadis," *The Financial Times*, October 15, 2018.

<sup>xi</sup> Jennifer L. Fowler (Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Department of the Treasury), "U.S. Efforts to Counter the Financing of ISIL," Statement Submitted for the Conference, *Taking the Fight to ISIL: Operationalizing CT Lines of Effort Against The Islamic State Group*, Washington Institute for Near East Policy, February 2, 2015.

<sup>xii</sup> One statement of this point of view can be found in Harmony document NMEC-2008-612449, "Analysis of the State of ISI," a declassified captured document about the Islamic State of Iraq's "lessons learned" (from both its own and other Islamic militant organizations).

<sup>xiii</sup> NMEC-2010-186331, a letter from an Islamic State of Iraq official in Mosul to the "Sheikhs," likely Abu Umar al-Baghdadi and Abu Ayyub al-Masri, detailing revenue sources, captured in April 2010.

<sup>xiv</sup> This and subsequent paragraphs draw in part from Colin P. Clarke, Kimberly Jackson, Patrick B. Johnston, Eric Robinson, and Howard J. Shatz, *Financial Futures of the Islamic State of Iraq and the Levant: Findings from a RAND Corporation Workshop*, Santa Monica, Calif.: RAND Corporation, CF-361, 2017.

<sup>xv</sup> Matthew Rosenberg, Nicholas Kulish, and Steven Lee Myers, "Predatory Islamic State Wrings Money from Those it Rules," *The New York Times*, November 29, 2015. As of October 13, 2018: <https://www.nytimes.com/2015/11/30/world/middleeast/predatory-islamic-state-wrings-money-from-those-it-rules.html>

<sup>xvi</sup> Raja Abdulrahim, "In Syria's Mangled Economy, Truckers Stitch Together Warring Regions," *The Wall Street Journal*, May 24, 2016.

<sup>xvii</sup> Yasser Allawi, "Local Residents are Enduring ISIS's Punitive Home Confiscations and Other Strict Policies," *Syria Deeply*, July 208, 2015, as of December 23, 2018: <https://www.newsdeeply.com/syria/articles/2015/07/28/isis-confiscates-homes-in-deir-ezzor>; Ghaith Abdul-Ahad, "The Bureaucracy of Evil: How Islamic State Ran a City," *The Guardian*, January 29, 2018, as of December 23, 2018: <https://www.theguardian.com/cities/2018/jan/29/bureaucracy-evil-isis-run-city-mosul>; and The Observers and

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<sup>xxix</sup> Yeganeh Torbati, "Islamic State Yearly Oil Revenue Halved to \$250 Million: U.S. Official," *Reuters*, May 11, 2016. As of December 23, 2018: <https://www.reuters.com/article/us-mideast-crisis-islamic-state-revenue-idUSKCN0Y22CW>

<sup>xx</sup> Annia Ciezadlo, "The Most Unconventional Weapon in Syria: Wheat," *The Washington Post*, December 18, 2015.

<sup>xxi</sup> CJTF-OIR PAO, "Coalition Kills Daesh Criminal Leader, Followers," Press Release, June 19, 2018.

<sup>xxii</sup> CJTF-OIR PAO, "Senior ISIS Facilitators Arrested in Iraq," Press Release, October 11, 2018.

<sup>xxiii</sup> Jabhat al-Nusra has changed its name and evolved first to Jabhat Fateh al-Sham (The Levantine Conquest Front) and then to Hayat Tahrir al-Sham (HTS; Assembly for the Liberation of the Levant). HTS was announced as including Nusra, Harakat Nur al Din al Zinki, Liwa al Haqq, Ansar al Din, and Jaysh al Sunna, plus other groups. However, in July 2017, clashes within the group essentially led it to being largely, if not exclusively, Nusra (Counter Extremism Project, *Nusra Front [Jabhat Fateh al-Sham]*, 2018).

<sup>xxiv</sup> Fabrice Balanche, *Sectarianism in Syria's Civil War* (with maps by Fabrice Balanche and Mary Kalbach Horan), The Washington Institute for Near East Policy, 2018. As of December 23, 2018: <https://www.washingtoninstitute.org/policy-analysis/view/sectarianism-in-syrias-civil-war>

<sup>xxv</sup> Lead Inspector General, *Operation Inherent Resolve and Other Overseas Contingency Operations: Lead Inspector General Report to the Congress, July 1, 2018 – September 30, 2018*, Washington, D.C., 2018; Sarah Dadouch, "Some Aid Agencies Halt Use of Syrian Border Gate, Citing Jihadists' Taxes on Trucks," *Reuters*, October 4, 2018, as of December 23, 2018: <https://www.reuters.com/article/us-mideast-crisis-syria-aid/some-aid-agencies-halt-use-of-syrian-border-gate-citing-jihadists-taxes-on-trucks-idUSKCN1ME1MJ>

<sup>xxvi</sup> The Charity Commission, "Alert for Charities Operating in Syria or Turkey About Aid Passing Through the Bab al-Hawa Crossing," December 3, 2018; as of December 23, 2018: <https://www.gov.uk/government/news/alert-for-charities-operating-in-syria-or-turkey-about-aid-passing-through-the-bab-al-hawa-crossing>

<sup>xxvii</sup> Counter Extremism Project, *Nusra Front (Jabhat Fateh al-Sham)*, 2018. HTS was announced as including Nusra, Harakat Nur al Din al Zinki, Liwa al Haqq, Ansar al Din, and Jaysh al Sunna, plus more. But in July 2017, lots of clashes, and basically just Nusra.

<sup>xxviii</sup> Charles Lister, *Profiling Jabhat al-Nusra*, Analysis Paper No. 24, The Brookings Project on U.S. Relations with the Islamic World, July 2016. Turkey's role is also crucial in enabling or denying Nusra the ability to control Bab al-Hawa, in that Turkey is the external actor that could expel them from this territory should Ankara choose to make it a priority.

<sup>xxix</sup> U.S. Department of the Treasury, "Treasury Sanctions Prominent Al-Nusra Front and Al-Qa'ida Facilitator," March 14, 2017.

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<sup>xxxi</sup> Charles Lister, *Profiling Jabhat al-Nusra*, Analysis Paper No. 24, The Brookings Project on U.S. Relations with the Islamic World, July 2016; Charles Lister, "How al-Qa'ida Lost Control of its Syrian Affiliate: The Inside Story," *CTC Sentinel*, Vol. 11, Issue 2, February 2018, pp. 1-9.

<sup>xxxii</sup> Charles Lister, *Profiling Jabhat al-Nusra*, Analysis Paper No. 24, The Brookings Project on U.S. Relations with the Islamic World, July 2016.

<sup>xxxiii</sup> Counter Extremism Project, *Nusra Front (Jabhat Fateh al-Sham)*, 2018.

<sup>xxxiv</sup> Counter Extremism Project, *Nusra Front (Jabhat Fateh al-Sham)*, 2018; Mohamed-Ali Adraoui, "The Case of Jabhat Al-Nusra in the Syrian Conflict 2011-2016: Towards a Strategy of Nationalization?" *Mediterranean Politics*, 2017.

<sup>xxxv</sup> Jemma Crew, "Government Suspends Foreign Aid Scheme After Allegations UK Taxes Bankrolling Extremists in Syria," *The Independent*, December 4, 2017.

<sup>xxxvi</sup> U.S. Department of the Treasury, "Counter ISIS Finance Group Leaders Issue Joint Statement," Press Release, September 24, 2018. As of October 13, 2018: <https://home.treasury.gov/news/press-releases/sm494>. U.S. Department of the Treasury, "Counter ISIS Finance Group Leaders Issue Joint Statement," Press Release, February 15, 2018. As of October 13, 2018: <https://home.treasury.gov/news/press-release/sm0294>

<sup>xxxvii</sup> Patrick B. Johnston, Jacob N. Shapiro, Howard J. Shatz, Benjamin Bahney, Danielle F. Jung, Patrick K. Ryan, Jonathan Wallace, *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005-2010*, Santa Monica, Calif.: RAND Corporation, RR-1192, 2016.

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